

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-319

Organization: New York Mercantile Exchange, Inc. ("NYMEX")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 8/04/16 Filing Description: Increasing Spot Month Limits of Dated Brent Futures Contracts

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers:

New Product Please note only ONE product per Submission.

- | | |
|---------------------------------------|------------|
| Certification | § 40.2(a) |
| Certification Security Futures | § 41.23(a) |
| Certification Swap Class | § 40.2(d) |
| Approval | § 40.3(a) |
| Approval Security Futures | § 41.23(b) |
| Novel Derivative Product Notification | § 40.12(a) |
| Swap Submission | § 39.5 |

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | | |
|-------------------------------------|---|----------------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | “Non-Material Agricultural Rule Change” | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected: See filing.

Rule Numbers: See filing.



Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

August 4, 2016

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: CFTC Regulation 40.6(a) Certification. Notification Regarding Increasing Spot Month Limits of the Dated Brent (Platts) Financial Futures and Eight (8) Related Dated Brent Contracts.
NYMEX Submission No. 16-319

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying amendments to the NYMEX Rulebook Chapter 5 Position Limits, Position Accountability and Reportable Level Table to increase the spot month position limits for the Dated Brent (Platts) Financial Futures (Rule Chapter 647, Commodity code UB). As a result of the amendments to the spot month position limits for the above-referenced contract, the Exchange is amending the spot month position limits of eight (8) related Dated Brent (Platts) contracts which aggregate into the Dated Brent (Platts) Financial Futures contract. A comprehensive list of all impacted contracts can be found in Appendix A, attached under separate cover. This submission shall be effective on trade date Friday, August 19, 2016 and will apply to the September 2016 contact month and beyond.

The Exchange reviewed the designated contracts market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("Act") and identified that the amendments to the NYMEX Rulebook Chapter 5 Position Limits, Position Accountability and Reportable Level Table may have some bearing on the following Core Principles:

- **Contract Not Readily Subject to Manipulation:** Due to the liquidity and robustness in the underlying physical market, the contract is not readily subject to manipulation as illustrated in the enclosed Cash Market Overview.
- **Position Limitations or Accountability:** The spot-month speculative position limits for the Contracts are set at less than 25% of the deliverable supply in the underlying market, as illustrated in the enclosed Analysis of Deliverable Supply.
- **Availability of General Information:** The information contained herein will be disseminated to the marketplace via CME Group Market Surveillance Notice. The Exchange will publish information on the contracts' specifications on its website, together with daily trading volume, open interest, and price information.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. A cash market overview and analysis of the deliverable supply is attached hereto as Appendix B.

The Exchange certifies that this submission has been concurrently posted on the CME Group 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 via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Amendments to NYMEX Chapter 5 - Position Limits, Position Accountability and Reportable Level Table (attached under separate cover)
Appendix B: Cash Market Overview and Analysis of Deliverable Supply

Appendix A

**NYMEX Chapter 5
Position Limits, Position Accountability and Reportable Level Table**

(Attached under separate cover.)

Appendix B

Cash market overview – Dated Brent Position Limit increase

Exchange staff conducted a review of the underlying cash markets and deliverable supply of Brent Crude oil. Based on the analysis presented herein, the Exchange determined to increase the spot month limit for **Dated Brent (Platts) Financial Futures (commodity code UB)** and associated contracts commencing with the September 2016 (and all subsequent listed contract months). The current spot month limit is 1,000 contracts and it is proposed to increase this limit to 4,000 contracts or 17.1% of estimated deliverable supply in order to align the spot month limit with that of the Brent Last Day Financial Futures listed on NYMEX (commodity code BZ) as the underlying of both markets is the same. The detail of the change, including the changes to the associated child contracts (for aggregation purposes) is shown in **Appendix B**.

The basis of the analysis in the **Brent** market is BFOE loadings in the North Sea. The Exchange determined that the volume of loaded barrels of BFOE crude oil from Brent, Forties, Oseberg and Ekofisk best meets the definition of supply readily available for delivery. In addition, the Exchange has reduced the deliverable supply of Forties to account for the crude oil purchases by the Grangemouth refinery.

The crude markets do not typically follow a seasonal pattern in terms of production with output relatively stable from one month to the next. There will be annual maintenance of some production facilities with field operators choosing when to carry this out. Production in many markets will be sold on a mix of spot and term barrels. In the case of Forties crude oil in the North Sea, the Grangemouth oil refinery is located at the end of the Forties pipeline linking the production fields in the North Sea. For this grade, and others in the Brent basket (Brent, Forties, Oseberg and Ekofisk), all barrels can be re-traded and sold as spot cargoes

Data Sources

The Exchange has used **Bloomberg data** as the basis of the analysis for both the Dated Brent and the Mediterranean Dated Brent. They compile total loaded volumes of BFOE (Brent, Forties, Oseberg and Ekofisk) by calendar month and is displayed via the Bloomberg terminal.

S&P Global Platts (Platts)

The Platts methodology for Dated Brent and the related Brent contracts is published on their website¹. Platts also adheres to the IOSCO principles for Oil Price Reporting Agencies and the latest assurance review is for 2015².

Brent Crude Oil (BFOE)

The North Sea market is comprised of the oil fields in the UK and Norwegian North oil sectors. There is a series of smaller oil fields which connect into larger streams. The most important streams in the North Sea are Brent, Forties, Oseberg and Ekofisk and each stream has a principle operator that is responsible for the day to the day control of the operations including the scheduling of the cargoes based on the production from each of the smaller producing fields. The Brent, Forties, Oseberg and Ekofisk fields are known as BFOE and they underpin the Brent complex and are the key grades of oil that make up the trading of Dated Brent – the international crude oil physical benchmark price. The four BFOE fields lie in

¹ <http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/Crude-oil-methodology.pdf>

² <http://www.platts.com/regulatory-engagement>

the North Sea. Brent and Forties are in the UK sector, whilst Ekofisk and Oseberg are in the Norwegian sector.

The core of the Brent market is the cash market. The Brent forward market consists of the trading of cargoes of any of the Brent, Forties, Oseberg and Ekofisk streams for delivery beyond month ahead, with no specific dates assigned for loading. The cargoes are 600,000 barrels and, in the forward market, the precise loading dates are not provided, only the delivery month i.e. December BFOE Cargo. However the commercial contracts, which are standardized, underlying the forward market to specify the minimum timing the seller must provide the buyer to notify them as to the specific cargo loading date – currently 10 days to month ahead. After the seller of a BFOE forward cargo notifies the buyer as to the loading date and which stream is being loaded, the contract is now considered to have moved from the forward market to the Dated Brent market, historically this moment is referred to as the cargo going “wet” i.e. it has loading dates attached to it and can therefore be sold as a Dated Brent cargo.

The Brent cash market is essentially a reseller market where buyers either: resell the oil to someone else; transport the cargo and resell it later; or transport the cargo to consume it. Most of the sales in the Brent market are conducted as spot-market transactions; in fact, Brent cargoes in the physical market are estimated to trade 10 or more times. Typically, there is a chronology of sales and purchases of crude oil in the Brent cash market that starts with a sale from the equity producer in a spot market transaction, and finishes with a purchase by an end-user to consume the crude oil. Equity producers typically utilize the robust spot market to sell their BFOE production at the cargo loading terminal, as a “Free on Board” (FOB) delivery. Traders play an active role in the Brent market as middlemen with the expressed responsibility of reselling the oil. Further, the refiners typically rely on the spot market to purchase Brent crude oil, because there is vibrant liquidity in the spot market, and hence, the refiners have developed a preference for short-term spot market purchases, rather than long-term contracts. This applies to refiners affiliated with equity producers as well as those not affiliated; this is the standard practice, established and institutionalized over the past 34 years.

Production of BFOE has been declining over the past few years due to the cost of drilling and the returns on investment compared to other regions in the world. These four North Sea grades are segregated blends delivered at different locations in the North Sea, and each can be substituted by the seller in the 25-Day BFOE cash market (“the forward market”). Quality adjustments ensure that all four grades can be delivered to a buyer under the standardized forward contract. Platts made an adjustment to the forward market mechanism with effect from the March 2015 contract month with the nomination period being extended from 10 to 25 days to 10 days to month ahead. Both ICE and NYMEX adjusted the expiry calendar (that started with effect from the March 2016 contract month) of the Futures to align more closely with the forward market. An earlier transition (for the futures) would have had a significant impact on the open interest holders hence the change was delayed due to this impact.

The process of moving from a forward to the physical market where a forward Brent cargo becomes a physical North Sea Dated Brent cargo happens as follows:

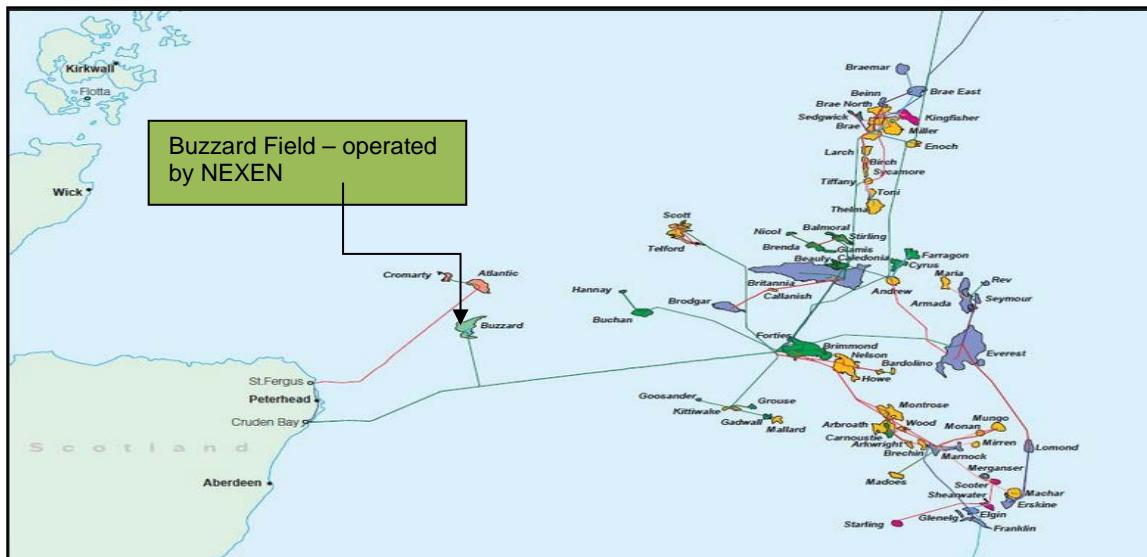
1. Refiners, producers and traders enter into a forward agreement for a particular month.
2. The Operator of each field being Shell for Brent; BP for Forties; ConocoPhillips for Oseberg and Statoil for Ekofisk will announce the loading programs for each contract month a few days prior to the beginning of the month (one month prior) to each loading month (i.e. cargoes in the delivery month start to load). For example, for a June 2016 contract month, the field operators will announce the loading schedules a few days prior to the beginning of April 2016. The equity producers will begin the chain of nominating cargoes to buyers (or they can decide to keep the cargo). A buyer benefiting from a nomination can keep the cargo or pass it to another player with whom it has another forward contract. Buyers trade the cash BFOE on the basis that they will accept any cargo as nominated provided that it is done so within the agreed notice period (10 days to month ahead) by 4pm London time. Any cargo not nominated by this time will remain with

the participant last notified. After 4pm London time, the cargo becomes wet physical with precise loading dates attached.

3. Cargoes that are wet physical will be sold as a Dated Brent cargo with cargo loading dates between 10 days and month ahead (forward).

Chart 1 shows the makeup of the fields in the Forties pipeline system (FPS) which is operated by BP. There are over 50 offshore fields that flow through within the FPS. The delivery point for Forties crude oil is Hound Point, which is on the East coast of Scotland a short distance from the UK oil capital Aberdeen. Forties is a blended crude oil from all of the fields that feed into it.

Chart 1: Example of the Forties Pipeline system



The blend changed at the beginning of 2007 when crude oil from the Buzzard field began to flow into it. Crucially Buzzard is now the largest field within the FPS. Buzzard crude oil is a medium gravity, sour crude oil with an API of 32.6 and a sulphur content of 1.44% therefore the yield is very similar to that of Urals crude oil (from Russia). The FPS produces a forward forecast of the anticipated percentage of Buzzard crude in Forties Blend. The overall quality of Forties crude oil varies depending on the percentage of Buzzard as a proportion of the overall blend.

Table 1: Percentage of Crude from Buzzard Field Estimates³ (updated July 2016)

Month	Buzzard % in Forties blend	Forties Blend production (kbd)
July 2016	36.6%	500.6
August 2016	39.6%	469.5
September 2016	24.1%	412.2
October 2016	14.5%	401.1

The start up of the Buzzard field feeding into the Forties pipeline system (refer to chart 1) has resulted in Forties being almost always the cheapest of the four grades to deliver as a dated Brent cargo due to the higher sulphur content of Buzzard compared to Forties and the fact that Buzzard comprises of between 35% and 40% of the total volume of the Forties blend. Note that for September and October 2016, the % of Buzzard crude oil in the Forties stream has dropped, due to planned field maintenance to the Buzzard

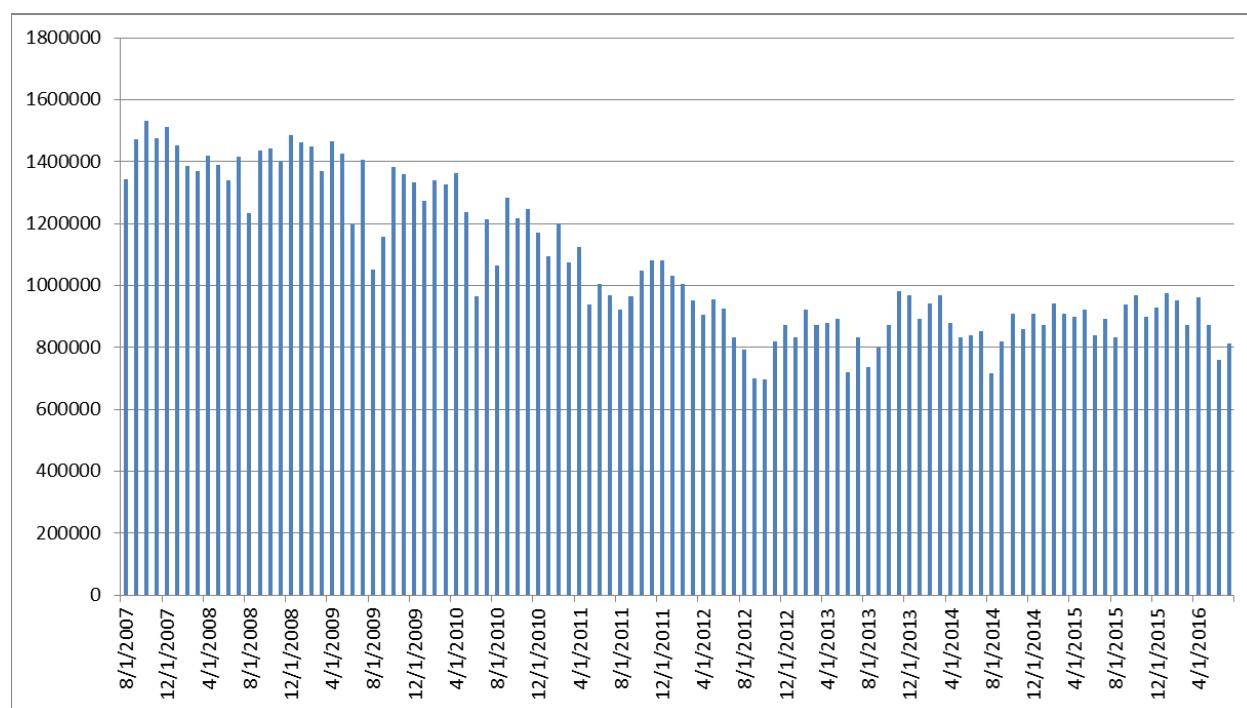
³ Forties Pipeline System – Forties Blend Assay http://www.bp.com/en/global/forties-pipeline/about_fps/forties_blend_quality.html

crude oil stream. The loaded volumes for Forties crude oil (including Buzzard) are also lower during this period as a result.

Bloomberg LP ("Bloomberg") provides details of the BFOE loading programs for the four grades that comprise the Brent market. Based on the most recent 3-year average of the Bloomberg data on BFOE loadings (from August 2013 to July 2016), the total loadings of Brent (BFOE) crude oil was approximately 883,878 barrels per day, which is equivalent to approximately 26.5 million barrels per month (see table 2).

The Bloomberg data, in **Appendix A**, shows the volume of crude oil for Brent, Forties, Oseberg and Ekofisk (collectively known as BFOE). Whilst the volumes appear to have stabilized through the end of 2015, there are questions about the future output of these grades in the future due to the low oil price and high cost environment for operators in the North Sea.

Chart 2: Monthly Loadings of Brent, Forties, Oseberg, Ekofisk



The Brent market is priced in USD and cents per barrel. There are two significant Futures contracts based on trading activity in the forward BFOE market; NYMEX and ICE Futures Europe offer trading of Brent Futures on their respective Exchanges. The cash market is traded in partials of 100,000 barrels or larger full size cargo transactions of 600,000 barrels. Physical convergence can occur through the partials market mechanism upon the trading of six parcels with the same counterparty in a single delivery month. If physical convergence does not occur then trades are booked out at the prevailing cash value on the last day of trading day of the cash market for the specific delivery month (i.e. this is currently on a month ahead basis prior to the 1st loading date of the delivery month). Full sized physical cargo BFOE trades will be used by ICE in the establishment of the Brent Index which is the mechanism by which the futures open on expiry are cash settled⁴.

The Dated Brent or Dated BFOE, as it is sometimes referred, reflects the value of the cheapest of Brent, Forties, Oseberg and Ekofisk, of 600,000 barrels, loading 10 days to Month Ahead. Dated Brent is

⁴ https://www.theice.com/publicdocs/futures/ICE_Futures_Europe_Brent_Index.pdf

estimated to price around 50% of the global crude oil supply⁵. Within the North Sea and beyond, grades are traded as a differential to Dated Brent or as a differential to cash Brent (BFOE). Each of the crude oil grades within BFOE are not the same quality, several adjustments have been made. In 2007 Platts included a sulphur de-escalator for Forties crude oil within its Dated Brent and Brent related instruments. The change was made in response to inclusion of sour crude Buzzard into the Forties pipeline system (see chart 1). The de-escalator of price is applied to deliveries above a minimum sulphur level of 0.6%. Every month, Platts establishes a USD and cents value de-escalator for every 0.1% of sulphur above the maximum level 0.6% (for Forties crude oil). The value of de-escalator is established by reviewing evidence of significant and sustained changes in the crude market, as affected by refined products (crack spread values of both heavy fuel oils and light ends) and other relevant factors that affect the economics of Forties crude.

Analysis of deliverable supply

In its November 18, 2011, final position limit rulemaking, the Commission defined deliverable supply as “the quantity of the commodity meeting a derivative contract’s delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract’s delivery points during the specified delivery period, barring abnormal movement in interstate commerce.”⁶

The basis of the analysis in the Brent market is BFOE loadings in the North Sea. The Exchange determined that the volume of loaded barrels of BFOE crude oil from Brent, Forties, Oseberg and Ekofisk best meets the definition of supply readily available for delivery. In addition, the Exchange has reduced the deliverable supply of Forties to account for the long term commitment for crude oil purchases by the Grangemouth refinery. The Grangemouth oil refinery is located close to the delivery point of the Forties pipeline and volumes from the outer fields are connected directly via a series of pipelines to the refinery⁷. Based on the most recent 3-year average of the Bloomberg data on BFOE loadings (August 2013 to July 2016), total loadings of Brent (BFOE) crude oil was approximately 883,878 barrels per day, which is equivalent to approximately 26.5 million barrels per month, or 26,500 contract equivalents (contract size: 1,000 barrels). Further, to account for the crude oil purchases by the Grangemouth refinery, the deliverable supply (using the three-year average BFOE figures) would be reduced by 3 million barrels⁸ per month⁹. Therefore, the total deliverable supply of BFOE is approximately **23.5 million barrels per month** which is equivalent to 23,500 contracts.

An increase to the spot month limit for Dated Brent (Platts) Financial Futures from 1,000 to 4,000 contracts means that this will account for 17.02% of the monthly deliverable supply of Brent crude oil. The increase in the spot month limits continue to be below the 25% of deliverable supply threshold. This revised spot month position limit is also aligned with the existing Brent spot month position limit that is applicable to Brent Last Day Financial Futures which represents the same underlying market.

In **Appendix B** we have shown the increase in the spot month limit for the Parent contract and the changes that result in all of the other contracts (child contracts), which aggregate into the Parent contract, for the purpose of determining the spot month limit for the **Dated Brent (Platts) Financial Futures contract**.

⁵ <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2012/03/Brent-Prices-Impact-of-PRA-methodology-on-price-formation.pdf>

⁶ 17 CFR 1,150-51 (2011), <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2011-28809a.pdf>

⁷ http://www.bp.com/en/global/forties-pipeline/about_fps/Technical/technical_information.html - BP Forties Pipeline system

⁸ UKPia – Petroineos Grangemouth Refinery capacity http://www.ukpia.com/industry_information/refining-and-uk-refineries/Petroineos-grangemouth-refinery.aspx

⁹ Market suggests 50% of the processing capacity for Grangemouth is Forties therefore we have reduced the deliverable supply of Forties by 3-million barrels per month (the full capacity of the refinery is 6 million barrels per month).

Appendix A:

This data shows the total volume of BFOE crudes loaded by delivery month. The data is as assessed by Bloomberg. Each field operator for Brent, Forties, Oseberg and Ekofisk releases the amount of crude oil that is scheduled to be loaded by delivery month on a monthly basis prior to the start of trading for the barrels in each month.

2013	Aug-13	735484	
	Sep-13	800000	
	Oct-13	870968	
	Nov-13	980000	
	Dec-13	967742	
2014	Jan-14	890323	
	Feb-14	942857	
	Mar-14	967742	
	Apr-14	880000	
	May-14	832258	
	Jun-14	840000	
	Jul-14	851613	
	Aug-14	716129	
	Sep-14	820000	
	Oct-14	909677	
	Nov-14	860000	
	Dec-14	909677	
2015	Jan-15	870968	
	Feb-15	942857	
	Mar-15	909677	
	Apr-15	900000	
	May-15	922581	
	Jun-15	840000	
	Jul-15	890323	
	Aug-15	832258	
	Sep-15	940000	
	Oct-15	967742	
	Nov-15	900000	
	Dec-15	929032	
2016	Jan-16	974194	
	Feb-16	950690	
	Mar-16	870968	
	Apr-16	960000	
	May-16	870968	
	Jun-16	760000	3 Year Average
	Jul-16	812903	

		883,879
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Appendix B:

The Exchange proposes to amend the spot month limit of the Dated Brent (Platts) Financial Futures contract ("the Parent contract"). The underlying contracts "child contracts" referred to in the table below will be impacted as a result of this change. Please note that the Exchange will not amend the single month or all month accountability levels for this contract or any of the associated child contracts. All of the existing aggregations will remain unchanged.

Parent contract

Dated Brent (Platts) Financial Futures (commodity code UB)	1,000 4,000
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Child contracts

Brent CFD: Dated Brent (Platts) vs. Brent Third Month (Platts) Daily Futures (commodity code 59)	1,000 4,000 /4,000 4,000
Dated Brent (Platts) to Frontline Brent Futures (commodity code FY)	1,000 4,000 /4,000
Brent CFD: Dated Brent (Platts) vs. Brent Second Month (Platts) Daily Futures (commodity code 6W)	1,000 4,000 /4,000 4,000
Dated Brent (Platts) Daily Futures (commodity code 7G)	1,000 4,000
Dated Brent (Platts) to Frontline Brent BALMO Futures (commodity code FE)	1,000 4,000 /4,000
Mini Dated Brent (Platts) Financial Futures (commodity code MDB)	1,000 4,000
Dated Brent (Platts) Average Price Option (commodity code DBP)	1,000 4,000
Dated Brent (Platts) BALMO Futures (commodity code DBB)	1,000 4,000