

July 27, 2022

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

**Re: SMFE 2022-018 - Self-Certification Pursuant to CFTC Regulation 40.6 – Amendments to the Daily Settlement Procedure - Exchange Rules 30004 and 38004**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6, Small Exchange, Inc. (“Small Exchange”, “SMFE” or “Exchange”) hereby submits for self-certification amendments to the following Exchange Rules as set forth on the attached Exhibit A, which is attached hereto and incorporated herein by reference (“Rule Change”):

1. Rule 30004 (adding new section A., and making corresponding amendments to following sections); and
2. Rule 38004 (adding new section A., and making corresponding amendments to following sections);

The Rule Change is effective August 10, 2022. The purpose of the Rule Change is to revise the daily settlement processes that the Exchange will follow in connection with the settlement of Contracts based on the Small Stocks 75 Index and the Small Cannabis Index, respectively.

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](http://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](http://www.thesmallexchange.com).

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

Regards,

/s/ Peter D. Santori  
Chief Regulatory Officer and  
Head of Legal



Enclosed: Exhibit A

Exhibit A

(additions underlined; deletions ~~overstruck~~)

**Chapter 30: Small Stocks 75 Index Futures Contracts**

\* \* \*

30004. Settlement Procedures  
Contracts will be cash settled.

30004.A. Daily Settlement of the Front Month

Daily Settlement of the Front Month shall follow the process set forth in Rule 904, except in the instance when there is no Back Month. In such a case, if any Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement 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 for such Contracts:

$$\text{Settlement} = I + \left( \frac{d}{365} \times r \times I \right)$$

Where:

I = index value

d = days to expiration

r = interest rate (12-Month LIBOR)

30004.AB. Final Settlement Value

On the day of expiration, the Final Settlement of the Contract will be determined pursuant to the process set forth in Exchange Rule 904.

30004.BC. Final Settlement

Clearing Members holding open positions in an expiring Contract at its termination of trading shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on such expiring Contract's Final Settlement.

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## Chapter 38: Small Cannabis Equity Index Futures Contracts

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38004. Settlement Procedures  
Contracts will be cash settled.

### 38004.A. Daily Settlement of the Front Month

Daily Settlement of the Front Month shall follow the process set forth in Rule 904, except in the instance when there is no Back Month. In such a case, if any Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement 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 for such Contracts:

$$\underline{\text{Settlement}} = I + \left( \frac{d}{365} \times r \times I \right)$$

Where:

$I$  = index value

$d$  = days to expiration

$r$  = interest rate (12-Month LIBOR)

### 38004.AB. Final Settlement Value

On the day of expiration, the Final Settlement of the Contract, which is based on an Exchange equity index, will be determined pursuant to the process set forth in Exchange Rule 904.

### 38004.BC. Final Settlement

Clearing Members holding open positions in an expiring Contract at its termination of trading shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on such expiring Contract's Final Settlement.

\* \* \*

Exhibit A

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## Chapter 30: Small Stocks 75 Index Futures Contracts

\* \* \*

30004. Settlement Procedures  
Contracts will be cash settled.

*30004.A. Daily Settlement of the Front Month*

Daily Settlement of the Front Month shall follow the process set forth in Rule 904, except in the instance when there is no Back Month. In such a case, if any Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement 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 for such Contracts:

$$\text{Settlement} = I + \left( \frac{d}{365} \times r \times I \right)$$

Where:

$I$  = index value

$d$  = days to expiration

$r$  = interest rate (12-Month LIBOR)

*30004.B. Final Settlement Value*

On the day of expiration, the Final Settlement of the Contract will be determined pursuant to the process set forth in Exchange Rule 904.

*30004.C. Final Settlement*

Clearing Members holding open positions in an expiring Contract at its termination of trading shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on such expiring Contract's Final Settlement.

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## Chapter 38: Small Cannabis Equity Index Futures Contracts

\* \* \*

38004. Settlement Procedures  
Contracts will be cash settled.

### *38004.A. Daily Settlement of the Front Month*

Daily Settlement of the Front Month shall follow the process set forth in Rule 904, except in the instance when there is no Back Month. In such a case, if any Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement 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 for such Contracts:

$$\text{Settlement} = I + \left( \frac{d}{365} \times r \times I \right)$$

Where:

$I$  = index value

$d$  = days to expiration

$r$  = interest rate (12-Month LIBOR)

### *38004.B. Final Settlement Value*

On the day of expiration, the Final Settlement of the Contract, which is based on an Exchange equity index, will be determined pursuant to the process set forth in Exchange Rule 904.

### *38004.C. Final Settlement*

Clearing Members holding open positions in an expiring Contract at its termination of trading shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on such expiring Contract's Final Settlement.

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