CME Group
A CME/Chicago Board of Trade/NYMEX Company

October 11, 2010

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 Certification. New York Mercantile Exchange, Inc. Submission # 10-285: Notification Regarding the Listing of Iron Ore 62% Fe, CFR North China (Platts) Swap Futures for Trading on the New York Trading Floor and for Clearing through CME ClearPort®

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of Iron Ore 62% Fe, CFR North China (Platts) Swap Futures for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort. This new futures contract will be financially settled. The contract will be listed on the Exchange effective Sunday, October 17, 2010 for trade date Monday, October 18, 2010.

The Iron Ore 62% Fe, CFR North China (Platts) Swap Futures contract specifications are summarized in the table below.

Iron Ore 62% Fe, CFR North China (Platts) Swap Futures	
Contract Symbol	PIO
Rule Chapter	925
Contract Size	1,000 dry Metric Tons (dmt)
Underlying Currency	USD and cents
Listing Period	24 consecutive contract months
Minimum Price Quotations	$0.01 per dmt ($10.00 per lot)
Settlement Type	Financial
Final Settlement	Average of the daily prices reported in USD and cents by "Platts" during the relevant contract month
Last Trading Day	Last business day of the contract month
Business Days	Based on the Singapore Holiday Calendar

The first listed month for the Iron Ore 62% Fe, CFR North China (Platts) Swap Futures contract will be the November 2010 contract month.

In addition, the Exchange will allow the exchange for related position transactions as governed by the provisions of Exchange Rule 538.

The Exchange is also notifying the Commission that it will offer a broker rebate of 50% for the trading and clearing of this product through May 31, 2013.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Rules 40.2 and 40.6, the Exchange hereby certifies that the attached contract and associated broker rebate program comply with the Act, including regulations under the Act. The listing of the contract will become effective on trade date October 18, 2010.

Should you have any questions concerning the above, please contact Robert Biolsi at (212) 299-2610 or the undersigned at (312) 648-5422.

Sincerely,

/s/ Stephen M. Szarmack
Regulatory Counsel

Attachments: Contract terms and conditions
Cash market overview and analysis of deliverable supply

Chapter 925
Iron Ore 62% Fe, CFR North China (Platts) Swap Futures

925.01 SCOPE

The provisions of these Rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price.

925.02 FLOATING PRICE

The Floating Price for each contract month is equal to the average price calculated for all available price assessments published for "Iron ore fines 62% Fe – CFR North China Port" for that given calendar month by Platts.

925.03 CONTRACT QUANTITY AND VALUE

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

925.04 CONTRACT MONTHS

Trading shall be conducted in the contract months as shall be determined by the Exchange.

925.05 PRICES AND FLUCTUATIONS

Prices shall be quoted in U.S. dollars and cents per dry metric ton. The minimum price fluctuation shall be $0.01 per dry metric ton. There shall be no maximum price fluctuation.

925.06 TERMINATION OF TRADING

Trading shall terminate on the last business day of the contract month. Business days are based on the Singapore Holiday calendar.

925.07 FINAL SETTLEMENT

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

925.08 EXCHANGE FOR RELATED POSITION

Any Exchange for Related Position (EFRP) shall be governed by the provision of Exchange Rule 538.

925.09 DISCLAIMER

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CONTRACT OVERVIEW

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of the financially settled Iron Ore 62% Fe, CFR North China (Platts) Swap Futures contract. The contract will be based on the standard 62% iron ore content. The price for the contract will be based on price assessment published by Platts. Platts IODEX iron ore assessments reflect the transactable value of products and commodities traded in the open market as it uses transactional data, and/or specific firm bids and offers in the market.

CASH MARKET OVERVIEW

Market Overview

The primary use for iron ore is as an input in steel production. The production of finished steel is a multi-varied process. Raw materials of iron ore, metallurgical coal, steel scrap along with limestone and other alloying elements are combined to produce crude steel.

Crude steel can be produced in one of two ways. The first method is the integrated process where the main raw material, iron ore, is smelted using coke to produce liquid iron, which is transferred directly to the basic oxygen furnace (BOF) where it is transformed into crude steel. The second method used to produce crude steel is the electric arc furnace (EAF) process where ferrous scrap is placed in a furnace along with graphite electrodes – an electric arc is struck which causes the solid scrap to melt. It takes approximately 1.7 metric tons of iron ore to produce 1 metric ton of crude steel. It takes approximately 1.03 metric tons of scrap to make 1 metric ton of crude steel.

China has rapidly become the largest consumer and producer of steel. Dramatic growth in steel production in the country has resulted in the need to import iron ore to supplement China's own domestic iron ore which is of poor and declining quality. Chinese iron ore grades are typically less than one half the iron content of grades mined in other countries. The three primary sources of Chinese iron ore imports are Australia, India and Brazil. Iron ore exports from these countries into China are typically of high quality and have a median iron content of 62%.

Iron Ore Cash Market

Iron ore production and consumption is a global industry consisting of hundreds of counterparts, inclusive of miners, steel mills and physical and financial traders. As stated above, the primary use for iron ore is that of an input in steel production. It is estimated that global crude steel production could top 1.5 billion metric tons in 2010[1], and will require more than 1.7 billion metric tons of virgin iron ore, and 500 million metric tons of other metallics, most coming from ferrous scrap, but also including processed iron units (direct reduced iron).

World Production

Steel making is vital to all industrial economies and its production requires access to iron units. Iron ore is a relatively abundant mineral and is easily extracted. However, iron ore is capital-intensive to mine and its transport is constrained due to its high shipping cost relative to price. Developing economies, of which China is the most notable, have become the largest contributors to the demand growth of iron ore. Forecast shows that China will produce approximately 640 million metric tons of crude steel in 2010[2] which would represent a 326% increase in Chinese production of crude steel since 2001[3]. Along with China, other emerging nations are building up their domestic industrial sectors and this is driving demand. Largely because of this, world iron ore production grew from 1 billion tons in 2000[4] to nearly 1.7 billion tons in 2008 according to the United Nations Conference on Trade and Development ("UNCTAD") (see Table 1).

Table 1: Iron Ore – World Production[5] (millions of dry metric tons)

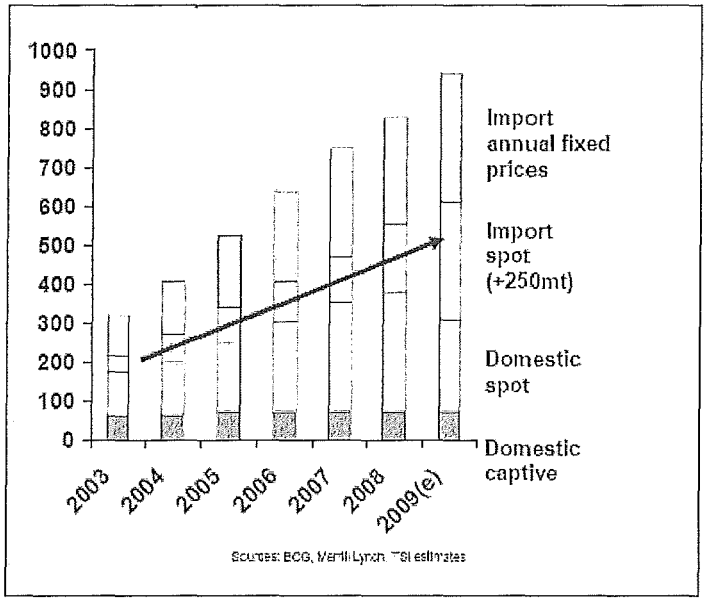
Country	2004	2005	2006	2007	2008
Austria	1.9	2.0	2.1	2.1	2.0
Bosnia-Herzegovina	0.3	0.6	0.9	1.3	1.2
Bulgaria	0.5	0.0	0.0	0.0	0.0
Germany	0.4	0.4	0.4	0.4	0.5
Norway	0.6	0.6	0.6	0.6	0.6

[1] Global apparent crude steel production is projected from monthly data as of April 2010 reported by the World Steel Association (www.worldsteel.org)
[2] Macquarie Group Ltd.
[3] www.worldsteel.org
[4] http://www.indexmundi.com/en/commodities/minerals/iron_ore/iron_ore_table16.html
[5] UNCTAD

Country	2004	2005	2006	2007	2008
Romania	0.1	0.1	0.1	0.0	0.0
Slovakia	0.3	0.3	0.3	0.3	0.2
Spain	0.0	0.0	0.0	0.0	0.0
Sweden	22.3	23.3	23.3	24.7	23.8
Kazakhstan	18.7	16.5	18.6	19.7	18.8
Russia	97.0	95.1	102.5	105.0	99.9
Ukraine	65.6	68.6	73.1	77.4	71.7
Sub-total Europe	**207.7**	**207.5**	**221.9**	**231.5**	**218.7**
Canada	28.6	30.1	35.0	34.1	32.1
USA	54.7	54.3	52.9	52.4	53.0
Brazil	270.5	292.4	318.6	336.5	346.0
Chile	7.4	7.5	7.9	7.9	8.4
Columbia	0.6	0.9	0.9	0.9	0.9
Mexico	11.5	11.7	9.6	10.9	11.5
Peru	6.8	7.1	7.6	7.9	7.9
Venezuela	20.0	21.2	22.1	20.7	21.5
Sub-total Americas	**400.1**	**425.2**	**454.6**	**471.3**	**481.3**
Algeria	1.4	2.0	1.8	2.0	1.7
Egypt	2.4	1.6	1.6	2.0	2.0
Mauritania	10.7	10.7	11.1	11.9	11.2
Morocco	0.0	0.0	0.0	0.0	0.0
South Africa	39.3	39.5	41.3	41.6	49.0
Tunisia	0.3	0.2	0.2	0.2	0.2
Zimbabwe	0.3	0.3	0.1	0.1	0.0
Sub-total Africa	**54.4**	**54.3**	**56.1**	**57.8**	**64.1**
China	145.7	197.6	276.4	365.0	366.0
India	120.6	142.7	180.9	206.9	214.0
Indonesia	0.1	0.0	0.1	0.1	0.1
Iran	12.7	14.8	18.1	22.0	20.0
Korea DPR	0.8	1.0	1.1	1.0	1.2
Korea R	0.5	0.5	0.2	0.2	0.2
Malaysia	0.7	0.9	0.7	0.8	0.8
Thailand	0.1	0.2	0.3	1.5	1.6
Turkey	3.9	3.8	3.3	3.8	3.7
Vietnam	0.8	0.8	0.8	0.9	1.0
Sub-total Asia	**285.9**	**362.3**	**481.9**	**602.2**	**608.6**
Australia	234.7	257.5	275.1	299.0	349.8
New Zealand	2.3	2.3	2.3	2.3	2.3
Sub-total Oceania	**237.0**	**259.8**	**277.4**	**301.3**	**352.1**
Total World	**1185.1**	**1309.1**	**1491.9**	**1664.1**	**1724.8**

Rapid changes in the market have transformed the sector from a processor of low cost, stable and abundant raw material, into a cyclical margin driven business. As shown in Chart 1 below, the growth in Chinese steel production has dramatically increased its need for imported iron ore.

Chart 1: China Iron Ore Demand (2003 -2009)



Iron ore production is dominated by three major mining companies - BHP Billiton Ltd, Rio Tinto, and Vale, which together provide approximately two-thirds of the world's seaborne iron ore (seaborne iron ore is defined below). Given that most steel-making countries don't have sufficient domestic supplies, the seaborne iron ore market becomes the marginal supplier[6]. This market determines price and takes on special importance for the entire industry. China imports iron ore from many countries – predominately Australia, Brazil and India.

Evolution of Spot Market Pricing

For the past 40 years, iron ore prices were set between miners and mills through a process of annual negotiations, referred to as the "benchmark price". This industry practice of "setting price" was endemic throughout the steel industry for not only raw materials, but also for finished product. This superseded the more traditional practice of "open market price discovery" that transpires in other

[6] Richard Wei of UBS predicts seaborne trade for Iron ore will rise to 1 billion tons in 2010, up 11% from 2009.

commodity markets via recognized commodity market mechanisms. Iron ore and steel pricing has been the anomaly, and is what sets iron ore and steel apart from other major commodities.

The two key factors for pricing ore are the iron content and location of the deposit. Iron ore mines never produce uniformed grades of ore. Some ore deposits are more naturally endowed with higher iron content than others, and even then, iron content within deposits will vary amongst the different parts of the mine itself. Additional formal characteristics, such as moisture, Alumina, Silica, Phosphorus, and Sulphur are considered pollutants and generally become determinants of value.

Classifications include pellet, fines & lump, which carry their own unique pricing terms. A notable point is that a difference in price valuation of iron ore content is not straight forward, and will be subject to variation between mines, mills and traders. Of note, these differentials are not linear interpolations, e.g., a 1% up or down iron content does not result in equal but opposite pricing differentials. This can lead to substantial pricing variations between various iron ore grades. Location of mines and requirements to transport ore to the steel mills are important aspects in determining price. Distances, logistics and costs for transport remove nearly 50% of the global iron ore production from the market. What is left is commonly called the "seaborne iron ore market".

The issue is crucial for price. Iron ore shipments are logistically cumbersome and involve the movement of large quantities of materials by rail, barge and or ship. Ore deposits are lightly processed at the mine site and then transported as pellets, fines or lumps to the steel mills. Iron ore is a "freight dependent" commodity, due to the high ratio of freight costs to the underlying commodity price. Steel mills that are vertically integrated with their own raw material supply, or which are strategically close to the ore deposits, have a freight advantage which displaces the competitiveness of far away resources from entering their supply chain. Freight costs can be substantial and represent a large and variable percentage of the seaborne iron ore price.

Availability of iron ore supply can be severely disrupted since it is heavily dependent on freight. This can occur at the port due to congestion, lack of suitable vessels or, even, weather. Brazil and India experience seasonal rains that play havoc on the loading schedules where monsoons can shut down facilities for extended periods. Ore price is negatively impacted by high moisture content and prevents loading and transport. A majority of the global fleet of capsize vessels are exclusively chartered for the

seaborne iron ore market. Fluctuations in demand for seaborne iron ore will impact the entire dry bulk freight market. Freight costs can vary substantially. Seaborne transportation costs can be managed by using derivative instruments based on several industry benchmarks for routes and time charters. Forward freight agreements (FFA's) are used in association with the transport of bulk commodities, mostly for iron ore, coal and grains. Cargo sizes vary widely with an average of about 50,000 metric tons, which amounts to about 50 futures contract equivalents. Therefore, iron ore prices are impacted not only by the supply-demand balance, but also the quality of grades, location and availability of transport.

World Exports

Iron ore is produced, consumed and exported by many nations, but three (3) countries are the primary iron ore exporters – Australia, Brazil, and India. According to UNCTAD, in 2008, iron ore exports reached approximately 889 million metric tons. In particular, during 2008, Brazil, Australia, and India exported approximately 282 million metric tons, 309 million metric tons, and 101 million metric tons, respectively (see Table 2 below).

Table 2: Iron Ore – World Exports[7] (millions of dry metric tons)

Country	2004	2005	2006	2007	2008
Bosnia-Herzegovina	0.1	1.3	1.5	1.3	0.7
Norway	0.6	0.6	0.6	0.6	0.8
Slovakia	0.1	0.1	0.1	0.1	0.1
Sweden	17.4	17.8	18.2	19.4	17.8
Kazakhstan	11.3	9.9	15.0	16.0	15.2
Russia	19.3	20.1	22.8	25.5	22.5
Ukraine	18.1	19.5	20.2	20.7	22.8
Other Europe	0.0	0.0	0.0	0.0	0.0
Sub-total Europe	**66.9**	**69.3**	**78.4**	**83.6**	**79.9**
Canada	22.5	27.9	27.8	28.3	28.2
USA	8.4	11.8	8.2	9.3	11.1
Brazil	200.9	223.4	247.5	269.4	281.7
Chile	5.5	5.9	5.8	6.7	5.4
Mexico	1.0	1.6	1.3	1.4	1.9
Peru	6.2	6.4	7.0	7.4	7.2

[7] UNCTAD

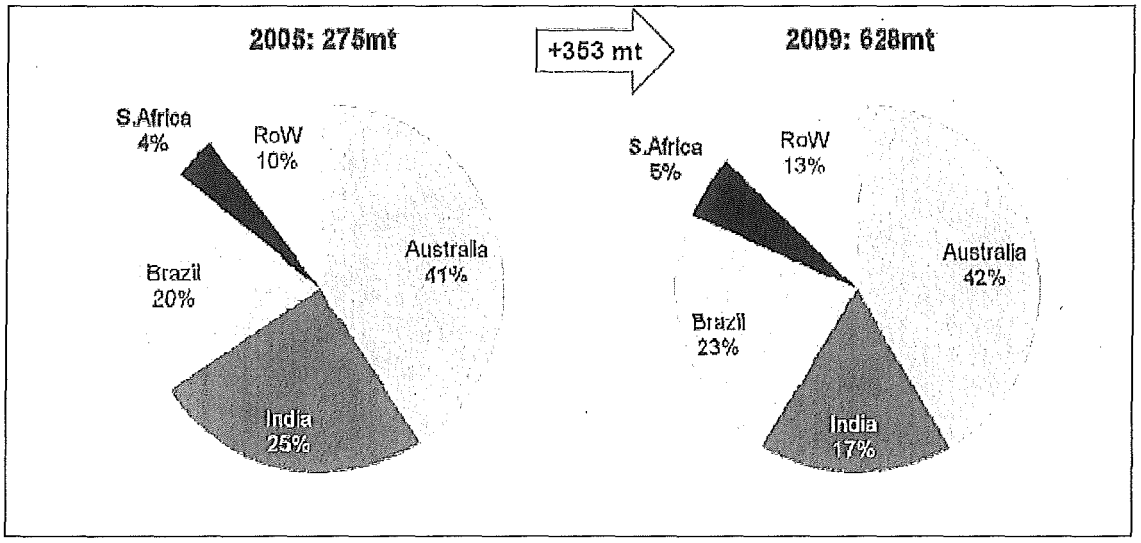
Country	2004	2005	2006	2007	2008
Venezuela	9.3	7.6	5.6	6.5	5.5
Sub-total Americas	**253.8**	**284.6**	**303.2**	**329.0**	**341.0**
Mauritania	11.0	10.6	10.7	11.8	11.0
South Africa	24.7	26.6	26.2	30.3	32.8
Sub-total Africa	**35.7**	**37.2**	**36.9**	**42.1**	**43.8**
India	62.7	80.9	89.3	93.7	101.4
Indonesia	0.1	0.7	0.7	0.7	6.5
Iran	1.3	1.4	3.0	4.0	3.8
Korea DPR	0.5	0.6	0.6	0.7	0.9
Malaysia	0.1	0.3	0.2	0.8	0.8
Vietnam	1.6	1.2	1.6	1.2	1.2
Other Asia	0.9				
Sub-total Asia	**67.2**	**85.1**	**95.4**	**101.1**	**114.6**
Australia	221.2	239.0	247.3	266.9	309.3
New Zealand	0.9	1.0	0.9	0.6	0.5
Sub-total Oceania	**222.1**	**240.0**	**248.2**	**267.5**	**309.8**
Total World	**645.7**	**716.2**	**762.1**	**823.3**	**889.1**

Chinese Iron Ore Production and Imports

China was the largest producer of iron ore in 2009; however, it is imperative to note that China reports statistics in terms of crude ore production as opposed to usable ore production, defined by iron content. China has an abundance of ore, but the quantity it produces cannot make up for its inherent lack of quality. This lack of domestic quality forces China to become more dependent on imports. Thus, China's growth as a steel producing nation has indirectly made it the world's largest consumer of seaborne iron ore[8]. According to The Steel Index, China has been the single largest importer of seaborne iron ore, importing 628 million metric tons of iron ore in 2009 (see Chart 2 below).

[8] BHP Billiton Ltd Marketing Report, September 2009

Chart 2: China's Seaborne Iron ore Imports By Origin



Source: The Steel Index

According to UNCTAD, in 2008, China imported approximately 444 million metric tons of iron ore, which represents approximately 49% of the total world seaborne trade for 2008. Please note that as of date, UNCTAD did not have data available for year 2009.

Table 3: Iron Ore – World Imports[9] (million of dry metric tons)

Country	2004	2005	2006	2007	2008
Austria	5.8	7.4	7.7	9.0	8.0
Belgium/Luxembourg	10.6	9.4	11.4	9.6	12.3
Bosnia-Herzegovina	0.0	0.0	0.0	0.1	0.2
Bulgaria	1.7	1.4	1.3	1.2	0.2
Czech R	7.6	6.8	7.6	5.3	6.8
Finland	3.8	4.2	3.5	3.2	3.0
France	20.8	19.5	19.9	20.1	18.3
Germany FR	46.4	42.0	44.9	46.2	44.3
Hungary	1.9	1.9	2.0	2.3	1.9
Italy	16.7	17.6	17.8	17.0	16.3
Netherlands	12.6	12.3	11.3	12.1	10.8
Poland	10.8	6.8	8.6	8.7	8.6
Portugal	0.0	0.0	0.0	0.0	0.0
Romania	6.6	6.6	6.2	6.1	4.6

[9] UNCTAD

Country	2004	2005	2006	2007	2008
Serbia & Montenegro	2.1	2.9	3.0	2.8	3.1
Slovakia	6.1	5.5	6.4	5.9	4.8
Spain	6.2	6.2	5.8	5.7	5.6
Sweden	0.1	0.1	0.1	0.0	0.0
United Kingdom	15.3	16.1	16.4	17.4	15.3
Russia	10.4	9.7	10.6	13.5	12.4
Ukraine	3.3	3.0	2.0	3.6	3.0
Sub-total Europe	**188.8**	**179.4**	**186.5**	**189.8**	**179.5**
Canada	7.9	9.6	7.6	7.3	9.3
USA	11.6	13.0	11.7	9.2	9.2
Argentina	5.4	6.7	6.7	5.8	7.2
Mexico	4.4	4.2	3.9	3.1	3.9
Trinidad & Tobago	3.8	3.9	4.3	5.3	4.7
Sub-total Americas	**33.1**	**37.4**	**34.2**	**30.7**	**34.3**
Egypt	4.3	4.5	4.0	4.3	3.6
Libya	2.1	3.1	2.3	2.1	2.5
Sub-total Africa	**6.4**	**7.6**	**6.3**	**6.4**	**6.1**
China	208.1	275.2	326.3	383.1	444.0
Behrain	3.7	4.1	3.4	2.2	8.2
India	1.0	1.3	0.8	1.1	0.6
Indonesia	2.0	1.6	1.8	1.7	2.3
Iran	0.6	1.8	1.4	1.2	1.1
Japan	134.9	132.3	134.4	138.9	140.4
Korea R	44.2	43.5	43.9	46.2	49.5
Malaysia	2.2	1.9	2.1	2.7	3.3
Pakistan	1.0	2.1	0.9	0.9	0.6
Quatar	0.4	1.3	1.4	1.8	2.1
Saudi Arabia	4.1	9.7	5.5	6.0	8.4
Singapore	0.0	0.0	0.0	0.1	3.1
Taiwan PoC	15.7	14.6	15.5	16.0	15.6
Turkey	4.6	4.6	5.6	6.2	6.8
United Arab Emirates	0.2	0.4	0.9	0.4	0.3
Other Asia	0.0	0.0	0.0	0.0	0.0
Sub-total Asia	**422.7**	**494.4**	**543.9**	**608.5**	**686.3**
Australia	2.3	1.5	1.8	1.3	1.4
Sub-total Oceania	**2.3**	**1.5**	**1.8**	**1.3**	**1.4**
Total World	**653.3**	**720.3**	**772.7**	**836.7**	**907.6**

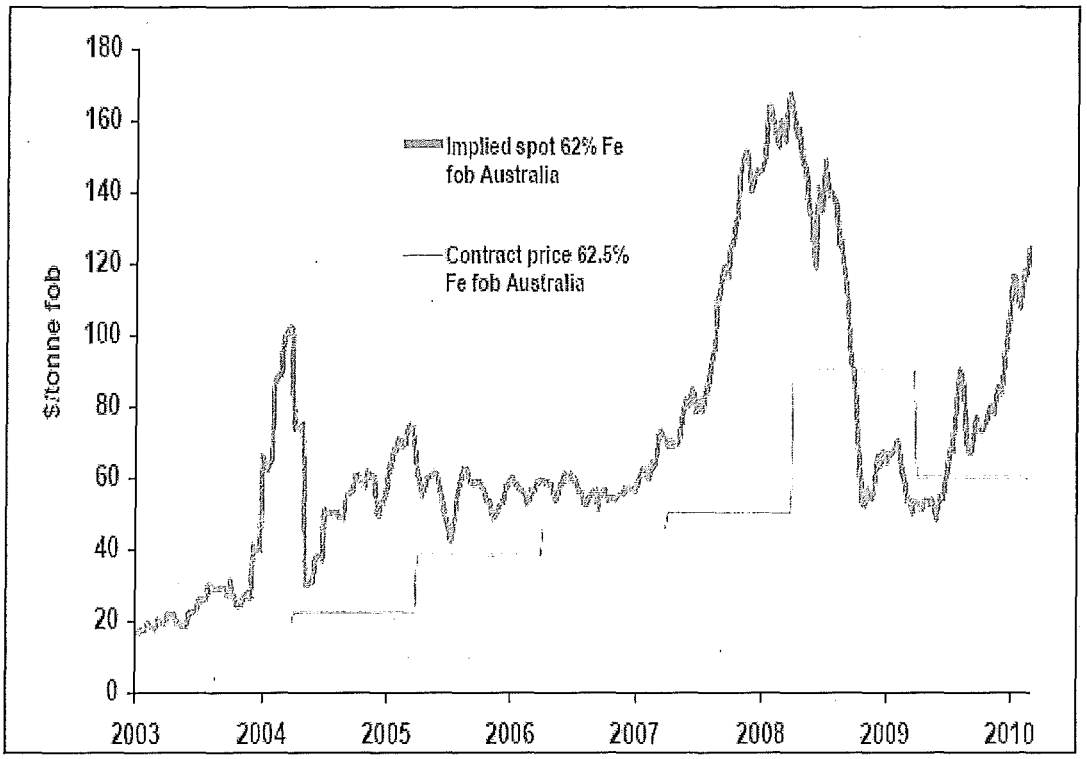
Prices and Settlement Mechanism

As previously mentioned, iron ore production is concentrated in three major mining companies - BHP Billiton Ltd (Australia), Rio Tinto (Australia), and Vale (Brazil), which together provide approximately two-thirds of the world's seaborne iron ore. This has led to changes in traditional business practices. As stated above, for the past 40 years, iron ore prices were set between miners and mills through a contorted process of annual negotiations – "the benchmark price". This industry practice of "setting price" was uniform and accepted throughout the industry. This practice superseded "open-market price discovery" that typically transpires in other commodity markets via recognized commodity market mechanisms. Iron ore and steel pricing has been the anomaly, and this was one thing that set it apart from other major commodities.

The theory behind setting "annual benchmarks" was that, by having the price set through an annual negotiation, the best price for both parties is achieved. Annual talks were led by a single iron ore producer and a dominant Asian steel mill who settled on a price. Once this price had been achieved, then the small to mid-tier steel mills and mining companies used this price to fix their own agreements for the April to March contract year.

However, despite benchmark pricing, a spot price has always existed in the iron ore market where steel producers could purchase iron ore for prompt delivery. This smaller market catered to when mills either needed additional iron ore or furnace shutdowns placed additional supply back onto the market. As seaborne shipments have increased, pressure has been put on the annual benchmark pricing structure. Especially for countries such as India and Brazil, which have relied on iron ore as significant avenues of export, increased pressure has been placed on annual benchmark prices, with exporters pushing for spot pricing. While resisted by many mills, spot pricing is being aggressively implemented across the world by the major iron ore miners. Below is a chart illustrating the growing price differences between the annual benchmarks and spot prices.

Chart 3: Iron Ore Price Comparison – Spot vs. Benchmark (2003-2010)



Source: Macquarie Group

Consequently, the interaction between annual benchmark prices and spot prices have become more complicated in recent years, largely as a result of China's emergence as the leading consumer of iron ore. China, with over 300 independent steel mills, adds complications to the ability of predicting annual iron ore requirements, especially in a high growth market. In addition, reliance on low grade domestic supply has proven undependable for China and the switch from domestic to international iron ore supply compounds this problem.

Iron ore prices plunged in 2009 and many steel mills backed out of long term contracts when the spot price fell below the annual benchmark price. This is seen as the main driver for global mining firms to vocally call for a move away from benchmark prices. BHP Billiton Ltd (Marius Kloppers, Sept. 2009) outlines three reasons to abandon the annual benchmark system in favor of a floating price mechanism, these are:

- Spot prices more accurately and quickly reflect changes in supply/demand fundamentals.
- Floating prices reduce the risk of conflict between buyer and seller, specifically the nonperformance of contracts when prices get out of line.
- Spot prices more efficiently signal to suppliers when to cut or raise production.

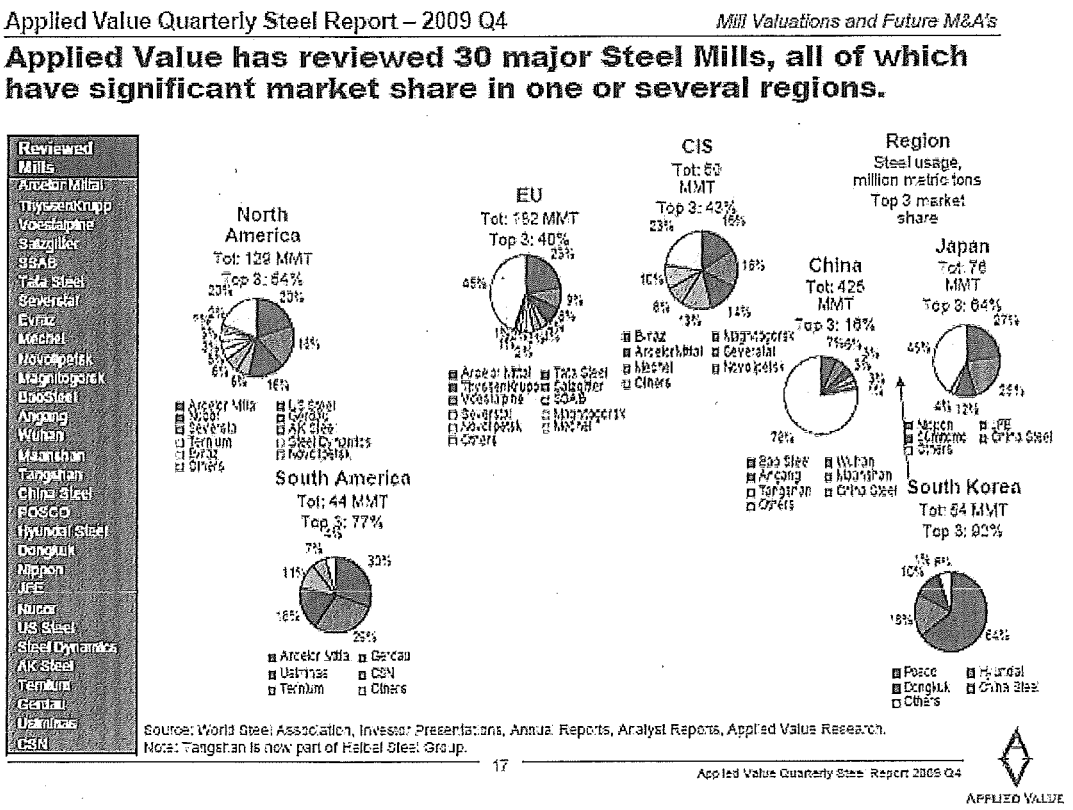
Rapid demand growth from China and the inability of iron ore miners to match this with increased iron ore production is at the core of the issue[10]. Taken together, the dramatic supply/demand imbalances are seen as the cause for this industry to abandon the annual benchmark. Investment in mine expansion requires long lead times and large capital expenditures, which have not kept up with demand. These shortages have lead to dramatic price volatility where year-on-year benchmark prices diverged greatly from spot prices.

This volatility impedes the annual price negotiations between producers and mills, and annual negotiations have broken down for the second consecutive year without reaching a price consensus between miners and mills. Miners and mills are now publically stating that the benchmark system is "broken"[11], and while some agreements between parties, notably Japanese and Australian miners, are occurring, the pricing agreements with Chinese steel companies are tenuous.

Demand growth of Chinese steel mills for iron ore over the past decade has not been a steady and coordinated activity. Chinese demand for iron units is fragmented across 300 domestic steel mills, of which the top 3 control 16% of imported iron ore material and the balance of domestic steel mills must rely on the poor quality domestic market or buy imported material indirectly from other competing mills (see Chart 4 below). Access to international iron ore is mandated by the Chinese Government on a permit basis; hence, not all mills have access to this essential source of steel making. In short, the need for industrial growth and the breadth of demand from small suppliers has fostered the reliance on spot pricing. Access to seaborne iron ore has become a critical element to Chinese steel production and directly to the steel mills' growth and profitability.

[10] Since 2004, Chinese production has grown 23% annually versus worldwide gains (excluding China) of 3.5%.
[11] Bloomberg, March 25th 2010. RIO opting for quarterly pricing saying, "annual benchmark price is broken".

Chart 4: Major Steel Mills



Introduction of Price Indices and OTC Derivatives Trading

None of this market development could take place without reliable and independent price indices. The breakdown between miners and mills to establish annual pricing agreements has lead to the development of 3rd party indices. Independent companies have come forth to establish and compile spot market transactions into standardized price assessments for iron ore. This type of approach is necessary to accommodate the pricing complexities inherent within the iron ore markets where products are not applicable to the physical delivery process traditionally found in futures contracts. These price assessments have become the settlement mechanism for financial instruments.

As these price assessments have gained a reputation for reliability, the derivatives market has developed. In turn, it has allowed industry participants to replace long term contracts with derivatives agreements. These agreements require the use of transparent, independent index prices to settle their

forward contracts. These products are expected to migrate eventually to listed exchanges as volumes and numbers of participants grow.

Price assessments require:

- Independence, a neutral reference point which is transaction-related, transparent and clearly documented in the index operating procedures.
- A means to facilitate transfer pricing of physical volume by allowing market participants to embed the index prices into their contract agreements based on a standardized benchmark. Iron ore is priced based on purity of iron content; the greater the purity, the greater the price in general. Iron ore grades of different purity levels are priced at differentials to the standard benchmark (62%).
- A means to allow financial transactions to occur and acts as a settlement mechanism for those agreements.

BHP Billiton Ltd reported that it had sold nearly 46% of its Western Australian iron ore production on a mix of cash, quarterly and index pricing for the fiscal first half of 2009[12]. Vale has also reported that it was financially impaired in 2009 by continuing with the annual benchmark system. The company stated that prices for iron ore sales will reflect the market price and gone are the days of a static annual price on a Free-On-Board (FOB) basis. Vale confirmed that nearly 50% of all global seaborne iron ore sales are now concluded on a spot basis. "Customers will have to accept a different price system that takes into account what is going on in the export market"[13].

Participants, including miners, traders and financial firms, are establishing the 62% iron content as the preferred index price. Nascent derivatives markets have become established. Banks, such as Deutsche Bank and Credit Suisse, as well as commercial firms, such as BHP Billiton Ltd, have been early active participants.

Iron ore mines will never produce uniformed grades of ore, even after beneficiation. These can vary substantially between individual physical cargoes coming from same ore body. Also, the

[12] Bloomberg, March 22, 2010. "BHP Says Trend to Market-Based Ore Pricing Will Stay".
[13] Vale International Conference Call, February 11th, 2010. 4Q and 2009 Earnings Release

classification differences include fines, lumps and pellets; these latter two products can carry significant premiums and their own pricing terms.

Index Providers

BHP Billiton Ltd's influence has lead to the development of a group of competing 3rd party indices. Three index compilers have established leading positions in price assessments for iron ore:

- Platts (IODEX)
- TSI (The Steel Index)
- Metal Bulletin (MBIO)

It is important to note here that each of these index compilers are collecting and reporting price information for the same underlying marketplace. While they use different calculation methods, each is seeking to assess a similar price, that which is delivered cost and freight (CFR) China. Reportable prices for this market tend to be different on a daily basis, but have very strong similarities, as illustrated in Chart 6 below. Various firms in different market sectors are beginning to establish preferences between these indices.

All three indices publish the 62% iron ore content price (seen as the average/median grade of Chinese imports). Platts bases its assessments on transparent deals as well as bids and offers in the market. Platts' assessments do not reflect an average of the deals reported over the day.

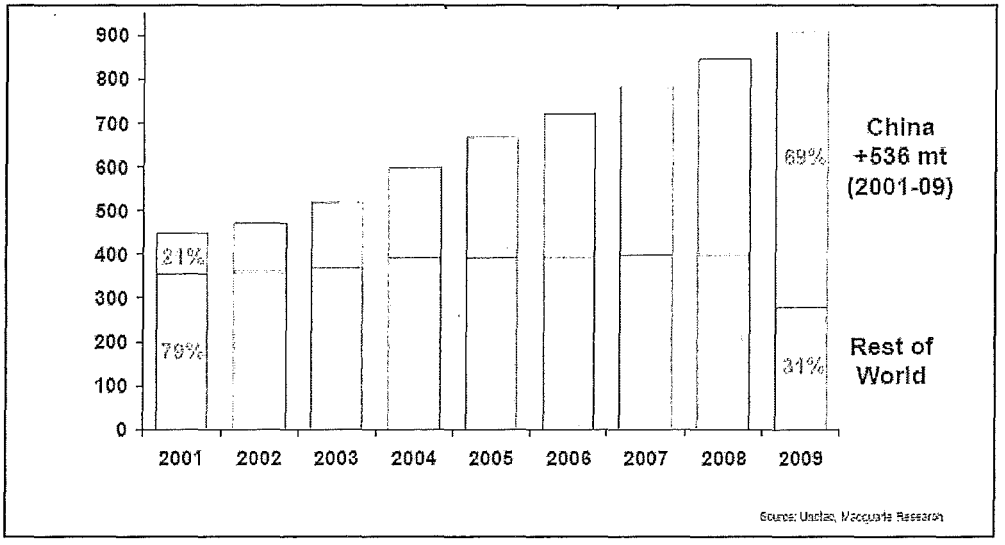
The importance of price quotes for different grades should not be understated, since there is not a simple price relationship between grades based solely on iron content – buyers are willing to pay proportionally more for a higher iron content product than a lower iron content product because it saves them money in the iron-making process (lower energy consumption, coke rate and higher productivity).

As steel prices trend higher together with higher coke and coking coal prices, the higher iron content is worth more in absolute dollar terms to the mill. The specific premium, however, which a particular steel mill is willing to pay for higher grade iron ore, is not uniform and dependent on its blast furnace dynamics. Additional factors can impact prices as well, and these include the amount of phosphorus, moisture and impurities contained in the ore.

While these index firms have developed and implemented unique methods to calculate price indices, it is highly likely that procedures and definitions will be refined and evolve in response to market developments. Nascent financial swap markets have started to operate of which the first was the OTC bilateral market initiated by BHP Billiton Ltd directly with Deutsche Bank and Credit Suisse. Next iron ore swaps have become accepted for clearing by international derivative clearinghouses that standardized contract specification, using these same index prices for financial settlement terms. As of today, there are only financial swaps and not a physical delivery contract listed for iron ore.

Financial trading liquidity is appearing on the 62% iron content indices delivered China. While other grades, 63.5% iron grade, and 58% and 75%, face the challenge that actual physical trades occur less frequently (75% iron reflects mainly Vale SSF, CSN and South African fines), these grades will probably trade financially as a basis differential contract to the 62% price. Since Chinese consumption of seaborne iron ore accounts for over twice the iron ore volume imported by the rest of the world (see below Chart 5 below), it is likely that this location preference remains dominant, while others are developed.

Chart 5: Seaborne Iron Ore Imports by Country



Forward Markets

Evolution away from the iron ore benchmark system has significant ramifications throughout the entire ferrous metals industry in terms of pricing and managing risk. Movement to spot market pricing

supports the need for price risk management, not only in raw materials (iron and ferrous scrap), but also for downstream products, such as hot rolled coil, rebar and other finished steel products. None of this would be possible without reliable pricing indices. Transitioning from the annual benchmark system does have challenges and, with less than two years of index pricing history, and several similar index providers competing for market share listing contracts on different exchange platforms, one challenge is developing a single global consensus. Another challenge is collating industry sourced spot transactions, developing acceptable methodologies, and minimizing basis risk associated with varying iron content, impurities, and delivery points, will prove challenging for an industry with little experience in derivative instruments. Some of the challenges therefore will take time and a collaborative outlook by the industry to overcome.

As illustrated in Chart 6 below, since 2007, there have been massive price increases and decreases in the iron ore market. There is a compelling need for forward markets based upon the volatile price swings of recent years and the removal of annual fixed price contracts.

At the end of 2009, the iron ore swap market was young, but rapidly growing. This market was started by BHP Billiton Ltd in mid 2008 when it teamed up with Deutsche Bank and Credit Suisse to jumpstart a nascent OTC Swap market. Other financial firms have joined in and, then in 2009, several clearinghouses agreed to clear iron ore swaps. Estimates are that for 2009, around 35 million metric tons of cleared and bilateral iron ore swaps had traded. Forecasts are that these volumes will double in 2010 and, within a few years, reach nearly 300 million metric tons[14].

It has been estimated that 80% of the forward market is currently cleared at one of the 3 venues. For 2010, LCH.Clearnet (LCH) averaged about 209 contracts (1,000 dmt lot) per month[15] while SGX averaged about 3,050 contracts (500 mt lot) per month[16] (volume at ICE is not publically disclosed). Typical bid/ask is quoted at $4.00 per metric ton (subject to time and volume) according to snapshots taken from Bloomberg data feeds. Much of this initial volume can be attributed to financial firms supporting their own corporate clientele that are risk managing their iron ore supplies, or weak credit quality among some the major mining firms. In either case, industry is seeking to mitigate and more efficiently manage their credit risk through clearing contracts on an exchange.

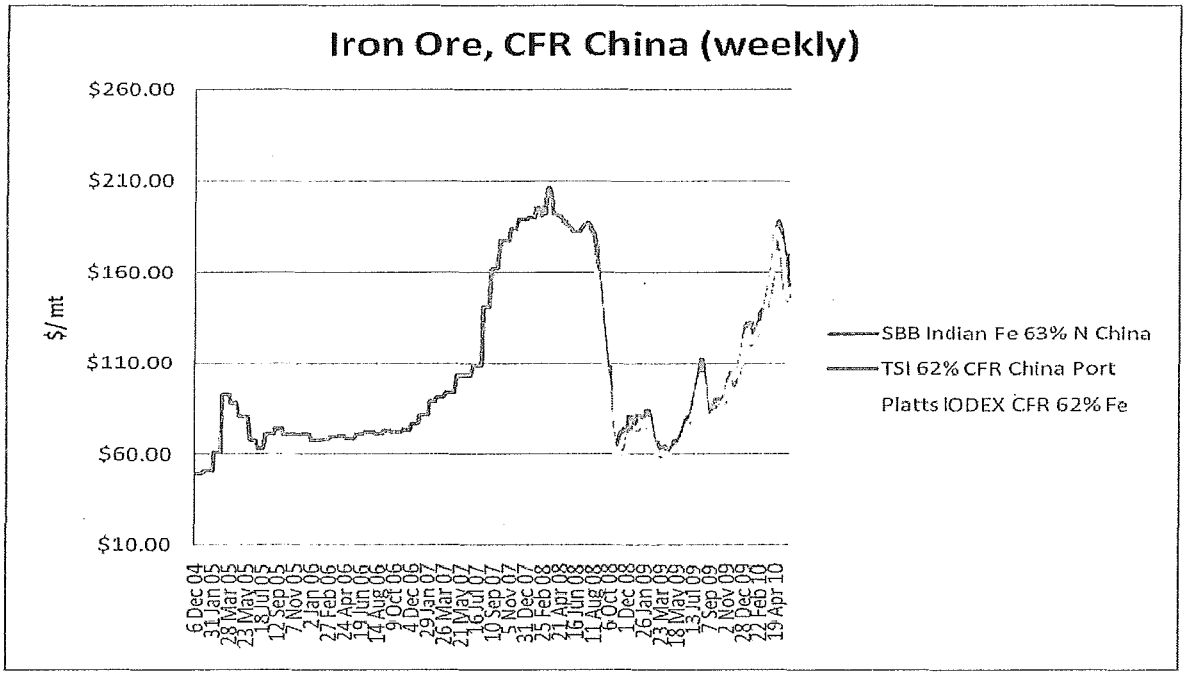
[14] Credit Suisse as reported by Reuters LONDON, March 15 2010
[15] www.lchclearnet.com
[16] www.asiaclear.com

Price risk exposure can be managed and controlled not only for producers, but for all participants in the value chain. Centrally cleared financial markets increase the number of participants who can transact with one another, enhancing liquidity and improving price discovery.

- Forward price curve facilitates front end capital investment decisions and allows performance to become benchmarked against actual market prices.
- Forward spread differentials between raw materials and finished products can be locked into, thus allowing firms to protect margins and smooth revenue flows.
- Allows firms to manage forward price commitments irrespective of physical supply contracts.

The Exchange's iron ore contract, along with other related financial contracts provide the necessary building blocks for industry participants to manage price.

Chart 6: Iron Ore Prices



Source: SBB, TSI, Platts

Risk Management

In addition, financial products must provide value to the global steel industry. The industry is widely fragmented and covers a large diversity of industrial sectors. The move to use a Chinese delivered

spot iron ore price to set global iron ore prices will impact not just Chinese firms, but the entire industry – especially Western mills and end consumers. It is unlikely that a series of regional iron ore indices will quickly be developed.

Participants, including miners, traders and financial firms are establishing the 62% Fe content as a benchmark price. Nascent markets have started, each of the four competing clearing venues nominated below have focused on this product specification.

Moreover, the breakdown of annual iron ore benchmark negotiations is key drive for development of the iron ore derivatives. Consequently, Iron ore derivatives started trading in 2008 and are listed on several clearing platforms as follows:

	SGX	LCH	ICE	NOS	CME	SMX
Index	TSI – 62% Fe CFR China	TSI – 62% Fe CFR China	Platts – 62% Fe CFR China	TSI – 62% Fe CFR China	TSI – 62% Fe CFR China	MBIOI – 62% Fe CFR China
Floating Price	Monthly average of daily	Monthly average of daily	Monthly average of daily	Monthly average of daily	Monthly average of daily	N/A
Contract Size	500 dmt	1,000 dmt	1,000 dmt	1,000 dmt	500 dmt	N/A
Maturity Profile	24 serial months	24 serial months	24 serial months	24 serial months	24 serial months	N/A
Venue	AsiaClear	EnClear	OTC Clear	NOS Clearing	ClearPort	SMX
Initial Margin	$4,000/$6,750	$11,200/$16,000	$4,500/$6,750	12% (approx $17,000 per lot at current prices)	$5,000/$5,500	N/A
Launch Date	April 2009	May 2009	December 2009	April 2010	July 2010	Future listing announced September 29, 2010
Life of Contract Volume	40,128 lots	1903 lots (2010 only)	N/A	N/A	0 lots	N/A

In addition, the Singapore Mercantile Exchange announced plans to list an iron ore contract referencing the Metal Bulletin Iron Ore Index.

Volume on the Singapore Exchange (SGX), currently the largest derivatives Exchange for Iron Ore is as follows:

SGX Volume (500 mt per lot)		
Month		**Volume**
Apr-09		323
May-09		850
Jun-09		770
Jul-09		1,370
Aug-09		1,820
Sep-09		1,100
Oct-09		1,750
Nov-09		2,910
Dec-09		1,771
Jan-10		2,837
Feb-10		1,679
Mar-10		2,772
Apr-10		4,436
May-10		3,996
Jun-10		2,183
Jul-10		3,774
Aug-10		3.105
Sep-10		2,682

Economic Motivation

Price volatility requires financial tools to manage risk. All industry participants have a different exposure to price and react differently to its movements. It is unusual that miners and mills could have equal and opposite exposures to these prices and agree when to lock into long term physical pricing contracts with one another.

Financial instruments, such as the Exchange's iron ore contract, were created to allow the industry to manage their pricing exposure without changing their physical supply relationships. Each firm

has their own unique exposure to manage, and these instruments allow them the flexibility to remove forward price volatility – when and where they need to, without interfering with their physical trading partner. This is crucial, since it removes the difficult aspect of price negotiations from the physical agreement and allows both parties to independently manage price exposure.

This process involves two components – using a spot pricing index to trade physical iron ore contracts and then using this same pricing index to settle the financial forward instrument. Embedding the same underlying price index in both deals removes the 'basis risk' from the transaction and ensures that 'convergence' is guaranteed upon maturity.

Evolution of Financial Markets

Development of robust and liquid forward markets to manage price exposure is essential for iron ore and other commodities if these industries are to use market-based pricing systems.

These types of developments are evolutionary in nature. New financial products take periods of time to develop, and it is not unusual to find low volume, fragmented marketplaces at the onset. Most markets are developed on a one to one trading basis, the principle OTC swap dealers conduct bilateral business with their established counterparts, but this can quickly constrain market growth as new players enter the market that do not have bilateral credit facilities with the established firms. While some firms will support this one to one marketplace, it can put a damper on market development. This is somewhat natural given the protective interest they hold for their own business models, however this in itself can manufacture barriers to liquidity, transparency, and market maturity.

In this respect, introducing the CME ClearPort market platform can increase market participation at all levels and become a benefit to all[17]. Promoting market transparency, price discovery and trading liquidity are what encourages markets to grow. These features become essential aspects worthy of support by all participants, and the industry as a whole.

From a trading liquidity perspective, the bilateral OTC model is credit intensive and present challenges associated with expanding the global iron ore derivative market. The industry stands to benefit

[17] CME ClearPort is a clearing venue that allows registered firms to novate OTC derivative trades into a central clearing system.

from a clearing mechanism similar to models already established in commodity and energy asset classes found in Europe, North America, and Australasia.

Further supporting CME's clearing model is the geographic spread of market participants in this industry. Given the concentration of physical iron ore production in the Southern hemisphere – Australia, India, South Africa and Brazil, which is offset with steel mills predominately based in Europe and Asia. There will be an overriding need for the clearinghouse and it's clearing members to be global in perspective. And have both counterpart credit and country risk facilities available to handle client activity in these areas.

Settlement Index Methodology[18]

As stated above, the proposed contract under this self-certification filing will be based on Platts. Platts, a division of the McGraw-Hill Companies, is a leading global provider of energy and metals information. Platts has been reporting iron ore data since 2008 and bases its assessments on transparent deals, bids and offers in the market, and reflects the traded or tradable value at the market close. Platts does not reflect an average of the deals during the day in its assessment. Platts IODEX 62% Fe iron ore price assessments reflect fines of 60.0% to 63.5% Fe content to be normalized to the 62% standard using an assessed market value for each 1% of Fe content. The unit of assessment is US Dollars per dry metric ton ($/dmt). The location for CFR Main Chinese Ports is normalized to Quingdao in North China.

It is important to note that several of the index compilers are collecting and reporting price information for a common underlying marketplace. While each uses slightly different calculation methods, each is seeking to assess a similar price, that which is delivered into China. This being said, the indices will report independent prices that differ on a daily basis.

Also important in price determination in addition to the calculation procedures:

- Destination port, CFR China includes a wide range of available locations
- Loading time and departure date (demurrage, multiple loading ports)

[18] http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/ironore.pdf

- Moisture, and impurities (phosphorus, alumina and silica)

Description of Source

UNCTAD, United Nations Conference on Trade and Development, was established in 1964 as an intergovernmental institution whose goal is to maximize trade, investment, and growth opportunities for developing countries in an effort to integrate these countries into the world economy on an equitable basis. UNCTAD functions as a forum for intergovernmental deliberations, undertakes research, policy analysis, and data collection, and provides technical assistance tailored to specific requirements of developing countries. UNCTAD releases statistics that are relevant for the analysis of international trade, foreign direct investment and commodities, and more explicitly for understanding the economic trends of developing countries over the past decades, particularly in the context of globalization. The statistics are based on national and international data sources and are presented in a consistent framework and in an analytical structure. Please note that as of date, UNCTAD has not yet published iron ore data for year 2009.

Market Participants

The market participation in iron ore is diverse – both in numbers and geographical regions. Around the world, hundreds of companies in total are involved in the production, trading and consumption of physical iron ore. The number of market participants increases when accounting for companies involved with the domestic production of iron ore in China. Excluding, companies involved in production of domestic Chinese iron ore, the spot market and OTC market participants include:

Iron Ore Miners: Rio Tinto, BHP Billiton Ltd, Vale, NMDC Ltd., Anglo, SAIL, Fortescue, BC Iron, Anshan Iron and Steel, Atlas Iron ltd., Cliffs Natural Resources, Essar, Evraz.

Commodity Traders/Steel Mills: Baosteel, JFE Holdings, Arcelor Mittal, ThyssenKrupp, Bluescope Steel, POSCO, US Steel, Cargill, Minmetals, Mercuria, Trafigura, Noble, Sino Metals, Glencore, Carbofer, Duferco, Stemcor.

Brokers: ICAP, Freight Investor Services, London Dry Bulk, DBS Vickers (Singapore).

Financial (Swaps): Deutsche Bank, Credit Suisse, Macquarie Bank, Citibank, Morgan Stanley, Barclays, Goldman Sachs, JP Morgan, NewEdge.

ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange was cognizant of the fact that individual sources of iron ore data differ in their absolute volume weighting due to the disparity in iron ore content. Iron ore volume reporting varies as sources do not use a harmonized methodology to calculate iron ore content. Certain sources harmonize data reporting to standard Fe content while others report data based on gross tonnage.

According to UNCTAD, the total world production of iron ore during 2008 was approximately 1.7 billion metric tons, or approximately 144 million metric tons per month (see Table 1 above). The total export of iron ore during 2008 was approximately 889 million metric tons or approximately 74 million metric tons per month (see Table 2 above). For 2008, total world imports of iron ore were approximately 908 million metric tons of which 444 million metric tons were imported into China (see Table 3 above), or approximately 37 million metric tons per month were imported into China. This is equivalent to 37,000 iron ore contracts (contract size: 1,000 dry metric tons) imported into China each month. Therefore, 25% of the imported iron ore into China on a monthly basis would be approximately 9.25 million metric tons or 9,250 contract units.

The Exchange has therefore determined to set its spot month position limits for the Iron Ore 62% Fe, CFR North China (Platts) Swap Futures contract at 7,500 contract units, which represents approximately 20%of the monthly deliverable supply/imported iron ore into China.