



## Rule Self-Certification

August 6, 2020

Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

**Re: SMFE 2020-014 - Self-Certification Pursuant to CFTC Regulation 40.6 – Various Exchange Rules**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6 of the Commission’s regulations thereunder, Small Exchange, Inc. (“SMFE” or the “Exchange”) submits this self-certification as written notice that the Exchange is amending the following Exchange Rules as set forth on the attached Exhibit A, which is attached hereto and incorporated herein by reference (“Rule Change”):

1. Chapter 1: Definitions
2. Rule 504. Business Days and Trading Hours
3. Rule 515. Errors and Omissions in Handling of Customer Orders
4. Rule 516. Exchange Trading System Matching Algorithm
5. Rule 521. Position Limits and Position Accountability Levels
6. Rule 904. Settlement
7. Rule 1003. Limitation on Damages
8. Rule 1012. Prohibition on Trading by Employees of the Exchange; Misuse of Material, Non-Public Information
9. Chapter 30: Small Stocks 75 Index Futures Contracts
10. Chapter 31: Small Precious Metals Index Futures Contracts
11. Chapter 32: Small Dollar Index Futures Contracts

The Rule Change is effective August 19, 2020.

The purpose of the Rule Change is to ensure the consistent use of certain defined terms in the Exchange’s Rules, and to make other non-substantive edits. The Rule Change does not make any substantive changes to the Exchange’s Rules. As such, there is no impact on the designated contract market core principles (“Core Principles”) as set forth in the Act with respect to the Exchange’s conformity therewith.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange certifies that the amendments comply with the Act, including regulations under the Act. The Exchange is not aware of any opposing views. The Exchange also certifies that this submission has been posted on the Exchange's website at [www.thesmallexchange.com](http://www.thesmallexchange.com).

If you require any additional information regarding this submission, please contact the undersigned at (312) 761-1660.

Regards,

/s/ Peter D. Santori  
Chief Regulatory Officer

Enclosed: Exhibit A

**Exhibit A**

(additions underlined; deletions ~~overstruck~~)

**Chapter 1: Definitions**

Except where the context requires otherwise, as used herein: (a) use of the singular shall include the plural and vice versa; (b) the term “include” means “include without limitation”; (c) reference to the masculine, feminine or neuter gender includes each other gender; (d) any reference to a number of days shall mean calendar days unless Business Days are specified; (e) any reference to a time shall mean the local time in Chicago, IL unless otherwise specified; (f) any reference to dollars, \$ or USD shall mean U.S. dollars; (g) any reference to a Rule, Chapter, Appendix or Exhibit refers to a Rule, Chapter, Appendix or Exhibit of these Rules; and (h) any reference to these Rules, and the words herein, hereof, hereto and hereunder and words of similar import refer to these Rules as a whole and not to any particular Rule.

The following terms shall have the following meanings when used herein:

\* \* \*

**Trading Hours** means, for any ~~Exchange~~ Business Day, the hours during which Orders may be placed on the Trading System, as shall be established, and may be revised from time to time by the Exchange in accordance with these Rules.

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**Rule 504. ~~Exchange~~ Business Days and Trading Hours**

The Exchange will publish a Notice to Members listing Business Days and the Trading Hours that will be made available on the Exchange website.

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**Rule 507. Acceptable Orders**

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(c) Limit Order

(i) Limit Orders are Orders to buy or sell a stated quantity at a specified price or at a better price if obtainable. Unless otherwise specified, any residual volume from an incomplete limit Order is retained in the central order book until the end of the Business Day.

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### **Rule 515. Errors and Omissions in Handling of Customer Orders**

- (a) A Member or Related Party who inadvertently, through error or omission, fails to execute an Order at the time it should have been executed may, upon discovery of such error or omission, execute such Order at the best obtainable price. Such Order shall be competitively executed and should be executed in the next available trading session for the applicable listed Contract, but in any event must be executed no later than the close of the next Business trading Day and shall be reported to the Customer at the price at which the Order was actually executed. If such price is to the advantage of the Customer, the Customer shall receive the benefit thereof; if not, the Customer shall receive such monetary adjustment as will afford the Customer the equivalent of the price at which such Order should and could have been executed.

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### **Rule 516. Exchange Trading System Matching Algorithm**

The Exchange Central Limit Order Book (“CLOB”) uses a Price/Time algorithm (also known as the First In, First Out or FIFO method). Under the Price/Time algorithm, Orders will be matched with the earliest bid or offer to arrive in the Trading System at the best price. If there are multiple bids and offers that have the same price, the earliest to arrive in the Trading System will be the bid or offer to which the Order is matched. If the Order exceeds the quantity of the bid or offer, the Participant will be filled at the next, best bid or offer for their Order.

- (a) Except as provided in, and in accordance with, Rule 517, all Transactions on the Exchange will be matched and executed through the operation of the CLOB.
- (b) Trading on the CLOB remains open throughout the Exchange trading Business Day unless a market is paused or halted by the Exchange. Executable Orders shall be displayed separately in the Order Book.

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### **Rule 521. Position Limits and Position Accountability Levels**

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- (h) **Position Limit Violations.** No Person shall own or control, separately or in combination, a net long position or a net short position in a Contract in excess of any position limit established by the Exchange and as designated for a Contract. Any positions, including

positions established intraday, in excess of those permitted under the rules of the Exchange, shall be deemed position limit violations.

If a position exceeds position limits as a result of an option assignment, the person who owns or controls such position shall be allowed one Business Day to liquidate the excess position without being considered in violation of the limits. Additionally, if, at the close of trading, a position that includes options exceeds position limits when evaluated using the delta factors as of that day's close of trading, but does not exceed the limits when evaluated using the previous day's delta factors, then the position shall not constitute a position limit violation.

\* \* \*

## Rule 904. Settlement, Value and Process

- (a) Overview of settlement process. The Exchange, in conjunction with the DCO, will determine the settlement value for Contracts. For each Contract, the Exchange shall publish a Daily Settlement and a Final Settlement on the Contract's day of expiration. The Daily Settlement of each Contract occurs after the Contract closes, unless otherwise stated by the Exchange. Any settlement value shall be determined by the Exchange in accordance with the DCO's rules. Notwithstanding the foregoing, the DCO may modify settlement values in its discretion in accordance with its rules. All Contracts are cash settled at expiration.

Expiration for each Contract is the third Friday of the month at 15:00:00 CT, unless such day falls on a day on which the Exchange is not open; in which case the day of expiration is the Business Day preceding the third Friday of the month. Final Settlement will occur on the same day as the expiration of the Contract and payments, if any, will be based on the Final Settlement determined by the Exchange.

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- (c) Daily Settlement of front month. If a Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement ~~value~~ for the front month will be calculated using the volume weighted average price ("VWAP") of such Trades, rounded to the nearest tradable tick, or \$0.01. If there are no Trades during this time, the Exchange will use the following methodology to determine the Daily Settlement for such Contracts:

Cash Index Value + (Previous Day's Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration

- (d) Daily Settlement of back month. If a Trade occurs in the last sixty (60) seconds of the Contract's Trading Hours, the Daily Settlement 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 Daily Settlement ~~value~~ of such back month Contract will be calculated using calendar spreads. In the absence of

relevant calendar spread trades during the Business trading Day, the Daily Settlement value for such back month Contract will be the front month Daily Settlement value for such product plus the previous day's front month Daily Settlement minus the back month spread value.

- (e) Final Settlement.
- (i) For all Contracts based on an Exchange equity index, including the index set forth in Chapter 30. On the day of expiration, the Final Settlement of the Contract is calculated using the closing price on such day for each component of such index, as determined by the rules of the primary market for such component and disseminated by the primary market (the "Official Closing Price"). If the Official Closing Price for an index component is not disseminated or otherwise determined by 15:45:00 CT, the Official Closing Price for such component will be the last sale during ~~regular Trading Hours~~ on such day of expiration or, if necessary, on the prior ~~Business trading Day~~(s); in all cases, such sale shall be determined by the Exchange's Index Calculation Agent on a best-effort's basis and validated by the Exchange. Each component's Official Closing Price will be multiplied by its weight in the index. These values are then added together for the Final Settlement of the Contract. The calculation of the Final Settlement of each Contract is performed by the Exchange's Index Calculation Agent, and validated by the Exchange.
- (ii) For all Contracts based on all other Exchange Indices, including the indices set forth in Chapters 31 and 32. On the day of expiration, the Final Settlement 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 is always comprised of 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 for the product. The calculation of the Final Settlement of each Contract is performed by the Exchange's Index Calculation Agent, and validated by the Exchange.

### Rule 1003. Limitation on Damages

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- (d) Whenever custody of an unexecuted Order or a message or other data is transmitted by a Member or Related Party to the Exchange and the Exchange acknowledges receipt of and assumes responsibility for the transmission or execution of the Order or the processing of the Order, message or other data, the Exchange may, in its sole discretion, compensate the Member for the Losses of the Member or its Related Party alleged to have resulted from the failure to process the Order, message or other data correctly due to the acts or omissions of the Exchange or due to the failure of the Trading System or facilities (each, a "Loss Event"), subject to the following limits and requirements:

\* \* \*

- (i) As to any one or more requests for compensation made by a single Member (including any Related Party of the Member) that arose on a single Business Trading Day, the Exchange may compensate the Member up to, but not exceeding the larger of \$100,000 or the amount of any recovery obtained by the Exchange under any applicable insurance maintained by the Exchange; and

\* \* \*

- (iv) Notice of all requests for compensation pursuant to this Rule shall be in writing in a form and manner prescribed by the Exchange and must be submitted no later than 12:00 p.m. Chicago Time on the next Business Day following the Loss Event giving rise to such requests. All requests shall be in writing and must be submitted in a form and manner prescribed by the Exchange along with supporting documentation by 5:00 p.m. Chicago Time on the third Business Day following the Loss Event giving rise to each such request.

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**Rule 1012. Prohibition on Trading by Employees of the Exchange; Misuse of Material, Non-Public Information**

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- (f) Any employee of the Exchange that has received an exemption under paragraph (d) of this Rule shall:
  - (i) furnish to the Exchange (or, in the case of the Chief Regulatory Officer, to the Board) account statements and other documents relevant to the trading activities that are so exempted; and
  - (ii) inform the Chief Regulatory Officer (or, in the case of the Chief Regulatory Officer, the Board) within one Business Day of any material change of information that may affect such employee's qualification for such exemption.

**Chapter 30: Small Stocks 75 Index Futures Contracts**

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### *30003.C. Price Increments*

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

### *30003.D. Daily Price Limits*

The Exchange uses intraday and daily price limits to ensure its markets work in an efficient and orderly manner during large, unexpected movements and increased volatility. The Exchange employs two intraday limits of 9% and 13% and a daily limit of 20% all using the Contract's previous day's Daily 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 all Contracts that are based on the Index 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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.

- Once the market enters an “open” state after an intraday limit of 9% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Trading Day, only to an intraday limit of 13% and a daily limit of 20% on the up (down) side all using the Contract’s previous day’s Daily Settlement-value.
- Once the market enters an “open” state after an intraday limit of 13% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Trading Day, only to a daily limit of 20% on the up (down) side all using the Contract’s previous day’s Daily Settlement-value.
- 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 all Contracts that are based on the Index. 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 Daily Settlement-value. This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

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

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

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

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

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

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

*30003.E. Position Limits, Exemptions, Accountability Levels and Reportable Levels*  
Position limits for the Contracts are 5,000 Contracts five (5) Business Days prior to expiration.

~~There are no exemptions.~~

Position accountability levels for the Contracts are 10,000.

Reportable levels for the Contracts are 200.

Position limits, accountability levels, exemptions and reportable levels are set forth in Exchange Rule 521~~2~~, “Position Limits, Accountability Levels and Reportable Levels”. Refer to Exchange Rule 522 for requirements concerning position limits, accountability levels, and reportable levels.

*30003.F. Termination of Trading*

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

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## Chapter 31: Small Precious Metals Index Futures Contracts

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*31003.C. Price Increments*

Stated in decimals, to two decimal points in U.S. dollars and cents. Prices will be available during all Ttrading 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 Daily 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 all Contracts that are based on the Index for one (1) minute for all Contracts, 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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.
  - Once the market enters an “open” state after an intraday limit of 7% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business trading Day, only to an intraday limit of 13% and a daily limit of 20% on the up (down) side all using the Contract’s previous day’s Daily Settlement value.
  - Once the market enters an “open” state after an intraday limit of 13% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business trading Day, only to a daily limit of 20% on the up (down) side all using the Contract’s previous day’s Daily Settlement value.
- 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 all Contracts that are based on the Index. The Exchange will publish a Daily Settlement 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 Daily 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 (5) Business Days prior to expiration.

There are no exemptions.

Position accountability levels for the Contracts are 10,000.

Reportable levels for the Contract are 50.

Position limits, accountability levels, exemptions and reportable levels are set forth in Exchange Rule 521~~2~~, “Position Limits, Accountability Levels and Reportable Levels”. Refer to Exchange 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.

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## Chapter 32: Small Dollar Index Futures Contracts

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*32003.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.

*32003.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 Daily 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 all Contracts that are based on the Index 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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 for all Contracts that are based on the Index, 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.
    - Once the market enters an “open” state after an intraday limit of 7% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Trading Day, only to an intraday limit of 13% and a daily limit of 20% on the up (down) side all using the Contract’s previous day’s Daily Settlement value.
    - Once the market enters an “open” state after an intraday limit of 13% has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Trading Day, only to a daily

limit of 20% on the up (down) side all using the Contract's previous day's Daily Settlement value.

- 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 all Contracts that are based on the Index. The Exchange will publish a Daily Settlement or a Final Settlement 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 Daily Settlement value. This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

*32003.E. Position Limits, Exemptions, Accountability Levels and Reportable Levels*

Position limits for the Contracts are 5,000 Contracts five (5) Business Days prior to expiration.

~~There are no exemptions.~~

Position accountability levels for the Contracts are 10,000.

Reportable levels for the Contract are 50.

Position limits, accountability levels, exemptions and reportable levels are set forth in Exchange Rule 521~~2~~, "Position Limits, Accountability Levels and Reportable Levels". Refer to Exchange Rule 522 for requirements concerning position limits, accountability levels and reportable levels.

*32003.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.

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