SUBMISSION COVER SHEET

***IMPORTANT*: Check box if Confidential Treatment is requested** ☐

Registered Entity Identifier Code (optional): 22-121 (2 of 2)

Organization: NEX SEF Limited ("NEX SEF")

Filing as a: ☐ **DCM** ☒ **SEF** ☐ **DCO** ☐ **SDR**

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 03/16/22 Filing Description: Initial Listing of the South African Rand (ZAR) and Swedish Krona (SEK) Option Contracts

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

☐	Certification	§ 40.6(a)
☐	Approval	§ 40.5(a)
☐	Notification	§ 40.6(d)
☐	Advance Notice of SIDCO Rule Change	§ 40.10(a)
☐	SIDCO Emergency Rule Change	§ 40.10(h)

Rule Numbers:

New Product **Please note only ONE product per Submission.**

☒	Certification	§ 40.2(a)
☐	Certification Security Futures	§ 41.23(a)
☐	Certification Swap Class	§ 40.2(d)
☐	Approval	§ 40.3(a)
☐	Approval Security Futures	§ 41.23(b)
☐	Novel Derivative Product Notification	§ 40.12(a)
☐	Swap Submission	§ 39.5

Product Terms and Conditions (product related Rules and Rule Amendments)

☐	Certification	§ 40.6(a)
☐	Certification Made Available to Trade Determination	§ 40.6(a)
☐	Certification Security Futures	§ 41.24(a)
☐	Delisting (No Open Interest)	§ 40.6(a)
☐	Approval	§ 40.5(a)
☐	Approval Made Available to Trade Determination	§ 40.5(a)
☐	Approval Security Futures	§ 41.24(c)
☐	Approval Amendments to enumerated agricultural products	§ 40.4(a), § 40.5(a)
☐	"Non-Material Agricultural Rule Change"	§ 40.4(b)(5)
☐	Notification	§ 40.6(d)

Official Name(s) of Product(s) Affected:

Rule Numbers:

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

March 16, 2022

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: CFTC Regulation 40.2(a) Certification. Initial Listing of the South African Rand (ZAR) and Swedish Krona (SEK) Option Contracts.
NEX SEF Submission No. 22-121 (2 of 2)

Dear Mr. Kirkpatrick:

NEX SEF Limited ("NEX SEF") is certifying to the Commodity Futures Trading Commission ("CFTC" or "Commission") the initial listing of the South African Rand (ZAR) and Swedish Krona (SEK) foreign exchange ("FX") option contracts (the "Contracts") for trading effective Thursday, March 17, 2022 for trade date Friday, March 18, 2022, as more specifically described below.

NEX SEF is amending Rule 803 ("Foreign Exchange Options") to provide the specifications of the Contracts (collectively, the "Rule Amendments").

Core Principle Analysis

NEX SEF reviewed the Swap Execution Facility core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that listing the Contracts may have some bearing on the following Core Principles.

- **Compliance with Rules:** Trading in the Contracts will be subject to all NEX SEF Rules, including the rules on trading procedures set forth in Chapter 3 of its rulebook, the prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in Chapter 4 of its rulebook, and the dispute resolution and arbitration procedures of Chapter 5 of its rulebook. As with all products listed for trading on NEX SEF, trading activity in the Contracts will be subject to monitoring and surveillance by NEX SEF's market regulation staff, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- **Contract Not Readily Subject to Manipulation:** The Contracts are not readily subject to manipulation because of the underlying market and reliance on a well administered index. Further analysis of this matter is set forth on Exhibit B attached hereto.

- **Prevention of Market Disruption:** Trading in the Contracts will be subject to the Rules of NEX SEF, which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any contract listed for trading on NEX SEF, trading activity in the Contracts proposed herein will be subject to monitoring and surveillance by NEX SEF's market regulation staff.

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- **<u>Availability of General Information</u>:** NEX SEF will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume and price information for the Contracts. In addition, NEX SEF will advise the marketplace of the launch of the Contracts by issuing notification emails to market participants.

- **<u>Daily Publication of Trading Information</u>:** NEX SEF will publish contract trading volumes and price information daily on its website.

- **<u>Protection of Market Participants</u>:** NEX SEF Rulebook Chapter 4 sets forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in all of the Exchange's competitive trading venues.

- **<u>Disciplinary Procedures</u>:** Chapter 5 of the Rulebook contains provisions that allow NEX SEF to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contracts will be subject to Chapter 5, and the NEX SEF market regulation staff has the authority to exercise its enforcement power in the event rule violations in these products are identified.

Exhibit A below provides amendments to NEX SEF Rule 803 in blackline format. Exhibit B below provides additional information in connection with the Core Principles analysis.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.2(a), NEX SEF hereby certifies that listing the Contracts and the Rule Amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to the proposal.

NEX SEF certifies that this submission has been concurrently posted on its website at http://www.cmegroup.com/market-regulation/rule-filings.html. If you require any additional information regarding this submission, please contact the undersigned at 212-299-2000 or via email at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NEX SEF Rule 803 ("Foreign Exchange Options") (blackline format)
Exhibit B: Core Principle Analysis (additional information)

<u>EXHIBIT A</u>

<u>NEX SEF Rulebook</u>
Rule 803 — Foreign Exchange Options

(additions <u>underscored</u>)

Contract Specification	Details
Product Description	FX Option: a transaction in which the buyer has the right, but not the obligation, to buy (call option) or sell (put option) a fixed amount of foreign exchange at a fixed exchange rate agreed by the parties for a specified time period.
Reference & Settlement Currencies	See table below
Notional Amount	As agreed by the parties
Option Style	American and European
Option Premium	As agreed by the parties
Premium Payment	Spot date relative to option trade date
Trading Hours	24 Hours, beginning at 6:00 a.m. Wellington Time on Monday (5:00 p.m. UTC on Sunday during NZDT/6:00 p.m. UTC on Sunday during NZST) and ending at 5:00 p.m. New York Time on Friday (10:00 p.m. UTC during EST/9:00 p.m. UTC during EDT)
Quotation	The price quotation is determined as a decimal number with up to five decimal places
Units of Trading	See current currency list above.

Reference & Settlement Currencies:

Reference Currency	Counter Currency	Settlement Currency	Units of Trading
EUR	USD	USD	EUR
GBP	USD	USD	GBP
EUR	GBP	GBP	EUR
USD	JPY	USD	USD
EUR	JPY	EUR	EUR
USD	CHF	USD	USD
USD	CAD	CAD	USD
AUD	USD	AUD	AUD
USD	MXN	USD	USD
USD	CNH	USD	USD
USD	INR	USD	USD
USD	SGD	USD	USD
NZD	USD	NZD	NZD
USD	HKD	USD	USD
BRL	USD	USD	USD
MXN	USD	USD	USD
<u>USD</u>	<u>ZAR</u>	<u>USD</u>	<u>USD</u>
<u>EUR</u>	<u>SEK</u>	<u>EUR</u>	<u>EUR</u>

Expiration Date and Time	As agreed by the parties
Settlement Terms	Bilateral settlement performed in Settlement Currency
Settlement Date	Settlement Date – Spot date relative to Expiration Date (if option is exercised)
Minimum Price Fluctuation/Price Tick Size	The minimum price change is 0.0001
Settlement Price	N/A
Strike Prices	As agreed by the parties
Contract Size	As agreed by the parties
Maturity Date	As agreed by the parties
Exercise	Manual. Exercise decision is determined by the buyer of the option.
Last Trading Day / Time	Not Applicable
Trading Conventions	a. Buyer of the option has the right, but not the obligation to buy (call option) or sell (put option) the Reference Currency b. Seller of the option must sell (call) or buy (put) the Reference Currency if exercised by the option buyer
Block Size	1 million notional units of Reference Currency; 2 million units minimum trade size
Position Limits	Not Applicable
Reportable Levels	All FX Option trades are reported
Clearing	FX Options are not cleared

EXHIBIT B

Appendix B to Part 37—Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation

Core Principle 3 of Section 5h of the Act—Swaps Not Readily Susceptible to Manipulation. The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.

(a) Guidance.

(1) In general, a swap contract is an agreement to exchange a series of cash flows over a period of time based on some reference price, which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. Moreover, such a reference price may be reported by the swap execution facility itself or by an independent third party. When listing a swap for trading, a swap execution facility shall ensure a swap's compliance with Core Principle 3, paying special attention to the reference price used to determine the cash flow exchanges. Specifically, Core Principle 3 requires that the reference price used by a swap not be readily susceptible to manipulation. As a result, when identifying a reference price, a swap execution facility should either: Calculate its own reference price using suitable and well-established acceptable methods or carefully select a reliable third-party index.

- The price is referenced in USD for ZAR Option Contracts and in EUR for SEK Options based on the spot price of the currency.

(2) The importance of the reference price's suitability for a given swap is similar to that of the final settlement price for a cash-settled futures contract. If the final settlement price is manipulated, then the futures contract does not serve its intended price discovery and risk management functions. Similarly, inappropriate reference prices cause the cash flows between the buyer and seller to differ from the proper amounts, thus benefitting one party and disadvantaging the other. Thus, careful consideration should be given to the potential for manipulation or distortion of the reference price.

- Not applicable as this contract is an option.

(3) For swaps that are settled by physical delivery or by cash settlement refer to the guidance in appendix C to part 38 of this chapter—Demonstration of Compliance That a Contract is not Readily Susceptible to Manipulation, section b(2) and section c(4), respectively.

- Please see below.

Appendix C to Part 38—Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation

(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index's calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum

price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).

Essential Economic Characteristics of the Contracts. The terms and conditions of the Contracts match the terms of Options Contracts that are commonly offered in the market and are listed in Exhibit A. Per the Trading Convention, the buyer has the right, but not the obligation, to buy (call option) or sell (put option) a fixed amount of foreign exchange at a fixed exchange rate agreed by the parties for a specified time period. And in turn, the Seller must sell or buy an amount of currency specified by the parties at a strike price if the buyer choses to exercise the option.

(2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity. The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.

- Contract Not Readily Susceptible to Manipulation. The Contracts are not readily susceptible to manipulation for a number of reasons. As noted above, all of the essential terms of the Contract, are agreed to by the Parties, thereby reducing the impact of potentially unrepresentative data. The Spot currency rates are calculated and published by a reliable independent third party (for example, the Central Bank that issues the relevant currency) which NEX SEF believes are impartial and employ appropriate systems and safeguards against manipulation to protect the value of the Currency.

  The Contracts are not readily susceptible to manipulation or price distortion because the method of determining the cash settlement price is based on terms that are fixed or determinable at the Effective Date of each Contract.

(3) Where an independent, private-sector third party calculates the cash settlement price series, a designated contract market should consider the need for a licensing agreement that will ensure the designated contract market's rights to the use of the price series to settle the listed contract.

(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived

or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.

- Independent Third-Party Pricing. As described above, the cash settlement price is calculated through a cash settlement method that is not readily susceptible to manipulation. NEX SEF believes that the Central Banks are impartial, employ appropriate systems and safeguards against manipulation to protect the value of the Currency, and uses business practices that minimize the opportunity or incentive to manipulate the reference index associated with the Contract's exchange of cash flows. To the extent that NEX SEF's Market Regulation Staff determines that there is reason to suspect manipulation or attempted manipulation with respect to the Contracts that involves an offered currency, it will so inform the relevant third party and will seek to share information as necessary to investigate the potential manipulation or attempted manipulation.

(ii) Where a designated contract market itself generates the cash settlement price series, the designated contract market should establish calculation procedures that safeguard against potential attempts to artificially influence the price. For example, if the cash settlement price is derived by the designated contract market based on a survey of cash market sources, the designated contract market should maintain a list of such entities which all should be reputable sources with knowledge of the cash market. In addition, the sample of sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.

- Please see above.

(iii) The cash-settlement calculation should involve computational procedures that eliminate or reduce the impact of potentially unrepresentative data.

- Please see above.

(iv) The cash settlement price should be an accurate and reliable indicator of prices in the underlying cash market. The cash settlement price also should be acceptable to commercial users of the commodity contract. The registered entity should fully document that the settlement price is accurate, reliable, highly regarded by industry/market agents, and fully reflects the economic and commercial conditions of the relevant designated contract market.

- Please see above.

(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information that is appropriate for release to the public, available to the public when cash settlement is accomplished by the derivatives clearing organization. If the cash settlement price is based on cash prices that are obtained from non-public sources (e.g., cash market surveys conducted by the designated contract market or by third parties on behalf of the designated contract market), a designated contract market should make available to the public as soon as possible after a contract month's expiration the final cash settlement price as well as any other supporting information that is appropriate or feasible to make available to the public.

- The Currency prices are readily available from reliable public sources.

(4) Contract terms and conditions requirements for futures contracts settled by cash settlement.

(i) An acceptable specification of the terms and conditions of a cash-settled commodity contract will also set forth the trading months, last trading day, contract size, minimum price change (tick size) and daily price limits, if any.

- The essential terms and conditions of the Contract are attached as Exhibit A.

(A) Commodity Characteristics: The terms and conditions of a commodity contract should describe the commodity underlying the contract.

- The terms and conditions of the Contracts specify that the Contracts are based on the Reference and Country Currencies.

(B) Contract Size and Trading Unit: An acceptable specification of the trading unit would be a contract size that is consistent with customary transactions in the cash market. A designated contract market may opt to set the contract size smaller than that of standard cash market transactions.

- The size of each Contract is consistent with customary transactions in the market.

(C) Cash Settlement Procedure: The cash settlement price should be reliable, acceptable, publicly available, and reported in a timely manner as described in paragraphs (c)(3)(iv) and (c)(3)(v) of this appendix C.

- The cash settlement procedures and an explanation of how the Contract is not readily susceptible to manipulation are described above.

(D) Pricing Basis and Minimum Price Fluctuation (Minimum Tick): The minimum price increment (tick) should be set a level that is equal to, or less than, the minimum price increment commonly observed in cash market transactions for the underlying commodity. Specifying a futures' minimum tick that is greater than the minimum price increment in the cash market can undermine the risk management utility of the futures contract by preventing hedgers from efficiently establishing and liquidating futures positions that are used to hedge anticipated cash market transactions or cash market positions.

- As agreed to between the parties.

(E) Maximum Price Fluctuation Limits: Designated contract markets may adopt price limits to: (1) Reduce or constrain price movements in a trading day that may not be reflective of true market conditions but might be caused by traders overreacting to news; (2) Allow additional time for the collection of margins in times of large price movements; and (3) Provide a "cooling-off" period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price-limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract. For broad-based stock index futures contracts, rules should be adopted that coordinate with New York Stock Exchange ("NYSE") declared Circuit Breaker Trading Halts (or other market coordinated Circuit Breaker mechanism) and would recommence trading in the futures contract only after trading in the majority of the stocks underlying the index has recommenced.

- NEX SEF believes price limits are not necessary for the Contract and accordingly has not adopted price limits.

(F) Last Trading Day: Specification of the last trading day for expiring contracts should be established such that it occurs before publication of the underlying third-party price index or determination of the final settlement price. If the designated contract market chooses to allow trading to occur through the determination of the final settlement price, then the designated contract market should show that futures trading would not distort the final settlement price calculation.

- Not applicable as this is an Options Contract.

(G) Trading Months: Trading months should be established based on the risk management needs of commercial entities as well as the availability of price and other data needed to calculate the cash settlement price in the specified months. Specification of the last trading day should take into consideration whether the volume of transactions underlying the cash settlement price would be unduly limited by occurrence of holidays or traditional holiday periods in the cash market. Moreover, a contract should not be listed past the date for which the designated contract market has access to use a proprietary price index for cash settlement.

- The maturity date of each Contract is agreed to between the parties and based on their risk management needs. The maturity date may be in any calendar month.

(H) Speculative Limits: Specific rules and policies for speculative position limits are set forth in part 150 and/or part 151, as applicable, of the Commission's regulations.

- None are currently required by the Commission. If and to the extent the Commission imposes speculative limits on the Contract, the limits imposed by NEX SEF will be the same.

(I) Reportable Levels: Refer to § 15.03 of the Commission's regulations.

- None are currently required by the Commission. If and to the extent the Commission imposes a reporting requirement based on reportable levels of the Contract imposed by the Commission, the reportable levels imposed by NEX SEF will be the same.

(J) Trading Hours: Should be set by the designated contract market to delineate each trading day.

- Order Book: 24 Hours, beginning at 6:00 a.m. Wellington Time on Monday (5:00 p.m. UTC on Sunday during NZDT/6:00 p.m. UTC on Sunday during NZST) and ending at 5:00 p.m. New York Time on Friday (10:00 p.m. UTC during EST/9:00 p.m. UTC during EDT)
- Voice RFQ: Not Available.
- All Pre-Arranged Crosses: 24 Hours, beginning at 3:00 am Sydney time Monday and ending at 5:30 p.m. Eastern Time on Friday.