December 17, 2010

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Notice and Request for Comment: Public Input for the Study Regarding the Oversight of Existing and Prospective Carbon Markets

Dear Mr. Stawick:

Green Exchange LLC (GreenX) is pleased to respond to the US Commodity Futures Trading Commission's (CFTC) request for comment on the carbon market study issued pursuant to Section 750 of the Dodd-Frank Act. [1]

GreenX was created to offer the carbon trading community a global solution for managing risk in environmental commodities. GreenX, formed by a consortium of leading banks, brokers, trading firms and CME Group, parent of Chicago Mercantile Exchange (CME) and New York Mercantile Exchange (NYMEX), intends to launch an exchange solution for global environmental commodity futures and options products. On July 22, 2010, the CFTC approved GreenX as a designated contract market (DCM). In September 2010, GreenX filed an application with the UK Financial Services Authority (FSA) to become a Recognised Overseas Investment Exchange and also is in the process of preparing and filing similar requests for recognition in other EU member state jurisdictions.

GreenX products, including futures and options contracts on emission allowances and credits for Greenhouse Gases, NO_X, and SO_2, currently are listed for trading on NYMEX and cleared through CME Clearing, a division of CME, but the trading of the GreenX products will be transferred to the GreenX on trade date January 24, 2011. Following the transfer of GreenX products from NYMEX to GreenX, GreenX anticipates it will launch additional products that focus on the risk management needs of participants in evolving regional, national and international environmental markets, including the U.S. compliance market.

[1] Public Input for the Study Regarding the Oversight of Existing and Prospective Carbon Markets, 75 Fed. Reg. 72816 (November 26, 2010).

GreenX staff and its partners have extensive experience in and knowledge regarding environmental markets throughout the world.

Responses to the US Commodity Futures Trading Commission's Questions

In summary, in GreenX's opinion, carbon as a commodity should be viewed as other regulated commodities, and regulated as such. The interaction between carbon and other energy commodities will be immediate and dynamic, where emitters seeking to hedge their future compliance risk will purchase greenhouse gas allowances alongside their fuel purchases. As such, carbon can be seen as one additional component in the energy commodity space, and will, in all likelihood, be traded in the same manner. The CFTC already has significant experience with regulating trading of these types of derivatives products, and that experience should be utilized in the regulation of the carbon markets. Below we specifically address each question posed in the Notice for Request and Comment.

1. Section 750 of the Dodd-Frank indicates that the goals of regulatory oversight should be to ensure that carbon markets are efficient, secure and transparent. What other regulatory objectives, if any, should guide the oversight of such markets?

   The regulatory objectives should be the same as those for all other commodity markets, including security, transparency, efficiency, as well as product and market integrity. No other regulatory objectives are required to ensure a properly operating carbon market.

2. What are the basic economic features that might be incorporated in a carbon market that would have an effect on market oversight provisions--e.g., the basic characteristics of allowances, frequency of allocations and compliance obligations, banking of allowances, borrowing of allowances, cost containment mechanisms, etc.?

   The above features are carbon market design elements relating to the underlying environmental allowances/credits, which generally are addressed in the legislation/rule making that creates the underlying environmental product markets. At heart, the goal of these markets is to reduce pollution and mitigate climate change. Greenhouse gas trading programs can employ flexible market mechanisms, such as banking and offsets, as means to assist regulated entities in achieving compliance at the lowest possible cost.

   One important distinction of carbon allowances, which should not impact the CFTC's regulation of the derivatives markets, is that they are distributed and transferred by governmental agencies or their agents via electronic registries. Therefore, the relevant governmental entity controls supply and is able to monitor movement of the products, GreenX

which minimizes the risk of market manipulation of the physical markets.

While the mechanisms listed in Question 2 may be unique to carbon markets, GreenX asserts that they are not significantly dissimilar to distinctions that exist in other commodities markets, such as coal, where long-term supply contracts often include distinct bespoke specifications that may make it difficult to standardize for clearing purposes. Carbon offset agreements may have similar issues with standardization for clearing purposes. Another example is electricity, where transmission entities enforce supply and other requirements. These requirements may affect how the product is transferred, but the CFTC has not made any distinctions in the treatment of electricity trading markets, beyond those that may apply generally to energy products.

GreenX contends that these underlying carbon market design elements generally are not significantly different from varying market elements present in existing energy commodity markets and thus should not require distinctions in the regulatory oversight provisions of the derivatives and secondary markets from those that apply to energy products.

3. Do the regulatory objectives differ with respect to the oversight of spot market trading of carbon allowances compared to the oversight of derivatives market trading in these instruments? If so, explain further.

The regulatory objectives should be the same for the oversight of the spot market trading of carbon allowances as for other commodities, since the carbon allowances generally are fungible. Likewise, GreenX believes that the regulatory objectives should be the same for derivatives market trading of carbon allowances as for derivatives of other commodities. Therefore, any differences in the regulatory objectives with respect to the oversight of other commodity spot markets compared to the oversight of other commodity derivatives markets also should apply to the environmental markets.

As an example, GreenX views carbon products to be similar to energy products. There may be different categories of commodities based on differences in contract specification, but all such contracts for future delivery have been consistently treated as commodities subject to the jurisdiction of the CFTC. Likewise, although there may be different categories of carbon product, all should be consistently treated. In fact, due to the delivery mechanisms and design of these products, the spot market is more transparent than most other commodity markets. For example, all SO2 allowances are listed online in the US Environmental Protection Agency SO2 Registry and all accounts can be viewed by anyone. Therefore, the supply and control of the products in the physical market already *have very high transparency standards.*

4. Are additional statutory provisions necessary to achieve the desired regulatory objectives for carbon markets beyond those provided in the Commodity Exchange Act, as amended by the Dodd-Frank Act, or other federal acts that may be applicable to the trading of carbon allowances?

   The provisions that apply to other regulated commodities also should be used to regulate carbon markets. The Commodity Exchange Act, as amended by the Dodd-Frank Act, provides for enhanced reporting requirements of over-the-counter (OTC) swap products, central clearing of "clearable" OTC swap products, and DCM or Swap Execution Facility (SEF) trading of products that are clearable. These and other provisions ensure that the regulatory objectives referenced in Question 1 will be achieved. Moreover, given that carbon market participants are generally active in other commodity markets such as energy markets, and that there are correlations between carbon and other commodities, it is critical that there be full alignment of regulatory approaches for carbon and other commodity markets.

5. What regulatory methods or tools would be appropriate to achieve the desired regulatory objectives?

   Existing methods and tools at the disposal of the CFTC also are appropriate for greenhouse gas markets, and any methods or tools developed pursuant to the Dodd-Frank Act also should apply to the carbon markets, including those that would apply to applicable swaps and clearing requirements.

6. What types of data or information should be required of market participants in order to allow adequate oversight of a carbon market? Should reporting requirements differ for separate types of market participants?

   Existing reporting requirements should apply to environmental markets. GreenX does not believe that the differentiation of market participants for the purpose of reporting would be necessary or beneficial. As stated above, carbon market participants generally are or will be participants in other commodity markets. Since there are correlations between carbon and other commodities, it is critical that there be full alignment of regulatory approaches for carbon and other commodity markets to avoid costly impediments to participation in carbon markets.

7. To what extent is it desirable or not desirable to have a unified regulatory oversight program that would oversee activity in both the secondary carbon market and in the derivatives markets?

GreenX considers it highly desirable to have a unified regulatory oversight program. A unified regulatory oversight program will permit economies of scale for the CFTC in its oversight of derivatives markets and provide regulatory clarity to regulated entities and market participants, which would reduce operating costs for all parties. Having differing regulatory schemes and regulators for OTC and secondary markets likely will result in significant additional compliance costs for participants.

8. To what extent, if any, and how should a U.S. regulatory program interact with the regulatory programs of carbon markets in foreign jurisdictions?

GreenX finds it highly desirable that coordination occurs through existing channels as well as international cooperative forums such as the International Carbon Action Partnership.

9. What has been the experience of state regulators in overseeing trading in the regional carbon markets and how would that instruct the design of a federal oversight program?

While there has not yet been significant volume in the regional carbon programs, the applicable regulators have gained significant experience through the process in market design and oversight. GreenX contends that the CFTC has and may exercise authority to regulate these existing markets and reasserts that any new carbon markets would be well regulated under the same standards as these existing programs and other secondary commodities markets.

10. Based on trading experiences in SO2 and NOX emission allowances what regulatory oversight would market participants and market operators, respectively, recommend?

Environmental products should be treated with the same regulatory oversight as other commodities.

There is no material difference between the SO_2 and NOx *emission allowance markets and greenhouse gas allowance markets. The CFTC already regulates environmental futures and options trading and has done so for a number of years. We believe that the CFTC has the statutory authority to regulate carbon markets and is the appropriate regulator for the environmental markets.*

GreenX

11. Who are the primary participants in the current primary environmental markets? Who are the primary participants in the current secondary allowance and derivatives environmental markets?

In GreenX's opinion, the current market participants of both the primary and secondary markets are power companies, industrial companies, large manufacturers, oil- and gas-producers, project developers, energy trading companies and banks acting as intermediaries.

Thank you for the opportunity to provide these comments to the CFTC. GreenX would be pleased to provide additional information to the CFTC. Should the Commission have any questions regarding GreenX's response comments, please contact Kari S. Larsen, Chief Counsel/Chief Regulatory Counsel, at 212-299-2510 or Kari.Larsen@theGreenX.com.

Sincerely,

Thomas K. Lewis, Jr.
Chief Executive Officer