

July 12, 2012

VIA E-MAIL

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Rule 40.2(a) Certification. Revisions to Notification Regarding the Listing of a Liquefied Natural Gas Swap Futures Contract for Trading the NYMEX Trading Floor and Clearing through CME ClearPort® NYMEX Submission 12-232R

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or the "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of a new LNG East Asia Index (ICIS Heren) Swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, July 15, 2012, for trade date Monday, July 16, 2012.

Please note that the Exchange is revising NYMEX Submission No. 12-232. A copy of this submission with black-line changes from 12-232 is attached as Appendix D.

This revised submission is being made due to changes to the estimate of the delivery supply based on additional research conducted following a request from the CFTC.

SPECIFICATION SUMMARY

Contract Name	LNG East Asia Index (ICIS Heren) Swap Futures
Commodity Code	LAI
Chapter	1249
Settlement Type	Financial
Contract Unit	10,000 MMBtu (million British thermal units)
Expiration Date	The 15 th calendar day of the month prior to the contract month, or if this is not an Exchange business day, the preceding Exchange business day
Minimum Price Fluctuation	\$0.005 per MMBtu
First Listed Contract	September 2012
Listing Convention	12 consecutive calendar months

- **Exchange Hours:**

Open Outcry: Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 p.m. – 1:30 p.m. Chicago Time/CT).

CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).

- **Trading and Clearing Fees**

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	n/a	\$5.00	\$6.00	\$7.00	
Globex	n/a	n/a	n/a	n/a	n/a
ClearPort		\$5.00		\$7.00	
Other Processing Fees			Additional Fees and Surcharges		
	Member	Non-Member	EFS Surcharge		n/a
Cash Settlement	\$5.00	\$7.00	Block Surcharge		n/a
Futures from E/A	n/a	n/a	Facilitation Desk Fee		\$0.20
	House Acct	Customer Acct			
Options E/A Notice	n/a	n/a			
Delivery Notice	n/a	n/a			

The Exchange will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in this contract will be governed by the provisions of Exchange Rule 538.

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new contract into the Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 of the NYMEX Rulebook in relation to the listing of the new contract. These terms and conditions establish the diminishing balances, all month/any one month accountability levels, expiration month position limit, reportable level, and aggregation allocation for the new contract.

NYMEX business staff responsible for the new product and the NYMEX legal department collectively reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (the “Act” or “CEA”). During the review, NYMEX staff identified that the new product may have some bearing on the following Core Principles:

- **Prevention of Market Disruption:** Trading in this contract will be subject to Rulebook Chapters 4 and 7 which include prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group’s designated contract markets, activity in the new product will be subject to extensive monitoring and surveillance by CME Group’s Market Regulation Department.
- **Contracts not Readily Subject to Manipulation:** The new contract is not readily subject to manipulation due to the liquidity and robustness in the underlying cash market, which provides diverse participation and sufficient spot transactions to support the final settlement index as assessed by ICIS Heren (methodology provided in the attached Cash Market Overview).
- **Compliance with Rules:** Trading in this contract will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this contract will also be subject to the full range of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group’s designated contract markets, activity in the new product will be subject to extensive monitoring and surveillance by CME Group’s Market Regulation Department.

The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- Position Limitations or Accountability: The spot month position limit for the new contract is set at a conservative level that is less than 25% threshold of the monthly deliverable supply in the underlying market in accordance with the guidelines included in CFTC Part 151.
- Availability of General Information: The Exchange will publish information on the contract's specification on its website, together with daily trading volume, open interest and price information.
- Daily Publication of Trading Information: Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.
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- Dispute Resolution: Disputes with respect to trading in this contract will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. The rules in Chapter 6 allow all non-members to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a non-member is required to participate in the arbitration pursuant to the rules in Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.2, the Exchange hereby certifies that the attached contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. A description of the cash market for this new product is attached.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (312) 930-8167 or Sean.Downey@cmegroup.com.

Sincerely,

/s/Sean M. Downey
Director and Assistant General Counsel

Attachments: Appendix A: Rule Chapter
Appendix B: Chapter 5 Table
Appendix C: Cash Market Overview and Analysis of Deliverable Supply
Appendix D: NYMEX Submission No. 12-232 (black-lined)

Chapter 1249 LNG East Asia Index (ICIS Heren) Swap Futures

1249100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

1249101. CONTRACT SPECIFICATIONS

The 'Settlement Period' for a specified contract month shall be the one month period that starts on, and includes, the 16th calendar day of the month that is two months prior to the contract month, and ends on, and includes the 15th calendar day of the month prior to the contract month.

The Floating Price shall be determined following the publication of the spot LNG East Asia Index (EAX) by ICIS Heren on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the Floating Price shall be determined on the following Exchange business day.

The Floating Price for each contract month is equal to the arithmetic average of the spot LNG East Asia Index (EAX) published daily by ICIS Heren in LNG Markets Daily for each day that it is published during the Settlement Period.

1249102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

1249102.A. Trading Schedule

The hours of trading for this contract shall be determined by the Exchange.

1249102.B. Trading Unit

The contract quantity shall be 10,000 MMBtu (million British thermal units). Each contract shall be valued as the contract quantity (10,000) multiplied by the settlement price.

1249102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per MMBtu. The minimum price fluctuation shall be \$0.005 per MMBtu.

1249102.D. Position Limits and Position Accountability

For purposes of position limits and position accountability levels, contracts shall diminish ratably as the contract month progresses toward month end.

In accordance with Rule 559, no person shall own or control positions in excess of 5,000 contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 10,000 contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 10,000 contracts net long or net short in any single contract month excluding the spot month.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

1249102.E. Termination of Trading

Trade submission shall cease on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day.

1249103. FINAL SETTLEMENT

Final settlement under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Price. The final settlement price will be the Floating Price calculated for each contract month.

1249104.

DISCLAIMER

NEITHER NEW YORK MERCANTILE EXCHANGE, INC. ("NYMEX") NOR REED BUSINESS INFORMATION LTD ("ICIS HEREN") GUARANTEE THE ACCURACY AND/OR COMPLETENESS OF THE INDEX OR ANY OF THE DATA INCLUDED THEREIN.

NYMEX, ITS AFFILIATES AND ICIS HEREN MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE INDEX, TRADING BASED ON THE INDEX, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACTS, OR, FOR ANY OTHER USE. NYMEX, ITS AFFILIATES AND ICIS HEREN MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AND HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, ITS AFFILIATES OR ICIS HEREN HAVE ANY LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Appendix B

NYMEX Rulebook Chapter 5 Position Limit Table
(Bold/underline indicates additions)

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</u>	<u>Diminishing Balances Contracts</u>	<u>All Month Accountability Level</u>	<u>Any One Month Accountability Level</u>	<u>Expiration Month Limit</u>	<u>Reporting Level</u>	<u>Aggregate Into (1)</u>	<u>Aggregate Into (2)</u>
				<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>		
<i>Light Hydrocarbons</i>									
<i>Asia</i>									
<u>LNG East Asia Index (ICIS Heren) Swap Futures</u>	<u>1249</u>	<u>LAI</u>	<u>*</u>	<u>10,000</u>	<u>10,000</u>	<u>5,000</u>	<u>25</u>	<u>LAI</u>	

Appendix C

CASH MARKET OVERVIEW

The New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is self-certifying the listing of a new LNG East Asia Index (ICIS Heren) Swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort.

This new contract is financially settled with reference to prices for liquefied natural gas (“LNG”) published by ICIS Heren.

PRICE SOURCE

The new LNG East Asia Index (ICIS Heren) Swap futures is financially settled with reference to prices published by ICIS Heren. ICIS Heren publishes a range of energy pricing data¹. ICIS Heren is a division of Reed Business Information Ltd. Reed Business Information Ltd is a subsidiary of Reed Elsevier. Reed Elsevier is a major international publishing company. It is dual listed on the London and Amsterdam Stock Exchanges, as Reed Elsevier PLC in London, and as Reed Elsevier NV in Amsterdam². The companies have combined market capitalization of \$17.0bn³.

ICIS Heren creates their price assessments using information gathered from market participants by telephone and electronically. Arm’s length transactions are included in their assessments. ICIS endeavors to verify transaction data, and does not include data in their assessment where the transaction is not verifiable or is considered to be non-repeatable or otherwise markedly unusual. ICIS Heren’s general assessment methodology can be found online at

<http://www.icis.com/about/methodology/general/>.

The LNG East Asia Index (ICIS Heren) Swap futures is based on price assessments for the ICIS Heren Spot LNG East Asia Index. This index is an arithmetic average of four national DES (delivered ex-ship) price assessments for Japan, Korea, Taiwan and China. The index and DES prices are published with reference to a calendar month, and are further broken down by half month periods. The prices reflect trades that will deliver with the specified calendar month or part calendar month. The ICIS Heren

¹ The website <http://www.icis.com/about/heren/> contains further information about the ICIS Heren business

² See <http://www.reedelsevier.com/aboutus/corporatestructure/Pages/Home.aspx>

³ Source Bloomberg LP, as of 19 June 2012

methodology for assessing LNG prices can be found online at <http://www.icis.com/energy/liquefied-natural-gas/global/lng-markets-daily-methodology/>. Prices are published on a daily basis.

NYMEX has a license agreement in place with Reed Business Information Ltd to use their data for the purpose of settling derivatives contracts.

LIQUEFIED NATURAL GAS MARKET OVERVIEW

Description

Liquefied natural gas (“LNG”) is a growing part of the international supply and trade of energy. LNG is natural gas that is cooled and compressed into liquid form to make it more readily transportable. LNG is typically transported by sea in specially designed vessels. The International Group of Liquefied Natural Gas Importers (“GIIGNL”) states that there were 18 countries with liquefaction facilities, and that there were 25 countries with regasification facilities at the end of 2011⁴. The GIIGNL states that international trade in 2011 was approximately 240.8 million tons.

The United Nations publishes international trade data in its Commodity Trade Statistics Database⁵. Table 1 shows the top 10 importer and exporter nations for LNG for the year 2010, for which complete statistics are available. Data for Taiwan is not included in the UN Comtrade database, however data from the GIIGNL indicates that Taiwanese imports are comparable to that of China.

Table 1: Largest LNG Importers and Exporters 2010⁶ (volumes in million metric tons)

Exporter	Export Volume	Importer	Import Volume
Qatar	50.9	Japan	70.0
Indonesia	20.6	Republic of Korea	32.6
Malaysia	19.9	Spain	19.6
Australia	18.2	United Kingdom	13.5
Nigeria	14.2	France	11.5
Algeria	11.9	China	9.3
Trinidad and Tobago	11.5	India	8.7
Russian Federation	9.3	Italy	7.2
Oman	7.5	USA	6.8
Brunei	6.6	Belgium	4.6

⁴ See http://www.giignl.org/fileadmin/user_upload/pdf/A_PUBLIC_INFORMATION/LNG_Industry/GIIGNL_The_LNG_Industry_2011.pdf

⁵ See <http://comtrade.un.org>

⁶ Source United Nations Comtrade Database, *DESA/UNSD*, based on data from importing countries

The largest exporter is Qatar, which is responsible for approximately one third of global international exports. Other large producers include Malaysia, Indonesia, Nigeria, and Australia. Together with Qatar, these five countries account for nearly two thirds of global exports.

Japan is currently the main importer, accounting for 35% of global imports. Substantial quantities are also imported into South East Asia in China, Taiwan and South Korea. European nations represent the second largest block of importers.

East Asia Imports

The new contract is based on the ICIS Heren Spot LNG East Asia Index, which comprises data for import prices of LNG to China, Japan, South Korea and Taiwan. Table 2 illustrates import data for these countries available from the United Nations Comtrade Database.

Table 2: East Asia LNG Imports⁷ (volumes in million metric tons)

	2007	2008	2009	2010	2011	Average 2009-2011
Japan	66.8	69.3	64.6	70.0	78.5	71.0
Republic of Korea	25.6	27.3	25.8	32.6	36.7	31.7
China	2.9	3.3	5.5	9.3	12.2	9.0
Total	95.3	99.9	95.9	112.0	127.4	111.8

As stated above, the Comtrade Database does not include data from Taiwan, however data from the GIINGL and other industry reports indicate that Taiwanese imports are comparable to those of China in 2011, although Chinese imports have been growing at a faster rate⁸.

The UN Comtrade data shows that combined imports into China, Japan and Korea for the period of 2009-2011 were on average 111.8 million metric tons per year. Including an estimate for Taiwanese imports as being equal to Chinese imports, then combined imports for the four countries included in the ICIS Heren Spot LNG East Asia Index can be estimated as an average of 120 million metric tons per annum.

⁷ Source United Nations Comtrade Database, *DESA/UNSD*,

⁸ See for example

http://www.giignl.org/fileadmin/user_upload/pdf/A_PUBLIC_INFORMATION/LNG_Industry/GIIGNL_The_LNG_Industry_2011.pdf

Market Activity

Given the nature of the product, the physical LNG market trades on a cargo basis. The GIINGL estimates that in excess of 4,000 cargo voyages were made in 2011. Many cargoes are sent as part of a term supply agreement, but the GIINGL estimates that over 25% of volume is conducted on a spot basis, and that this represents an increasing proportion of the physical market. Spot volumes therefore equated to over 60 million metric tons in 2011.

Vessel sizes range from 10,000 cubic meters capacity to the 266,000 cubic meter capacity Q-Max vessels. The average cargo size is 130,000 cubic meters.

Spot LNG cargoes are typically traded in US dollars, on a price per energy content (i.e. \$ per MMBtu) basis. Pricing on this basis accounts for variances in the chemical content of various LNG sources, and for different pressure and temperature regimes on different vessels. The conversion rate to MMBtu will vary with source. The U.S. Energy Information Administration has published a conversion rate of 51.98 MMBtu per metric ton of LNG⁹. The standard conversion for one cubic meter of LNG is to equal 0.46 metric tons, or 23.69 MMBtu.

⁹ See http://www.eia.gov/oiaf/analysispaper/global/pdf/eia_0637.pdf

ANALYSIS OF DELIVERABLE SUPPLY

The Exchange is assessing spot month position limits for the LNG East Asia Index (ICIS Heren) Swap futures based on import data from index constituent countries.

Table 2 above shows that the average imports into China, Japan and Korea for 2009-2011 were 111.8 million metric tons. Whilst it is noted that Taiwanese imports will increase this value, as data for Taiwan consistent with that found in Table 2 is not available, no data will be included for Taiwan to ensure a conservative estimate. It should be noted that a substantial proportion of these imports were the result of medium and long term supply contracts. The Exchange has conducted an analysis of the impact of medium and long term supply contracts on the spot market. The typical supply structure is for LNG supply to agree contracts with trading firms. These trading firms are either acting as principal or acting as agent for a utility, which would likely become the ultimate consumer. Older term contracts would not typically permit delivery flexibility or diversion of the cargo, but this is standard for more recent term contracts. Flexible contract cargoes may be re-traded, and partial cargoes are also available for trading occasionally. Cargoes originally destined for Europe are frequently being redirected to the Far East, and reloading and reselling of delivered cargoes also takes place. Consumer utilities will sell contract cargoes for scheduling purposes. Individual cargoes may be re-traded multiple times, with the typical deal chain being up to four separate transactions. Price reporting agencies indicate that there are always multiple bids and offers for physical cargoes available in the market.

Given the presence of cargoes which are not available for re-trading, the Exchange has determined to reflect this in its deliverable supply estimate by reducing the available import volumes by the amount of fixed delivery cargoes. Estimates vary on the prevalence of these fixed delivery cargoes. Whilst they are a decreasing proportion of the market, the Exchange estimates that fixed delivery cargoes represent 60% to 75% of the medium and long term supply contracts, based on research conducted by the Exchange with market participants and industry analysts. Using the figure of 25% for spot market activity, which is conservative for the Far East LNG market, this implies that fixed delivery cargoes comprise 45% to 56% of the overall supply. Excluding these volumes, the Exchange's deliverable supply estimate is therefore in the range 48.9 to 61.5 million metric tons per annum (i.e. 44% to 55% of the average annual import level of 111.8 million metric tons, which does not include data for Taiwan).

The contract size for the LNG East Asia Index (ICIS Heren) Swap futures is 10,000 MMBtus. With a conversion factor of 51.98 MMBtu per metric tons, the range of 48.9 to 61.5 million metric tons becomes 254,159 to 319,514 lots per annum, or 21,180 to 26,626 lots per calendar month.

The spot month position limit has been set at 5,000 lots. This represents 18.8% of deliverable supply at the higher end of the range, and 23.6% of deliverable supply at the lower end of the range.

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Sincerely,

/s/Sean M. Downey
Director and Assistant General Counsel

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Chapter 1249 LNG East Asia Index (ICIS Heren) Swap Futures

1249100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

1249101. CONTRACT SPECIFICATIONS

The 'Settlement Period' for a specified contract month shall be the one month period that starts on, and includes, the 16th calendar day of the month that is two months prior to the contract month, and ends on, and includes the 15th calendar day of the month prior to the contract month.

The Floating Price shall be determined following the publication of the spot LNG East Asia Index (EAX) by ICIS Heren on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the Floating Price shall be determined on the following Exchange business day.

The Floating Price for each contract month is equal to the arithmetic average of the spot LNG East Asia Index (EAX) published daily by ICIS Heren in LNG Markets Daily for each day that it is published during the Settlement Period.

1249102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

1249102.A. Trading Schedule

The hours of trading for this contract shall be determined by the Exchange.

1249102.B. Trading Unit

The contract quantity shall be 10,000 MMBtu (million British thermal units). Each contract shall be valued as the contract quantity (10,000) multiplied by the settlement price.

1249102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per MMBtu. The minimum price fluctuation shall be \$0.005 per MMBtu.

1249102.D. Position Limits and Position Accountability

For purposes of position limits and position accountability levels, contracts shall diminish ratably as the contract month progresses toward month end.

In accordance with Rule 559, no person shall own or control positions in excess of 5,000 contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 10,000 contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 10,000 contracts net long or net short in any single contract month excluding the spot month.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

1249102.E. Termination of Trading

Trade submission shall cease on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day.

1249103. FINAL SETTLEMENT

Final settlement under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Price. The final settlement price will be the Floating Price calculated for each contract month.

1249104.

DISCLAIMER

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Appendix B

NYMEX Rulebook Chapter 5 Position Limit Table
(Bold/underline indicates additions)

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</u>	<u>Diminishing Balances Contracts</u>	<u>All Month Accountability Level</u>	<u>Any One Month Accountability Level</u>	<u>Expiration Month Limit</u>	<u>Reporting Level</u>	<u>Aggregate Into (1)</u>	<u>Aggregate Into (2)</u>
				<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>		
<i>Light Hydrocarbons</i>									
<i>Asia</i>									
<u>LNG East Asia Index (ICIS Heren) Swap Futures</u>	<u>1249</u>	<u>LAI</u>	<u>*</u>	<u>10,000</u>	<u>10,000</u>	<u>5,000</u>	<u>25</u>	<u>LAI</u>	

Appendix C

CASH MARKET OVERVIEW

The New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is self-certifying the listing of a new LNG East Asia Index (ICIS Heren) Swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort.

This new contract is financially settled with reference to prices for liquefied natural gas (“LNG”) published by ICIS Heren.

PRICE SOURCE

The new LNG East Asia Index (ICIS Heren) Swap futures is financially settled with reference to prices published by ICIS Heren. ICIS Heren publishes a range of energy pricing data¹⁰. ICIS Heren is a division of Reed Business Information Ltd. Reed Business Information Ltd is a subsidiary of Reed Elsevier. Reed Elsevier is a major international publishing company. It is dual listed on the London and Amsterdam Stock Exchanges, as Reed Elsevier PLC in London, and as Reed Elsevier NV in Amsterdam¹¹. The companies have combined market capitalization of \$17.0bn¹².

ICIS Heren creates their price assessments using information gathered from market participants by telephone and electronically. Arm’s length transactions are included in their assessments. ICIS endeavors to verify transaction data, and does not include data in their assessment where the transaction is not verifiable or is considered to be non-repeatable or otherwise markedly unusual. ICIS Heren’s general assessment methodology can be found online at <http://www.icis.com/about/methodology/general/>.

The LNG East Asia Index (ICIS Heren) Swap futures is based on price assessments for the ICIS Heren Spot LNG East Asia Index. This index is an arithmetic average of four national DES (delivered ex-ship) price assessments for Japan, Korea, Taiwan and China. The index and DES prices are published with reference to a calendar month, and are further broken down by half month periods. The prices reflect trades that will deliver with the specified calendar month or part calendar month. The ICIS Heren

¹⁰ The website <http://www.icis.com/about/heren/> contains further information about the ICIS Heren business

¹¹ See <http://www.reedelsevier.com/aboutus/corporatestructure/Pages/Home.aspx>

¹² Source Bloomberg LP, as of 19 June 2012

methodology for assessing LNG prices can be found online at <http://www.icis.com/energy/liquefied-natural-gas/global/lng-markets-daily-methodology/>. Prices are published on a daily basis.

NYMEX has a license agreement in place with Reed Business Information Ltd to use their data for the purpose of settling derivatives contracts.

LIQUEFIED NATURAL GAS MARKET OVERVIEW

Description

Liquefied natural gas (“LNG”) is a growing part of the international supply and trade of energy. LNG is natural gas that is cooled and compressed into liquid form to make it more readily transportable. LNG is typically transported by sea in specially designed vessels. The International Group of Liquefied Natural Gas Importers (“GIIGNL”) states that there were 18 countries with liquefaction facilities, and that there were 25 countries with regasification facilities at the end of 2011¹³. The GIIGNL states that international trade in 2011 was approximately 240.8 million tons.

The United Nations publishes international trade data in its Commodity Trade Statistics Database¹⁴. Table 1 shows the top 10 importer and exporter nations for LNG for the year 2010, for which complete statistics are available. Data for Taiwan is not included in the UN Comtrade database, however data from the GIIGNL indicates that Taiwanese imports are comparable to that of China.

Table 1: Largest LNG Importers and Exporters 2010¹⁵ (volumes in million metric tons)

Exporter	Export Volume	Importer	Import Volume
Qatar	50.9	Japan	70.0
Indonesia	20.6	Republic of Korea	32.6
Malaysia	19.9	Spain	19.6
Australia	18.2	United Kingdom	13.5
Nigeria	14.2	France	11.5
Algeria	11.9	China	9.3
Trinidad and Tobago	11.5	India	8.7
Russian Federation	9.3	Italy	7.2
Oman	7.5	USA	6.8
Brunei	6.6	Belgium	4.6

¹³ See http://www.giignl.org/fileadmin/user_upload/pdf/A_PUBLIC_INFORMATION/LNG_Industry/GIIGNL_The_LNG_Industry_2011.pdf

¹⁴ See <http://comtrade.un.org>

¹⁵ Source United Nations Comtrade Database, *DESA/UNSD*, based on data from importing countries

The largest exporter is Qatar, which is responsible for approximately one third of global international exports. Other large producers include Malaysia, Indonesia, Nigeria, and Australia. Together with Qatar, these five countries account for nearly two thirds of global exports.

Japan is currently the main importer, accounting for 35% of global imports. Substantial quantities are also imported into South East Asia in China, Taiwan and South Korea. European nations represent the second largest block of importers.

East Asia Imports

The new contract is based on the ICIS Heren Spot LNG East Asia Index, which comprises data for import prices of LNG to China, Japan, South Korea and Taiwan. Table 2 illustrates import data for these countries available from the United Nations Comtrade Database.

Table 2: East Asia LNG Imports¹⁶ (volumes in million metric tons)

	2007	2008	2009	2010	2011	Average 2009-2011
Japan	66.8	69.3	64.6	70.0	78.5	71.0
Republic of Korea	25.6	27.3	25.8	32.6	36.7	31.7
China	2.9	3.3	5.5	9.3	12.2	9.0
Total	95.3	99.9	95.9	112.0	127.4	111.8

As stated above, the Comtrade Database does not include data from Taiwan, however data from the GIINGL and other industry reports indicate that Taiwanese imports are comparable to those of China in 2011, although Chinese imports have been growing at a faster rate¹⁷.

The UN Comtrade data shows that combined imports into China, Japan and Korea for the period of 2009-2011 were on average 111.8 million metric tons per year. Including an estimate for Taiwanese imports as being equal to Chinese imports, then combined imports for the four countries included in the ICIS Heren Spot LNG East Asia Index can be estimated as an average of 120 million metric tons per annum.

¹⁶ Source United Nations Comtrade Database, *DESA/UNSD*,

¹⁷ See for example

http://www.giignl.org/fileadmin/user_upload/pdf/A_PUBLIC_INFORMATION/LNG_Industry/GIIGNL_The_LNG_Industry_2011.pdf

Market Activity

Given the nature of the product, the physical LNG market trades on a cargo basis. The GIINGL estimates that in excess of 4,000 cargo voyages were made in 2011. Many cargoes are sent as part of a term supply agreement, but the GIINGL estimates that over 25% of volume is conducted on a spot basis, and that this represents an increasing proportion of the physical market. Spot volumes therefore equated to over 60 million metric tons in 2011.

Vessel sizes range from 10,000 cubic meters capacity to the 266,000 cubic meter capacity Q-Max vessels. The average cargo size is 130,000 cubic meters.

Spot LNG cargoes are typically traded in US dollars, on a price per energy content (i.e. \$ per MMBtu) basis. Pricing on this basis accounts for variances in the chemical content of various LNG sources, and for different pressure and temperature regimes on different vessels. The conversion rate to MMBtu will vary with source. The U.S. Energy Information Administration has published a conversion rate of 51.98 MMBtu per metric ton of LNG¹⁸. The standard conversion for one cubic meter of LNG is to equal 0.46 metric tons, or 23.69 MMBtu.

¹⁸ See http://www.eia.gov/oiaf/analysispaper/global/pdf/eia_0637.pdf

ANALYSIS OF DELIVERABLE SUPPLY

The Exchange is assessing spot month position limits for the LNG East Asia Index (ICIS Heren) Swap futures based on import data from index constituent countries.

Table 2 above shows that the average imports into China, Japan and Korea for 2009-2011 were 111.8 million metric tons. Whilst [it is noted that Taiwanese imports will increase this value, as data for Taiwan consistent with that found in Table 2 is not available, no data will be included for Taiwan to ensure a conservative estimate.](#) [It should be noted that a substantial proportion of these imports were the result of medium and long term supply contracts. The Exchange has conducted an analysis of the impact of medium and long term supply contracts on the spot market. The typical supply structure is for LNG supply to agree contracts with trading firms. These trading firms are either acting as principal or acting as agent for a utility, which would likely become the ultimate consumer. Older term contracts would not typically permit delivery flexibility or diversion of the cargo, but this is standard for more recent term contracts. Flexible contract cargoes may be re-traded, and partial cargoes are also available for trading occasionally. Cargoes originally destined for Europe are frequently being redirected to the Far East, and reloading and reselling of delivered cargoes also takes place. Consumer utilities will sell contract cargoes for scheduling purposes. Individual cargoes may be re-traded multiple times, with the typical deal chain being up to four separate transactions. Price reporting agencies indicate that there are always multiple bids and offers for physical cargoes available in the market.](#)

[Given the presence of cargoes which are not available for re-trading, the Exchange has determined to reflect this in its deliverable supply estimate by reducing the available import volumes by the amount of fixed delivery cargoes. Estimates vary on the prevalence of these fixed delivery cargoes. Whilst they are a decreasing proportion of the market, the Exchange estimates that fixed delivery cargoes represent 60% to 75% of the medium and long term supply contracts, based on research conducted by the Exchange with market participants and industry analysts. Using the figure of 25% for spot market activity, which is conservative for the Far East LNG market, this implies that fixed delivery cargoes comprise 45% to 56% of the overall supply. Excluding these volumes, the Exchange's deliverable supply estimate is therefore in the range 48.9 to 61.5 million metric tons per annum \(i.e. 44% to 55% of the average annual import level of 111.8 million metric tons, which does not include data for Taiwan\).](#)

The contract size for the LNG East Asia Index (ICIS Heren) Swap futures is 10,000 MMBtus.

With a conversion factor of 51.98 MMBtu per metric tons, the range of 48.9 to 61.5 ~~import volume of 411.8~~ million metric tons becomes 254,159 to 319,514 ~~580,935~~ lots per annum, or 21,180 to 26,626 ~~48,411~~ lots per calendar month.

The spot month position limit has been set at 5,000 lots. This represents 18.8% of deliverable supply at the higher end of the range, and 23.6% of deliverable supply at the lower end of the range ~~10.3% of the deliverable supply~~

