



Rule Self-Certification

April 27, 2020

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: SMFE 2020-001 - Self-Certification Pursuant to CFTC Regulation 40.6 – Amendments to Exchange Rule 904

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6 of the Commission’s regulations thereunder, Small Exchange, Inc. (“SMFE” or the “Exchange”) submits this self-certification as written notice that the Exchange amending Exchange Rule 904, Settlement, concerning the settlement of Exchange products, as set forth on the attached Exhibit A (marked and clean versions, respectively), which is attached hereto and incorporated herein by reference (“Rule Change”). The Rule Change is effective May 11, 2020.

The purpose of the Rule Change is to codify the settlement processes that the Exchange will follow in connection with the settlement of its products. The Rule Change covers:

- (a) An overview of the Exchange’s settlement process
- (b) Definitions of key terms of front and back month
- (c) Describes the Exchange’s process for the daily settlement of front month Contracts
- (d) Describes the Exchange’s process for the daily settlement of back month Contracts
- (e) Describes the Exchange’s process for the monthly final settlement of Contracts on the day of expiration

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act and identified that the amendments may have some bearing on the following Core Principles:

- Core Principle 2, Compliance with Rules: The Exchange shall continue their normal practice to establish, monitor, and enforce compliance with the rules applicable to the trading of Exchange Contracts.
- Core Principle 3, Contracts Not Readily Subject to Manipulation: The Exchange certifies that the indices underlying the Exchange’s Contracts are robust and, as more fully described herein, not readily subject to manipulation. The calculation

methodology used for Exchange's indices has been created in accordance with IOSCO principles, and includes mechanisms that will reduce the impact of potentially unrepresentative data in the creation and dissemination of such indices.

- Core Principle 4, Prevention of Market Disruption: The Exchange has the capacity to detect abnormal price movements and unusual trading volumes, including such abnormal price movements or trading volumes as may be associated with bilaterally negotiated trades, and holds the authority to take remedial action as appropriate. Further, the Rule Change will not impact the Exchange's ability to perform its trade practice and market surveillance obligations under the CEA, CFTC Regulations and its Rules.
- Core Principle 7, Availability of General Information: The terms of the Program have been disseminated on the Exchange's website (www.thesmallexchange.com). For further inquiry, Market Participants may contact the Exchange for more information regarding the Rule Change. Daily publication of trading information trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.
- Core Principle 9, Execution of Transactions: The amendments will further enable the Exchange to continue their current practice of providing a competitive, open, and efficient market mechanism for executing transactions.
- Core Principle 12, Protection of Market Participants: The Rule Change is subject to the Rules of the Exchange, which include prohibitions against abusive practices, including fraudulent, anti-competitive or unfair activity.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange certifies that the amendments comply with the Act, including regulations under the Act. The Exchange is not aware of any opposing views. The Exchange also certifies that this submission has been posted on the Exchange's website at www.thesmallexchange.com.

If you require any additional information regarding this submission, please contact the undersigned at (312) 761-1660.

Regards,

Peter D. Santori
Peter D. Santori (Apr 27, 2020)

Peter D. Santori
Chief Regulatory Officer

Enclosed: Exhibit A

Exhibit A

Revisions to Small Exchange Rule 904

(additions underlined; deletions ~~overstruck~~)

Rule 904. ~~Settlement~~ Prices

- ~~(a)~~ (a) Overview of settlement process. The Exchange, in conjunction with the DCO, will determine the settlement pricevalue for Contracts. For each Contract, the Exchange shall publish a daily settlement pricevalue and information regarding volume, open interest and opening and closing ranges. ~~a final settlement value on the Contract's day of expiration.~~ The daily settlement of each Contract occurs after the Contract closes, unless otherwise stated by the Exchange. Any settlement pricevalue shall be determined by the Exchange in accordance with the DCO Rules~~DCO's rules~~. Notwithstanding the foregoing, the DCO may modify settlement pricesvalues in its discretion in accordance with DCO Rules.

~~The daily settlement price of Exchangeits rules. All Contracts will be determined by a Volume Weighted Average Price, ("VWAP"), of the Futures Trades executed in the last minute of the trading day. The VWAP will be rounded to the nearest .01. In the event there are no Transactions in that timeframe, the average of the bid and offer prices at the close of trading will be used to determine the daily settlement price, provided that such bid and offer prices are within acceptable thresholds, as determined by the Exchange. In the event there is no bid and offer prices or if such bid and offer prices are outside acceptable thresholds, the Exchange reserves the right to use the cash index values to imply settlement. The Exchange will make reasonable efforts to honor relevant resting bids and offers for the purposes of this determination, however, all VWAP trades will take precedenceare cash settled at expiration.~~

~~In the event the daily settlement price cannot be determined or if Expiration for each Contract is the third Friday of the month at 15:00:00 CT, unless such day falls on a day on which the Exchange, is not open; in its sole discretion, determines that anomalous activity yields results that are not representative of the fair value which case the day of expiration is the business day preceding the third Friday of the month. Final settlement will occur on the same day as the expiration of the Contract and payments, if any, will be based on the final settlement value determined by the Exchange Contract, the~~

- (b) Definitions of front month and back month. The front month is the Contract nearest to expiration for a particular Exchange mayproduct. The front month is the anchor leg for settlements. When the front month expires, the nearest Contract to expiration becomes the new front month. All other monthly Contracts not the front month are the back month.

(c) Daily settlement of front month. If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value for the front month will be calculated using the volume weighted average price ("VWAP") of such Trades, rounded to the nearest tradable tick, or \$0.01. If there are no Trades during this time, the Exchange will use the following methodology to determine an alternative the daily settlement price-value for such Contracts:

Cash Index Value + (Previous Day's Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration

(d) Daily settlement of back month. If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value will be calculated using the VWAP of such Trades rounded to the nearest tradable tick, or \$0.01. If there are no trades during this time, the settlement value of such back month Contract will be calculated using calendar spreads. In the absence of relevant calendar spread trades during the trading day, the settlement value for such back month Contract will be the front month settlement value for such product plus the previous day's front month minus back month spread value.

(e) Monthly final settlement. On the day of expiration, the final expiration settlement value of the Contract is determined using the modified average cash value of the respective cash index, starting at 14:58:30 CT to 14:59:59 CT, inclusive. The value of the cash index will be recorded for each second of this time frame. In the event the cash index value does not change during the one-second aggregation period, the value for the prior second is carried forward to ensure this is always comprised of 90 values; further, in the event the cash index value changes multiple times during such one-second aggregation period, the last value is used. The average of these 90 values is the final expiration settlement value for the product. The calculation of the final expiration settlement value of each Contract is performed by the Exchange's Index Calculation Agent, and validated by the Exchange.

Clean Version

Rule 904. Settlement

- (a) Overview of settlement process. The Exchange, in conjunction with the DCO, will determine the settlement value for Contracts. For each Contract, the Exchange shall publish a daily settlement value and a final settlement value on the Contract's day of expiration. The daily settlement of each Contract occurs after the Contract closes, unless otherwise stated by the Exchange. Any settlement value shall be determined by the Exchange in accordance with the DCO's rules. Notwithstanding the foregoing, the DCO may modify settlement values in its discretion in accordance with its rules. All Contracts are cash settled at expiration.

Expiration for each Contract is the third Friday of the month at 15:00:00 CT, unless such day falls on a day on which the Exchange is not open; in which case the day of expiration is the business day preceding the third Friday of the month. Final settlement will occur on the same day as the expiration of the Contract and payments, if any, will be based on the final settlement value determined by the Exchange.

- (b) Definitions of front month and back month. The front month is the Contract nearest to expiration for a particular Exchange product. The front month is the anchor leg for settlements. When the front month expires, the nearest Contract to expiration becomes the new front month. All other monthly Contracts not the front month are the back month.
- (c) Daily settlement of front month. If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value for the front month will be calculated using the volume weighted average price ("VWAP") of such Trades, rounded to the nearest tradable tick, or \$0.01. If there are no Trades during this time, the Exchange will use the following methodology to determine the daily settlement value for such Contracts:

Cash Index Value + (Previous Day's Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration

- (d) Daily settlement of back month. If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value will be calculated using the VWAP of such Trades rounded to the nearest tradable tick, or \$0.01. If there are no trades during this time, the settlement value of such back month Contract will be calculated using calendar spreads. In the absence of relevant calendar spread trades during the trading day, the settlement value for such back month Contract will be the front month settlement value for such product plus the previous day's front month minus back month spread value.
- (e) Monthly final settlement. On the day of expiration, the final expiration settlement value of the Contract is determined using the modified average cash value of the respective cash index, starting at 14:58:30 CT to 14:59:59 CT, inclusive. The value of the cash index will be recorded for each second of this time frame. In the event the cash index value does not change during the one-second aggregation period, the value for the prior second is carried forward to ensure this is always comprised of 90 values; further, in the event the cash index value changes multiple times during such one-second aggregation period, the last value is used. The average of these 90 values is the final expiration settlement value

for the product. The calculation of the final expiration settlement value of each Contract is performed by the Exchange's Index Calculation Agent, and validated by the Exchange.