

Chicago Climate Exchange®

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August 8, 2006

Ms. Eileen A. Donovan
Acting Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, C.C. 20581

OFFICE OF THE SECRETARIAT

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RECEIVED
C.F.T.C.

Re: **Chicago Climate Futures Exchange, LLC**
Submission No. 06-05

Dear Ms. Donovan:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (the "Act") and Parts 40.6 of the regulations promulgated by the Commodity Futures Trading Commission ("CFTC") under the Act, Chicago Climate Futures Exchange, LLC ("CCFE") hereby submits the following: amended Rule 1204 to modify settlement price calculation procedures; amended Rule 1206 to modify delivery procedures to allow use of customer's EPA ETS accounts; and, amended contract specifications for its Sulfur Financial Instrument ("SFI") futures contract revising the opening time for the SFI futures market to 7:30 a.m. central time from 8:30 a.m. central time.

CCFE intends to make these amendments effective as of August 11, 2006. The Exchange certifies that these amendments neither violate nor are inconsistent with any portion of the Act or of the rules thereunder.

A marked copy of amended Rule 1204 and Rule 1206 is attached hereto along with a revised summary of the contract specifications for SFI futures contracts.

Should you require additional information regarding this submission, please contact me at 312.554.0812. Please reference our submission number 06-05 in any related correspondence.

Very truly yours,

Ann M. Cresce
Senior Vice President & General Counsel

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enc.

cc: Martin Murray
Gregory Price

www.chicagoclimateexchange.c

CHAPTER 12
SULFUR FINANCIAL INSTRUMENT FUTURES
CONTRACT SPECIFICATIONS

1201. Scope of Chapter

This Chapter applies to trading in Sulfur Financial Instrument futures contracts. The procedures for clearing, trading, settlement, and any other matters not specifically covered herein shall be governed by the generally applicable rules of the Exchange.

1202. Eligibility

Clearing members and Trading Privilege Holders trading in Sulfur Financial Instruments futures contracts must have SO₂ registry accounts established with the EPA.

1203. Contract Specifications

(a) *Contract size.* The contract size for the Sulfur Financial Instrument futures contract is 25 of U.S. Environmental Protection Agency (“EPA”) SO₂ emission allowances (“SO₂ Emission Allowances”).

(b) *Schedule.* The Exchange may list for trading up to six consecutive quarterly contract months on the March quarterly cycle (March, June, September, December) for the Sulfur Financial Instrument futures contract as well as up to eight annual December contracts after the last listed quarterly contract; and the front two serial calendar months. The trading days for Sulfur Financial Instrument futures contracts shall be determined by the Exchange from time to time.

The trading hours for the Sulfur Financial Instrument futures contract shall be determined by the Exchange from time to time.

(c) *Termination of Trading (Contract Expiration).* Trading in the last Sulfur Financial Instrument futures contract terminates on the last Business Day of the expiring futures contract month at the normal Trading Session closing time.

(d) *New Contract Listing.* A new contract month will be listed on the next Business Day following a Contract Expiration.

(e) *Minimum Tick Increment.* The minimum tick increment of the Sulfur Financial Instrument futures contract is \$1.00 per SO₂ Emission Allowance, which is equal to \$25.00 per contract.

(f) *Reportable Position.* Pursuant to Commission Regulation §15.03 and Commission Regulation Part 17, the position level that is required to the Commission is any open position in Sulfur Financial Instrument futures contracts at the close of trading

on any trading day equal to or in excess of twenty-five contracts on either side of the market.

If one contract month has a reportable position, all contract months' positions must be reported.

(g) *Position Limits.* A person may not own or control more than 4,000 contracts, equivalent to 100,000 SO₂ Emission Allowances, net long or net short, in the nearby expiring futures contract month.

For the purposes of this rule, the positions of all accounts for which a person directly or indirectly controls trading shall be included, as described in Rule 409(e).

The foregoing position limit shall not apply to bona fide hedge positions meeting the requirements of the Commission Regulation § 1.3(z)(1) and the Rules of the Exchange.

(h) *Contract Modifications.* Specifications are fixed as of the first day of trading of a contract. If any U.S. Government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

(i) *Daily Price Limits.* Pursuant to Rule 413, the price limits for Sulfur Financial Instrument futures contracts are 100 ticks (\$2,500) above and below the previous Trading Session's settlement price.

(j) *Expanded Daily Price Limits*

(i) When any contract month is settled at a Daily Price Limit, the Daily Price Limits for all contract months will increase to 150 ticks (\$3,750) for the next three consecutive Trading Sessions.

(ii) Price limits for all contracts months will revert back to their Daily Price Limits as stipulated in (i) above on the third consecutive Trading Session if no contract month is settled at an Expanded Daily Price Limit. However, if one or more contract months are settled at the Expanded Daily Price Limit on the third consecutive Trading Session as stipulated in (i)(a) above, Expanded Daily Price Limits will remain in effect for another three consecutive Trading Sessions. The Exchange has the authority to modify the level of the Expanded Daily Limits.

(k) *Expiration Contract Month Trading Limits.* Effective with the opening of the first Trading Session in the calendar month of an expiring contract month, the expiring contract month will not be subject to Daily price Limits or Expanded Daily Price Limits.

(l) *Exchange of Future for Physical.* There is no minimum size for an Exchange of Future for Physical transaction with respect to Sulfur Financial Instrument

futures contracts. The Exchange of Future for Physical must meet all requirements of, and must be reported to the Exchange in accordance with, Rule 411.

(m) *Block Trades.* Pursuant to Rule 412(a)(i), the minimum Block Trade quantity for the Sulfur Financial Instrument futures contract shall be determined by the Exchange from time to time. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the Sulfur Financial Instrument futures contract and the other legs(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity. The Block Trade must meet all requirements of, and must be reported to the Exchange in accordance with, Rule 412.

1204. Settlement Price Calculations

Contract month settlement prices will be based on the following criteria:

- (a) A single traded price during the pre-close.
- (b) If more than one trade occurs during the pre-close, the trade volume weighted average of the prices, rounded to the nearest tick.
- (c) If no trade occurs during the pre-close, the following will be given consideration:
 - (i) the volume weighted average of the last two trade prices, rounded to the nearest tick;
 - (ii) ~~if no trades in the Trading Session,~~ the mid-point between the best bid and offer (volume weighted) in the pre-close, rounded to the nearest tick;
 - (iii) spread price relationships; and
 - (iv) time value between the contract months.
- (e) The Exchange reserves the right to take into account other factors in determining settlement prices.

1205. Deliverable Instruments

U.S. Environmental Protection Agency ("EPA") SO₂ Emission Allowances equal to the contract size.

Applicable for the June 2005 contract expiration, the SO₂ emission allowances acceptable for delivery are: allowances having a vintage corresponding to the calendar year of the contract expiration; allowances having a vintage of years prior to the calendar year of the contract expiration; and, allowances having a vintage corresponding to the first year subsequent to the calendar year of the contract expiration.

Applicable for all contract expirations after June 2005, the SO₂ emission allowances acceptable for delivery are: allowances having a vintage corresponding to the

calendar year of the contract expiration and allowances having a vintage of any year prior to the calendar year of the contract expiration.

1206. Delivery Procedures

(a) *Delivery.* Delivery is a three day process consisting of Position Day, Notice Day and Delivery Day. The three days occur over three consecutive Business Days.

(i) *Position Day.* The tenth trading day prior to a Sulfur Financial Instrument futures contract's expiration is the first day that Clearing Members must report their long futures positions by trade date to the Clearing Service Provider as of the close of business on the tenth trading day prior to expiration. Starting on the first Position Day, Clearing Members holding open short positions (hereafter referred to as "seller Clearing Member") may submit delivery tender notices to the clearing Service Provider on their own behalf or on the behalf of their open short futures position holders, as applicable, in a format acceptable to the Clearing Service Provider. Upon receipt of a delivery tender notice, the Clearing Service Provider will make the appropriate delivery assignment.

(ii) *Notice Day.* On the Business Day after the delivery tender notice has been submitted and the delivery assignment has been made by the Clearing Service Provider, the seller Clearing Member must provide to the buyer Clearing Member(s) a description of the underlying EPA SO₂ Emission Allowances to be delivered. The buyer Clearing Member(s) must provide EPA Allowance Tracking System ("ATS") account information to the seller Clearing Member. This information exchange must be completed by 4:00 p.m. (Central time) on Notice Day. The seller Clearing Member must ensure have the appropriate emission allowances are on deposited in its or its customer's EPA ATS account by 5:00 p.m. (Central time) on the Notice Day.

(iii) *Delivery Day* ~~At 6:00 p.m. (Central time) o~~On the Delivery Day, the Clearing Service Provider shall issue payment instructions to the respective buyer Clearing Member(s) for the full contract value based upon the Position Day's settlement price in a means and manner prescribed by the Clearing Service Provider. By 10:00 a.m. (Central time) on the Delivery Day, the seller Clearing Member must ensure that it or its customer has electronically submitted the SO₂ Emission Allowances transfer instructions via the EPA's Clean Air Market Division (CAMD) Business System. The seller Clearing Member must forward the EPA confirmation of transfer to the Clearing Service Provider as verification that the delivery has been completed.

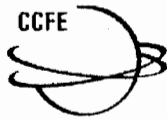
(iv) *Payment* After receipt of the EPA confirmation of transfer from the seller Clearing Member, the Clearing Service Provider will release the delivery proceeds to the seller Clearing Member according the following schedule:

EPA confirmation received by the Clearing Service Provider at or prior to 12:45 p.m. (Central time) – same day in the Clearing Service Provider’s mid-day variation cycle, if applicable.

EPA confirmation received by the Clearing Service Provider after 12:45 p.m. (Central time) – next business day through the 6:40 a.m. (Central time) settlement cycle.

1207. Validity of Documents

The Exchange makes no representation regarding the authenticity, validity or accuracy of any delivery tender notice, description of underlying EPA SO₂ Emission Allowance transfer instructions, EPA confirmation of transfer or other document or instrument delivered pursuant to these rules.



Chicago Climate Futures Exchange

**Chicago Climate Futures Exchange, LLC
Sulfur Financial Instrument Futures Contract Specifications**

Contract Size	25 U.S EPA SO ₂ Emission Allowances
Quotation	US dollars
Minimum Tick Increment	\$1.00 per U.S. EPA SO ₂ Emission Allowance = \$25.00 per contract
Symbol	SFI
Trading Hours	7:30 a.m. – 3:00p.m. Central Time
Delivery Months	Six consecutive quarterly contracts on a March, June, September, December cycle plus up to eight annual December contracts plus the front two serial calendar months Expiration of a June contract will not require the listing of a new quarterly cycle contract through the June 2013 contract
First Trading Day	The first trading day of a contract is the first business day following an expiration day.
Last Trading Day	The last day of trading is the last business day of the expiration month.
Settlement Price Calculation	Settlement prices will be based on the following criteria: a. A single traded price during the pre-close. b. If more than one trade occurs during the pre-close, the trade volume weighted average of the prices, rounded to the nearest tick. c. If no trade occurs during the pre-close, the following will be given consideration; 1. the volume weighted average of the last two trade prices, rounded to the nearest tick; 2. the mid-point between the best bid and offer (volume weighted) in the pre-close rounded to the nearest tick; 3. spread price relationships; and 4. time value between the contract months d. The Exchange reserves the right to take into account other factors in determining settlement prices.
Deliverable Instruments	U.S. Environmental Protection Agency (“EPA”) SO ₂ Emission Allowances equal to the contract size. Applicable for all contract expirations, the SO ₂ Emission Allowances acceptable for delivery are: allowances having a vintage corresponding to the calendar year of the contract expiration and allowances having a vintage of any year prior to the calendar year of the contract expiration.
Delivery Process	Clearing participants and parties trading the market must have SO ₂ allowance tracking accounts established with the EPA. Delivery is a three day process consisting of Position Day, Notice Day and Delivery Day. The three days occur over three consecutive business days. <u>Position Day</u> The tenth trading day prior to a contract’s expiration (expiration occurring after the close on the final trading day) is the first day that CCFE clearing members must report their long futures positions in the expiring contract. The long positions as of the close of business on the tenth trading prior to expiration, by trade date, must be reported to the CCFE Clearing Service Provider (“CCFE CSP”) in the time frame and format required

	<p>by the CCFE CSP.</p> <p>Starting on the First Position Day, CCFE clearing members (hereafter referred to as "seller") on behalf of their short futures position holders may submit delivery tender notices to CCFE CSP, in a format acceptable to CCFE CSP.</p> <p><u>Notice Day</u> Business day after the delivery tender notice has been submitted and the delivery assignment made by the CCFE CSP, the seller clearing member provides to the buyer clearing member(s) a description of the underlying EPA Emission Allowances to be delivered. The buyer clearing member(s) provides EPA Allowance Tracking System account information to the seller clearing member. Information exchange is to be completed by 4:00 p.m. Central Time. The seller clearing member must ensure the appropriate emission allowances are on deposit in its or its customer's EPA Allowance Tracking System account by the 5:00 p.m. Central Time.</p> <p><u>Delivery Day</u> CCFE CSP will issue payment instructions to the respective buyer clearing member for the full contract value based upon the Position Day's settlement price in a means and manner prescribed by CCFE CSP. By 10:00 a.m. Central Time, the seller clearing member must ensure that it or its customer has electronically submitted the allowance transfer instructions via the EPA's CAMD Business System. Seller clearing member must forward the EPA confirmation to the CCFE CSP as verification that the delivery has been completed.</p> <p><u>Payment</u> CCFE CSP will release the delivery proceeds to the seller clearing member on the following schedule. EPA confirmation received by CCFE CSP prior to 12:45 p.m. CT – same day in the mid-day variation cycle. EPA confirmation received by CCFE CSP after 12:45 p.m. CT – next business day through the 6:40 a.m. CT settlement cycle.</p>
Price Limits	<p>100 ticks (\$2,500) up and down from the previous trading day's settlement price. Expanded daily limits if any contract month settles at the daily limit Price limits will not be applied for an expiring contract month effective the first Trading Session of the expiring calendar month.</p>
Reportable Position Limits	<p>25 contracts, equivalent to 625 U.S. EPA SO₂ Emission Allowances</p>
Nearby Expiration Month Speculative Position Limits	<p>4,000 contracts, equivalent to 100,000 U.S. EPA SO₂ Emission Allowances</p>

Contract specifications rules may be subject to change. If CCFE determines that changes to the contract specifications rules are warranted, reasonable efforts will be taken to provide appropriate advance notification of the changes.

This document is a summary of the CCFE contract specification rules. See the CCFE rulebook for complete contract specification rules.