

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 2020-004 - CFTC Regulation 40.2(a) Certification: Initial Listing of the Small Precious Metals 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 Precious Metals 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 Precious Metals Index Futures	SPRE	31

The underlying reference for the Contracts shall be the Small Precious Metals Index (“Index”).

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Contract Description

The Small Precious Metals Index Futures Contracts are based on the Small Precious Metals Index, which comprises three (3) precious metals that are among the most actively traded in the U.S.; gold, silver, and platinum. Index component weights are determined using a formula that considers each metal's domestic consumption, global production, and notional traded volume. Index component 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 in their respective cash markets.

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 With 70% of the weighting attributed to domestic consumption and 25% of the weighting attributed to global production, the Contracts help facilitate risk management and investment for both retail and industrial Participants. With 5% of the weighting attributed to notional traded volume, the Contracts are representative of the most actively traded precious metals. The smaller notional size of the Contracts affords Participants a capital-efficient way to mitigate broad precious metals volatility. 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 precious metals market exposure.

Cash Market Overview

The Small Precious Metals Index Futures Contracts add value to the market by offering Participants asset exposure and risk mitigation not currently available with traditional metals products.

The three (3) metals comprising the Index are gold, silver, and platinum. The current spot prices of each metal are weighted according to three (3) metrics: domestic consumption, global production, and notional traded volume. Therefore, the output of the Index Methodology is an index that consists of the most pertinent precious metals weighted according to their global relevance. A breakdown of the weighting methodology is detailed in Appendix E.

Gold, silver, and platinum are used globally and trade continuously around the world. Global trading occurs as market Participants drive the convergence of local prices through arbitrage activity. These

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).

Participants include producers, such as miners, refiners, fabricators, producer and consumer end-users, and financial intermediaries, such as banks. Such diversity of Participants along with the nature of global supply and demand for precious metals can provide a strong foundation of liquidity for all three (3) precious metal markets that make up the Index.

Trading in precious metals fall into three (3) categories: spot, forward, and future. The three (3) most active trading centers for metals are:

- The London Bullion Market Association (“LMBA”)
- The U.S. Futures Markets
- The Shanghai Gold Exchange (“SGE”)

These markets and trading centers comprise more than 90% of global trading volume and are complemented by smaller secondary market centers around the world (both over-the-counter (“OTC”) and exchange-traded).²

In the wholesale market, the two (2) primary forms of precious metals trading are OTC and on-exchange. OTC markets are characterized by market participants trading directly with one another. The counterparties bilaterally agree on a price and set contractual obligations to settle the transaction (i.e., exchange of cash for a precious metal). Exchanges are regulated platforms that act as price discovery and clearing mechanisms for trading in a given product.

Historically, the OTC market for precious metals has been structured around London, where exchanges and market centers offer spot and futures trading. In the precious metals’ markets, as in most asset classes, there is a symbiotic relationship between OTC and on-exchange trading. Despite London’s leading role in the physical market, the U.S. futures markets and the COMEX/NYMEX derivatives exchanges operated by CME Group have also become increasingly important in driving price discovery.

London and the United States constitute the largest share of OTC and futures market volume globally. The Contracts will create a new price discovery mechanism for gold, silver, and platinum prices simultaneously and lend themselves to liquidity providers for increased arbitrage for keeping prices consistent with those of the marketplace.

The depth of market for gold, silver, and platinum is great as each metal has both an industrial and economic use case for a variety of Participants including investors, speculators and hedgers. Table 1 shows the depth of market for each metal in the Index.

According to the United States Geological Survey, estimates of domestic consumption for gold, silver, and platinum in 2019 were 4,822,605 troy ounces; 208,979,550 troy ounces; and 1,060,973 troy ounces, respectively.

² [World Gold Council, 2018](#)

The 2019 estimates for global production of gold, silver, and platinum were 106,097,310 troy ounces; 868,068,900 troy ounces; and 5,787,126 troy ounces, respectively. In addition to being widely produced and widely consumed, these metals are actively traded in the U.S. futures market.

Data from the Futures Industry Association (“FIA”) reveals that the average monthly trading volume of gold, silver, and platinum futures contracts were 9,373,334 contracts; 2,267,706 contracts; and 559,977 contracts for the first three (3) months of 2020. This depth of market supports an Index that is resilient to market abuses because thinly traded commodities are more often susceptible to manipulation.

	Gold	Silver	Platinum
Domestic Consumption (Troy Ounces)	4,822,605 ³	208,979,550 ⁴	1,060,973 ⁵
Global Production (Troy Ounces)	106,097,310	868,068,900	5,787,126
Average of January, February, and March 2020 Futures Traded on NYMEX/COMEX	9,373,334	2,267,706	559,977

Table 1 Depth of Market for Gold, Silver, and Platinum

Gold, silver, and platinum are represented in the Index to provide Participants holistic precious metal exposure. Therefore, the Index’s weighting methodology 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 sound 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.

³ [United States Geological Survey 2020 Annual Gold Publication](#)

⁴ [United States Geological Survey 2020 Annual Silver Publication](#)

⁵ [United States Geological Survey 2020 Annual Platinum-Group Metals Publication](#)

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>.

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 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 is a member of 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 market for the components of 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 metals that are among the most actively traded in the market. There are numerous global entities that trade precious metals 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 within 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 precious metals 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 precious metals market volatility, diversify a portfolio, or invest passively in the three (3) most prominent, market-wise, precious metals.

Per the Index Methodology, the Contracts provide distinctive precious metals market exposure to the most prominent and widely-traded precious metals 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 precious metals market risk.

The Exchange believes the precious metals comprising the Index are deemed as having sufficient volume and liquidity for market Participants. On March 25, 2020 the notional traded volume of gold, silver, and

platinum futures contracts were \$39.9 billion, \$5.4 billion, and \$805 million respectively. Additionally, the Index Methodology assigns greater weightings to highly consumed and produced precious metals that are liquid to mitigate the potential for market manipulation. Based on this liquidity, there will be minimal adverse market impact from Participants hedging in the Contracts. Thinly traded metals are more 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 trade data between a network of nearly seventy banks and financial institutions comprising the cash market.

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 G.

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.

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.

In determining accountability levels and position limits, the Exchange conducted an analysis of deliverable supply. For the proposed Contracts, the Exchange has determined deliverable supply is equal to global mine production data from major gold-, silver-, and platinum-producing nations. Major gold-producing nations are China, Australia, Russia, the United States, and Canada (these nations accounted for 44% of estimated global gold mine production in 2019).

Major silver-producing nations are Mexico, Peru, China, Russia, and Poland (these nations accounted for 65% of estimated global silver mine production in 2019). Major platinum-producing nations are South Africa, Russia, Zimbabwe, Canada, and the United States (these nations accounted for 99% of estimated global platinum mine production in 2019).

Global mine production estimates provided by the United States Geological Survey for 2019 and depicted in Table 1 represent the Exchange's assessment of yearly deliverable supply. Therefore, the Exchange's estimates of yearly deliverable supply are 106,097,310 troy ounces of gold; 868,068,900 troy ounces of silver; and 5,787,126 troy ounces of platinum.

No adjustments are made to reflect long-term supply arrangements in this market nor are they made for each precious metals' quality.

As of March 25, 2020, the Index comprises 2.53979014 troy ounces of gold, 74.3520408 troy ounces of silver, and 0.7319726 troy ounces of platinum. With the Contract's position limit of 5,000 Contracts, this is equal to 0.14%, 0.51%, and 0.76% of the monthly deliverable supply of gold, silver, and platinum metals, respectively. Given the large amount of gold, silver, and platinum produced globally, the Contract's position limits are well below 25% of the deliverable supply as prescribed by 17 CFR 151.4(a)(2)(i). 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 Precious Metals 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 Precious Metals Index Future
Symbol	SPRE
Contract Description	Cash-settled futures Contract with the Small Precious Metals Index as its underlying
Contract Size	\$100 x Small Precious Metals 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> <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 precious metals exposure will be continual and therefore listing two (2) successive months will be useful to potential hedgers.</p>
Tick Size / Price Increments	<p>Tick Size: 0.01 Index Points (\$1.00)</p> <p>Contract Multiplier: \$100</p>
Initial Price Limits	7%, 13% and 20%
Daily Settlement Value	<p>Daily Settlement of Front Month:</p> <p>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><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	<p>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.</p> <p>The Contract expires with the establishment of the final settlement value. The final settlement value is published shortly after 15:00:00 CT.</p>
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 precious metals 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 a precious metals index futures product that reflects the largest components of the precious metals’ marketplace for hedging and risk mitigation, short-term investment opportunities, and long-term passive investment. Because the precious metals in the Index are weighted according to consumption, production, and notionally traded volume and are rebalanced annually, the Contract is a way for individual Participants to gain exposure to the most actively traded precious metals and simultaneously diversify against overall metals risk.
- Second, the small notional value of the Contract means individual traders with smaller accounts can diversify their portfolios with 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 individual metals, the Contract is a capital-efficient way to add precious metals 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 specific 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 31

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 Precious Metals Index Methodology

Appendix F: Small Precious Metals Index Components and Weights

Appendix G: Settlement Day, Value, and Process

Appendix H: Exchange Fees

Appendix I: Historical Data

Appendix A: Small Exchange Rulebook Chapter 31

Small Precious Metals Index Futures Contracts

31001. Scope of Chapter

This chapter is limited in application to Small Precious Metals 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.

31002. Contract Specifications

The Floating Price for each Contract is based on the Small Precious Metals Index (“Index”), which comprises three (3) precious metals that are among the most actively traded in the U.S.; gold, silver, and platinum. Index component weights are determined using a formula that considers each metal’s domestic consumption, global production, and notional traded volume. Index component weights are re-calculated annually.

31003. Trading Specifications

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

31003.A. Trading Schedule

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

31003.B. Trading Unit

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

31003.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.

31003.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 Contract’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.

31003.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 Contract 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.

31003.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.

31004. Settlement Procedures

Contracts will be cash settled.

31004.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 to 14:59:59 CT (inclusive).

31004.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.

31005. 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.

THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES MAKES NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM THE USE OF THE INDEX, TRADING BASED ON THE INDEX, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACTS, OR, FOR ANY OTHER USE. THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AND HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDEX OR ANY DATA INCLUDED THEREIN, WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES HAVE ANY LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Appendix B: Applicable Position Limits and Reportable Position Levels

Instrument Name	Small Precious Metals Index Futures Contracts
Symbol	SPRE
Rulebook Chapter	31
Contract Size	\$100 x Small Precious Metals 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 Precious Metals Index Futures Contracts	SPRE	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 Precious Metals Index Futures Contracts	31	SPRE	Primary	Primary	7.00%	13.00%	20.00%

Appendix E: Small Precious Metals Index Methodology

REDACTED

Appendix F: Small Precious Metals Index Components
and Weights

REDACTED

Appendix G: Settlement Day, Value, and Process

REDACTED

Appendix H: 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 I: Historical Data

REDACTED