

May 7, 2020

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Center
1155 21st Street NW
Washington, DC 20581

Re: SMFE 2020-003 - CFTC Regulation 40.2(a) Certification: Initial Listing of the Small Stocks 75 Index Futures Contracts

Dear Mr. Kirkpatrick:

Small Exchange, Inc. (“SMFE” or “Exchange”) hereby notifies the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the initial listing of the Small Stocks 75 Index Futures Contracts (“Contract” or “Contracts”) as set forth below for trading on the Small Exchange matching engine and for submission for clearing via the Options Clearing Corporation (“OCC”) effective May 15, 2020 for trade date May 18, 2020.

Contract Title	Commodity Code	SMFE Rulebook Chapter
Small Stocks 75 Index Futures	SM75	30

The underlying reference for the Contracts shall be the Small Stocks 75 Index (“Index”).

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Contract Description

The Small Stocks 75 Index Futures Contracts are based on the Small Stocks 75 Index, which comprises 75 large- and mid-cap equity securities that are among the largest and most actively traded in the U.S. The Index components represent five (5) industry sectors with each sector containing 15 stocks. Index components and weights are determined using a formula that considers price movement, market capitalization, and notional traded volume. Index components and weights are re-calculated annually.

As described below, the Index is maintained by an independent Index Calculation Agent (“ICA”) in accordance with the IOSCO Principles for Financial Benchmarking (the “IOSCO Principles”). The Index is calculated by the ICA using a methodology designed by Small Exchange, Inc. (the “Index Methodology”) and disseminated to major market data vendors on a one-second frequency using the last trade price of its underlying constituents as traded on their respective primary exchanges.

The Exchange believes the Contracts will appeal to a wide range of Exchange Participants based on the Index Methodology and the notional size of the Contracts.¹ The Contracts are representative of the largest and most actively held stocks, and their smaller notional size afford Participants a capital-efficient way to hedge the most active portion of a passive stock portfolio or invest in the most relevant publicly traded companies. In addition to retail Participants, the Exchange expects the Contracts to appeal to financial advisors of Separately Managed Accounts (“SMAs”), pension funds, and institutions looking for particular equity market exposure.

Cash Market Overview

The Small Stocks 75 Index Futures Contracts add value to the market by offering Participants asset exposure and risk mitigation not currently available with traditional equity index products.

The ranking algorithm used to select Index components is intended to ensure that the stocks comprising the Index are among the largest and most actively traded U.S. stocks with higher than average volatility. A breakdown of the stock selection and ranking algorithm is detailed in Appendix E.

As of March 25, 2020, the median capitalization of the stocks in the Index was \$21 billion with the largest stock at \$1.2 trillion (MSFT) and the smallest at \$89 million (WLL).² Additionally, on this date the median notional volume traded was \$348 million with the largest \$18.6 billion (AAPL) and the smallest \$8.3 million (WLL). During the evaluation period, stocks must meet the following criteria to be eligible for the Index:

¹ Each capitalized term used in this product filing and not defined herein shall have the meaning set forth in the Small Exchange Rulebook (as amended, restated, supplemented, or otherwise modified from time to time in accordance with its provisions).

² While there is a \$1 billion capitalization requirement, a minimum constraint once the stock is included in the Index does not exist.

- Common stock that is a non-American Depositary Receipt (“ADR”) and a non-closed end fund
- Market capitalization of at least \$1 billion
- Average price greater than \$10
- Publicly traded
- Offer derivatives that include both Long-Term Equity Anticipation Securities (“LEAPS”) and weekly option expirations

In determining which stocks are in the yearly rebalance, the algorithm is applied across all eligible stocks: volatility constitutes 50% of the calculation, so the Index uses relevant stocks; capitalization constitutes 35% of the calculation, so the Index uses recognizable stocks; and price-weighted volume constitutes 15% of the calculation, so the Index uses stocks which are actively trading in the primary market.

Volatility is the most influential factor in determining the constituents comprising the Small Stocks 75 Index, and the Contracts provide Participants a way to hedge volatility exposure in a traditional equity portfolio.

Market capitalization and volume weightings provide Participants a Contract comprising the most liquid and actively held stocks. The Index rebalances annually to ensure that the Contracts adapt to a dynamic market and continually meet the needs of market Participants.

Another of the criteria for inclusion in the Index, is a stock must offer derivatives that include both LEAPS and weekly option expirations. This requirement ensures all eligible underlyings meet the Securities Exchange Commission's (“SEC”) principles for listing option contracts, as required by the “Plan for the Purpose of Developing and Implementing Procedures Designed to Facilitate the Listing and Trading of Standardized Options Submitted Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934,”³ which effectively means only stocks that are widely held are those selected for inclusion in the Index. Including optionable stocks also supports liquidity providers’ hedging preferences, as they often use the cash markets, futures markets, and options markets for risk mitigation which further contributes to the foundation of a liquid, fair, and orderly market.

The following five (5) sectors are represented in the Index including 15 stocks from each sector:

- Information Technology
- Industrial
- Energy
- Financials
- Materials

³ https://www.theocc.com/components/docs/clearing/services/options_listing_procedures_plan.pdf.

These five (5) sectors represent a holistic cross-section of equity market exposure and signify some of the largest industries of the U.S. economy. As of March 25, 2020, the total notional volume traded of the 75 component stocks from these five (5) sectors was \$128 billion.

Together, the Index's stock selection requirements, weighting methodology, and sector representations produce an Index and Contracts that may be appealing to a variety of Participants for risk mitigation and hedging, short-term investment opportunity, and long-term passive investment.

Index Administration, Governance, and Maintenance

The Index is calculated and published by dxFeed, an independent Index Calculation Agent. dxFeed provides a state-of-the-art index management platform that supports multiple index families with controlled workflows and a flexible environment for data handling and research. Their platform and templates help ensure that the indices they create and maintain have the desired qualities of a good index: representativeness, economic significance, continuity and consistency of pricing.

dxFeed carries out the calculation of the Index in accordance with IOSCO Principles including, without limitation, index administration, conflicts of interests, internal oversight, governance, Index compilation, publication and distribution, and data sufficiency.

dxFeed provides a full lifecycle management solution for indices with support for index design, back testing, basket analysis reweighting and rebalancing, version management for index methodologies, and seamless transfer from research and development to production.

Additionally, dxFeed has a highly comprehensive feed handling solution offering a broad range of data services. dxFeed's data is streamed to approximately 200,000 end-users simultaneously, including major data vendors such as ICE Data Services / SFTI, Refinitiv and Options-IT, and they deliver financial information for more than two million financial instruments (e.g., equities, futures, options, indices, FX, etc.) from a variety of exchanges in North America, Europe, and around the world. This availability and depth of product pricing helps ensure Index integrity because data inputs are sourced from a variety of reputable and recognized quality sources.

Exchange Affiliates have previously engaged with dxFeed for services. Based on the level of satisfaction of such Affiliates with dxFeed in the areas of work quality, consistency in service support, and industry expertise, the Exchange undertook vetting dxFeed for index calculation and ultimately identified them as a top choice as an ICA.

The Index Methodology is publicly available on the ICA's website: <https://indexit.dxfeed.com>.

Index Evaluation

The Commodity Exchange Act (“CEA” or the “Act”) requires that security futures products, defined as those that comprise single stock futures and futures on narrow-based security indices, shall be subject to the joint jurisdiction of the CFTC and the SEC.

Futures products for which the underlying references are broad-based security indices remain subject to the sole jurisdiction of the CFTC.

CEA Section 1(35)(A)(i)-(iv) defines a “narrow-based index” as an index:

- i. that has 9 or fewer component securities;
- ii. in which a single component security comprises more than 30% of the index’s weighting;
- iii. in which the five highest weighted component securities in the aggregate comprise more than 60% of the index’s weighting; or
- iv. in which the lowest weighted component securities comprising, in the aggregate, 25% of the index’s weighting have an aggregate dollar value of average daily trading volume less than \$50,000,000 (or \$30,000,000 in the case of an index with 15 or more component securities), except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25% of the index’s weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security.

As described more fully below, the Index fails to meet any of the criteria for consideration as a narrow-based index; as such, this Index is considered a broad-based security index subject to the sole jurisdiction of the CFTC. Each of the above-mentioned narrow-based security criteria, as it applies to the actual Small Stocks 75 Index Methodology, is addressed, respectively, below:

- i. As of March 25, 2020, the number of stocks in the Small Stocks 75 Index is 74. The number of stock components included in the Index upon the annual rebalance shall equal 75. In the case of the Index losing 20% of its symbols after the rebalance period, the ICA, under its obligations, will hold a special rebalance to get the number back to 75. The special rebalance would replace the missing symbols with the appropriate number from each sector using the methodology ranking process. Complex problems may require an additional course of action that is not covered under this document.
- ii. The largest weighted stocks, for the 7-month evaluation period of August 26, 2019 to March 25, 2020, fall below the 30% threshold. In no instance did the largest component account for more than 7.2% of the Index’s weight. This is demonstrated in Table 1, which depicts the percentiles of the weights of the largest stock in the Index during the evaluation period.

	Weight of the Largest Stock in the Index
Maximum	7.2%
75th Percentile	4.5%
Median	3.6%
25th Percentile	3.2%
Minimum	2.6%

Table 1 Empirical results of weights of the largest weighted stock in the Small Stocks 75 Index,

August 26, 2019 to March 25, 2020

- iii. The five largest weighted stocks, for the 7-month evaluation period of August 26, 2019 to March 25, 2020, fall well below the 60% threshold. In no instances did the sum of the five (5) largest components account for more than 22.0% of the Index's weight. This is demonstrated in Table 2, which depicts the percentiles of the weights of the sums of the five (5) largest stocks in the Index during the evaluation period.

	Weight of the Sum of the Five Largest Stocks
Maximum	22.0%
75th Percentile	15.1%
Median	12.6%
25th Percentile	10.8%
Minimum	9.4%

Table 2 Empirical results of weighting of the sum of the five largest weighted stocks in the Small Stocks 75 Index,

August 26, 2019 to March 25, 2020

- iv. Statistics for trading volumes are included in Table 3. Results were obtained by finding the smallest daily volume stocks in the Index that together summed to 25% of the Index. The results of the daily trading volumes over the 7-month evaluation period of August 26, 2019 to March 25, 2020 can be seen below. If the representative aggregate daily trading volume of components was less than \$30 million, then the Index would be considered narrow-based. In the case of the Index, the notional value of trading volume of the smallest components exceeds \$356 million, which is considerably larger than the \$30 million threshold.

	Trading volume of smallest Index components aggregating to 25% of Index weight
Maximum	\$2,103,434,320
75th Percentile	\$1,255,465,315
Median	\$1,075,602,381
25th Percentile	\$960,325,278
Minimum	\$356,049,678

Table 3 Empirical results of trading volume of the smallest index components aggregating to 25% of the index weight in the Small Stocks 75 Index,

August 26, 2019 to March 25, 2020

Therefore, as shown above, the Index fails to meet any of the criteria for consideration as a narrow-based index; as such, this Index is considered a broad-based security index subject to the sole jurisdiction of the CFTC.

Compliance with Core Principles

The Exchange has reviewed CFTC Part 38 “Designated Contract Markets”, which sets forth the Core Principles with which every DCM must demonstrate compliance, and it has identified that the Contracts may obligate the Exchange to compliance with the following Core Principles:

Core Principle 2 - Compliance with Rules

Trading in the Contracts will be subject to all the Exchange’s Rules, including prohibitions against fraudulent, noncompetitive, manipulative, abusive, and disruptive practices as outlined in Chapter 6 of the Exchange’s Rulebook, specifically, the Exchange’s Trade Practice Rules.

As with all Contracts listed for trading on the Exchange, trading activity in the Contracts will be subject to monitoring, surveillance, and regulation by the Exchange’s Regulatory Department as outlined in Chapter 5 of the Exchange’s Rulebook. The Regulatory Department has the authority to exercise its investigatory and enforcement jurisdiction where potential rule Violations are identified. The Exchange has processes in place to monitor its markets for compliance with the Rules.

The Exchange has contracted the National Futures Association (“NFA”) to be its Regulatory Service Provider. As such, the NFA will work with the Exchange to provide trade practice surveillance, market surveillance, investigations and disciplinary escalations, regulatory reporting and recordkeeping,

arbitration services, and audit trail requirements. These regulatory functions will also be supported by the Exchange's technology, which will collect and transmit the bid, offer, and trade data to the NFA.

The Exchange has also contracted Eventus Validus as a software provider for real-time market surveillance. The Exchange's regulatory staff uses the technology and services provided by Eventus along with the Exchange's proprietary software, Administration and Risk Monitor ("ARM") application to monitor positions and trading in-real time and to detect potential market anomalies, trade practice Violations, and large trader positions. The ARM allows the Exchange staff to monitor trading and the market in real-time with the ability to query orders, trades, and current positions. The ARM also monitors firms' risk limit usage and prevents new orders if pre-trade limits are breached.

The Exchange is a member of the Joint Compliance Committee ("JCC"). The JCC is a voluntary committee of self-regulatory organizations including DCMs, swap execution facilities, and registered futures associations. The JCC operates through its members to protect market integrity within and across its members' markets by providing a forum for information sharing related to investigations and disciplinary actions among other regulatory topics and issues that may impact their markets, members, or self-regulatory responsibilities.

Additionally, the Exchange is a member of the Joint Audit Committee ("JAC"). The JAC is a representative committee of the Audit and Financial Surveillance Departments of DCMs and has the responsibility to determine the best policies, practices, and procedures for conducting financial reviews, and to assist its members in the financial surveillance of Futures Commission Merchants ("FCM").

The Exchange is a member of the Futures Industry Association ("FIA"). The FIA is the leading global trade organization for futures, options, and centrally-cleared derivatives markets. The FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms, and commodities specialists from more than 48 countries and technology vendors, lawyers, and other professionals serving the industry. The FIA's mission is to support open, transparent, and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. The Exchange adheres to and supports the mission of the FIA through the enforcement of its Rules.

The Exchange has also applied for membership to the Intermarket Surveillance Group ("ISG"). The ISG is an international group of exchanges, market centers, and market regulators that perform market surveillance in their respective jurisdictions. The ISG provides a framework for the sharing of information and the coordination of regulatory efforts among exchanges trading securities and related products to address potential intermarket manipulations and trading abuses.

The Exchange certifies that its surveillance program and systems together with its participation in key industry groups for information sharing and regulatory coordination addresses the DCM requirements of Core Principle 2.

Core Principle 3 - Contracts Not Readily Subject to Manipulation

The Exchange believes that the Contracts are not readily susceptible to manipulation because of their structural attributes, active underlying cash market, and reliance on a well-administered Index. The underlying reference Index of the Contracts is judged to be sufficiently broad to deter attempted cornering, manipulation, crowding, or exertion of undue influence during Exchange hours and the final settlement window of expiring Contracts.

The Index is composed of stocks that are among the most actively traded in the U.S. equities market. There are numerous global entities that trade equities on a 24-hour basis, which market Participants, such as liquidity providers, pension funds, asset managers, and individual traders deem as providing sufficient volume and liquidity to be viable cash marketplaces because of the large notional volume traded. Further, the Exchange has commitments from several large, well-known liquidity providers to post two-sided quotes in the Contracts.

The liquidity provider Participants with which the Exchange has commitments, are active in both the cash and derivative markets for each constituent comprising the Index. The Contracts complement these Participants' existing market exposure and can be used to further manage their own risk while creating a deeper pool of liquidity for other Participants. If a Participant takes a limit sized position, equal to 5,000 Contracts five (5) business days prior to expiration, the depth of the related cash, futures, and option markets allows them to manage this position without causing market disruption.

The arbitrage opportunities that exist between the Contracts and constituent stocks comprising the Index will help keep prices consistent with those of the marketplace. Additionally, the Exchange may implement a Liquidity Provider Incentive Program ("LPIP"), or a similar program, to encourage market participation and foster a fair, orderly, and liquid marketplace.

In addition to liquidity provider Participants, the Exchange expects market Participants to be individual traders and investors because the Index Methodology and the Contract's notional size afford these individuals a capital-efficient way to hedge equity market volatility, diversify a portfolio, or invest passively in the most relevant large capitalization stocks.

Per the Index Methodology, the Contracts provide distinctive equity market exposure to the most relevant and widely-held stocks and an economic benefit to a broad pool of retail Participants. As volume and open-interest increase, the Exchange expects that the size of the Contracts will lend themselves to adoption by Commodity Trading Advisors ("CTA") and Commodity Pool Operators ("CPO") for more efficient account management. The Contracts allow a wide range of Participants, including individual traders and investors, liquidity providers, CTAs, CPOs, pension funds and asset managers, the ability to better manage and mitigate equity market risk.

Consistently tight bid-offer spreads, volume traded, and market capitalizations of the stocks comprising the Index depict liquidity. The Index Methodology filters for large and liquid stocks to mitigate the

potential for market manipulation. As of March 25, 2020, the average capitalization of the 75 component stocks was \$109 billion and the median \$21 billion. Additionally, on this date the average daily notional volume of the 75 component stocks was \$1.8 billion and the median \$348 million. Based on this liquidity, there will be minimal adverse market impact from Participants hedging in the Contracts. Thinly traded stocks are more often susceptible to manipulation, so given the depth of the market, the Contracts are not readily subject to manipulation.

The final settlement methodology and depth of constituent pricing makes it difficult for a market Participant to improperly affect the settlement value. The final settlement value is determined by the ICA in accordance with the final settlement methodology using reference data selected in consultation with the Exchange. Prices for the Index's components are taken from the last trade price in the primary markets, including the Consolidated Tape Association (the "CTA") for NYSE-listed and regional exchange-listed stocks and the Unlisted Trading Privileges Plan ("UTP") for Nasdaq-listed stocks.

The final monthly settlement value is determined by the ICA sampling a number of prices over a 90-second period between 14:58:30 CT to 14:59:59 CT (inclusive), reviewing those prices to ensure that they fall within a common range of prices that were printed on those markets, and then taking the average of that range. Using the last price for each of the Index's constituents, the value of the Index is calculated and disseminated on a one-second frequency. The final settlement value is calculated as the modified average of the Index prints during this 90-second period.

The final settlement value will be calculated by the ICA and subject to approval by the Exchange and the Derivatives Clearing Organization ("DCO"). The final settlement value will be published shortly after 15:00:00 CT, made available to the DCO, and made publicly available on the Exchange's website and through the Exchange's market data feed in a timely manner. Notice of the final settlement value for the Contract will be made available to all market Participants.

For more information surrounding the final settlement value calculation, refer to Appendix H.

The Exchange has in place surveillance tools and procedures to identify potential manipulation during trading hours and the final settlement window. As part of its market surveillance program for potential manipulation, the Exchange has contracted with Eventus Systems. Eventus Systems has exceptionally strong capabilities when it comes to data extraction, transformation, and loading, and their Validus software normalizes and reconciles Exchange data to create a holistic picture of activity for surveillance purposes. Eventus Validus software allows the Exchange's Regulatory Department to analyze Exchange market data during regular trading hours and perform real-time Index surveillance during the final settlement window.

All activity in the Contracts will be subject to monitoring and surveillance by the Exchange's Regulatory Department using the ARM and software provided by Eventus. Additionally, the NFA will carry out trade practice and market surveillance pursuant to the provisions of the Regulatory Services Agreement.

Core Principle 4 - Prevention of Market Disruption

Trading in the Contracts will be subject to the Rules of the Exchange, which include prohibitions on manipulation, price distortion, and disruption to trading and the cash settlement process. Trading activity will be subject to monitoring and surveillance by the Exchange's Regulatory Department.

The Exchange utilizes risk controls and has the ability to pause and halt its market to prevent market disruption. The Exchange has three levels of risk controls: Exchange, firm, and Financial Information Exchange ("FIX") API. Exchange-wide risk controls include order validations, dynamic order protections, and price limits. Dynamic order protection validates incoming orders to prevent erroneously-priced orders from hitting the market while price limits protect the market from significant price moves from prior day's settlement.

Firm level risk controls include maximum order quantity limits, daily position exposure limits, a kill switch, self-trade match prevention, and execution rate protection. Maximum order limits can be set by Clearing Members on their Participant trading firms to limit the size of orders that can be placed through the Exchange Trading System. Daily position exposure limits are set by Clearing Members on their Participant trading firms to limit positions that can be held by such trading firms.

A kill switch can be enabled by the Exchange, a Clearing Member, or Participant trading firm through a FIX session or the Exchange's Trading System to simultaneously cancel all existing orders on all Exchange markets and to prevent placing any new orders until the kill switch has been disabled. Self-trade match prevention is an optional risk control intended to prevent matching of orders with common beneficial ownership.

Execution rate protection is a form of a risk control placed on a liquidity provider's grouped orders to limit the number of trades over a specified time range. On the FIX API level, there is an optional "cancel on disconnect" risk control by which all Day orders are canceled within a FIX session when disconnected from the gateway.

The Exchange uses intraday and daily price limits to ensure its markets work in an efficient and orderly manner during large, unexpected movements and increased volatility. The Exchange employs two (2) intraday limits of 7% and 13% and a daily limit of 20% all using the Contract's previous day's settlement value, as described below:

- Once an intraday price limit is reached, the following actions take place over the next three (3) minutes:
 - The market enters a "paused" state for one (1) minute, with no order matching or trades occurring. Only order cancellations are allowed. New and replace orders are rejected by the Trading System.
 - During the second minute, the market enters the "pre-open" state, where no orders match and no trades occur, but orders on opposite sides of the market may cross. Limit,

Stop and Stop-Limit order types are accepted with a time in force of Good Till Cancelled (“GTC”) or Day. Orders can also be canceled or replaced. Market, Fill or Kill (“FOK”) and Immediate or Cancel (“IOC”) orders are rejected by the Trading System.

- In the third minute, the market enters a “pre-open no cancel” state, where no orders match and no trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of GTC or Day. Cancel and replace requests will not be accepted. Market, FOK and IOC orders are rejected by the Trading System.
- At the end of the third minute, the market enters an “open” state, with regular price-time priority matching in effect, and all supported orders are accepted. Upon reopening, the Exchange does not calculate or disseminate an opening print.
- In the event that an intraday price limit is reached within three (3) minutes of the Exchange’s market close time, the Exchange shall not reopen. The Exchange will publish a daily settlement value or a final settlement value on the Contact’s day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the intraday price limit pause time as the Exchange’s market close time for the purposes of such process.
- The market cannot trade at prices 20% above or below the Contract’s previous day’s settlement value. This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

In addition to the intraday and daily price limits established by the Exchange, all Contracts based on the Small Stocks 75 Index are subject to Market Wide Circuit Breakers (“MWCB”) established by the U.S. equity, options, and futures exchanges for coordinated cross-market trading halts in the event of a severe market price decline in the S&P 500 Index (see, e.g., New York Stock Exchange Rule 7.12 “Trading Halts Due to Extraordinary Market Volatility”). These MWCB may halt trading temporarily or, under extreme circumstances, close the markets before the normal close of the trading session, and are set forth below:

- MWCB Level 1 Halt (a 7% decline in the S&P 500 Index). Trading will halt for at least 15 minutes if drop occurs at or after 8:30AM CT but before 14:25PM CT. At or after 14:25PM CT – trading will continue, unless there is a Level 3 halt.
- MWCB Level 2 Halt (a 13% decline in S&P 500 Index). Trading will halt for at least 15 minutes if drop occurs at or after 8:30AM CT but before 14:25PM CT. At or after 14:25PM CT – trading will continue, unless there is a Level 3 halt.
- MWCB Level 3 Halt (a 20% decline in S&P 500 Index). At any time during the trading day – trading will halt for the remainder of the trading day.

The Exchange coordinates with MWCB halts when they occur, irrespective of whether an Exchange intraday limit is in effect at the time of such MWCB.

When a MWCB is triggered, the Exchange will pause the trading of all SM75 Contracts based on the Small Stocks 75 Index for the duration of the particular MWCB halt. In the case of a MWCB Level 1 or 2 Halt, trading in such Contracts is paused for at least 15 minutes; or, in the case of a MWCB Level 3 Halt, trading in such Contracts ceases for the remainder of the trading day, and the market for such Contracts will open the next trading day at the Exchange's regular market opening time of 7:00AM CT. In the case of a MWCB Level 1 or Level 2 Halt, the Exchange will enter a "pre-open" state, and then a "pre-open no cancel" state, for one (1) minute each before reopening. Upon reopening, an opening price will not be disseminated.

In the event that a MWCB Level 3 Halt is in effect, the Exchange shall publish a daily settlement value or a final settlement value on the Contract's day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the MWCB Level 3 Halt time as with the Exchange's market close time for the purposes of such process.

Price bands are based on the last-traded price and will prevent erroneously-priced orders from entering the market and significantly skewing prices. The bands validate limit-price orders, and they reject any buy orders above the upper band and any sell orders below the lower band. Band validation works equally well for single futures Contracts and calendar spreads. Price bands are dynamic, set by the Exchange, and can be altered for a Contract intraday.

As its Regulatory Service Provider, the NFA works in conjunction with the Exchange on services including, but not limited to, market and trade surveillance. The Exchange will utilize the Eventus Validus software to assist in real-time surveillance along with the Exchange's ARM. The NFA's automated market surveillance system, DETECT, and Validus will use the Exchange's audit trail as the primary source of data. These systems, along with the Exchange's ARM, will allow the Exchange's compliance staff to monitor large trader positions and to detect potential market anomalies and trade practice Violations in real-time and on a T+1 basis. The Exchange's ARM, along with DETECT and Validus, will alert the Exchange's compliance staff of potential position limit Violations and other potential market irregularities as they develop and before market disruptions occur or become more serious.

Core Principle 5 - Position Limits or Accountability

To prevent price distortions and market disruptions, the Contracts will be subject to accountability levels and position limits. The Exchange has determined position accountability levels to be 10,000 Contracts per tradable month and position limits to be 5,000 Contracts for the five (5) business days prior to expiration.

If a Participant's position exceeds the Contract's accountability level threshold, the Exchange may require the Participant to provide information pertaining to the nature of the position and the trading strategy employed. The Exchange may also require the Participant to liquidate a portion of their position in an orderly manner to a level that is below the accountability threshold.

No person may hold or control positions separately or in combination, net long or net short, in the Contract in excess of the Exchange's set position limit. The Exchange, in conjunction with the NFA, will closely monitor daily volume and open interest to determine if these accountability levels and/or position limits require modification, and it will make such modifications as deemed necessary.

While monitoring trading on the Exchange, the NFA will provide alerts that include, but are not limited to, the following: (a) whenever an account is identified as a large trader for the first time; (b) whenever large trader positions exceed reportable levels; (c) whenever large trader positions exceed speculative position limits, if any; or (d) whenever large trader positions exceed accountability levels.

Index levels and market capitalizations as of March 25, 2020, exemplify the conservatism of these position accountability levels and position limits. On this date, the Index closed at \$35.02, placing the notional value of one (1) Contract at \$3,502. This places a hypothetical 10,000 Contract position (i.e., at the Contract's accountability level) at approximately \$35 million. This signifies less than approximately 0.0006% of the closing market capitalization of the Index's components. Telescoping position limits to 5,000 Contracts for the five (5) business days prior to expiration helps further mitigate the potential for manipulation.

Core Principle 7 - Availability of General Information

The Exchange will publish information on its website regarding specifications, terms and conditions, daily trading volume, open interest, and settlement value for the Contracts. Any Exchange Rule amendments and product changes (including terms and conditions of the Contracts) will also be made available through the Exchange website. Notice of new product listings, new rules, and rule amendments will be displayed on the Exchange website concurrent with the filing of such with the Secretary of the CFTC.

Core Principle 8 - Daily Publication of Trading Information

The Exchange will publish information on settlement values, volume, open interest, and opening and closing ranges for Contracts on a daily basis on its website and via market data.

Core Principle 9 - Execution of Transactions

The Contracts will be listed for trading on the Exchange's Trading System and cleared through its DCO the OCC.

Core Principle 10 - Trade Information

All requisite trade information will be included in the audit trail, and it is sufficient for the Regulatory Department and the NFA as the Regulatory Service Provider to monitor for market abuses. The Exchange's Trading System will capture and maintain all information with respect to each order. This will include information on orders that were executed, those that were not executed, and all other information relating to the trade environment that determines the matching and clearing of trades, such

as clearing information and number and type of Contracts. An order entered into the Exchange Trading System can be tracked from the time entered until the time that it is matched, canceled, or otherwise removed. All of this information is contained in the Exchange’s audit trail.

Core Principle 11 - Financial Integrity of Transactions

The Contracts will be cleared by the OCC, which is registered with the Commission as a DCO and subject to all CFTC regulations related thereto.

Core Principle 12 - Protection of Markets and Market Participants

Chapters 4, 5, and 6 of the Exchange’s Rulebook establish Rules to protect the market and market Participants from abusive, disruptive, fraudulent, noncompetitive, and unfair conduct and trade practices. These Rules apply to all Transactions in the Exchange’s Contracts, which includes Small Stocks 75 Index Futures Contracts.

Core Principle 13 - Disciplinary Procedures

The Exchange has set forth Rules in Chapter 7 of the Exchange’s Rulebook that provide for the Exchange to discipline, suspend, expel, or otherwise sanction Members, Participants, and Related Parties that violate the Exchange’s Rules or the CFTC’s Rules and Regulations. The Exchange has engaged the NFA to monitor and provide market surveillance, and they will work together with Exchange staff to identify and pursue potential Violations of applicable Rules. At the conclusion of any of its investigations, the NFA will provide its findings to the Exchange, and the Exchange will determine whether the facts and circumstances warrant the pursuit of appropriate disciplinary action.

Core Principle 14 - Dispute Resolution

Chapter 8 of the Exchange’s Rulebook establishes Rules concerning dispute resolution and provides for resolution through the NFA arbitration program.

Contract Specifications

Product Name	Small Stocks 75 Index Future
Symbol	SM75
Contract Description	Cash-settled futures Contract with the Small Stocks 75 Index as its underlying
Contract Size	\$100 x Small Stocks 75 Index
Contract Listings	<p>New Contracts will be added monthly with two (2) Contracts outstanding at any time. Each Contract will expire monthly.</p> <p>The First Trading Day (“FTD”) shall be the first business day that is not more than 61 calendar days prior to the Last Trading Day (“LTD”) for the respective Contract month.</p>

	There is no seasonality or other cyclical basis for listing the Contracts. After surveying market Participants, the Exchange believes that the need for hedging equity exposure will be continual and therefore listing two (2) successive months will be useful to potential hedgers.
Tick Size / Price Increments	Tick Size: 0.01 Index Points (\$1.00) Contract Multiplier: \$100
Initial Price Limits	7%, 13%, and 20%
Daily Settlement Value	<p>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:</p> <p style="text-align: center;"><i>Cash Index Value + (Previous Day’s Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration</i></p> <p>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.</p>
Final Settlement Value	On the day of expiration, the final 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 comprises 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 settlement value for the product.
Last Trading Day & Time	The LTD is the maturity date of the Contract, which is the third Friday of the respective Contract month at 15:00:00 CT. If that day falls on a holiday, the LTD is the first business day preceding the third Friday.

	The Contract expires with the establishment of the final settlement value. The final settlement value is published shortly after 15:00:00 CT.
Final Settlement Date	Cash settlement will occur the same business day as the expiration of the Contract.
Settlement Process	Contracts are settled to cash. Payments will be determined by the final settlement value posted by the Exchange.
Large Trader Reporting Level	25
Position Accountability Level	10,000
Position Limits	5,000 Contracts five (5) business days prior to expiration
Non-Competitive Trades	Block trades will not be supported for this Contract
Clearing	Contract will be cleared by the OCC

Market Participant Overview and Due Diligence

The Exchange has consulted with a wide range of market Participants taking into account their respective needs for a broad equity index futures product. In doing so, the Exchange has elicited feedback from and the needs of an extensive group of market Participants including individual retail traders and investors, institutional traders, proprietary trading groups, liquidity providers, CTAs and CPOs.

The Exchange has commitments from several well-capitalized liquidity providers to post competitive, two-sided quotes during the trading day in all Exchange products. The depth and liquidity of the underlying components, along with the transparency of the Index Methodology, allow Participants to calculate the value of the Index so they are able to hedge and offset risk exposure.

To best serve its Participants, the Exchange displays and matches all orders through a Central Limit Order Book (“CLOB”). Transactions are algorithmically matched on a time-price priority basis using a first-in, first-out (“FIFO”) methodology.

The use case for the Contract is twofold:

- First, it meets the demands of individual investors, retail traders, CTAs and CPOs for an equity index futures product that reflects the largest components of the U.S. equity marketplace for hedging and risk mitigation, short-term investment opportunities, and potential long-term passive investment. Because the stocks in the Index are weighted according to volatility, market capitalization, and notionally traded volume and are rebalanced annually, the Contract is a way for individual Participants to gain exposure to the most actively traded U.S. stocks and simultaneously diversify against overall equity risk.
- Second, the small notional value of the Contract means individual traders with smaller accounts can diversify their portfolios with futures, an asset class that is under-represented in the

traditional portfolio construction of equities, bonds, and cash. Rather than using Exchange Traded Funds (“ETF”) or building a basket of single name equities, the Contract is a capital-efficient way to add equity exposure to a portfolio. While the Contracts are appealing to the growing retail segment of futures markets, they can also benefit advisors of separately managed accounts wishing to employ futures strategies.

The Exchange certifies that listing the Contract complies with the Act including all regulations thereunder. The Exchange is not aware of any consequential opposing views to this proposal.

The Exchange certifies that this submission has been concurrently posted on the Exchange’s website at www.thesmallexchange.com. Should you have any questions concerning the above, please contact the undersigned at (312) 761-1660.

Sincerely,

/s/ Peter D. Santori
Chief Regulatory Officer

Attachments

- Appendix A: Small Exchange Rulebook Chapter 30
- Appendix B: Applicable Position Limits and Reportable Position Levels
- Appendix C: Applicable Non-Reviewable Trading Ranges
- Appendix D: Pertinent Special Price Fluctuation Limits
- Appendix E: Small Stocks 75 Index Methodology
- Appendix F: Small Stocks 75 Index Components and Weights
- Appendix G: Corporate Actions Methodology
- Appendix H: Settlement Day, Value, and Process
- Appendix I: Exchange Fees
- Appendix J: Historical Data

Appendix A: Small Exchange Rulebook Chapter 30

Small Stocks 75 Index Futures Contracts

30001. Scope of Chapter

This chapter is limited in application to Small Stocks 75 Index Futures Contracts (“Contract” or “Contracts”). The provisions of these rules shall apply to all Contracts bought or sold on the Exchange for cash settlement based on the Floating Price, as defined herein. The procedures for trading, clearing, and cash settlement of Contracts and any other matters not specifically covered herein shall be governed by the Rules of the Exchange.

30002. Contract Specifications

The Floating Price for each Contract is based on the Small Stocks 75 Index (“Index”) which comprises 75 large- and mid-cap equity securities that are among the largest and most actively traded in the U.S. Index components represent five (5) industry sectors with each sector containing 15 stocks. Additionally, the stocks selected for inclusion in the Index generally exhibit higher than average volatility compared to other stocks within their respective sector. Index components and weights are determined using a formula that considers volatility, market capitalization, and notional traded volume. Index components and weights are re-calculated annually. A breakdown of the stock selection and ranking algorithm can be found in the Small Stocks 75 Methodology document hosted on the Index Calculation Agent’s website on the Index Calculation Agent’s website <https://indexit.dxfed.com>.

30003. Trading Specifications

The number of months open for trading at a given time shall be determined by the Exchange.

30003.A. Trading Schedule

The hours of trading for this Contract shall be determined by the Exchange.

30003.B. Trading Unit

The trading unit is equal to \$100 times the Index.

30003.C. Price Increments

Stated in decimals, to two decimal points in U.S. dollars and cents. Prices will be available during all trading hours. Tick sizes are 0.01 Index points equal to \$1.00 per Contract.

30003.D. Daily Price Limits

The Exchange uses intraday and daily price limits to ensure its markets work in an efficient and orderly manner during large, unexpected movements and increased volatility. The Exchange employs two intraday limits of 7% and 13% and a daily limit of 20% all using the Contract's previous day's settlement value, as described below:

- Once an intraday price limit is reached, the following actions take place over the next three (3) minutes:
 - The market enters a “paused” state for one (1) minute, with no order matching or trades occurring. Only order cancellations are allowed. New and replace orders are rejected by the Trading System.
 - During the second minute, the market enters the “pre-open” state, where no orders match and no Trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of Good Till Cancelled (“GTC”) or Day. Orders can also be canceled or replaced. Market, Fill or Kill (“FOK”) and Immediate or Cancel (“IOC”) orders are rejected by the Trading System.
 - In the third minute, the market enters a “pre-open no cancel” state, where no orders match and no Trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of GTC or Day. Cancel and replace requests will not be accepted. Market, FOK and IOC orders are rejected by the Trading System.
 - At the end of the third minute, the market enters an “open” state, with regular price-time priority matching in effect, and all supported orders are accepted. Upon reopening, the Exchange does not calculate or disseminate an opening print.
 - In the event that an intraday price limit is reached within three (3) minutes of the Exchange's market close time, the Exchange shall not reopen. The Exchange will publish a daily settlement value or a final settlement value on the Contact's day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the intraday price limit pause time as the Exchange's market close time for the purposes of such process.
- The market cannot trade at prices 20% above or below the Contract's previous day's settlement value. This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

In addition to the intraday and daily price limits established by the Exchange, all Futures based on the Small Stocks 75 Index are subject to Market Wide Circuit Breakers (“MWCB”) established by the U.S. equity, options, and futures exchanges for coordinated cross-market trading halts in the event of a severe market price decline in

the S&P 500 Index (see, e.g., New York Stock Exchange Rule 7.12 “Trading Halts Due to Extraordinary Market Volatility”). These MWCB may halt trading temporarily or, under extreme circumstances, close the markets before the normal close of the trading session, and are set forth below:

- MWCB Level 1 Halt (a 7% decline in the S&P 500 Index). Trading will halt for at least 15 minutes if drop occurs at or after 8:30AM CT but before 14:25PM CT. At or after 14:25PM CT – trading will continue, unless there is a Level 3 halt.
- MWCB Level 2 Halt (a 13% decline in S&P 500 Index). Trading will halt for at least 15 minutes if drop occurs at or after 8:30AM CT but before 14:25PM CT. At or after 14:25PM CT – trading will continue, unless there is a Level 3 halt.
- MWCB Level 3 Halt (a 20% decline in S&P 500 Index). At any time during the trading day – trading will halt for the remainder of the trading day.

The Exchange coordinates with MWCB halts when they occur, irrespective of whether an Exchange intraday limit is in effect at the time of such MWCB.

When a MWCB is triggered, the Exchange will pause the trading of all SM75 Contracts based on the Small Stocks 75 Index for the duration of the particular MWCB halt. In the case of a MWCB Level 1 or 2 Halt, trading in such Contracts is paused for at least 15 minutes; or, in the case of a MWCB Level 3 Halt, trading in such Contracts ceases for the remainder of the trading day, and the market for such Contracts will open the next trading day at the Exchange’s regular market opening time of 7:00AM CT. In the case of a MWCB Level 1 or Level 2 Halt, the Exchange will enter a “pre-open” state, and then a “pre-open no cancel” state, for a minute each before reopening. Upon reopening, an opening price will not be disseminated.

In the event that a MWCB Level 3 Halt is in effect, the Exchange shall publish a daily settlement value or a final settlement value on the Contract’s day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the MWCB Level 3 Halt time as with the Exchange’s market close time for the purposes of such process.

30003.E. Position Limits, Exemptions, Accountability Levels and Reportable Levels

Position limits for the Contracts are 5,000 Contracts five business days prior to expiration.

There are no exemptions.

Position accountability levels for the Contracts are 10,000.

Reportable levels for the Contracts are 25.

Position limits, accountability levels and reportable levels are set forth in Exchange Rule 522, "Position Limits, Accountability Levels and Reportable Levels". Refer to Rule 522 for requirements concerning position limits, accountability levels, and reportable levels.

30003.F. Termination of Trading

Trading shall cease on the last business day in the contract month, which is the third Friday of the month at 15:00:00 CT. If that day falls on a holiday, the last trading day is the first business day preceding the third Friday.

30004. Settlement Procedures

Contracts will be cash settled.

30004.A. Final Settlement Value

On the day of expiration, the final settlement value of the Contract will be determined by the modified average cash market value of the Index between 14:58:30 CT and 14:59:59 CT (inclusive).

30004.B. 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 Value.

30005. Disclaimer

NEITHER THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE INDEX OR ANY OF THE DATA INCLUDED THEREIN.

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Appendix B: Applicable Position Limits and Reportable Position Levels

Instrument Name	Small Stocks 75 Index Futures Contracts
Symbol	SM75
Rulebook Chapter	30
Contract Size	\$100 x Small Stocks 75 Index
Type	Future
Settlement	Cash
Large Trader Reporting Level	25
Position Accountability Level	10,000
Expiring Month Position Accountability Level Five Business Days Prior to Expiration	5,000

Appendix C: Applicable Non-Reviewable Trading Ranges

Instrument Name	Symbol	Non-Reviewable Range (NRR)	NRR: Ticks
Small Stocks 75 Index Futures Contracts	SM75	0.25 index points	25 from last trade

Appendix D: Pertinent Special Price Fluctuation Limits

Product	Rulebook Chapter	Commodity Code	Primary/Associated	Associated With	Level 1	Level 2	Level 3
Small Stocks 75 Index Futures Contracts	30	SM75	Primary	Primary	7.00%	13.00%	20.00%

Appendix E: Small Stocks 75 Index Methodology

REDACTED

Appendix F: Small Stocks 75 Index Components and
Weights

REDACTED

Appendix G: Corporate Actions Methodology

REDACTED

Appendix H: Settlement Day, Value, and Process

REDACTED

Appendix I: Exchange Fees

Non-Subscriber

Exchange Fee \$0.15 per Contract

Individual Subscription Holders (Initial Lifetime Subscription Offer)

Exchange Fee \$0.07 per Contract (1/2 off rack rate \$0.15)

Market Maker

Exchange Fee \$0.05 per Contract

Appendix J: Historical Data

REDACTED