



Submitted via *CFTC Portal*

June 13, 2017

Christopher Kirkpatrick  
Office of the Secretariat  
U.S. Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street NW  
Washington, DC 20581

**RE: Clear Markets North America, Inc. – U.S. Dollar – Fed Funds Overnight Index Swap**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Clear Markets North America, Inc. (“CMSEF”) hereby notifies the Commission pursuant to Commission Regulation 40.2, of its product listing of CMSEF U.S. Dollar – Fed Funds Overnight Index Swap (“CMSEF OIS Products”) on CMSEF beginning June 15, 2017 (the “Submission”).

The Submission contains the following:

1. A summary of the terms of the CMSEF OIS Products specifications;
2. The listing date of the CMSEF OIS Products;
3. An explanation and analysis of the CMSEF OIS Products’ compliance with the relevant Core Principles for Swap Execution Facilities (“SEF Core Principles”) as set forth by section 5h of the Commodity Exchange Act;
4. A certification that, concurrent with the filing of the Submission, CMSEF posted on its website a notice of pending certification of the CMSEF OIS Products with the Commission.

**I. Summary of Terms of the CMSEF OIS Products**

Overnight Indexed Swaps	
Currency	USD
Floating Rate Indices	USD-Federal Funds-H.15-OIS-Compound
Stated Tenors	3m 6m 9m 1y 18m 2y 3y 4y 5y 6y 7y 8y 9y 10y 15y 20y 25y 30y
Day Count Conventions – Fixed Leg	30/360; ACT/360; ACT/365.FIXED; 30E/360; 30E/360.ISDA
Day Count Conventions – Floating Leg	ACT/360
Payment Frequency	1Y or 1T
Business Day Convention	None, Following, Modified Following, Preceding
Holiday Calendar	USNY
Trade Start Type	Spot (T+1)
Trade Types	Outrights

Clearinghouse	CME, LCH
Settlement	Determined by the Clearinghouse Quantity Determined by Participants, minimum \$10,000
Effective Date	Date on which parties begin calculating accrued obligations (fixed and floating interest rate payments)
End Date	Date on which obligations no longer accrue
Trading Hours	CMSEF trading hours are 9 A.M. – 5 P.M. New York Time (Monday – Friday) and 9 A.M. – 5 P.M. Japan Standard Time (Monday – Friday)
Block Trades	Permitted under CMSEF Rule 416A
Position Limits Position Accountability and Reporting	Set by: Part 151 of CFTC Regulations; CMSEF Rule 413A Set by: Part 15 of CFTC Regulations; CMSEF Rule 413B
Cross-Currency Swaps Offered	None

## **II. Listing Date**

The intended listing date of the CMSEF OIS Products is June 15, 2017.

## **III. Analysis of Compliance with Core Principles**

We have reviewed the SEF Core Principles and have identified that the listing of CMSEF OIS Products may have bearing on SEF Core Principle 3: Swaps Not Readily Susceptible to Manipulation. For the reasons stated below we believe that the listing of CMSEF OIS Products complies with the Commodity Exchange Act and SEF Core Principle 3.

### **A. The Reference Price is not Readily Susceptible to Manipulation**

The reference rate for the CMSEF OIS Products is the USD-Federal Funds-H.15-OIS-Compound, which is the rate for the reset date (the rate of return of a daily compound interest investment). The reference rate for the calculation of interest is the daily effective federal funds rate determined by the Federal Reserve as the weighted average of the rates on brokered trades. The calculation of the rate is widely available and unbiased. It can be found here: [http://www.isda.org/c\\_and\\_a/pdf/Supplement-6-to-the-2000-Definitions.pdf](http://www.isda.org/c_and_a/pdf/Supplement-6-to-the-2000-Definitions.pdf).

### **B. Conditions that Prevent the CMSEF OIS Products from Being Readily Susceptible to Manipulation**

The terms of the CMSEF OIS Products which reference USD-Federal Funds-H.15-OIS-Compound follow the current conventions of the over the counter market in interest rate swaps by providing both standard fixed terms and variable terms. (See description of product terms above). The interest rate swap market is the largest derivative asset class in the world, with an estimated \$441 trillion in notional principal outstanding in the OTC market as of December 2012 according to the Bank for International Settlements.

The profound depth to the interest rate swap market protects the CMSEF OIS Products from manipulation. It is well established that deep liquid markets are very difficult to manipulate.

Because the CMSEF OIS Products are cash settled, there is no deliverable supply that can be manipulated by market participants. Cash settlement is a further barrier that protects the CMSEF OIS Products from market manipulation. In addition, should there be any attempt to manipulate the market CMSEF is confident its robust surveillance system will detect such improper trading activity.

### **C. Settlement Procedure**

CMSEF OIS Products that will be traded on the CMSEF are cash settled at the applicable Clearing House. Currently CMSEF OIS Products will be cleared by the Chicago Mercantile Exchange, Inc. (“CME”) and LCH.Clearnet LLC (“LCH”). The procedures used by the CME and LCH to settle CMSEF OIS Products are stated in CME and LCH Rules, respectively (available at CME and LCH websites). These rules set forth procedures that are transparent to the market and have been approved by the Commission.

### **IV. Certification**

CMSEF hereby certifies that:

The CMSEF OIS Products comply with the Commodity Exchange Act, 7 U.S.C. §1 et seq. and the regulations thereunder.

This Submission has been concurrently posted on CMSEF’s website at <http://www.clear-markets.com/>.

\* \* \* \* \*

If you have any questions regarding the above, please contact me at [king@clear-markets.com](mailto:king@clear-markets.com) or 980-819-1170.

Respectfully submitted,



Zachary J. King  
Chief Compliance Officer  
Clear Markets North America, Inc.