CME Group

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

July 25, 2013

VIA E-MAIL

Ms. Melissa Jurgens
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. Notification Regarding the Listing of a New Freight Route TC14 (Baltic) Futures Contract for Trading on CME Globex and the NYMEX Trading Floor and Clearing through CME ClearPort
NYMEX Submission No. 13-290

Dear Ms. Jurgens:

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 Freight Route TC14 (Baltic) Futures contract for trading on CME Globex and the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. EST on Sunday, July 28, 2013, for trade date Monday, July 29, 2013.

NYMEX is separately self-certifying block trading minimum thresholds of five (5) contracts for Freight Route TC14 (Baltic) Futures in CME/CBOT/NYMEX/COMEX Submission No. 13-257. Block transactions are governed by Rule 526.

SPECIFICATION SUMMARY

Contract Name	Freight Route TC14 (Baltic) Futures
Commodity Code	FRC
Chapter	1103
Settlement Type	Financial
Contract Unit	1,000 metric tons
Expiration Date	The last business day of the contract month.
Minimum Price Fluctuation	$0.0001 per metric ton
Minimum Price Fluctuation for Final Settlement	$0.0001 per metric ton
First Listed Contract	August 2013
Listing Convention	CME Globex: Nearest calendar month Open Outcry and CME ClearPort: 24 consecutive calendar months

- **Trading Hours**:

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

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

- **Trading and Clearing Fees**

Exchange Fees					
	Member Day	**Member**	**Cross Division**	**Non-Member**	**IIP**
Pit	n/a	$2.60	$2.90	$3.25	
Globex	n/a	$2.60	$2.90	$3.25	$2.90
ClearPort		$2.60		$3.25	

Other Processing Fees		
	Member	**Non-Member**
Cash Settlement	$0.50	$0.50
Futures from E/A	n/a	n/a
	House Acct	**Customer Acct**
Options E/A Notice	n/a	n/a
Delivery Notice	n/a	n/a

Additional Fees and Surcharges	
EFS Surcharge	$0.00
Block Surcharge	$0.00
Facilitation Desk Fee	$1.00

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. This rule amendment is provided under separate cover in Appendix B. In addition, the Exchange is self-certifying the insertion of the non-reviewable ranges ("NRR") for the contract in Rule 5.88.H. This rule amendment is provided in Appendix C.

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

- <u>Prevention of Market Disruption</u>: 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 the Baltic Exchange (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% 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.
- Financial Integrity of Contracts: All contracts traded on the Exchange will be cleared by the CME Clearing House which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- Execution of Transactions: The new contract is dually listed for clearing through the CME ClearPort platform and for trading on the CME Globex trading platform and on the NYMEX trading floor for open outcry trading. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. It runs continuously, so it is not restricted by borders or time zones. CME Globex remains among the fastest global electronic trading systems. In addition, the NYMEX trading floor is available as an additional venue to provide for competitive and open execution of transactions.
- Trade Information: All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- Protection of Market Participants: Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange's competitive trading venues and will be applicable to transactions in this product.
- Disciplinary Procedures: Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the rules. Trading in this contract will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in these this product are identified.

- 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 and analysis of deliverable supply for this new product is provided in Appendix D.

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 (212) 299 – 2200 or christopher.bowen@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Rule Chapter
Appendix B: Chapter 5 Table (under separate cover)
Appendix C: Rule 588.H – Non-reviewable Range Table
Appendix D: Cash Market Overview and Analysis of Deliverable Supply

Appendix A

Chapter 1103
Freight Route TC14 (Baltic) Futures

1103100. 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.

1103101. CONTRACT SPECIFICATIONS

The Floating Price for each contract month is equal to the arithmetic average of the rates for each business day that the TC14 Tanker Route (for 38,000 metric tons US Gulf to Continent Europe) is published by the Baltic Exchange over the contract month. If for any reason the Baltic Exchange cannot provide any rate required for establishing the Floating Price, then the Forward Freight Agreement Brokers Association (FFABA) may be instructed by either party to form a panel to establish any rate which will be binding on both parties.

1103102. TRADING SPECIFICATIONS

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

1103102.A.Trading Schedule

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

1103102.B. Trading Unit

The contract quantity shall be one thousand (1,000) metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

1103102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be $0.0001 (0.01¢) per metric ton.

1103102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

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

1103102.E. Termination of Trading

The contract shall terminate on the last business day of the contract month.

1103103. 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.

1103104. DISCLAIMER

The Baltic Exchange licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Baltic Exchange price assessments in connection with the trading and/or clearing of the contract.

NYMEX, ITS AFFILIATES AND THE BALTIC EXCHANGE MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE PRICE ASSESSMENT, TRADING AND/OR CLEARING BASED ON THE PRICE ASSESSMENT, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING AND/OR CLEARING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX, ITS AFFILIATES AND THE BALTIC EXCHANGE 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 PRICE ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, ITS AFFILIATES OR THE BALTIC EXCHANGE 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.

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Appendix B

NYMEX Rulebook Chapter 5 Position Limit Table

(attached under separate cover)

Appendix C

Rule 588.H - Non-reviewable Range Table

Instrument	Non-Reviewable Range (NRR) in Globex format	NRR including Unit of Measure	NRR Ticks
Freight Route TC14 (Baltic) Futures	2000	$2.00 per metric ton	2000

<u>Appendix D</u>

CASH MARKET OVERVIEW

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of a new Freight Route TC14 (Baltic) Futures contract for trading on CME Globex and the NYMEX trading floor, and for submission for clearing through CME ClearPort.

PRICE SOURCE

The Baltic Exchange is an organization that supports the marketplace for maritime trade. It collates and publishes price assessments on over fifty different shipping routes and indices every day. The methodology for these assessments is contained in its 'Manual for Panellists'.

For each freight route, a panel of brokers active in the physical shipping market on that route is appointed to provide price assessments. The obligation of each panellist is to 'assess and report a professional judgement of the prevailing open market level, at their time of reporting on each Baltic index publication day'. The production of freight market information is overseen by the Freight Indices and Futures Committee, a committee responsible to the Board of the Baltic Exchange.

Panellists are expected to take into account all available relevant information in the physical market, when making their assessment. Assessments should be made to reflect the specific voyage described in the route definition. As individual transactions will vary in specification, panelists are expected to adjust prices to conform with the standard terms for the route being assessed.

The Baltic Exchange calculates the published route assessment based on the average of all assessments reported by panelists.

There is both a daily quality control process and a periodic independent audit to assess the performance of panelists, and there are standards of good practice included in the Manual. Panellists are required to make personnel available to the Baltic Exchange to answer any queries relating to their assessment.

NYMEX has a license agreement with Baltic Exchange to utilize its pricing data.

FREIGHT MARKET OVERVIEW

The products referenced in this submission are products relating to the international seaborne tanker freight market, i.e. the market for providing shipping freight for crude oil and refined oil products.

The United Nations Conference on Trade and Development ("UNCTAD") estimates total international seaborne trade to equal 8.748 billion tons for all cargoes in 2011, rising from 8.409 billion tons in 2009[1]. This 2011 figure represents an increase of 46.2% over the equivalent number for the year 2000, an increase of 3.5% per annum. Of this, cargoes of oil and gas represent 2.796 billion tons, rising from 2.772 billion tons in 2010. Trade in cargoes of oil and gas has grown 29.3% since the year 2000.

The chartering of seaborne freight is a privately negotiated activity between the ship owner and the charterer, with each transaction having unique features. However standards have been established for the marketplace by trade associations, most notably the Baltic Exchange based in London.

The size of a vessel is measured by its deadweight tonnage ('dwt'), which is a measure of the weight in metric tonnes a vessel can safely carry, including cargo, fuel, water etc. Oil tankers are loosely categorized into a range of vessel sizes. Very Large Crude Carrier ('VLCC') is the term given to vessels with a capacity in excess of 250,000 dwt, and the term Ultra Large Crude Carrier ('ULCC') is used for the largest of these vessels – the largest being over 440,000 dwt, the equivalent of over 3 million barrels of oil. These vessels carry crude oil on major trans-ocean routes. Suezmax vessels are smaller in size than VLCCs, and are typically between 130,000 and 160,000 dwt. Suezmax vessels are named as such as they are the largest tankers that can transit the Suez Canal. Aframax vessels are typically between 70,000 and 110,000 dwt. VLCCs, Suezmax and Aframax vessels are typically used for carrying crude oil, and are referred to in the industry as 'dirty' tankers. Refined oil products are usually transported in smaller vessels referred to as 'clean' tankers. These vessels typically range in size from 20,000 to 75,000 dwt.

There are two main types of vessel charter arrangement. Voyage charters involve the charterer hiring the vessel to carry a cargo between two specified ports. The freight payment for a voyage charter is assessed in terms of dollars per ton of cargo carried. Time charters involve the charterer hiring the

[1] UNCTAD Review of Maritime Transport 2012:
http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=380

vessel for a period of time, during which it can direct the movement of the vessel, although typically the vessel will follow a route between two ports. The freight payment for a time charter is assessed in terms of dollars per day of charter.

Tanker charters are typically voyage charter arrangements. The pricing of the transaction is expressed as percentage of the Worldscale flat rate (officially known as the “New Worldwide Tanker Nominal Freight Scale”), assessed and published by the Worldscale Association. This flat rate represents a fixed value in dollars per metric ton for a specific route. The market convention is to quote current tanker freight prices as a percentage of this figure, rather than an explicit dollar value for each transaction.

In order to develop the functioning of the freight market, the Baltic Exchange has developed standard definitions for freight routes which are frequently chartered. The Baltic Exchange collates market price data from shipbrokers on these specified routes, and publishes market price assessments on a daily basis. Other price reporting agencies also collate and publish market price data, most notably Platts, which is seen as the most relevant price reference for certain Pacific Ocean routes.

The TC14 Freight Route, which is the underlying reference for the contract described in this submission, has been developed by the Baltic Exchange, and is described as follows:

Route TC14

38,000 mt CPP/UNL/Diesel U.S.Gulf to Continent. Houston to Amsterdam with laydays/cancelling 6/12 days in advance. Maximum age 15 years[2]

Route TC14 is a benchmark route for refined oil products, specifically unleaded gasoline, diesel or other clean products, loaded in the US Gulf and delivered to North West Europe. The ports of

[2] Source: Baltic Exchange

Houston, Texas and Amsterdam, Netherlands reflect reference points that are used to assess a Worldscale flat rate.

The Baltic Exchange has been assessing prices for the TC14 route since March 2012.

ANALYSIS OF DELIVERABLE SUPPLY

The TC14 freight route is a refined oil product tanker route. The route assessment is for tankers of 38,000 metric tons deadweight carrying refined oil products across the Atlantic from the US Gulf to North West Europe.

The United Nations Conference on Trade and Development ("UNCTAD") estimates total international seaborne trade for petroleum products and gas in millions of metric tons of cargo as follows:

Table 1: International Seaborne Trade, Petroleum Products and Gas

Millions of tons

	Goods Loaded	
	World	America
2006	914.8	93.9
2007	933.5	90.7
2008	957.0	93.0
2009	931.1	74.0
2010	983.8	85.1
2011	1,033.5	93.5

Source: UNCTAD[3]

The lot size for the TC14 contract is 1,000 metric tons. The figure of 1,033.5 million metric tons for world trade represents an equivalent of over 86,000 contract lots per calendar month, and the figure of 93.5 million metric tons for American origin cargoes represents an equivalent of approximately 7,800 contract lots per calendar month.

Data is not available which breaks down the tanker freight market into individual routes, however it should be noted that the TC14 route is one of only thirteen refined tanker routes that are defined and reported on by the Baltic Exchange, and one of only two that loads in the Americas.

[3] See UNCTAD Review of Maritime Transport 2012, Chapter 1: http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=380

The TC14 route is a benchmark for trade flowing from the US Gulf to Europe. The United Nations Commodity Trade Statistics Database ("UN Comtrade") publishes trade data for refined products between the USA and Northern Europe, as follows:

Table 2: US Exports of Refined Petroleum Products

Thousands of metric tons

Destination	2009	2010	2011	Average 2009-2011
Belgium	1,236	541	1,111	963
France	1,698	1,747	2,745	2,064
Germany	163	847	687	566
Netherlands	9,413	7,709	11,155	9,426
United Kingdom	1,326	561	1,093	993
Total Exports	13,835	11,406	16,792	14,011

Source: UN Comtrade Database[4]

The US Energy Information Administration publishes data for US exports of petroleum products divided into Petroleum Administration for Defense Districts ('PADD') as shown in Table 3.

Table 3: US Exports of Finished Petroleum Products

Thousands of barrels

Export Area	2010	2011	2012	Average 2010-2012
PADD 1	55,500	87,541	80,163	74,401
PADD 2	13,562	17,961	19,532	17,018
PADD 3	576,680	696,062	740,324	671,022
PADD 4	670	871	983	841
PADD 5	92,718	111,306	116,865	106,963
Total US	739,130	913,741	957,867	870,246

Source: US EIA[5]

[4] United Nations Comtrade Database, DESA/UNSD, http://comtrade.un.org. Refined petroleum products includes Aviation Spirit (HS271011) and Light Petroleum Distillates (HS271019).
[5] US Energy Information Administration http://www.eia.gov/dnav/pet/pet_move_exp_dc_NUS-Z00_mbbl_a.htm.

The US Gulf is represented by the EIA's PAD District No 3, although PADD 3 does not include the west coast of Florida. The EIA data in Table 3 shows that exports from PADD 3 represent 77.1% of US exports of petroleum products.

Table 2 shows the average annual volume of exports to be 14,011 thousand metric tons. Using the EIA data in Table 3 to assess the level of exports from PADD 3 at 77.1% of this figure, exports from PADD 3 can be assessed as 10,802 thousand metric tons per annum, which is equivalent to 900 thousand metric tons per calendar month, or 900 lots of the Freight Route TC14 (Baltic) Futures contract.

A position limit of 200 lots for expiring month positions is proposed. The figure represents 2.6% of the monthly Americas petroleum products and gas loadings figure from UNCTAD in Table 1, 17.1% of US petroleum products exports to North West Europe, and 22.2% of the average for petroleum products exports from US PADD 3 to North West Europe.

Contract Name	Rule Chapter	Commodity Code	Contract Size	Contract Units	Type	Settlement	Group
Freight Route TC14 (Baltic) Futures	**1103**	**FRC**	**1,000**	**Metric tons**	**Futures**	**Financially Settled Futures**	**Freight**

Diminishing Balance Contract	Reporting Level	Spot-Month position comprised of futures and deliveries	Spot-Month Aggregate Into Futures Equivalent Leg (1)	Spot-Month Aggregate Into Futures Equivalent Leg (2)	Spot-Month Aggregate Into Ratio Leg (1)	Spot-Month Aggregate Into Ratio Leg (2)	Spot-Month Accountability Level	Initial Spot-Month Limit (In Net Futures Equivalents) Leg (1) / Leg (2)
Y	25		FRC					200

Initial Spot-Month Limit Effective Date	Spot-Month Limit (In Contract Units) Leg (1) / Leg (2)	Single Month Aggregate Into Futures Equivalent Leg (1)	Single Month Aggregate Into Futures Equivalent Leg (2)	Single Month Aggregate Into Ratio Leg (1)
Close of trading 3 business days prior to last trading day of the contract	**200,000**	**FRC**		

Single Month Aggregate Into Ratio Leg (2)	Single Month Accountability Level Leg (1) / Leg (2)	Single Month Limit (In Net Futures Equivalents) Leg (1) / Leg (2)	All Month Aggregate Into Futures Equivalent Leg (1)	All Month Aggregate Into Futures Equivalent Leg (2)	All Month Aggregate Into Ratio Leg (1)	All Month Aggregate Into Ratio Leg (2)	All Month Accountability Level Leg (1) / Leg (2)	All Month Limit (In Net Futures Equivalents) Leg (1) / Leg (2)
	2,000		**FRC**				**2,000**	