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October 28, 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 # 10-305: Notification Regarding the Listing of Daily European Union Allowance (EUA) Futures Contract on CME Globex® and CME ClearPort®

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 Daily European Union Allowance (EUA) Futures contract for trading on the CME Globex and for submission for clearing through CME ClearPort on trade date November 1, 2010. The daily contract will be listed for two (2) consecutive business days available for trading at any one time as follows: the current trade date and the following trade date. The daily EUA futures contract will be physically-delivered at the UK Emissions Trading Registry. A summary of the contract specifications is as follows:

- **Commodity Code:** EUL
- **Rule Chapter:** 841
- **Delivery:** Physical delivery at the UK Emissions Trading Registry.
- **Contract Unit:** 1,000 European Union Allowances (EUAs).
- **Termination of Trading:** 17:00:00 UK local time on the contract day.
- **Listed Days:** Two (2) daily contracts will be listed at any one time (the current trade date and the following trade date).
- **Initial Contract Listing:** November 1, 2010 and November 2, 2010.
- **Minimum Price Tick:** € 0.01 per EUA
- **Trading Hours:** CME Globex and CME ClearPort – Sunday through Friday, from Sunday, 17:00:00 Chicago time to Friday, 17:00:00 **UK local time** (which corresponds to 11:00:00 Chicago time, subject to the exception noted below).**Notes**: There is a trading session commencing at 17:00:00 Chicago time on Sunday. There is no trading session commencing at 17:00:00 Chicago time on Friday.

  Throughout the calendar year (during both Daylight Savings Time and Standard Time), 17:00:00 **UK local time** equates to 11:00:00 Chicago time, except during any period in which there is a discrepancy between the transition to (or from) DST in the U.S. and BST in the UK. **For 2010, due to the earlier ending of BST in the UK than of DST in the U.S., 17:00:00 UK local time equates to 12:00:00 (noon) Chicago time during the week of October 31 through November 7, 2010.**

In addition, the Exchange will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in these futures contracts will be governed by the provisions of Exchange Rule 538.

The Exchange is also notifying the CFTC that it is self-certifying the waiver of transaction fees for this contract through December 31, 2010.

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 waiver of transaction fees comply with the Act, including regulations under the Act.

Should you have any questions concerning the above, please contact Brad Leach at (212) 299-2609 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

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Chapter 841
Daily European Union Allowance (EUA) Futures

841.01A DEFINITIONS

(A) EU ETS: In January 2005, the European Union Emissions Trading Scheme ("EU ETS") commenced operation as the largest multi-country, multi-sector Greenhouse Gas emission trading scheme world-wide. It covers over 11,500 energy-intensive installations across the EU which represents approximately half of Europe's emissions of CO2. These installations include combustion plants, oil refineries, coke ovens, iron and steel plants, and factories making cement, glass, lime, brick, ceramics, pulp and paper. The scheme is based on Directive 2003/87/EC, which entered into force on 25 October 2003.

(B) EUA: European Union Allowance ("EUA") granted under a National Allocation Plan of an EU member state.

(C) The terms "Seller" and "Buyer" shall mean the short Clearing Member and the long Clearing Member, respectively. Further, for purposes of this contract, Sellers and Buyers may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the eligible registries.

(D) The terms "Seller's Customer" and "Buyer's Customer" shall mean the seller and buyer of the physical product or swap transaction.

(E) The term "Settlement Price" shall mean the final settlement price used as the price for delivery of the product, which shall be the settlement price for the last trading day of the expiring delivery day. The settlement price for the last trading day shall be determined in accordance with the procedures set forth in Rule 813.

(F) ITL (International Transaction Log): All transactions between registries are maintained by transaction logs which verify the validity of transactions. The UNFCCC Secretariat maintains the ITL for the purposes of transfer under the Kyoto Protocol.

(G) Community Independent Transaction Log (CITL) shall mean the independent transaction log provided for in Article 20(1) of Directive 2003/87/EC, for the purpose of recording the issue, transfer and cancellation of EUAs under the Scheme and established, operated and maintained pursuant to Article 5 of the Registry Regulations;

The EU Commission established and is the Administrator of the CITL for transfers involving EU Member States. Transfers involving EU Entities entail an additional step from the ITL to the CITL under the Kyoto Protocol for transfers of EUAs between national registries.

(H) Communication Link shall mean the electronic exchange of messages/notifications (1) by which a buyer and seller communicate with a Registry, and/or (2) by which a Registry communicates with CITL, and/or (3) by which CITL communicates with the UNFCCC International Transaction Log (where applicable), and/or (4) by which a Registry communicates with the UNFCCC International Transaction Log (where Applicable), and/or (5) by which the UNFCCC International Transaction Log communicates with the CDM Registry (where applicable), which in any case is necessary to facilitate a transfer;

(I) Registry shall mean any registry in an EU Member State meeting the eligibility criteria and which has implemented the Linking Directive in a manner that authorizes private persons to hold EUAs and has Person Holding Accounts established in order to ensure the accurate accounting of the issue of holding, transfer, acquisition, surrender, cancellation, and replacement of EUAs under the Scheme, and which has been identified as a Registry by the Clearing House from time to time for the purpose of this futures contract;

(J) Registry Regulations shall mean the EU Commission Regulation (EC) No 2216/2004 for a standardized and secured system of registries pursuant to Directive 2003/87/EC of the European

Parliament and of the Council and Decision 280/2004/EC of the European Parliament and of the Council, as amended from time to time including by EU Commission Regulation (EC) No.916/2007;

841.01 SCOPE

The provisions of these rules shall apply to all European Union EUAs bought or sold for future delivery on the Exchange with the Delivery at the UK Emissions Trading Registry.

841.02 TIME REFERENCES

For purposes of these Rules, unless otherwise specified, times referred to herein shall refer to and indicate the prevailing time in UK local time.

841.03 CONTRACT UNIT

The contract unit shall be one thousand (1,000) EUAs for a delivery made by transfer through UK Emissions Trading Registry.

841.04 DELIVERY

EUA delivery shall comply with all requirements for the electronic transfer of EUAs on the UK Emissions Trading Registry. All deliveries made under these rules shall be final and there shall be no appeal. Notwithstanding the use of a designee, all Clearing Members will remain ultimately responsible for performance of all applicable contract terms specific to Sellers and Buyers.

841.05 LISTED CONTRACTS

Trading shall be conducted in contracts providing for delivery in such periods as shall be determined by the Exchange. Trading shall be conducted each business day.

841.06 MINIMUM PRICE FLUCTUATIONS

Prices shall be quoted in Euros and Euro cents per EUA. The minimum price fluctuation shall be € 0.01 per EUA (€10.00 per contract). There shall be no maximum price fluctuation.

841.07 TERMINATION OF TRADING

No trades in Daily European Union Allowance (EUA) Futures deliverable in the contract day shall be made after the 5:00 p.m. UK local time on the contract day. Any contracts remaining open after the last trade date must be either:

(A) Settled by delivery which shall take place no later than 5:00 p.m UK local time on the contract day.

(B) Liquidated by means of a bona fide Exchange for Related Position ("EFRP") transaction in accordance with Exchange Rule 538. An EFRP is permitted in the expiring futures contract at any time before 6:00 p.m. UK local time on the last day of trading for the futures contract.

841.08 DELIVERY PROCEDURES AND OBLIGATIONS

The Clearing House is a party to all deliveries under this contract and will receive EUAs from the Seller into the Clearing House Holding Account of the UK Emissions Trading Registry. Following receipt from the Seller, the Clearing House will deliver EUAs to the Buyer from the Clearing House Holding Account to the UK Emissions Trading Registry Holding Account nominated by the Buyer.

The Seller shall comply with such requirements and obligations imposed by or under applicable Registry Regulations in all respects material to the submission of the forms noted in this Rule. The Buyer shall comply with such requirements and obligations imposed by or under applicable Registry

Regulations in all respects material to ensure the acceptance of a valid transfer into its Holding Account. If a provision of the Regulations or the Clearing House Rules is inconsistent with a provision of the Registry Regulations, the provision of the Regulations or the Clearing House Rules shall prevail as between the Buyer, Seller, and the Clearing House to the extent of such inconsistency and to the extent permitted by law.

(A) OPERATIONAL RESPONSIBILITIES OF CLEARING MEMBERS

(1) Notice of Intention to Accept:

By 10:00 PM UK local time on the final day of trading of the expiring delivery day, a Buyer having an open long position shall file with the Exchange a properly completed and signed Notice of Intention to Accept. The Notice of Intention to Accept shall be in the form prescribed by the Exchange and shall include: Number of contracts to be accepted; UK Emissions Trading Registry Account Number; Name; Telephone Number and e-mail address of the Authorized Representative(s) for that Registry account, and any additional information as may be required by the Exchange.

(2) Notice of Intention to Deliver:

By 10:00 PM UK local time on the final day of trading of the expiring delivery day, a Seller having an open short position shall file with the Exchange a properly completed and signed Notice of Intention to Deliver. The Notice of Intention to Deliver shall be in such form prescribed by the Exchange and shall include: Number of contracts to be delivered; UK Emissions Trading Registry Account Number; Name; Telephone Number and e-mail address of the Authorized Representative(s) for that Registry account, and any additional information as may be required by the Exchange.

(3) By 6:30 PM UK local time on the first business day after the final day of trading of the delivery day, the Seller will transfer EUAs subject to delivery to the Clearing House Holding Account of the UK Emissions Trading Registry.

(4) By 7:00 PM UK local time on the first business day after the final day of trading of the delivery day, for each Buyer that has satisfied its obligations under Rule 841.08(A)(6), the Clearing House will initiate the process of transferring the EUAs to the Buyer's account at the UK Emissions Trading Registry.

(5) By 3:00 PM UK local time on the second business day after the final day of trading of the delivery day, Buyer shall receive EUAs from the Clearing House Holding Account of the UK Emissions Trading Registry.

(6) By 2:00 PM UK local time on the business day following the last day of trading, the Buyer shall deposit / transfer Euro currency equal to the full value of the product to the designated Clearing House bank account.

(7) By 3:00 PM UK local time on the second business day following the last day of trading, for each Seller that has satisfied its obligations under Rule 841.08(A)(3), the Clearing House shall pay the Seller full contract value.

(B) ASSIGNMENT DAY

(1) The Clearing House shall allocate Notices of Intention to Deliver and Notices of Intention to Accept by matching positions, to the extent possible.

(2) The Clearing House shall provide Assignment Notice Reports to the respective Clearing Members on the final day of trading of the delivery day.

(C) PAYMENT AND DELIVERY MARGINS

(1) Definitions:

(A) Daily Margin: The Buyer and Seller shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins which shall not be greater than the margins charged to the Buyer's Customer and Seller's Customer, shall be returned on the business day following notification to the Exchange that delivery and payment have been completed.

(B) "Payment" shall include the settlement price times the number of contracts times 1,000.

(C) "Payment Date" shall mean the date on which the Clearing House transfers payment in connection with a delivery to a Seller.

(D) Any payment made on Payment Date shall be based on EUAs that the Seller is obligated to deliver pursuant to the applicable delivery.

841.09 VALIDITY OF DOCUMENTS

The Exchange makes no representation with respect to the authenticity, validity or accuracy of any of Tender Allocation Notice, Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these Rules.

841.10 ALTERNATIVE DELIVERY PROCEDURE

An Alternative Buyer may agree with the Seller with which it has been matched by the Exchange under Rule 841.08(B) to make and take delivery under terms or conditions which differ from the terms and conditions prescribed by this Chapter. In such a case, Buyers and Sellers shall execute an Alternative Delivery Procedure on a form prescribed by the Exchange and shall deliver a completed executed copy of such form to the Exchange. The delivery of an executed Alternative Delivery Procedure form to the Exchange shall release the Buyer, Seller and the Exchange from their respective obligations under the Exchange contracts.

In executing such Alternative Delivery Procedure form, Buyers and Sellers shall indemnify the Exchange against any liability, cost or expense it may incur for any reason as a result of the execution, delivery, or performance of such contracts or such agreement, or any breach thereof or default there under. Upon receipt of an executed Alternative Delivery Procedure form, the Exchange will return to the Buyer and Seller all margin monies held for the account of each with respect to the contracts involved.

841.11 LATE PERFORMANCE, FAILURE TO PERFORM, AND FORCE MAJEURE

(A) DEFINITION. As used in this Rule 841.11, the following terms, as well as variations thereof, shall have the meaning described below.

(1) "Late Performance" shall mean the failure of a Buyer or a Seller to complete a material act with respect to a delivery obligation imposed by, and within the time period established in, the Rules. Late Performance shall be restricted to three business days. Late Performance beyond three business days by, a Seller or a Buyer will be deemed a Failure to Perform.

(2) "Day of Late Performance" shall mean the twenty-four hour period commencing immediately after a Buyer, a Seller, or the Clearing House was to have performed. Each subsequent Day of Late Performance shall commence twenty-four hours after the beginning of the prior Day of Late Performance. When a Party is late in performance, the day when the act was to have performed shall be a Day of Late Performance.

(3) "Failure to Perform" shall mean the failure of a Buyer or a Seller to complete a material act with respect to a delivery obligation prior to the expiration of the period allowed for the late performance of such act.

(4) "Contract Value" shall mean the amount equal to the settlement price on the last day of trading in a futures contract times 1,000 (the number of EUAs per contract) times the number of contracts to be delivered.

(5) (a) "Party" shall mean a Buyer or Seller and such Buyer and Seller are each responsible to the Exchange for their obligations under these Rules and further responsible to the Exchange for the obligations of their respective customers under the Rules of this Chapter.

(b) "Other Party" shall mean the corresponding Buyer when the Seller is late in performance or has failed to perform and the corresponding Seller when the Buyer is late in performance or has failed to perform.

(6) "Force Majeure" shall mean any circumstance (including but not limited to a strike, lockout, national emergency, governmental action, or act of God) which is beyond the control of such Buyer or Seller, and which prevents the Buyer or Seller from making or taking delivery of product when and as provided for in these Rules.

(B) RESPONSIBILITIES OF PARTIES TO THE DELIVERY

(1) The parties to a delivery shall make commercially reasonable efforts to perform their respective delivery obligations at all times until a Party has failed to perform.

(2) A Party which has failed to perform its obligations may no longer perform such obligations; provided, however, that a Buyer which has failed to make a payment shall make such payment.

(C) EMISSIONS ALLOWANCE DELIVERY COMMITTEE

(1) Force Majeure, Late Performance and Failure to Perform shall be determined by a Panel of the Emissions Allowance Delivery Committee as set forth below. The Chairman of the Emissions Allowance Delivery Committee shall appoint a Panel, which shall consist of three (3) members of the Committee, to review a delivery:

(a) When the Chairman of the Emissions Allowance Delivery Committee is advised by the President or any person designated by the President that it appears that the performance of a Party to the delivery is late;

(b) Upon the written request of both the Buyer and the Seller;

(c) When the President or any person designated by the President requests such appointment; or

(d) When either Party to the delivery notifies the Exchange that circumstances exist constituting Force Majeure.

(2) The Chairman of the Emissions Allowance Delivery Committee shall not appoint to any Panel any person who has a direct or indirect interest in the delivery in question. Any Panel so appointed shall retain jurisdiction over the delivery in question until the delivery has been completed or a Party has been found to have failed to perform such delivery. Exchange Counsel shall serve as advisor to the Panel.

(3) The Panel shall meet within one business day of notification as provided in these Rules. Unless good cause for delay exists, within one business day the Panel shall determine whether force majeure exists, whether a Buyer or Seller is late in performing or has failed to perform its obligations as provided in the Rules, and advise the Market Regulation Department of such determination, and its findings in support thereof immediately. The Panel shall cause its determination to be communicated to the parties to the delivery as expeditiously as possible.

(4) Upon a finding of force majeure, the Panel may take any one or combination of the following actions as it deems suitable order: an extension of time not to exceed ten days from the

date of the scheduled delivery; or, refer the delivery to the Exchange, represented by the Market Regulation Department, for emergency action.

(D) EXCHANGE ACTION

(1) Whenever a Buyer or a Seller is found by the Panel to be late in the performance of a delivery obligation, the Exchange, represented by the Market Regulation Department, shall issue a Notice of Assessment, assessing a penalty of 10% of contract value for each applicable day of Late Performance.

(2) Whenever a Buyer or Seller is found by the Panel or otherwise deemed to have a "Failure to Perform" the Exchange, represented by the Market Regulation Department shall issue a Notice of Assessment assessing penalties of twenty percent (20%) of the contract value, in addition to any penalties assessed pursuant to subparagraph (1) above, to be paid to the Exchange.

(3) (a) A Party may appeal a Notice of Assessment by filing a Notice of Appeal with the Hearing Registrar of the Exchange and by serving a copy of the same on the Exchange's Market Regulation Department, within two business days of receipt of the Notice of Assessment from the Market Regulation Department. The Party filing the appeal ("Appellant") shall file, within twenty (20) days after filing the Notice of Appeal, a Memorandum of Appeal setting forth the factual and legal basis for the appeal. The Memorandum of Appeal must be filed with the Hearing Registrar and a copy of the same served upon the Exchange's Compliance Counsel.

(b) The Market Regulation Department may file with the Appellant and Hearing Registrar an Answering Memorandum to the Memorandum of Appeal within ten (10) days of receipt of that memorandum.

(c) Failure by the Party to file a Notice of Appeal or a Memorandum of Appeal with the time specified in subsection (D)(3)(a) of this Rule shall constitute a waiver, and the penalties set forth in the Notice of Assessment shall be paid within five days to the Exchange. Failure to pay such penalties in accordance with this Rule shall subject the party to the sanctions set forth in Chapter 4. In the event a party fails to Appeal, or waives the opportunity to appeal a Notice of Assessment, the Assessment and Findings of the Emissions Allowance Delivery Committee shall constitute a final disciplinary action of the Exchange.

(4) Within ten (10) days after receipt of Market Regulation Department's reply, the Appellant shall be entitled to examine all books, documents and other tangible evidence in possession or under the control of the Exchange that are to be relied upon by Market Regulation Department or are otherwise relevant to the matter.

(5) In the event of an appeal by a Party, the Market Regulation Department, or its designee, shall appoint a Performance Appeal Panel to hear and decide the appeal. No member of the Panel may have a direct or indirect interest in the matter under the appeal. Each Panel Member shall disclose to the Market Regulation Department, or its designee, any such interest which might preclude such Panel Member from rendering a fair and impartial determination. The formal Rules of Evidence shall not apply to such appeal, and the Panel shall be the sole judge with respect to the evidence presented to it. Exchange outside counsel shall advise the Performance Appeal Panel.

(6) The procedures for the hearing of the appeal before the Performance Appeal Panel shall be as follows:

(a) At a date to be set by order of the Performance Appeal Panel, and prior to such hearing, the Appellant and the Market Regulation Department shall furnish each other with a list of witnesses expected to be called at the hearing, and a list of documents and copies thereof expected to be introduced at the hearing.

(b) At such hearing: The Appellant may appear personally and may be represented by counselor other representative of his choice at the appeal.

(c) The Market Regulation Department shall be entitled to offer evidence relating to the delivery and shall be entitled to call witnesses and introduce documents in support thereof. It shall be the burden of the Market Regulation Department to demonstrate, by the weight of the evidence, the appropriateness of the sanction set forth in the Notice of Assessment.

(d) The Appellant shall be entitled to rebut the Market Regulation Department's evidence and shall be entitled to call witnesses and introduce documents in support thereof.

(e) The Market Regulation Department and the Appellant shall be entitled to cross-examine any witness called by the opposing Party at the hearing.

(f) The Notice of Assessment, the Notice of Appeal, the Memorandum of Appeal, any Answering Memorandum, the stenographic transcript of the appeal, any documentary evidence or other material presented to and accepted by the Performance Appeal Panel by either party shall constitute the record of the hearing. The decision of the Performance Appeal Panel shall be based upon the record of the hearing.

(g) The Performance Appeal Panel shall have the power to impose a penalty against any person who is within the jurisdiction of the Exchange and whose actions impede the progress of a hearing.

(h) The Performance Appeal Panel shall issue a written decision in which it may affirm, reduce, or waive the charges assessed against the Appellant and shall state the reasons therefore.

(i) The decision of the Performance Appeal Panel shall be a final decision of the Exchange and shall constitute a final disciplinary action of the Exchange. The fine is payable on the effective day of the decision or as specified. The effective date shall be fifteen (15) days after a copy of the written decision has been delivered to the Appellant and to the Commission.

(8) The Performance Appeal Panel shall consider, and make recommendations to the Exchange concerning acceptance or rejection of, any offer of settlement submitted by Appellant. In the case of an offer of settlement, acceptance by the Exchange shall constitute the final disciplinary action of the Exchange.

(E) ARBITRATION PROCEDURE

(1) Any claim for damages arising between a Buyer and a Seller as a result of a delivery pursuant to this contract shall be settled by arbitration in accordance with these Rules.

(2) Notice of Intent to Arbitrate must be submitted to the Market Regulation Department within three business days of the occurrence upon which the claim is based or the decision of the Emissions Allowance Delivery Committee with respect to a late or failed performance. Failure to submit a Notice of Intent to Arbitrate within the prescribed period will be deemed a waiver of a Party's rights to arbitrate such a delivery dispute under the special or Regular Arbitration Rules.

(3) The Arbitration will be governed by Chapter 6 of the Rules except that the Market Regulation Department shall appoint an Arbitration Panel.

841.12 EXCLUSION OF LIABILITY

Except as specifically provided in the Rules (and to the extent permitted by law), the Clearing House accepts no liability in connection with this futures contract, its performance, non-performance or its termination whether based on breach of contract, warranty, negligence or tort. In particular, but without limitation, the Clearing House shall not be responsible for or shall have any liability whatsoever to any Buyer or Seller for the: availability, suitability, unavailability or malfunction of a Communication Link or any part thereof; performance or non-performance by a registry or CITL or UNFCCC International Transaction Log of their respective obligations under the Registry Regulations or otherwise; any act or omission of any operator of a Communication Link or any part thereof; or any act or omission of an authorized agent of any other party; or any performance or non-performance by the Clearing House in relation to its serving as a party to the deliveries and the

Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits. Additionally, nothing in these Rules will constrain the Clearing House from performing its duties under CME Rule 802.

CASH MARKET OVERVIEW

The European Union Emission Trading Scheme

The Daily European Union Allowance (EUA) Futures contract follows the European Union Trading Scheme[1] (EU ETS) that was established in 2005 and is the largest multi-national carbon emissions program in the world with 25 European Community (EC) member states participating in this program. The scheme is based on Directive 2003/87/EC. The EU ETS is the most liquid carbon trading market in the world and accounted for $119 billion worth of transactions in 2009[2] according to the World Bank. An EUA is defined as one metric tonne of carbon dioxide equivalent. EUAs are issued to companies by EC member states in accordance with National Allocation Plans (NAP) developed by each EU ETS nation. The purpose of the NAP is to cap total CO2 emissions by the identified base of companies. While Phase 2 allowances are issued on an annual basis, each Phase 2 allowance can be used for annual compliance through the previously stated Phase 2 period. The ETS currently covers more than 10,000 installations in the energy and industrial sectors which are collectively responsible for close to half of the EU's emissions of CO2 and 40% of its total greenhouse gas emissions.

The ETS requires that large EU emitters of carbon dioxide monitor and annually report CO2 emissions. On an annual basis, ETS emitters are required to provide emission allowances to the EU member state registries which equal their capped emissions. Currently, the covered emitters are allocated allowances by EU member states without charge. The total allowances provided to the member states equal the allocated member state cap for the emitter. In addition, the emitter may purchase ETS allowances from others. Excess allowances can be sold to physical or financial market participants without restriction. Germany holds 22% of National Allocation Plan (NAP) which is the largest concentration of allowances, followed by Poland 10%, Italy 9%, and Spain 7%. These five countries represent 60% of total allowances. ETS Allowances held in accounts in electronic emissions registries established by Member EU States. These national emissions registries are regulated by the EU which validates emissions transactions through the European Community Independent Transaction Log. Under

[1] http://ec.europa.eu/clima/policies/ets/index_en.htm
[2] http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/State_and_Trends_of_the_Carbon_Market_2010_low_res.pdf

the EU ETS scheme, the governments of the EU Member States agree national emission caps, allocate allowances to their industrial operators, track and validate the actual emissions in accordance against the relevant assigned amount, and require the allowances to be retired after the end of each compliance year.

For Phase 3, the European Commission proposed a strategy entitled "Climate action and renewable energy package". As part of the third phase, the EU is planning to reduce its overall emissions to at least 20% below 1990 levels by 2020, and is prepared to expand this reduction to as much as 30% under a new global climate change agreement provided other developed countries join in. A unified ETS cap would be established and free allocation of emission allowances would be completely eliminated by 2020. Sectors able to pass along costs would be subject to full auctioning by 2013. For those sectors exposed to international competition, allocation would be gradually phased out from 80% in 2013 to 0% in 2020.

The primary differences between US cap-and-trade program and EU ETS relate to the design of the cap, the allocation process, and the banking and borrowing mechanism. The EU ETS overall cap was not know at the beginning and was redesigned for short sequential periods. The EU ETS Directive mandates a first trial phase which took place for trading period 2005-2007 for which the cap was determined in mid 2005. Then the second phase for trading period 2008-2012 corresponds to the first Commitment period under the Kyoto Protocol. The cap for the second phase was established in late 2007. Another feature of the EU ETS is the banking or the borrowing of allowances is permitted within the trading periods. Allowances are issued annually but they can be surrendered for compliance in any given year. The issuance of the allowance occurs at the end of February which is two months before allowances must be surrendered for prior year.

The Daily European Union Allowance (EUA) Futures contract references only the UK Emissions Trading Registry for standard delivery. The proposed delivery rules require the seller to deliver to the buyer at the UK Emissions Trading Registry. The national emissions registry was established as part of the development of Kyoto Protocol compliance which requires that all member states have national registries. The descriptive information is provided on the website of the UK Department of Rural, Food, and Environmental Affairs (DEFRA) which operates the UK Emissions Trading Registry. http://www.defra.gov.uk/environment/climate/reducing/

Emissions Trading Registry

Who can use the EU ETS Registry?

In the UK, the EU/UN Registry is operated by the Environment Agency (EA) meaning they carry out the role of Registry Administrator. The Registry Administrator is able to monitor and approve all accounts. Any individual can open an account on the UK Registry providing they are able to supply the necessary legal documentation and satisfy all the security checks. New account applications will incur an administrative charge payable to the Environment Agency.

What is a Registry?

Computerized registries are key components of the EU Emissions Trading Scheme (EU ETS) and wider international emissions trading under the UNFCCC's (United Nations Framework Convention on Climate Change) Kyoto Protocol. The EU ETS legislation Directive 2003/87/EC sets out that Member States must put in place a standardized, electronic National Registry. Similarly, Parties to the UNFCCC who have ratified the Kyoto Protocol must put in place a National Registry to facilitate wider international emissions trading from 2008.

A Registry allows account holders to hold, transfer, or acquire EU allowances and Kyoto units. They also enable regulators and nominated competent authorities to manage regulated industries (those with legal emissions reduction targets), and monitor national compliance and performance against international emissions reductions obligations.

An Emissions Trading Registry is a web-based application that records:

- CO2 allowances and units that are allocated to and held in installation accounts
- Annual verified emissions for installations
- The movement of allowances to and from accounts
- Annual compliance status of installations.

The EU Commission and the UNFCCC (United Nations Framework Convention on Climate Change) secretariat determined the functional requirements of the Registry.

Key functions of the EU ETS Registry

- Account management - allows operators and Registry administrators to create, update, and close holding accounts as well as record emissions
- Surrender and Retirement - allows regulated companies (surrender) and national competent authorities (retirement) to demonstrate compliance with national emissions reduction targets.
- Internal and External transfers - allows accounts holders within the same Registry and those in other national Registries to transfer units and allowances between their accounts.
- Cancellation and replacement, and carry over - of units and allowances in accordance with the emissions trading rules. This allows the Registry to comply with both the EU and UN regulations as EU units can be replaced with Kyoto units.
- Reconciliation - with the Community Independent Transaction Log and the UNFCCC Independent Transaction Log on a periodic basis to ensure Registry records are consistent.
- A range of administration functions
- Generation of reports and compliance status tables.

National Allocation Plans

The National Allocation Plans (NAP) determine the total quantity of CO2 emission allowances that Member States grant to their companies, which can then be sold or bought by the companies themselves. This means that for each trading period each Member State must decide in advance how many allowances to allocate in total and how many allowances each plant covered by the scheme will receive individually.

Table 1 below illustrates data published by the European Commission reflecting the CO2 emission allowances allocated by each Member State for the 2008-2012 trading period. According to Table 1 below, a total of 2,086.5 million tonnes of CO2 allowances were allocated per year for the 2008-2012 trading period.

Table 1: ETS allowances per country 2008-2012[3]

Country***	Kyoto target (% change against base year)	2008-2012	
		Allocated CO2 allowances (million tonnes per year)	Share in ETS
Austria	-13%*	32.3	1.50%
Belgium	-7.5%*	58	2.80%
Bulgaria	-8%	42.3**	2.00%
Cyprus	-	5.2	0.30%
Czech Republic	-8%	86.7	4.20%
Denmark	21%*	24.5	1.20%
Estonia	-8%	11.8	0.60%
Finland	0%*	37.6	1.80%
France	0%*	132	6.30%
Germany	-21%*	451.5	21.60%
Greece	+25%*	68.3	3.30%
Hungary	-6%	19.5	0.90%
Ireland	+13%*	22.3	1.10%
Italy	-6.5%*	201.6	9.70%
Latvia	-8%	3.4	0.20%
Lithuania	-8%	8.6	0.40%
Luxembourg	-28%*	2.5	0.10%
Malta	-	2.1	0.10%
Netherlands	-6%*	86.3	4.10%
Poland	-6%	205.7	9.90%
Portugal	+27%*	34.8	1.70%
Romania	-8%	73.2	3.50%
Slovakia	-8%	32.5	1.60%
Slovenia	-8%	8.3	0.40%
Spain	+15%*	152.2	7.30%
Sweden	+4%*	22.4	1.10%
UK	-12%*	245.6	11.80%
Liechtenstein	-8%	0.2	0.00%
Norway	1%	15	0.70%
Total		**2086.5**	**100.00%**

EUA Market Activity

According to the World Bank, the total value of European Union Allowance transactions increased 18% to $118.5 billion in 2009[4], as reflected in Table 2 below. The futures market accounted for

[3] http://ec.europa.eu/clima/publications/docs/ets_en.pdf
[4] http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/State_and_Trends_of_the_Carbon_Market_2010_low_res.pdf

73% of the total market share while spot market volume reached 1.4 billion tons which represents an annual increase of 450%[5].

Table 2: Volumes and Values 2008 – 2009[6]

	2008 Volume (MtCO2e)	2008 Value (US $ million)	2009 Volume (MtCO2e)	2009 Value (US $ million)
EU ETS	3,093	100,526	6,326	118,474

Market Participants

The list below includes major EUA participants as identified by commercial sources.

OTC Brokers	**Financial**	**Commercial**
Evolutions Markets	Barclays Capital	EON
ICAP	Fortis Bank	Shell
Spectron	Morgan Stanley	EDF
Traditional Financial Services	JP Morgan	BP
GFI	RNK Capital	Endesa

[5]http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/State_and_Trends_of_the_Carbon_Market_2010_low_res.pdf
[6]http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/State_and_Trends_of_the_Carbon_Market_2010_low_res.pdf

Analysis of the Deliverable Supply

According to data published by the European Commission and provided in Table 1 above, the total annual deliverable supply of EUAs in Phase 2 is approximately 2,086.5 million tonnes which is equivalent to approximately 2,086,500 Daily EUA futures contracts (contract size: 1,000 EUAs). Therefore, the daily deliverable supply of EUAs in Phase 2 is approximately 8,200 contracts. The Exchange determined to set the spot limit for the NYMEX Daily EUA futures contract at 1,800 contracts which is less than 22% of the daily deliverable supply.

In addition, the Exchange determined not to aggregate this Daily EUA futures contract into the Exchange's existing quarterly EUA futures contracts as the spot month limit for the quarterly EUA futures contracts is effective on the three days immediately prior to termination of the contracts whereas open interest in this Daily EUA futures contract terminates every two days since the contract is only listed for a two-business day period.

With specific regard to days on which the delivery for the quarterly EUA futures and Daily EUA futures contracts coincides, the spot month limits for all contracts will be less than 25% of the total available monthly deliverable supply.

Please note that in addition to current year supply provided in Table 1, Phase 2 EUAs issued in 2008 and 2009 and not used for annual compliance are also available to market participants.