SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional): 2017-P-10 **Date: July 25, 2017**

***IMPORTANT*: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**
☐

ORGANIZATION	Bloomberg SEF LLC

FILING AS A: ☐ **DCM** ☒ **SEF** ☐ **DCO** ☐ **SDR** ☐ **ECM/SPDC**

TYPE OF FILING

- **Rules and Rule Amendments**
  - ☐ Certification under § 40.6 (a) or § 41.24 (a)
  - ☐ "Non-Material Agricultural Rule Change" under § 40.4 (b)(5)
  - ☐ Notification under § 40.6 (d)
  - ☐ Request for Approval under § 40.4 (a) or § 40.5 (a)
  - ☐ Advance Notice of SIDCO Rule Change under § 40.10 (a)
- **Products**
  - ☒ Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
  - ☐ Swap Class Certification under § 40.2 (d)
  - ☐ Request for Approval under § 40.3 (a)
  - ☐ Novel Derivative Product Notification under § 40.12 (a)

RULE NUMBERS

None Applicable

DESCRIPTION

Commodities – Fixed/Floating Swap/Cash Settled LBMA Gold Price Contract ("Contract")

1. The Contract's terms and conditions are attached as Attachment A.

2. The intended listing date is July 27, 2017.

3. Attached, please find a certification that, concurrent with this submission, BSEF posted on its website: (a) a notice of pending certification of this Contract with the Commodity Futures Trading Commission (the "Commission"); and (b) a copy of this submission.

4. Attached, please find a certification that the Contract complies with the Commodity Exchange Act (the "Act") and the Commission regulations thereunder.

5. Capitalized terms used but not defined herein have the meaning ascribed to them in the Bloomberg SEF LLC ("BSEF") Rulebook.

EXPLANATION AND ANALYSIS OF THE CONTRACT'S COMPLIANCE WITH APPLICABLE CORE PRINCIPLES AND COMMISSION REGULATIONS

As required by Commission Regulation 40.2(a), the following analysis demonstrates that the Contract is consistent with the requirements of the Act and the Commission regulations and policies thereunder (in particular, Appendix B to Part 37 and Appendix C to Part 38, respectively).

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

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

(a) Guidance.

(1) In general, a swap contract is an agreement to exchange a series of cash flows over a period of time based on some reference price, which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. Moreover, such a reference price may be reported by the swap execution facility itself or by an independent third counterparty. 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.

(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 counterparty and disadvantaging the other. Thus, careful consideration should be given to the potential for manipulation or distortion of the reference price.

Reference Price Not Readily Susceptible to Manipulation

This Contract, a fixed-to-floating commodity swap, is a cash-settled agreement between two counterparties to exchange a fixed price and a floating price based on a global benchmark, on a given date (or date range, as explained below) in the future ("calculation period"). The fixed leg is determined at the start of the Contract and remains unchanged throughout the life of the swap. The floating leg, however, is based on the London Bullion Market Association benchmark for daily gold prices ("LBMA Gold Price") over an agreed future calculation period. As such, the reference price for the Contract is LBMA Gold Price. LBMA Gold Price is administered by ICE Benchmark Administration Ltd ("IBA"), which provides a gold auction platform, methodology as well as the overall independent administration and governance for LBMA Gold Price. IBA produces the benchmark based on the final prices of twice daily physically settled, electronic spot gold auctions.[1] LBMA Gold Price is set twice daily (at 10:30 a.m. and 3:00 p.m. London time) in U.S. Dollars. LBMA Gold Price is a benchmark regulated by the UK Financial Conduct Authority ("FCA"), as it is a specified benchmark for the purposes of Article 63O of the UK Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, and therefore is not readily susceptible to manipulation. LBMA Gold Price is published by IBA, the LBMA (and publicly available on the LBMA website with a 30 minute delay) and available on the Bloomberg Terminal by running the GOLDLNAM Index page or GOLDLNPM Index page on a Bloomberg Terminal for LBMA Gold Price AM or PM, respectively.

[1] The auction process occurs as follows: The chairperson sets the starting price and the price for each round in line with current market conditions and the activity in the auction. Participants then enter their buy and sell orders by volume (i.e. number of ounces). The price discovery process is in U.S. Dollars, but participants may, if they wish, request to settle in different currencies. If the net volume of all participants fall within the pre-determined tolerance at the end of a round (i.e. the imbalance is set at 10,000 oz.), the auction will be complete, with all volume tradable at that price. Netting of orders is processed automatically for participants with all house and client orders, plus any share of the imbalance, contributing to their final net volume. This net volume is then matched against other participants to produce trades with immediate trade confirmations. At the end of the auction process, IBA will publish the benchmark price. IBA will also publish a transparency report showing for each round: the price in U.S. Dollars; the aggregated bid and offer volume; the number of participants; and the timings for each round. The benchmark price is also published in Australian Dollars, British Pounds, Canadian Dollars, Euros, Onshore and Offshore Yuan, Indian Rupees, Japanese Yen, Singapore Dollars, South African Rand and Swiss Francs.

(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.

<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 Contract

Terms

The terms and conditions of the Contract are in Attachment A. As described in Attachment A, this is a commodity swaps contract in which the counterparties exchange a fixed price for a floating price based on LBMA Gold Price at a specified future date. This Contract has several flexible terms. For instance, counterparties are able to choose the currency (from a list of currencies in Attachment A) on which the notional quantity and the settlement value, respectively, will be based. Moreover, the counterparties are able to choose whether the floating price will be LBMA Gold Price (AM or PM) on a single date or the average price over a specified date range. (If the counterparties choose the latter, the price would be averaged across all of the days.) Other flexible terms include the Contract's: notional amount, minimum size, and settlement date. The trading hours, however, are fixed at twenty-four hours, Sunday – Friday (ET). The Contract is not readily susceptible to manipulation because, though the Contract has many flexible terms, all of the essential terms, except for the floating price, are agreed upon at the start of the Contract. And, as noted above, the floating price is based on LBMA Gold Price, which is available on the Bloomberg Terminal or on the LBMA website (with a 30 minute delay), and published by IBA – a reliable and widely accepted source.

Contract Not Readily Susceptible to Manipulation

The Contract is not readily susceptible to manipulation for a number of reasons. First, as noted above, all of the essential terms of the Contract are agreed upon at the start of the Contract and remain static throughout the life of the swap, except for the floating price. And, as noted, the floating price is based on LBMA Gold Price, which is available on the Bloomberg Terminal, publicly available on the LBMA website and published by IBA – a reliable and widely accepted source. Second, as indicated by constituent data for LBMA Gold Price and the FCA's oversight of LBMA Gold Price, manipulation is very difficult to achieve.[2] As a specified benchmark, IBA, the administrator of LBMA Gold Price, must be a regulated benchmark administrator and must comply with the FCA's rules for benchmark administrators. The LBMA Gold Price Oversight Committee is also responsible for reviewing all aspects of the determination of the LBMA Gold Price including the auction methodology, process and parameters and eligibility criteria for new direct participants and overseeing surveillance – making manipulation very difficult to achieve.[3] Also, BSEF has a market surveillance program that is effectively able to surveil this market, detect uncommon activity, and investigate any such activity for signs of manipulation.

Calculation of Cash Settlement Price

As described above, the cash settlement price will be calculated as follows:

(a) On the last day of the calculation period – which could be either a single date or the last day of a date range, depending on the determination of the counterparties – the floating price will be determined based on the notional quantity and LBMA Gold Price (AM or PM). If the counterparties choose to use a date range, the average across all of the days in the range will be used.
(b) The counterparties will then calculate the difference between the fixed price (determined at the start of the Contract) and the floating price, and multiply that difference by the notional quantity based on the notional currency that the counterparties designated at the start of the Contract.
(c) On the settlement date, which is also designated at the start of the Contract, the counterparties will exchange payment amounts (which can be netted) in the settlement currency (on which they agreed at the start of the Contract).

This method of cash settlement is consistent with the customary practice of cash-settling commodity swaps contracts in the market.

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

[2] The direct participants who have been accredited to contribute to the LBMA Gold Price are: Bank of China, Bank of Communications, China Construction Bank, Goldman Sachs International, HSBC Bank USA NA, Industrial and Commercial Bank of China (ICBC), INTL FCStone, JP Morgan, Jane Street Global Trading LLC, Morgan Stanley, Societe Generale, Standard Chartered, The Bank of Nova Scotia - ScotiaMocatta, The Toronto Dominion Bank and UBS. The list of participants is subject to change. A current list of participants is available at: http://www.lbma.org.uk/lbma-gold-price
[3] Please see "Oversight Committee" at https://www.theice.com/article/iba-lbma-gold-price

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.

As noted above, each gold auction process underlying LBMA Gold Price (AM or PM) operates in liquid commodity markets with many participants. Also, as noted above, the cash settlement price is not easily susceptible to manipulation or distortion as the method of determining the price is based on (a) factors that are fixed at the start of the contract, and (b) a reliable reference price.

(3) Where an independent, private-sector third counterparty 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 counterparty calculates the cash settlement price series, the designated contract market should verify that the third counterparty 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.

As the information on LBMA Gold Price is publicly available, a licensing agreement is not necessary. Moreover, as IBA is a regulated benchmark administrator, it has controls in place to prevent benchmark manipulation, including surveillance and oversight of its employees.

(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 regarding the calculation of the cash settlement price.

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

(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 regarding the calculation of the cash settlement price.

(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 counterparties 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.

Please see above regarding the calculation of the cash settlement price. LBMA Gold Price will be made available on the Bloomberg Terminal on a timely basis by running the GOLDLNAM Index page or GOLDLNPM Index page on Bloomberg for LBMA Gold Price AM or PM, respectively. LBMA Gold Price is also made publicly available on the LBMA website (with a 30 minute delay) and is published by IBA.

(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.

As described above, the Contract's terms are attached as Attachment A. As noted above, while there are common terms such as the trading hours, many of the terms are flexible. Nevertheless, the terms are all within commonly accepted market norms.

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

The terms and conditions of the Contract specifically list the commodity on which the Contract is based.

(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 the Contract is as determined by the counterparties, which 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 procedure and an explanation of how it is not readily susceptible to manipulation, is 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 determined by the counterparties.

(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.

As determined by the counterparties.

(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 will be the last day of the calculation period, which is set by the individual counterparties.

(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.

As noted above, netted payments will be made on the settlement date in accordance with the cash settlement method described above. No payments are made prior to the settlement date.

(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.

BSEF will comply with Parts 150 and 151 of the Commission's regulations.

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

BSEF will adhere to the applicable reporting levels set forth in **§** 15.03 of the Commission's regulations.

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

The Contract is traded twenty-four hours a day (00:01 – 24:00), Sunday to Friday (ET).

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION REGULATION 40.2, 17 C.F.R. §40.2

I hereby certify that: 1) the Contract complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq*. and regulations thereunder; and 2) concurrent with this submission, Bloomberg SEF LLC posted on its website: (a) a notice of pending certification of the Contract with the Commission; and (b) a copy of this submission.

By: Gregory Dumark
Title: Chief Compliance Officer

<u>Attachment A</u>
Terms and Conditions

Commodities – Fixed/Floating Swap/Cash Settled LBMA Gold Price Contract

Contract Overview	A fixed/floating swap contract is a cash settled agreement between two counterparties, whereby one counterparty agrees to pay a fixed amount to the other counterparty on a given date, and in exchange the second counterparty will pay a floating amount to the first counterparty on the same given date. The fixed amount paid is determined based on the notional quantity traded and the price of the reference commodity. The floating amount paid is determined based on the notional quantity and a global benchmark for daily gold prices over an agreed future calculation period.
Reference Commodity	Gold
Floating Leg	• London Bullion Market Association (LBMA) Gold Price
Settlement Currency	Currency in which payments are made between the two counterparties: • USD • CAD • EUR • GBP
Quoting Convention and Minimum Increment	Notional amount, as agreed by the counterparties
Minimum Size	Notional amount, as agreed by the counterparties
Notional Currency	Currency in which the fixed and floating prices are quoted: • USD • CAD • EUR • GBP
Trading Conventions	Buy or Sell which refers to whether or not the fixed amount is paid (buy) or received (sell)
Calculation Period	Can be a single date or date range over which the reference price of the commodity will be calculated. If a date range the reference price will be averaged across all days.
Trade Date	The date on which the counterparties enter into the contract
Settlement Date	Specified settlement or payment date when the fixed payment amount and the floating payment amount are exchanged (can be netted)
Settlement Procedure	Bilateral cash settlement performed in settlement currency
Trading Hours	00:01 -24:00; Sunday-Friday; Eastern Time
Block Size	As set forth in Appendix F to Part 43 of the CFTC Regulations.
Speculative Limits	As set forth in Part 151 of the CFTC Regulations
Reportable Levels	As set forth in CFTC Regulation 15.03