June 3, 2011

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: (RIN number 3038–AD09) Core Principles and Other Requirements for Designated Contract Markets

Dear Mr. Stawick:

Green Exchange LLC ("GreenX") welcomes the opportunity to supplement its initial comment letters[1] on the Commission's proposed rule release regarding core principles and other requirements for designated contract markets (the "Release"), as supplemented by the Commission's publication of the "off-market volume data" (the "Supplemental Data") regarding the percentage of off-exchange transactions in 570 listed designated contract market ("DCM") contracts.[2] GreenX was approved as a DCM by the Commission on July 22, 2010 and listed for trading futures and options contracts on emissions allowances and credits beginning on January 24, 2011. GreenX believes it can offer a unique perspective because of its relative infancy as an exchange and because its contracts are in new and developing markets.

This comment letter addresses GreenX's continuing concerns about the Commission's analysis of the Supplemental Data that is the basis for the "85% Requirement" set forth in Proposed Rule 38.502(a) under Core Principle 9 for DCMs.[3] Specifically, GreenX believes that (i) the three-month time period for which the Supplemental Data was selected is too short and fails to take into account seasonality and other factors, and (ii) the Supplemental Data does not take into

[1] Green Exchange LLC Comment No. 27924 (February 22, 2011), available at: http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=27924 ("February Comment Letter") and Green Exchange LLC Comment No. 42239 (April 18, 2011), available at: http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=42239 ("April Comment Letter").

[2] Core Principles and Other Requirements for Designated Contract Markets, 75 Fed. Reg. 80572 (December 22, 2010); Core Principles and Other Requirements for Designated Contract Markets, 76 Fed. Reg. 14825 (March 18, 2011); Reopening and Extension of Comment Periods for Rulemakings Implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act, 76 Fed. Reg. 25274 (May 4, 2011).

[3] Under proposed regulation §38.502, for each newly listed contract, a DCM would be required to determine the percentage of the total volume, in all contract months combined, that is attributable to centralized market trading for a 12 month period commencing one year following the date of a contract's initial listing on the DCM, and for each 12 month period ending on the anniversary of such contract's listing thereafter. Unless an average of 85% or greater of the total volume of such contract is traded on the DCM's centralized market, as calculated over the 12-month period (the "85% Requirement"), the DCM would be required to delist or liquidate the contract.

account the length of time each contract has been listed, or other contract-specific factors, such as whether it was listed on a newly formed exchange.

In the Release, the Commission stated that it selected 570 contracts on eight DCMs (CME, CBOT, NYMEX, COMEX, ICEUS, One Chicago, Kansas City Board of Trade and the Minneapolis Grain Exchange) covering 10 asset classes (agricultural, alternative markets (*i.e.*, environmental products), currency, energy, financial, index, interest rates, metal, real estate and weather). For each of these contracts, the Commission analyzed data for the three-month period May 2010 through July 2010.

In the February Comment Letter, we provided data for GreenX contracts to support our position that application of the 85% Requirement for all products on all markets will prevent the development of new products and exchanges. GreenX cited its own contract data and the Interagency Working Group for the Study on Oversight of Carbon Markets' Report on the Oversight of Existing and Prospective Carbon Markets to illustrate the point that it generally takes several years or more to move trading from bi-lateral off-exchange markets towards centralized market mechanisms, particularly for products in less mature markets. We provided the following chart setting forth for GreenX contracts the product volume traded in the centralized market (*i.e.*, through Globex) compared to off-exchange volume since the GreenX environmental products first were listed.[4]

Trading Year	Globex Volume	Off-Exchange Volume
2008	7%	93%
2009	3%	97%
2010	6%	94%
2011	57%	43%

GreenX particularly noted:

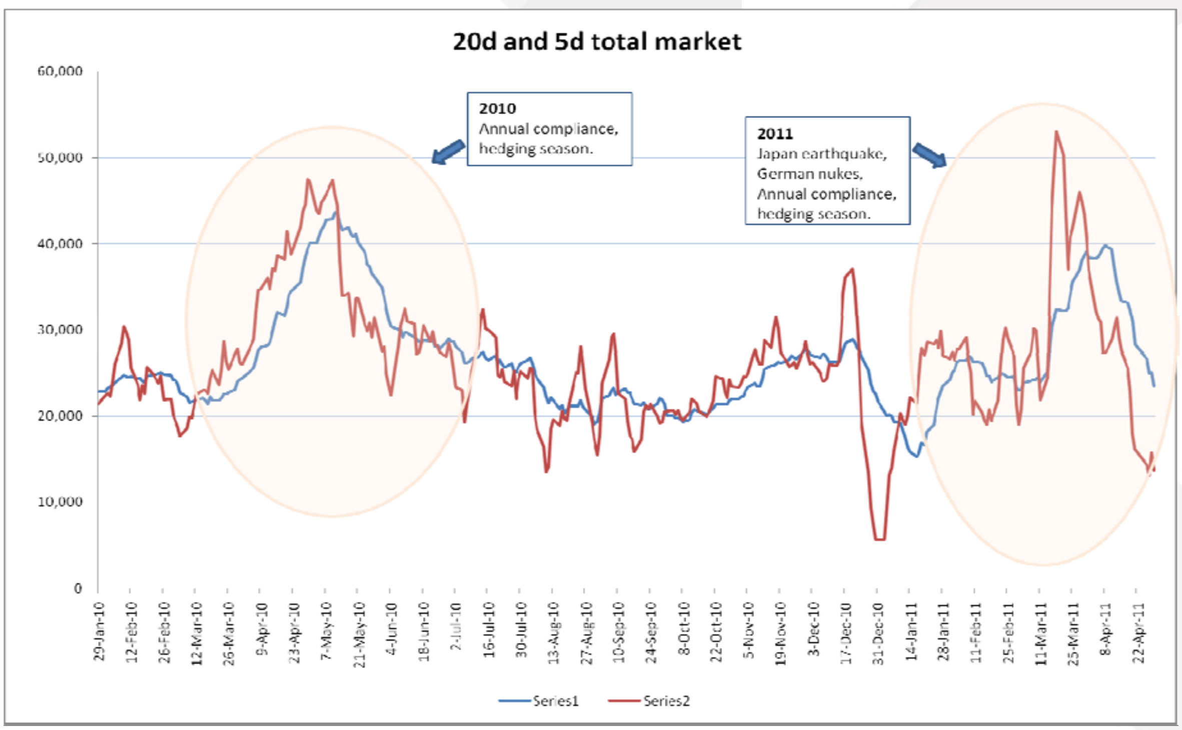
> [U]sing GreenX's own data as an example, from the date that the GreenX products migrated to the GreenX DCM, January 24, 2011, through February 17, 2011, GreenX has achieved an average of 68% total volume traded on the DCM's centralized market, and an average of 32% traded off-exchange. In contrast, from February 17, 2010 through February 17, 2011, these contracts achieved an average of 21% total volume traded on the DCM's centralized market, and an average of 79% traded off-exchange. Even though GreenX's centralized market volume is steadily increasing, and increasingly so in more recent months, which is the stated goal of Core Principle 9, GreenX would fail the 85% requirement, and

[4] Prior to January 24, 2010, the GreenX environmental contracts were listed on NYMEX.

would fail to be eligible for an exemption as the proposal is currently drafted, particularly if GreenX had to include the months where the environmental contracts were not listed on its own DCM.

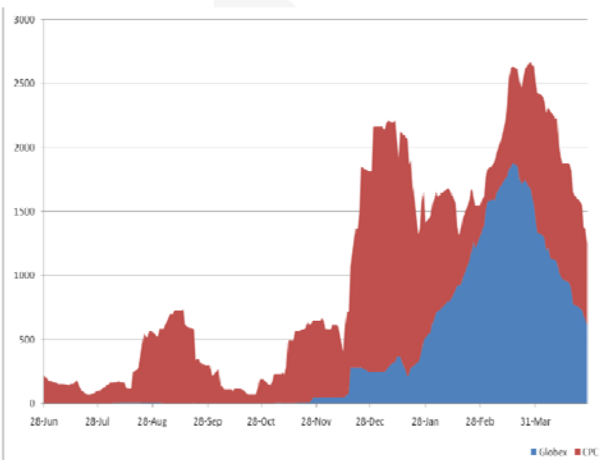
During the initial three months following the migration of our products from NYMEX to GreenX (January 2011 to March 2011), volume in the centralized market steadily increased, with record trading volume in March. Beginning in April, however, GreenX found that overall volumes dropped and that the percentage of trading in the centralized market dropped significantly. For the time period from April 1 through May 24, 2011, 44% of GreenX's total volume traded in the centralized market; down from approximately 70% in March. GreenX believes the overall drop in volume was due to various factors, including that (1) volumes in carbon markets are seasonal – the annual compliance cycle for carbon offsets ends in March, which coincides with "hedging season" for utilities and results in a lull in the second quarter, and (2) additional public holidays and the royal wedding in the United Kingdom, resulting in many traders taking vacation during April. The overall volume drop leads to less liquidity in the market, which tends to lead traders to move towards more off-exchange trading.

The seasonality in the carbon market is illustrated in the following table, which shows an increase in global carbon volume in all markets leading up to March followed by a decline in April.

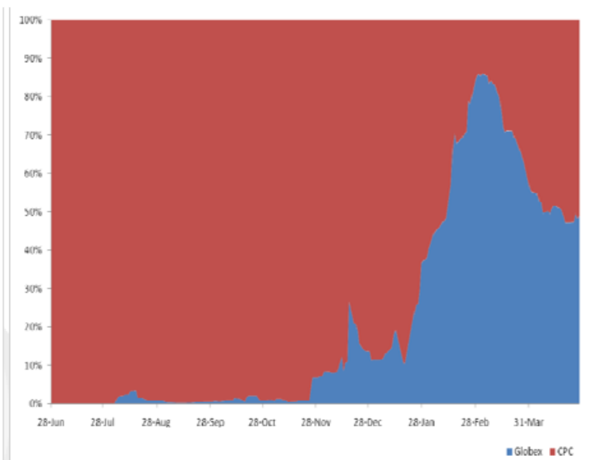


The change in the trading volume and the percentage trading in the centralized market for GreenX contracts only since January 2011 is illustrated in the following tables:

Trading Volume



Percentage of Centralized Market Trading



Comparing GreenX's overall trading volume and percentage of centralized market trading data for just a three-month period (*i.e.*, January-March 2011), to GreenX's data for a longer time period (*i.e.*, January-May 2011) yields vastly different results for centralized market volume. Likewise, it is possible that comparing trading volume and percentage of centralized market trading data for the 570 contracts contained in the Supplemental Data over a three-month period, to such data over a longer time period (*i.e.*, one year or more) also would yield vastly different results for centralized market volume. Given seasonality and other factors, this raises the question of whether the Commission would have reached the same conclusions that led to the proposed 85% Requirement if they had analyzed the contracts in the Supplemental Data over a longer period of time, or over a different three month period.

While GreenX opposes the 85% Requirement for a variety of reasons discussed in the February Comment Letter and the April Comment Letter, GreenX believes that the Commission's review of contract data was conducted over an insufficient period of time to conduct a complete analysis. Additionally, as GreenX noted in its April Comment Letter, the Commission's review of contract data should take into consideration contract time to market, length of listing, age of DCM and other varying circumstances. The Commission should not impose the 85% Requirement, or any similar requirement, on all contracts on all DCMs without a more thorough and complete analysis of the relevant data taking into account factors stated herein and in the comment letters submitted by other DCMs.

GreenX is not aware of any commenter specifically supporting the 85% Requirement, and many of the commenters share GreenX's concerns with the 85% Requirement. As GreenX has illustrated in detail in its February Comment Letter and April Comment Letter, the 85% Requirement likely will result in fewer DCMs, fewer contracts listed on DCMs, more uncleared OTC contracts, a loss of transparency and a loss of price discovery. This result is contrary to the goals of the Dodd-Frank Act to require or incentivize central clearing and trading on regulated platforms. Although the Release provides that a contract that fails to meet the 85% Requirement may be moved to a swap execution facility ("SEF"), the benefit of such contract trading on a SEF instead of a DCM is not clear. In the case of environmental contacts, GreenX believes that many participants are end users and would be exempt from the clearing requirement if the contracts were traded on a SEF, or that GreenX contracts may constitute forward contracts not subject to any clearing or trading requirements and thus could all move to an unregulated opaque environment. Therefore, the delisting of these contracts would simply move them away from centralized clearing, which directly conflicts with the stated purpose of the Dodd-Frank Act. In many instances, it is most likely that if a contract fails to meet the 85% Requirement, trading in that contract would be moved to a foreign market, or to the OTC market, in each case away from Commission Regulation and mandatory clearing. Rather than pushing contracts from away from a DCM and mandatory clearing, the Commission should encourage the migration of contracts to a DCM.

In the February Comment Letter, GreenX recommended that the Commission take a more pragmatic approach to the centralized market trading requirement. GreenX believes that hard percentages and inflexible rules will not work in developing market and will be unduly burdensome for newer DCMs, and that the Commission should instead have the flexibility to address its individual liquidity or transparency concerns for each market. Although we remain adamantly opposed to the 85% Requirement, GreenX offers the following suggestions to the Commission when considering the final rules:

- The goal of any centralized market trading should be to encourage innovation, product development and competition to ensure that more contracts are traded on DCMs, both large and small, and subject to mandatory clearing. Trading these contracts on a DCM ultimately will promote price discovery.

- Any competitive trading requirement must be carefully tailored to take into account the length of time necessary for competitive trading to develop, consider seasonality, and other factors specific to the contract or DCM. If, for example, the Commission determines to retain the 85% Requirement, it should not be applied in all circumstances across all markets and products. The Rule should include more flexible principles for new exchanges and new products.

- An exemption to the competitive trading requirement should not be conditioned on meeting an arbitrary minimum competitive trading threshold and should not be limited to only one year. The Commission should have the flexibility to consider any and all factors (*e.g.*, seasonality, maturity of the market, etc.) relating to the contract.

- Any competitive trading requirement should reward DCMs that demonstrate a commitment to promoting increased competitive trading (*e.g.*, adoption of any liquidity programs for the contract to encourage competitive trading). For example, additional time should be given for compliance with a competitive trading requirement if a DCM adopts a liquidity program.

- Recordkeeping and reporting burdens associated with DCM compliance with any competitive trading requirement should be minimized. For example, any reports should be due at the end of a calendar quarter or month, rather on the anniversary of listing of the contract.

Thank you for the opportunity to provide these comments to the Commission. Should the Commission have any questions regarding GreenX's comments, please contact me at 212-299-2510 or Kari.Larsen@theGreenX.com.

Sincerely,

Kari S. Larsen
General Counsel, Chief Regulatory Officer