

March 13, 2008

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OFFICE OF THE SECRETARIAT

**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: New Product Rule Certification. New York Mercantile Exchange, Inc. Submission #08.32: Notification regarding the listing of New European Union Allowance (EUA) Futures Contract on NYMEX ClearPort® clearing and CME Globex®. Notification regarding the listing of New European Union Allowance (EUA) Option Contract on NYMEX Trading Floor and NYMEX ClearPort® Clearing.**

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 the following contracts:

- European Union Allowance (EUA) Futures Contract (Code RC; NYMEX Rules 868.01-868.14)
- EUA Option Contract (Code AV; NYMEX Rules 869.01-869.07)

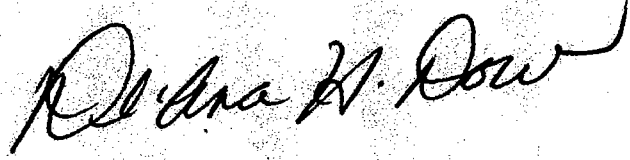
The new EUA Futures Contract will be listed on the NYMEX ClearPort® clearing and CME Globex® systems. In addition, the Exchange will allow Exchange of Futures for Physical ("EFP"), and Exchange of Futures for Swaps ("EFS") to be submitted for clearing via NYMEX ClearPort® clearing pursuant to the terms of Rules 6.21 and 6.21A. The Exchange will list consecutive quarterly contracts starting from December 2008 through December 2010. The Exchange will also list contracts for December 2011 and December 2012.

The new EUA Option contract will be listed for open outcry trading during the hours of 9.00 A.M to 2:30 P.M Eastern Daylight Time, and on NYMEX ClearPort® clearing for submission of EOO transactions pursuant to NYMEX Rule 6.21F. There will be an Option for each listed contract.

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(s) complies(y) with the Act, including regulations under the Act.

Should you have any questions concerning the above, please contact Brad Leach 212-299-2609 or the undersigned at (202) 715-8517.

Sincerely,

A handwritten signature in black ink, reading "De'Ana H. Dow". The signature is written in a cursive style with a large initial "D" and a long horizontal stroke at the end.

De'Ana H. Dow  
Senior Vice President and  
Chief Legislative Counsel

Attachments: Contract terms and conditions  
Supplemental information

## **European Union Allowance (EUA) Futures Contract**

### **Definitions:**

EU ETS: In January 2005, the European Union Emissions Trading Scheme 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 represent close to half of Europe's emissions of CO<sub>2</sub>. 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.

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

The terms "Seller" and "Buyer" shall mean the short Clearing Member and the long Clearing Member, respectively.

The terms "Seller's Customer" and "Buyer's Customer" shall mean the seller and buyer of the physical product.

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 month. The settlement price for the last trading day shall be determined in accordance with the procedures set forth in NYMEX Rule 11G.11.

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. Moreover the EU Commission has established and become the Administrator of a Community Transaction Independent Log (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 CERs between national registries.

### **868.01 Scope**

The provisions of these rules shall apply to all Phase 2008-2012 European Union EUA bought or sold for future delivery on the Exchange with the Delivery at the UK Emissions Trading Registry.

### **868.02 Time References**

For purposes of these Rules, unless otherwise specified, times referred to herein shall refer to and indicate the prevailing time in Greenwich Mean Time (GMT).

### **868. 03 Contract Unit**

The contract unit shall be one thousand (1000) metric tonnes of EUA for a delivery made by transfer through UK Emissions Trading Registry.

### **868. 04 Delivery**

EUA delivery shall comply with all requirements for the electronic transfer of EUA on the UK Emissions Trading Registry. All deliveries made under these rules shall be final and there shall be no appeal.

### **868. 05 Delivery Months**

Trading shall be conducted in contracts providing for delivery in such periods as shall be determined by the Board of Directors

### **868. 06 Minimum Price Fluctuations**

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

### **868. 07 Termination of Trading**

Trading in the delivery month shall cease two business days prior to the first business day of the delivery month.

### **868. 08 Product Placement**

#### **(1) Certification:**

For purposes of Rule 9.19, the Seller and Buyer shall fulfill their respective contractual obligations on a maturing contract unless, by 5:00 p.m. GMT on the 10<sup>th</sup> business day prior to the first business day of the delivery month, such Seller and Buyer have received account certification from his customer, in the form prescribed by the Exchange stating that: If a buyer, the Buyer's Customer has an account with UK Emissions Trading Registry. If a seller, the Seller's Customer has an account with UK Emissions Trading Registry;

The receipt of such certification shall not relieve the Seller or Buyer, or their respective Customers of any obligations under any Rule other than Rule 9.19.

## **868. 09 Delivery Procedures**

### **(A) RESPONSIBILITIES OF CLEARING MEMBERS HAVING OPEN LONG POSITIONS**

#### **(1) NOTICE OF INTENTION TO ACCEPT**

By 4:30 p.m. GMT on the last business day prior to the expiring delivery month, a Buyer having an open 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: Name of the Buyer's Customer; Number of contracts to be accepted; UK Emissions Trading Registry Account Number; Name; Phone Number and e-mail address of the Authorized Representative (s) for that that Registry account, and any additional information as may be required by the Exchange;

If the link between the ITL and CITL is not operational two business days prior to the first business day of the delivery month, a Buyer shall file a properly completed and signed Notice of Intention to Accept by 4:30 p.m. GMT on the first business day following Exchange notice that the link between the CITL and the ITL is operational related to contract delivery.

### **(B) RESPONSABILITIES OF CLEARING MEMBERS HAVING OPEN SHORT POSITIONS**

#### **(1) NOTICE OF INTENTION TO DELIVER**

By 4:30 p.m. GMT on the first business day after the final day of trading of the delivery month, 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: Name of the Seller's Customer; Number of contracts to be delivered; UK Emissions Trading Registry Account Number; Name; Phone Number and e-mail address of the Authorized Representative (s) for that registry account, Any additional information as may be required by the Exchange;

If the link between the ITL and CITL is not operational as of operational two business days prior to the first business day of the delivery month, a Seller shall file a properly completed and signed Notice of Intention to Deliver by 4:30 p.m. GMT on the first business day following Exchange notice that the link between the CITL and the ITL is operational related to contract delivery.

**(C) USE OF SETTLEMENT PRICE:** The final settlement price used for the delivery shall be the settlement price from the final day of trading.

#### **(D) Notice 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 Tender Allocation Notices to the respective Clearing Members on the first business day of the delivery month.

If the link between the CITL and the ITL is not operational two business days prior to the first business day of the delivery month, the Clearing House will provide Tender Allocation Notices to the respective Clearing Members on the second business day following Exchange notice that the link between the CITL and the ITL is operational related to contract delivery.

- (3) The day the Tender Allocation Notices are provided to the Clearing Members shall be referred to as "Notice Day". Tender Allocation Notices are not transferable.

## **(E) Payment and Delivery Margins**

### **(1) Definitions**

- (a) "Payment" shall include the settlement price times the number of contracts times 1000. If the link between the CITL and the ITL is not operational two business days prior to the first business day of the delivery month,, the payment of the Buyer shall include the Euro OverNight Index Average (EONIA) interest cost from the first business day of the contract month to the revised delivery date.
- (b) "Payment Date" shall mean the business day after the Buyer's Customer receipt of proper notification from the UK Emissions Trading Registry that EUAs have been transferred from the Seller's Customer account to the Buyer's Customer account, provided documentation is supplied to the Buyer's Customer by no later than 4:00 p.m.. GMT. Documentation supplied to Buyer after 4:00 p.m. GMT on any Exchange business day, shall be considered received on the following Exchange business day.
- (c) On the business day following the last day of trading, the long clearing member shall obtain from the long, if any, margin equal to the full value of the product to be delivered. Such margin shall consist of cash, securities issued by the United States Treasury Department maturing within ten (10) years from the date of deposit and guaranteed as to principal and interest by the United States Government or a letter of credit. Any Treasury securities so deposited shall be valued at ninety percent (90%) of the par value of such instruments. Any letter of credit so deposited shall be in a form approved by the Exchange, shall be issued or confirmed by an Exchange approved original margin depository, and shall be drawn in favor of the Exchange
- (d) The Buyer shall pay the Seller at the office of the Seller by a certified check or electronic funds transfer, or any other method acceptable to both parties by 5:00 p.m.GMT on the payment date. 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.

(e) On the Payment Date, the Seller, the Seller shall deliver a Notice of Payment to the Buyer with a copy to the Exchange by 4:30 p.m. GMT Time Zone. Upon receipt of such notice the delivery shall be complete.

(g) Any payment made on Payment Date shall be based on EUAs actually delivered.

## **(F) Delivery Day**

The day the Buyer receives the EUAs shall be referred to as the Delivery Day

### **868. 10 Delivery Period**

Delivery shall take place on the second business day of the delivery month.

If the link between the CITL and the ITL is not operational two business days prior to the first business day of the delivery month, the seller shall deliver on the tenth business day following the Exchange notice that the link between the CITL and the ITL is operational related to contract delivery.

### **868. 11 Validity of Documents**

The Exchange makes no representation respecting 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.

### **868.12 Exchange of Futures for Physical (EFP) and Exchange of Futures for Swaps (EFS)**

(A) An exchange of futures for, or in connection with, the product (EFP) or exchange of futures for swaps (EFS) consist of two discrete, but related, transactions; a physical commodity or swap transaction and a futures transaction. At the time such transaction is effected, the Buyer's Customer and Seller's Customer of the futures must be respectively the Seller's Customer and Buyer's Customer of a quantity of the physical product or swaps agreement covered by this Section (or any derivative, by-product or related product). The quantity of physical product or swap agreement must be approximately equivalent to the quantity covered by the futures contracts.

(B) Except as provided below, an EFP or EFS must take place during the hours of futures trading for the futures contract. An EFP or EFS is permitted at any time before 2:30 p.m. GMT on the first business day after the final day of trading, provided, however, that an EFP which established a futures position for both the Buyer's Customer and the Seller's Customer shall not be permitted on the first business day after the last day of trading.

If the link between the CITL and the ITL is not operational two business days prior to the first business day of the delivery month, EFP or EFS transactions will be extended until 2:30 p.m. GMT on the business day following the Exchange notice that the link between the CITL and the ITL is operational related to contract delivery.

(C) Any EFP or EFS shall be governed by the provisions of this Rule and by the provisions of Exchange Rules 6.21 and 6.21A., respectively.

(D) Each Buyer's Customer and Seller's Customer must satisfy the Exchange, at its request, that the transaction is a legitimate EFP or EFS transaction. All documentary evidence relating to the EFP or EFS, including, without limitation, evidence as to change of ownership of the physical commodity or swap commitment, shall be obtained by the Clearing Members from their customers and made available by the Clearing Members for examination by the Exchange upon request.

(E) A report of each EFP or EFS transaction shall be entered on the day that the transaction thereto was made, or if such agreement was made after the close of trading, then on the next business day. EFP or EFS transactions shall be cleared through the Exchange in accordance with normal procedures, shall be clearly identified as EFP or EFS transactions, and shall be recorded as such by the Exchange and by the Clearing Members involved

### **868.13 Alternative Delivery Procedure**

A Seller's Customer or Buyer's Customer may agree with the Buyer's Customer or the Seller's Customer with which it has been matched by the Exchange under Rule 868.09(D) to make and take delivery under terms or conditions which differ from the terms and conditions prescribed by this Chapter. In such a case, Clearing Members shall execute an Alternative Notice of Intention to Deliver on the form prescribed by the Exchange and shall deliver a completed executed copy of such Notice to the Exchange. The delivery of an executed Alternative Notice of Intention to Deliver to the Exchange shall release the Clearing Members and the Exchange from their respective obligations under the Exchange contracts.

In executing such Notice, Clearing Members 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 Notice of Intention to Deliver, the Exchange will return to the Clearing Members all margin monies held for the account of each with respect to the contracts involved.

### **868.14 Force Majeure, Late Performance and Failure to Perform**

(A) **DEFINITION.** As used in this Rule 868.14 the following terms, as well as variations thereof, shall have the meaning described below.



(1) "Late Performance" means 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.

(2) "Failure to Perform" means 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.

(3) "Contract Value" means the amount equal to the settlement price on the last day of trading in a futures contract times 1000 (the number of tons per contract) times the number of contracts to be delivered.

(4)(a) "Party" means 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" means 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.

(5) "Day of Late Performance" means the twenty-four hour period commencing twelve hours after a Buyer or a Seller was to have performed, provided however, with respect to the obligations of Buyers and Sellers to submit documents to the Exchange pursuant to the Rules in this chapter, and with respect to the failure to transfer EUA within the delivery period, "Day of Late Performance" means that twenty four hour period commencing immediately after the time specified in the Rules in this chapter for the submission of a document. 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 is performed shall be a Day of Late Performance.

(6) "Force Majeure" means 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 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 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 Compliance 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 Board of Directors for emergency action as provided in Article 7.

#### **(D) EXCHANGE ACTION**

(1) Whenever a Buyer or a Seller is found by the Panel to be late in the performance of or to have failed to perform a delivery, the Exchange, represented by the Compliance Department, shall issue a Notice of Assessment in accordance with subsections (2) of this Section, specifying the findings of the Panel with respect to the late or failed delivery.

(2) When a Party has failed to perform, the Compliance Department shall issue a Notice of Assessment assessing penalties of ten percent (10%) of the contract value, in addition to any penalties assessed pursuant to subparagraph hereof, 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 Compliance Counsel, within two business days of receipt of the Notice of Assessment from the Compliance 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 Compliance 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)(4)(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 Bylaw 106. In the event a party fails to Appeal, or waives the opportunity to appeal a Notice of Assessment the Assessment and findings of the Delivery Committee shall constitute a final disciplinary action of the Exchange.

(4) Within ten (10) days after receipt of the Compliance 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 on by the Compliance Department or are otherwise relevant to the matter.

(5) In the event of an appeal by a Party, the Chairman of the Exchange, or his designee, shall appoint an Assessment Appeal Panel to hear and decide the appeal. The Panel shall be composed of three members of the Exchange, at least one of whom shall be a member of the Board of Directors. 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 Chairman 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 Panel.

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

(a) At a date to be set by order of the Panel, and prior to such hearing, the Appellant and the Compliance 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 or other representative of his choice at the appeal.

(c) The Compliance 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 Compliance 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 Compliance Department's evidence and shall be entitled to call witnesses and introduce documents in support thereof.

(e) The Compliance 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 Panel shall constitute the record of the hearing. The decision of the Panel shall be based upon the record of the hearing.

(g) The 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 Assessment 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 Assessment 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 day shall be fifteen (15) days after a copy of the written decision has been delivered to the appellant and to the Commission.

(8) The Assessment Appeal Panel shall consider, and make recommendations to the Board concerning acceptance or rejection of, any offer of settlement submitted by Appellant. In the case of an offer of settlement, acceptance by the Board 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 Secretary of the Exchange 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 5 of the Rules except that the Chairman of the Exchange or his designee shall appoint an Arbitration Panel composed of three Members of the

Exchange, at least one of whom shall be a Member of the Board of Directors.

## **European Union Allowance (EUA) Option Contract**

### **869.01 Expiration of EUA Option Contract:**

A EUA option contract on the Exchange shall expire at the close of trading three business days prior to the expiration of the underlying EUA futures contract. The expiration date shall be announced prior to the listing of the option contract.

### **869.02 Trading Unit for EUA Option Contracts**

A EUA put or call option contract traded on the Exchange represents an option to assume a short or long position in the underlying EUA futures contract traded on the Exchange.

### **869.03 Trading Months for EUA Option Contracts**

Trading in EUA option contracts shall be conducted in the contract months as shall be determined by the Board of Directors. Trading shall commence on the day fixed by resolution of the Board of Directors.

### **869.04 Hours of Trading in EUA Option Contracts**

The hours of trading in EUA option contracts on the Exchange shall be the same as the hours of trading for EUA futures contracts. All such trading shall take place on the trading floor of the Exchange within the hours prescribed by the Board.

### **869.05 Strike Prices for EUA Option Contracts**

(A) Trading shall be conducted for options with strike prices in increments as set forth below.

(B) On the first business day of trading in an option contract month, trading shall be at the following strike prices: (i) the previous day's settlement price for EUA futures contracts in the corresponding delivery month rounded off to the nearest fifty-cent increment strike price (ii) the ten fifty-cent increment strike prices which are ten increments higher than the strike price described in (i) of this Rule 869.05(B) and (iii) the ten fifty-cent increment strike prices which are ten increments lower than the strike price described in (i) of this Rule 869.05(B)

(C) Thereafter, on any business day prior to the expiration of the option, new consecutive strike prices for both puts and calls will be added such that there will be ten increments above and below the at-the-money option.;

(D) Notwithstanding the provisions of subsections (A) through (C) of this Rule, if the Board determines that trading in EUA options will be facilitated thereby, the Board may, by resolution, change the increments between strike prices, the number of strike prices which shall be traded in the first day in any new option contract month, the number of new strike prices which will be introduced on each business day or the period preceding the expiration of a EUA option in which no new strike prices may be introduced.

**869.06 Prices and Price Fluctuations**

Prices shall be quoted in Euros (€) and Euro cents (c) per metric tonne. There shall be no maximum price fluctuation limits. A cabinet trade may occur at a price of €1.00 per contract, however, if it results in the liquidation of positions for both parties to the trade.

**869.07 Absence of Price Fluctuation Limitations for EUA Option Contract**

Trading in EUA Option contracts shall not be subject to price fluctuation limitations.

## Supplemental Information

### **The European Union Emission Trading Scheme**

The NYMEX European Union Allowance (EUA) Futures Contract relates to the European Union Trading Scheme (EU ETS) that was established in 2005 and is the largest multi-national carbon emissions program in the world with 25 European Community member states participating in this program. The EU ETS is the most liquid carbon trading market in the world and accounted for over 775 million metric tonnes of CO<sub>2</sub> equivalent traded in the first half of 2007, according to the World Bank. The NYMEX contract is structured to deliver Phase 2 EUAs which cover the EU ETS compliance period from December 2008 through December 2012. 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 CO<sub>2</sub> 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. Several commercial sources identified the following Wikipedia article on the EU ETS as comprehensive and accurate.

**The European Union Emission Trading Scheme (EU ETS)** is the largest multi-national, emissions trading scheme in the world,<sup>[1]</sup> and is a major pillar of EU climate policy. 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 CO<sub>2</sub> and 40% of its total greenhouse gas emissions.<sup>[2]</sup>

Under the EU ETS, large emitters of carbon dioxide within the EU must monitor and annually report their CO<sub>2</sub> emissions, and they are obliged every year to surrender (give back) an amount of emission allowances to the government that is equivalent to their CO<sub>2</sub> emissions in that year. The installations may get the allowances for free from the government, or may purchase them from others (installations, traders, the government.) If an installation has received more free allowances than it needs, it may sell them to anybody.

In January 2008, the European Commission proposed a number of changes to the scheme, including centralized allocation (no more national allocation plans), a turn to auctioning a greater share (60+ %) of permits rather than allocating freely, and inclusion of the greenhouse gases nitrous oxide and perfluorocarbons.<sup>[2]</sup> Also, the proposed caps foresee in an overall reduction of greenhouse gases for the sector of 21% in 2020 compared to 2005 emissions.



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## Mechanisms

The EU scheme is largely modeled on the mechanisms in the Marrakech Accords of the Kyoto Protocol, helped by the experience gained during the running of the voluntary UK Emissions Trading Scheme in the previous years.<sup>[3]</sup>

Thus 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 year. The operators within the ETS may reassign or trade their allowances by several means:

- privately, moving allowances between operators within a company and across national borders
- over the counter, using a broker to privately match buyers and sellers
- trading on the spot market of one of Europe's climate exchanges (the most liquid being the European Climate Exchange). Like any other financial instrument, trading consists of matching buyers and sellers between members of the exchange and then settling by depositing an allowance in exchange for the agreed financial consideration. Much like a stock market, companies and private individuals can trade through brokers who are listed on the exchange.

When each change of ownership of an allowance is proposed, the national registry and the European Commission are informed in order for them to validate the transaction. During Phase II of the EU ETS the UNFCCC will also validate any change that alters the distribution within each national allocation plan.

Like the Kyoto trading scheme, the EU scheme allows a regulated operator to use carbon credits in the form of Emission Reduction Units (ERU) to comply with its obligations. A Kyoto Certified Emission Reduction unit (CER), produced by a carbon project that has been certified by the UNFCCC's Clean Development Mechanism Executive Board or the Joint Implementation project's host country, respectively, is accepted by the EU as equivalent.

Thus one EU Allowance Unit of one tonne of CO<sub>2</sub>, or "EUA", was designed to be identical ("fungible") with the equivalent "Assigned Amount Unit" (AAU) of CO<sub>2</sub> defined under Kyoto. Hence, because of the EU's decision to accept Kyoto-CERs as equivalent to EU-EAUs, it will be possible to trade EAUs and UNFCCC-validated CERs on a one-to-one basis within the same

system. (However, the EU has announced that this facility is being delayed, possibly until 2009, until it can overcome its technical problems connecting to the UN systems.<sup>[4]</sup>)

During Phase II of the EU ETS, the operators within each Member State must surrender their allowances for inspection by the EU before they can be "retired" by the UNFCCC.

## **B. Allocation**

In order to make sure that real trading emerges (and that CO<sub>2</sub> emissions are reduced), EU governments must make sure that the total amount of allowances issued to installations is less than the amount that would have been emitted under a business-as-usual scenario. For each Phase, the total quantity to be allocated by each Member State is defined in the Member State National Allocation Plan (NAP) (equivalent to its UNFCCC-defined carbon account.) The European Commission has oversight of the NAP process and decides if the NAP fulfills the 12 criteria set out in the Annex III of the Emission Trading Directive (EU Directive 2003/87/EC). The first and foremost criterion is that the proposed total quantity is in line with a Member State's Kyoto target.

Of course, the Member State's plan can, and should, also take account of emission levels in other sectors not covered by the EU ETS, and address these within its own domestic policies. For instance, transport is responsible for 21% of EU greenhouse gas emissions, households and small businesses for 17% and agriculture for 10%.<sup>[5]</sup>

During Phase I, most allowances in all countries were given freely (known as grandfathering). This approach has been criticized as giving rise to windfall profits, being less efficient than auctioning, and providing too little incentive for innovative new competition to provide clean, renewable energy.<sup>[6][7]</sup>

To address these problems, the European Commission proposed various changes in a January 2008 package, including the abolishment of NAPs from 2013 and auctioning a far greater share (ca. 60% in 2013, growing afterward) of emission permits. At the time of writing (January 2008), the proposal would still need approval from the European member states and the EU Parliament to come into effect. Phase I

In the first phase (2005-2007), the EU ETS includes some 12,000 installations, representing approximately 40% of EU CO<sub>2</sub> emissions,<sup>[8]</sup> covering energy activities (combustion installations with a rated thermal input exceeding 20 MW, mineral oil refineries, coke ovens), production and processing of ferrous metals, mineral industry (cement clinker, glass and ceramic bricks) and pulp, paper and board activities.

## **C. Launch and operation**

The scheme, in which all 15 member states that were then members of the European Union participated, commenced operation on 1 January 2005, although many national registries were unable to settle transactions for the first few months. However, the prior existence of the UK Emissions Trading Scheme meant that market participants were already in place and ready. In its first year, 362 million tonnes of CO<sub>2</sub> were traded on the market for a sum of **€7.2 billion**, and a large number of futures and options.<sup>[9]</sup> The price of allowances increased more or less steadily to

its peak level in April 2006 of about €30 per tonne CO<sub>2</sub>,<sup>[10]</sup> but fell in May 2006 to under €10/ton on news that some countries were likely to give their industries such generous emission caps that there was no need for them to reduce emissions. Lack of scarcity under the first phase of the scheme continued through 2006 resulting in a trading price of €1.2 a tonne in March 2007, declining to €0.10 in September 2007.

Consequently, observers and NGO's have accused national governments of abusing the system under industry pressure, and have urged for far stricter caps in the second phase (2008-2012).<sup>[11]</sup>

## Phase II

Member State	1st period cap	2005 verified emissions	Proposed cap 2008-2012	Cap allowed 2008-2012
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Austria.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Austria.svg</a> Austria	33.0	33.4	32.8	30.7
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Belgium_%28civil%29.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Belgium_%28civil%29.svg</a> Belgium	62.08	55.58 †	63.33	58.5
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_the_Czech_Republic.svg">http://en.wikipedia.org/wiki/Image:Flag_of_the_Czech_Republic.svg</a> Czech Republic	97.6	82.5	101.9	86.8
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_France.svg">http://en.wikipedia.org/wiki/Image:Flag_of_France.svg</a> France	156.5	131.3	132.8	132.8
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Germany.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Germany.svg</a> Germany	499	474	482	453.1
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Greece.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Greece.svg</a> Greece	74.4	71.3	75.5	69.1
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Ireland.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Ireland.svg</a> Ireland	22.3	22.4	22.6	21.15
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Latvia.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Latvia.svg</a> Latvia	4.6	2.9	7.7	3.3
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Lithuania.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Lithuania.svg</a> Lithuania	12.3	6.6	16.6	8.8
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Luxembourg.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Luxembourg.svg</a> Luxembourg	3.4	2.6	3.95	2.7

<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Malta.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Malta.svg</a> Malta††††	2.9	1.98	2.96	2.1
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_the_Netherlands.svg">http://en.wikipedia.org/wiki/Image:Flag_of_the_Netherlands</a>	95.3	80.35 ††	90.4	85.8
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Poland.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Poland.svg</a> Poland	239.1	203.1	284.6	208.5
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Slovakia.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Slovakia.svg</a> Slovakia	30.5	25.2	41.3	30.9
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Slovenia.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Slovenia.svg</a> Slovenia	8.8	8.7	8.3	8.3
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Spain.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Spain.svg</a> Spain	174.4	182.9	152.7	152.3
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_Sweden.svg">http://en.wikipedia.org/wiki/Image:Flag_of_Sweden.svg</a> Sweden	22.9	19.3	25.2	22.8
<a href="http://en.wikipedia.org/wiki/Image:Flag_of_the_United_Kingdom.svg">http://en.wikipedia.org/wiki/Image:Flag_of_the_United_Kingdom.svg</a> United Kingdom	245.3	242.4 †††	246.2	246.2
<b>Totals</b>	<b>1784.38</b>	<b>1646.51</b>	<b>1790.84</b>	<b>1623.85</b>

Source: EU press release IP/07/459: "Emissions trading: Commission adopts decision on Austria's national allocation plan for 2008-2012" 02/04/2007<sup>[12]</sup> (totals added in wikipedia)

Additional installations and emissions included in the second trading period are not included in this table.

- † Including installations opted out in 2005.

\*†† Verified emissions for 2005 do not include installations opted out in 2005 which will be covered in 2008 and 2012 and are estimated to amount to some 6 Mt.

\*††† Verified emissions for 2005 do not include installations opted out in 2005 which will be covered in 2008 and 2012 and are estimated to amount to some 30 Mt.

\*†††† Cyprus and Malta, as new EU accession states, but not Annex I countries, will have their own NAPs and participate in trading during Phase II.

The second phase (2008-12) expands the scope significantly:

- CDM and JI credits are expected to be introduced in second phase through the EU's 'Linking Directive', although it has been agreed that schemes can be started in advance during Phase I<sup>[13]</sup>
- Aviation emissions are expected to be included from 2010.<sup>[14]</sup>
- Four non-EU members, Norway, Iceland, Liechtenstein, and Switzerland join the scheme.<sup>[15]</sup>

The inclusion of aviation is a move considered important due to the large and rapidly growing emissions of the sector. The inclusion of aviation is estimated to lead to an increase in demand of allowances of about 10-12 million tonnes of CO<sub>2</sub> per year in phase two. This in turn is expected to lead to an increased use of JI credits from projects in Russia and Ukraine, which would offset the increase in prices and eventually result in no discernible impact on average annual CO<sub>2</sub> prices.<sup>[16]</sup>

Ultimately, the Commission wishes the post-2012 ETS to include all greenhouse gases and all sectors, including aviation, maritime transport and forestry.<sup>[17]</sup> For the transport sector, the large number of individual users adds complexities, but might be implemented either as a cap-and-trade system for fuel suppliers or a baseline-and-credit system for car manufacturers.<sup>[18]</sup>

The National Allocation Plans for Phase II, the first of which were announced on 29 November 2006, will result in an average cut of nearly 7% below the 2005 emission levels.<sup>[19]</sup> The European Commission has started infringement proceedings against Austria, Czech Republic, Denmark, Hungary, Italy and Spain, for failure to submit their proposed National Allocation Plans on time.<sup>[20]</sup>

## References

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2. <sup>^ a b</sup> [Questions and Answers on the Commission's proposal to revise the EU Emissions Trading System](#), MEMO/08/35, Brussels, 23 January 2008
3. <sup>^</sup> [UK Emissions Trading Scheme](#) DEFRA
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19. <sup>^</sup> [Emissions trading: Commission decides on first set of national allocation plans for the 2008-2012 trading period](#) EU Europa November 2006
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23. <sup>^</sup> [Market analysis](#) Emissierechten (in Dutch)
24. <sup>^</sup> [Market information](#) EEX
25. <sup>^</sup> [NAP Assessment summary](#) Ecofys (registration required)
26. <sup>^</sup> [Emissions trading: Commission decides on first set of national allocation plans for the 2008-2012 trading period](#) EU Europa

27. <sup>^</sup> Hotspot newsletter Climate Action Network, March 2006

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## **External links**

### *Official pages*

- European Commission official EU ETS website
- Directive 2003/87/EC Legal text of the EU Directive establishing EU ETS.
- Phase II NAPs

### *How ETS works*

- UK Defra General overview at the UK Department for Environment, Food and Rural Affairs
- Pew Center White Paper : overview of EU ETS

### *Key reports, and assessments*

- Fraunhofer Institute November 2006 assessment of preliminary Phase 2 NAPs
- Ecofys evaluation of preliminary Phase 2 NAPs
- Ecofys evaluation of Phase 1 NAPs. ECOFYS, August 2004.
- National Allocation Plans 2005-7: Do they deliver? Executive summary of report by Climate Action Network.
- WWF website "The environmental effectiveness and economic efficiency of the EU ETS: Structural aspects of the allocation". by WWF and Öko-Institut, 09 Nov 2005.
- Climate Action Network Europe "CO2 emissions: EU member states abuse Emissions Trading System" Press release, 15 May 2006
- Carbon Trade Watch

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Categories: [Climate change policies](#) | [Energy policies and initiatives of the European Union](#) | [Carbon emissions trading schemes in the European Union](#) | [Carbon Finance](#)

## **The UK Emissions Trading Registry**

The NYMEX 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/climatechange/trading/eu/operators/registry.htm>

## **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.

For more information on how to open a Registry account - visit the Environment Agency website.

### **What is a Registry?**

Computerised 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 standardised, 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.

## EUA Market Activity

The International Emissions Trading Association (IETA) is considered to be the best source of information regarding international carbon market trading activity. The most recent report, Greenhouse Gas Market 2007, is the source of the volume information provided in the table below. According to the IETA, 775 Million Tonnes (MT) were traded as part of the EU ETS in the first half of 2007. This total equals 775,000 NYMEX Equivalent contracts (or 129,167 per month) during this time period. The financial value of this market during H1 2007 was 11.5 billion Euros, The EU ETS accounted for 73% of the 15.8 billion Euro emissions trading market reported by IETA, In 2006, IETA reported that 1017 MT traded in the EU ETS program which equals 1,017,000 NYMEX Equivalent contracts (or 84,750 per month). The trading volume increase comparing the monthly volume in H1 2007 to the monthly volume in full year 2006 was 52%. The IETA does not segment this information by EU ETS member nation to determine the activity off UK market participants. The National Allocation Plan information obtained from DEFRA, operator of the UK Registry (website link below), indicates that the UK has an annual Phase 2 CO<sub>2</sub> compliance cap of 246 MT, which is the 15% of total EU ETS cap of 1,624 MT. The UK has the largest single national cap in the EU ETS. The table below also includes information related to the CER market which is the subject of a separate new contract submission.

<http://www.defra.gov.uk/environment/climatechange/trading/eu/phase2/pdf/nap-phase2.pdf>

	2005		2006		First 6 Months 2007		2007 Mo Vol
	MT	NYMEX Eq (1000 MT)	MT	NYMEX Eq (1000 MT)	MT	NYMEX Eq (1000 MT)	
EU ETS	362,000,000	362,000	1,017,000,000	1,017,000	775,000,000	775,000	129,167
OTC+Exg	262,000,000	262,000	817,000,000	817,000	675,000,000	675,000	112,500
Bilateral	100,000,000	100,000	200,000,000	200,000	100,000,000	100,000	16,667
CER	401,000,000	401,000	563,000,000	563,000	372,000,000	372,000	62,000
Primary	397,000,000	397,000	523,000,000	523,000	292,000,000	292,000	48,667
Secondary	4,000,000	4,000	40,000,000	40,000	80,000,000	80,000	13,333

**MT = Metric Tonnes**

Source: International Emissions Trading Association, Greenhouse Gas Market Report 2007



## **Top Five Market Participants**

**The sector EUA participants below were identified by commercial sources.**

### **OTC Brokers**

Evolutions Markets

ICAP

Spectron

Traditional Financial Services

GFI

### **Financial**

Barclays Capital

Fortis Bank

Morgan Stanley

JP Morgan

RNK Capital

### **Commercial**

EON

Shell

EDF

BP

Endesa

### **Spot Month Position Limit**

The spot month position limit of the NYMEX EUA futures contract is 2,500 contracts, which is 12% of the monthly EUA UK CO2 compliance Phase 2 cap of 20,515 NYMEX equivalent contracts. The monthly cap was calculated by NYMEX by dividing the annual Phase 2 UK CO2 cap of 246 million metric tonnes by 12 months. While the UK cap is used in this section, Phase 2 EUAs from other nations can also be delivered into the UK Registry.

### **ITL Link with CITL**

The NYMEX European Union Allowance (EUA) Futures Contract references the UK Emissions Trading Registry (UK Registry) as the standard delivery mechanism. The UK Registry was

selected due to its open access to domestic and international market participants. An additional reason for the selection relates to the prior operation of the UK Emissions Trading Scheme (UK ETS) which operated from 2002-2006 and was the world's first multi-industry carbon trading program. The prior operation of the UK ETS developed market participation and related trading infrastructure which was a foundation for the development of the EU ETS.

As previously stated, the NYMEX European Union Allowance (EUA) Futures Contract references Phase 2 EUAs for standard delivery. On February 28, DEFRA, operator of the UK Registry, issued a statement which indicated that Phase 2 allowances would not be issued until the International Transaction Log (ITL), operated by the United Nations Framework Convention on Climate Change, is electronically linked to the European Community transaction log (CITL). Under the Kyoto Protocol, signatory nations are required to link national registries to the ITL. These links enable compliance processes related to the Kyoto Protocol. The European Commission has not provided a firm date as to when the link will be operative for delivery. The lack of a date related to the link has increased uncertainty related to EU ETS forward contracts. The decision to delay issuing Phase 2 EUAs can be viewed as an effort to strongly encourage the European Commission to act in the determination of a specific date for the ITL/CITL link.

To cover the possibility that the link will not be operative in time for the December 2008 expiration NYMEX has included a delivery extension procedure which is included in the NYMEX CER futures Contract as well. Under the revised EUA and CER delivery process detailed below, termination of trading would take place on the second to last business day of the month preceding the delivery month (e.g. December 2008) if the ITL and the CITL had not been linked as of an applicable contract month termination date, NYMEX would implement the following procedures.

The NYMEX Clearing Members representing the ultimate buyers and sellers would not file notice of intentions to accept and would not file the delivery notices until notified by the NYMEX Clearinghouse. The NYMEX Clearinghouse would not request delivery notices and provide the match information until NYMEX confirms that the link between the ITL and the CITL becomes operational thus allowing standard delivery to occur. An Exchange notice would be issued stating the revised dates for notice filings, notice day, and delivery. As a note, although trading would terminate, this proposal would nonetheless allow individually negotiated exchange of futures (EFP) and Exchange of Futures for Swaps (EFS) transactions to be submitted up to and until the revised deadline on the business day following the Exchange Notice. Thus, EFP and EFS transactions would enable market participants to close positions following the termination of trading and during the period before ITL/CITL linkage. Please note that consistent with other NYMEX contracts, EFP and EFS transactions executed after expiration cannot establish a new position for both buyer and seller. Thus the result of EFP and EFS transactions will serve to either reduce the total open delivery commitment (offset for both buyer and seller) or result in no change to the total delivery commitment (offset for one party, new position for other).

During the intervening time until the link between the ITL and CITL becomes operational, the NYMEX Clearinghouse would continue to operate daily variation margin processes to ensure the integrity of clearinghouse financial risk management. During this period, variation margin would be based on price information obtained by the NYMEX staff from OTC brokers and other commercial sources.

Following confirmation that the ITL and CITL link was operational, the NYMEX Clearinghouse will require delivery notices, conduct the delivery match, and provide the delivery notices to the respective Clearing Members. Following the conveyance of the notices, the seller will be required to deliver EUAs to the buyer ten (10) NYMEX business days from the date that the ITL/CITL link had become operational as stated by NYMEX notice