Proposed Rule-Making in Energy Markets

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Overview of the CME Group

Combination is greater than the sum of its parts

A CME/Chicago Board of Trade/NYMEX Company

- CME Group is the largest, most diverse financial exchange in the world for trading futures and options for both individual and institutional traders.
- Comprised of the Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange and COMEX,.
- All four exchanges are individual Designated Contract Markets (DCMs) offering the highest level of regulation for a derivatives platform.
- We offer a diverse and global product mix including leading energy contracts.

Existing NYMEX Limit/Accountability Regime

- Spot Limits- Last 3 Trading Day's
- Exemptions on Spot Limits:
  - Underlying physical/OTC Financial Exposure
  - Not open ended-Specific amounts –Do Not allow size/concentration to cause market disruption
  - 1 year term-participants can apply for adjustments where necessary-NYMEX can revoke when necessary

  - Any One Month & All Month's Combined Position Accountability
    - The Accountability regime allows the Exchange to contact a party who goes over the level, acquire information the trader & the position & potentially direct the party to not increase or decrease the position where necessary.
    - Exceeding an accountability level is not a violation, not obeying a subsequent directive would be.
    - Set at low level to maximize regulatory flexibility.
    - For Example-Crude Oil any one month level is 10,000 contracts.
    - Typically when new front month is established, Open interest futures only is approximately 250k to 300k. Options will add an additional 200k-250k in futures equivalent open interest.

    - Position Accountability Regime has been an Effective Tool
      - CFTC Rule Reviews have recognized effective actions taken by NYMEX.

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CME Group White Paper

- To respond to public perceptions and maintain confidence in the functioning of our markets, CME Group released the White Paper outlining a limit regime that would address concerns, but not impair the effectiveness and efficiency of our markets or drive trading to less transparent venues.
- No empirical evidence to support "Excessive Speculation" as the cause of the rise of energy prices in 2008.
- The Limit Regime would include the following key terms:
  - Spot/any one month & all months limits based on an Exchanges open interest.
  - Exchange administered exemptions including risk management exemptions for Swap Dealers & Index Funds.
  - CFTC would establish a system for reporting of end user OTC positions.
  - After gaining authority to impose aggregate limits, ensuring that on-exchange and OTC positions are combined.
  - Exempt Commercial Markets (ECM's) and Foreign Boards of Trade (FBOT) must have comparable handling.

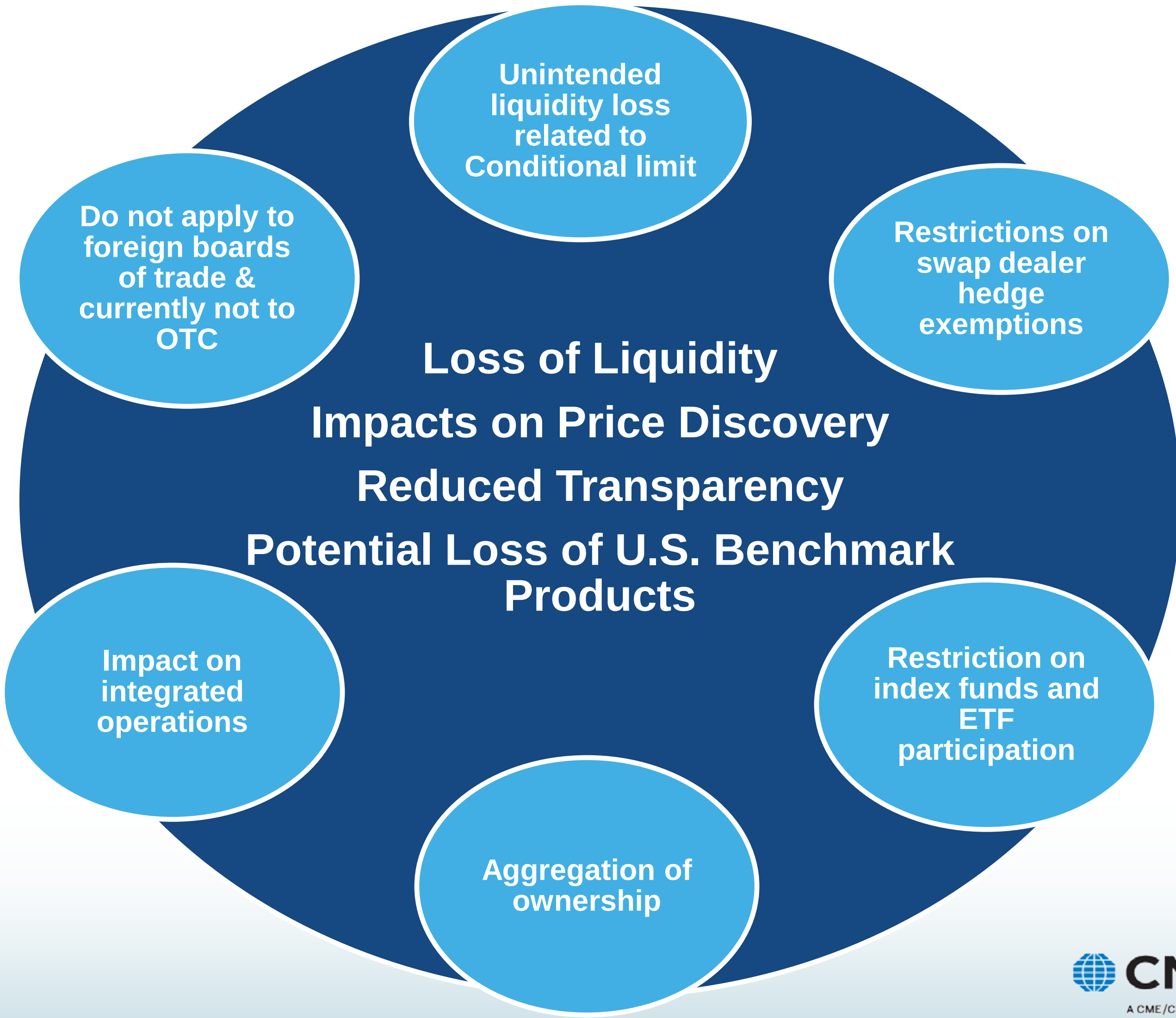
CFTC Notice of Proposed Rule Making Regarding Position Limits in Energy Markets

- This Proposal is limited by the scope of the CFTC's existing jurisdictional authority however, pending legislation in Congress would give the CFTC far broader authority, including the ability to impose position limits on OTC contracts .
- Virtually all over-the-counter or OTC contracts, including Exempt Commercial Market (ECM) contracts that are not currently designated by the CFTC as Significant Price Discovery Contracts (SPDC's) would be excluded.
- Foreign Boards of Trade fall outside the scope of the rule making. However they would have "comparable limits" per current "No Action" regime if it is linked to, or settled upon, a CFTC-regulated contract – For Example, ICE Europe Brent and Gasoil NOT covered.
- Federal all-months-combined and single-month speculative position limits using a formula based on open interest .
- Spot month limit could be no greater than 25% of the deliverable supply at the delivery point for physically delivered futures contracts (same as today).
- The CFTC Proposal defines four "Referenced Markets" subject to position limits: Crude Oil, Heating Oil, RBOB & Natural Gas.
- Within each Referenced Market, their Proposal then establishes three classes of contracts: physically & financially settled on a designated contract market (DCM), and SPDCs traded on ECMs.
- An exchange would monitor its markets for position limit compliance within a particular class & CFTC would monitor aggregate compliance with the limits across classes and across reporting markets.
- Entities (such as mutual funds, commodity pool operators (CPOs) and commodity trading advisors (CTAs)) and futures commission merchants (FCMs) will not be permitted to disaggregate positions pursuant to the long-established independent account controller framework established in part 150 of the CFTC's regulations for agricultural commodities.

CFTC Notice of Proposed Rule Making Regarding Position Limits in Energy Markets (con't)

- Exemptions would continue to be available for bona fide commercial hedgers with physical exposure.
- Swaps dealers would no longer be eligible under that traditional exemption but could qualify under a newly created financial "risk management" exemption.
- With limited exception, market participants who hold positions pursuant to a hedge exemption are precluded from holding any speculative positions.
- A commercial participant has no restriction per se as to the size of the exemption; however, any entity that receives a hedge exemption on a single-month or all-months basis in excess of two times the position limit would be prohibited from holding any open positions as a swap dealer.
- On the other hand, swap dealers operating under the exemption are limited to two times the position limit (on a single-month or all-months-combined basis).
- Exemptions for swap dealers are not permitted in the spot month.
- The Proposal would also establish a "Conditional Limit" that would allow a trader to hold positions in a cash-settled spot-month class of contracts that is five times the default spot-month limit (for that cash-settled contract) upon satisfying the following conditions:
  - The trader does not hold a position in any physically-delivered referenced energy contract to which its cash-settled positions are linked in the spot month
  - A trader would need to file certain data with the exchange during the expiration or spot month period

The proposed rules would likely shift trading activity away from the regulated futures markets



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