SUBMISSION COVER SHEET

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

Registered Entity Identifier Code (optional): 21-222

Organization: NEX SEF Limited ("NEX SEF")

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 05/11/21 Filing Description: Initial Listing of the Russian Ruble (RUB) Forward Rate Agreement Contract.

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

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

Rule Numbers: ______

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

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

Official Product Name: RUB Forward Rate Agreement

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

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

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

Rule Numbers:

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

May 11, 2021

VIA ELECTRONIC PORTAL

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

Re: CFTC Regulation 40.2(a) Certification. Notification of the Initial Listing of Russian Ruble RUB Forward Rate Agreement Contract.
NEX SEF Submission No. 21-222

Dear Mr. Kirkpatrick:

NEX SEF Limited ("NEX SEF"), a registered Swap Execution Facility ("SEF"), is certifying to the Commodity Futures Trading Commission ("CFTC" or "Commission") the initial listing of the Russian Ruble (RUB) Forward Agreement contract (the "Contract") for trading effective on May 13, 2021.

Specifically, NEX SEF is adopting amendments to Rule 802(3) ("Forward Rate Agreements") to facilitate the listing the Contract for trading. Exhibit A below sets forth Rule 802(3) with additions underscored.

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

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

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

- **Availability to Obtain Information:** NEX SEF will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume and price information for the Contract. In addition, NEX SEF will advise the marketplace of the launch of the Contract by releasing a notice to its participants.

- **Timely Publication of Trading Information:** NEX SEF will publish contract trading volumes and price information daily on its website.

- **Monitoring of Trading and Trade Processing:** Trading in these Contracts will be subject to the NEX SEF rules ("Rulebook") which include prohibitions on manipulation and price distortion.

- **Trade Information**: All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.

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

NEX SEF certifies that this submission has been concurrently posted on its website at http://www.cmegroup.com/market-regulation/rule-filings.html.

Should you have any questions concerning the above, please contact the undersigned at 212-299-2200 or CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NEX SEF Rule 802(3) (blackline format)
Exhibit B: Core Principle Analysis

<u>Exhibit A</u>

NEX SEF Rule 802(3)

(additions <u>underscored</u>)

Rule 802(3) — Forward Rate Agreement (FRA)

A Forward Rate Agreement is an Interest Rate Swap for which settlement is in the form of one fixed interest payment and one floating interest payment based on an interest rate benchmark to be paid or received on an obligation beginning at a future start date. The interest rate payments are exchanged based on a notional amount.

Currencies	
USD	DKK
EUR	NOK
GBP	PLN
CHF	CZK
SEK	HUF
RUB	

Specifications

Trading Conventions

- Buyer (Payer) pays fixed interest rate and receives floating interest rate.
- Seller (Receiver) receives fixed interest rate and pays floating interest rate.

Swap Leg Conventions

- The terms of FRAs are based on a number of combinations of the criteria below.
  - Fixed Leg
    - Payment Frequency
      - Once
    - Day Count Convention
      - Money Market Basis (actual/360), or actual/365, 30/360, 30E/360, AFI/360, 360/360
    - Holiday Calendar
      - Applied in accordance with the country relating to the currency of the instrument
    - Business Day Convention
      - Modified Following with adjustment to period end dates. Business days in this convention must be valid business days on both the holiday calendars of that country. If not, it will be the next day that is a business day on both calendars.
    - Fixed Rate
      - The traded interest rate yield or basis points on Trade Date
  - Floating Leg
    - Reset Frequency
      - Once
    - Day Count Convention

        - Money Market Basis (actual/360), or actual/365, 30/360, 30E/360, AFI/360, 360/360
    - Holiday Calendar
        - Applied in accordance with the country relating to the currency of the instrument
    - Business Day Convention
        - Modified Following with adjustment to period end dates. Business days in this convention must be valid business days on both the calendars for each country. If not, it will be the next day that is a business day on both respective country holiday calendars.
    - Interest Rate Benchmark
        - LIBOR, EURIBOR, PRIBOR, CIBOR2, BUBOR, NIBOR, WIBOR, STIBOR, MOSPRIME

Effective Date

- The first date from which fixed and floating interest amounts accrue. It is also referred to as the Start Date or the Value Date. The Effective Date of the Swap must be a business day subject to the appropriate Business Day Convention.

Trade Start Type

- Spot Starting
    - A swap whose Effective Date is 2 business days from the Trade Date (T+2).
- Forward Starting
    - A swap whose Effective Date is anything after the Effective Date for a Spot Starting swap.

Maturity Date

- The final date until which Fixed and Floating amounts accrue. The Maturity Date may also be referred to as the Termination Date or End Date.

Tenor

- The duration of time from the Effective Date to the Maturity Date Tenors will be support for any duration greater than 0 month to 12 months.
- Listed Tenors, also referred to as On-the-Run, means whole year Spot Starting or Same Day Starting Instruments with a Tenor of an integer number of months.
- Other Tenors means any Tenors other than the Listed Tenors.

Floating Reset Dates

- Dates utilized to determine the Floating Rate amount for the interest accrual period during the Tenor of the Instrument. Except in the case of a Stub Period, the Reset Date is adjusted business days dependent on the currency prior to the Roll Date for that interest accrual period.

First Period Fixing Date

- The Fixed Rate for the first interest period is fixed on the Trade Date, and the Floating Rate for the first interest period is fixed 2 business days prior to the Effective Date

Trade Types

- The Platform may support the following trade types:
    - Outrights
        - An Outright swap is where one party is the payer of the fixed rate and receiver of the floating rate and the other party is the receiver of the fixed rate and payer of the floating rate.
    - Switches also known as Spreads
        - These are the simultaneous purchase and sale of two different Tenors of the yield curve (e.g.3x6 by 9x12).

Instrument minimum and incremental Size.

- Minimum notional size is dependent on currency and tenor
- Block Trades. Minimum notional size as stated by the Commission and increments Dependent on currency and tenor

Quoting Convention

- Outrights are quoted in interest rate yield is dependent on currency.
- Spreads/Switches will be quoted in basis points dependent in multiples of the increments of the underlying Outrights

Last Trading Day

- Spot Starting -
    - Close of business on Trade Date.
- Forward Starting
    - Close of business three business days prior to the Effective Date of the swap.

Clearing

- Contracts are eligible to be cleared at LCH. Clearnet and ASX. Contracts in certain currencies, as indicated by the Facility, are eligible to be cleared at Eurex. Please see clearable contract definitions at http://www.lchclearnet.com/, http://www.asx.com.au/services/clearing/asx-clear-futures.htm and https://www.eurexclearing.com/clearing-en/resources/rules-and-regulations.

- Eurex does not provide express or implied warranties or representations to swap counterparties executing Swaps on the Facility's platform relating to any of the services or facilities provided by the Facility, including but not limited to, the warranties of merchantability and fitness for a particular purpose or use. Eurex shall not have any liability or obligation to any swap counterparty using the Facility's platform.

<u>Exhibit B</u>

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

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

(a) Guidance.

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

- The reference price on which the Contract settles is the published spot rate of the selected currency on the fixing date selected by the parties (the "Spot Rate"), as adjusted by the selected fixing methodology. For each new currency being added to the Contracts, the Spot Rate is published by Thompson Reuters ("Reuters") or Bloomberg

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

- Please see below.

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

- Please see below.

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

(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and

option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index's calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).

- Essential Economic Characteristics of the Contracts. The terms and conditions of the Contract match the terms of forward rate agreements ("FRAs") that are commonly offered in the market and are listed in Exhibit A. The Contract is a cash-settled FRA that allows a party to speculate on, or hedge risks associated with, currency exchange rates. The Contract is available in multiple currencies. The key variables in the Contracts are: the notional amount of each Contract, the currency involved, the agreed upon exchange rate, the fixing date, the fixing methodology and the Spot Rate. Each Contract is cash settled in U.S. dollars or another major currency based on the differential between the agreed upon exchange rate and the Spot Rate. All of the essential terms of the Contracts, other than the payments contingent on the Spot Rate, are agreed at the effective date of each Contract ("Effective Date"). The only terms and conditions of the Contracts that will be changed by this filing from the Contracts as previously certified is the addition of the following offered currency: RUB. All the other terms and conditions of the Contracts will remain as previously certified by NEX SEF.

- Calculation of Cash Settlement Price. The cash settlement price is based on the net difference between the agreed upon exchange rate and the Spot Rate, as adjusted by the fixing methodology. The parties agree upon the settlement currency on the Effective Date. The calculation of the relevant Spot Rate is governed by a standard set of rules and calculation procedures published by Reuters or Bloomberg, as discussed below.

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

- Contract Not Readily Susceptible to Manipulation. The Contracts are not readily susceptible to manipulation for a number of reasons. As noted above, all of the essential terms of the Contracts, other than the payments contingent on the Spot Rate, are agreed at the Effective Date, thereby reducing the impact of potentially unrepresentative data. FRAs are widely used by corporations, insurance companies, banks and other market participants to transfer and manage exchange rate and currency valuation risk with respect to currencies that are not widely traded or where trading may be limited by regulations in the currency's domestic market. The size and liquidity of the market in FRAs is well documented and the significant liquidity in FRAs such as the Contracts makes the Contracts difficult to manipulate. The settlement price of each Contract is determined by the selected Spot Rate. Each currency listed in the Contracts' terms and conditions has a Spot Rate that is widely used and is calculated and published by a reliable independent third party. Reuters and Bloomberg publish the Spot Rates, which the SEF has ready access to. Each Spot Rate is calculated and published based on comprehensive, well-established and transparent rules. The Spot Rates are widely accepted by market participants as reliable currency spot rates. Additionally, each Spot Rate is widely followed by numerous market participants and basing FRAs on the Spot Rates has been a longstanding and widely accepted practice. Accordingly, the Contracts are not readily susceptible to manipulation or price distortion because the method of determining the cash settlement price is based on terms that are fixed at the Effective Date of each Contract and a reliable Spot Rate.

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

(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.

- Independent Third-Party Pricing. As described above, the cash settlement price is calculated through a cash settlement method that is not readily susceptible to manipulation. Reuters and Bloomberg manage and publish each Spot Rate. The SEF believes that Reuters and Bloomberg are each impartial, employ appropriate safeguards against manipulation to protect the value of the relevant Spot Rate, and use business practices that minimize the opportunity or incentive to manipulate the exchange rates associated with each Contract's settlement price. To the extent that the SEF's Market Regulation Department determines that there is reason to suspect manipulation or attempted manipulation with respect to the Contracts that involves one of the Spot Rates, it will so inform Reuters or Bloomberg, as applicable, and will seek to share information as necessary to investigate the potential manipulation or attempted manipulation.

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

- Please see above.

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

- Please see above.

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

- Please see above.

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

- The Spot Rate is readily available via Reuters and Bloomberg, as noted above, and the settlement price is made available to the public by the SEF in accordance with Core Principal 9.

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

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

- The essential terms and conditions of the Contracts are attached as <u>Attachment A</u>.

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

- The terms and conditions of the Contracts specify that the Contracts are based on the Spot Rates.

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

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

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

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

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

- As agreed to between the parties.

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

- The SEF believes price limits are not necessary for the Contracts and accordingly has not adopted price limits.

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

- The last trading day for a Contract is the fixing date of the Contract, which is set by the counterparties. The Spot Rates are published daily.

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

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

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

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

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

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

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

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

In addition to the foregoing, NEX SEF has adopted rules in its Rulebook prohibiting any Participant or Customer from engaging in manipulative trading activity and NEX SEF is required to, and will, monitor all trading on NEX SEF in order to identify any such manipulative activity. NEX SEF has authority to impose on its Participants and Customers fines and disciplinary sanctions in the event that such manipulative activity has occurred.