

August 4, 2021

Submitted via CFTC Portal

Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: TeraExchange, LLC – Regulation 40.2 Certification of Options on NZD Fixed for Floating Interest Rate Swaps (“NZD Swaptions”)

Ladies and Gentlemen:

TeraExchange, LLC (“TeraExchange”) hereby notifies the Commodity Futures Trading Commission (the “Commission”) of its intent to certify a class of options to enter into New Zealand Dollar denominated Fixed for Floating Interest Rate Swaps (the “NZD Swaptions”) on the TeraExchange swap execution facility. TeraExchange intends to list these NZD Swaptions on August 6, 2021.

Pursuant to Commission Regulation 40.2, this submission includes:

1. A copy of the submission cover sheet in accordance with the instructions provided in Appendix D to Part 40 of the Commission’s regulations, attached as Exhibit A.
2. A certification by TeraExchange that (a) the NZD Swaptions comply with the Commodity Exchange Act, as amended (the “Act”), and the Commission regulations thereunder; and (b) that concurrent with this submission, TeraExchange posted on its website (i) a notice of pending certification of the NZD Swaptions and (ii) a copy of this submission, attached as Exhibit B;
3. The NZD Swaptions’ terms and conditions, attached as Exhibit C; and
4. A concise explanation and analysis of the NZD Swaptions’ compliance with applicable core principles and Commission regulations, attached as Exhibit D.

Questions regarding this submission should be directed to Christopher Rossman, Chief Compliance Officer, at 908-273-8287 or by e-mail at crossman@teraexchange.com.

Sincerely,

Christopher Rossman
Christopher Rossman
Chief Compliance Officer

EXHIBIT A

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): _____

Organization: TerminExchange, LLC

Filing as a: DCM SEF DCO SDR Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 08/04/2021 Filing Description: _____

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(b)

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: Option - NZD BXEM Fixed for Float IRS

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(b)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

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

Rule Numbers: _____

EXHIBIT B

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

TeraExchange, LLC (“TeraExchange”) hereby certifies that: a) the Options on NZD Fixed for Floating Interest Rate Swaps (“NZD Swaptions”) comply with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and the Commodity Futures Trading Commission (the “Commission”) regulations thereunder; and b) that concurrent with this submission, TeraExchange, posted on its website: (i) a notice of pending certification of the NZD Swaptions with the Commission; and (ii) a copy of this submission.

TeraExchange, LLC

By: Christopher Rossman

Name: Christopher Rossman

Title: Chief Compliance Officer

Date: August 4, 2021

EXHIBIT C

Terms and Conditions

Option - NZD BKBM FIXED FOR FLOAT IRS	
Trade Structure	A NZD Swaption is an option exercisable on a specific date granting the owner the right, but not the obligation, to enter into an underlying NZD BKBM Swap listed for trading by TeraExchange.
ISDA Taxonomy	
OTC Asset Class:	Interest Rate (IR)
OTC Base Product:	Option (O)
OTC Sub-Product:	Swaption (SWO)
Trading Hours:	00:01 to 24:00 Eastern Standard Time or as otherwise published on TeraExchange website
Currency:	New Zealand Dollar (NZD)
Counterparties:	Buyer purchases the right to exercise the option; Seller sells the right to exercise the option
Option Type:	Payer, Receiver or Straddle
Trading Conventions:	A payer option gives the owner of the option the right to enter into a swap where it pays the fixed leg and receives the floating leg. A receiver option gives the owner of the option the right to enter into a swap where it receives the fixed leg and pays the floating leg. A straddle option gives the owner the right to determine whether to pay or receive fixed on the Exercise Date.
Strike Price:	Fixed rate that will be used for the underlying Interest Rate Swap if exercised
*Quoting Convention:	Quoted in \$ Premium (basis points of notional)
Premium Payment Date:	Date the premium is paid to the seller, calculated as the trade date plus two business days, or as specified by the counterparties
*Option Tenor:	1-month; 2-month; 3-month; 6-month; 12-month; 18-month; and 24-month
*Option Exercise Date:	Date on which buyer's right to exercise option expires, calculated as trade date plus Option Tenor, subject to option day count frequency, day count convention and local calendar, or as specified by the counterparties.
Roll Type:	Standard or IMM Dates
*Roll/Payment Date Holiday Calendar:	Wellington (NZWE), Auckland (NZAU)
*Day Count Convention:	ACT/365.FIXED
*Business Day Convention:	Following; Modified Following; Preceding
*Option Settlement:	Cleared, Physical or Cash, as specified by counterparties
Physical Settlement:	Seller grants buyer the right to cause the underlying IRS swap transaction to become effective.
Cleared Physical Settlement:	Seller grants buyer the right to cause the underlying IRS swap transaction to become effective, provided, however that the underlying IRS swap transaction is cleared through a mutually agreed upon Clearing House.
Cash Settlement:	Seller grants buyer the right to cause seller to pay to buyer the cash settlement amount in lieu of physical delivery, if any, on the cash settlement payment date. Cash settlement includes details of applicable valuation date, time, business center, settlement currency, quotation rate, rate source and reference banks.
Underlying Swap:	NZD BKBM Fixed for Floating IRS
*Max Maturity (Underlying Swap):	20 Years
*Notional:	Notional amount of the underlying swap (1 million currency unit minimum)
*Reset Frequency:	Quarterly (3M BKBM)
*Payment Frequency:	3M (Float leg only) 6M (Fixed leg only)
*Fixing Date:	Reset Date, subject to Preceding Business Day adjustment
*Floating Rate Index:	NZD-BKBM (3 Month)
*Fixing Date Holiday Calendar:	Wellington (NZWE)
Exercise Method:	The purchaser of the Swaption must notify the seller of the Swaption of the purchaser's intent to exercise the Swaption prior to negotiation of the manner of exercise (physical delivery or cash). Notice shall be in the form indicated on the order ticket. If counterparties elect the exercise by physical delivery, the counterparties must submit the underlying Swap for clearing to the designated Clearing House, otherwise cash will be exchanged.
Exercise Procedure:	As determined by the Clearing House. In the case of exercise by physical delivery, positions in the underlying swap will be established via book entry by the designated Clearing House. In the case of cash settlement, the exercise shall be conducted by exchanging cash as agreed by the counterparties.
Block Size:	As set forth in Appendix F to Part 43 of the CFTC Regulations
Position Accountability:	Position accountability will be the same as for the underlying swap, as determined and published by TeraExchange under CFTC Regulation 37.600(c)

**The above items represent the customary attributes of the swaption contracts; those marked with an asterisk "*" may be customized by agreement of counterparties in conformance with the Clearing Venue Specifications, if applicable.*

EXHIBIT D

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, in narrative form, demonstrates that the Options on NZD Fixed for Floating Interest Rate Swaps (“NZD Swaptions”) are consistent with the requirements of the Commodity Exchange Act, as amended (the “Act”), and the Commission regulations and guidance thereunder (in particular, Appendix B to Part 37 and Appendix C to Part 38).

Appendix B to Part 37

CORE PRINCIPLE 2 OF SECTION 5H OF THE ACT—COMPLIANCE WITH RULES

A swap execution facility shall:

- (A) Establish and enforce compliance with any rule of the swap execution facility, including the terms and conditions of the swaps traded or processed on or through the swap execution facility and any limitation on access to the swap execution facility;**
- (B) Establish and enforce trading, trade processing, and participation rules that will deter abuses and have the capacity to detect, investigate, and enforce those rules, including means to provide market participants with impartial access to the market and to capture information that may be used in establishing whether rule violations have occurred;**
- (C) Establish rules governing the operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades; and**
- (D) Provide by its rules that when a swap dealer or major swap participant enters into or facilitates a swap that is subject to the mandatory clearing requirement of section 2(h) of the Act, the swap dealer or major swap participant shall be responsible for compliance with the mandatory trading requirement under section 2(h)(8) of the Act.**

Trading in NZD Swaptions will be subject to the TeraExchange Rulebook (the “Rules”), which prohibits abusive trading practices, including: acts detrimental to the welfare of TeraExchange (Rule 526); acts that engage in fraud, dishonorable or dishonest conduct, or conduct which is inconsistent with just and equitable principles of trade (Rule 519); fraudulent acts (Rule 520); fictitious, wash or non-competitive transactions (Rule 521); disruptive trading practices (Rule 523); price manipulation (Rule 524); misstatements (Rule 525); and improper pre-discussed or cross trades (Rule 529).

As with all Instruments listed for trading on TeraExchange, trading activity in NZD Swaptions will be subject to monitoring and surveillance by TeraExchange’s compliance department. TeraExchange has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. See Chapter 8 of the Rules.

NZD Swaptions are not currently required to be cleared under section 2(h)(1)(A) of the U.S. Commodity Exchange Act. Should NZD Swaptions become subject to a clearing requirement, pursuant to Rule 601, all Participants and Account Holders of Participants must clear all Instruments that are required to be cleared under Section 2(h)(1) of the CEA and CFTC Regulation § 39.5, provided that an end user exception is not elected.

CORE PRINCIPLE 3 OF SECTION 5H OF THE ACT - SWAPS NOT READILY SUSCEPTIBLE TO MANIPULATION; CORE PRINCIPLE 4 OF SECTION 5H OF THE ACT - MONITORING OF TRADING AND TRADE PROCESSING

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.

(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.

This Exhibit should be read in conjunction with the NZD BKBM Fixed for Floating Interest Rate Swap contract certification submitted by TeraExchange on December 3, 2020.

The value of payments for both the fixed leg and the floating leg of the NZD Swaptions is determined primarily by referencing the widely used NZD BKBM benchmarks. NZD Swaptions based on standard NZD interest rate swaps contracts are not readily susceptible to manipulation because (i) wide dealer and industry support provides significant liquidity in all market conditions for such products, (ii) the way in which the BKBM reference price is calculated is well documented and well understood by swap market participants, (iii) the reference price is commonly used in the swap market, (iv) information about the reference price is publicly and readily available, and (v) the reference price is calculated by a regulated third-party provider using specific guidelines as described below.

In addition, TeraExchange has established exchange Rules to prohibit market participants from manipulating, distorting the price of, or disrupting the cash settlement process of the Instruments it lists for trading and an enforcement infrastructure to prevent such manipulation. TeraExchange staff conducts real-time market surveillance and performs comprehensive trade practice and market surveillance compliance review on a T+1 basis and has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified, including the ability and authority to obtain sufficient information with respect to trading in NZD Swaptions to allow it to fully perform its regulatory functions and requirements under Part 37 of the Commission Regulations.

The NZD Swaption is subject to Physical or Cash settlement, as specified by the counterparties. If Physical settlement is specified, the underlying NZD BKBM Fixed for Floating Interest Rate Swap is deliverable in the notional amount, notional currency, tenor and other terms agreed to by the counterparties and specified in the trade confirmation, and is subject to the minimum and maximum price fluctuation increments and trading hours provided in the terms. If Cash settlement is specified, the non-deliverable underlying NZD BKBM Fixed for Floating Interest Rate Swap transaction is referenced to determine the settlement value and the Cash settlement is conducted according to the valuation date, time, business center, settlement currency, quotation rate, rate source and reference banks specified by the counterparties.

(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.

Appendix C to Part 38 - Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation

(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 NZD Swaptions, listed in Exhibit C, follow industry convention and match the terms of options on NZD BKBM fixed for floating interest rate swaps that are commonly offered in the market.

Calculation of Cash Settlement Price

The cash settlement price will be calculated as follows:

- **Fixed Leg:** The payment amount is based on the following: Notional Amount, Payment Frequency, Day Count Convention and Fixed Interest Rate.
- **Floating Leg:** The payment amount is based on the following: Notional Amount, Payment Frequency, Day Count Convention, Floating Interest Rate Index and Floating Reset Dates.

All payments are settled in accordance with the payment frequency of the swap.

(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.

The NZD Swaptions contract operates in a very liquid market with numerous participants. Also, the cash settlement price is not easily susceptible to manipulation or distortion as the method of determining the price is based on factors that are fixed at the start of the particular contract (i.e., payment frequency, day count conventions, fixed interest rate and floating reset dates) and NZD BKBM. Additionally, the NZD BKBM reference rates are widely accepted by market participants and readily available through numerous publicly available sources.

(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.

As described above, the cash settlement price will be calculated through a cash settlement method that is not easily susceptible to 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.

(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 various reference rates are widely available via a number of public sources. Please see above regarding the calculation of the cash settlement price.

(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.

Please see Exhibit C for the NZD Swaption contract's terms and conditions.

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

The underlying reference rate NZD BKBM is included in the NZD Swaption contract's terms and conditions. As noted above, the reference rate is widely used in the market and readily available.

(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 NZD Swaption contract is consistent with the customary transaction sizes 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, in the context of the NZD Swaption contract, 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 agreed 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 agreed 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 maturity date of each contract, 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.

Payments are settled in accordance with the payment frequency of the NZD Swaption contract. The counterparties determine the payment frequency at the inception of the contract.

(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 required by Parts 150 or 151 of the Commission’s regulations.

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

TeraExchange 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 available to trade from 00:01 to 24:00 Eastern Standard Time each day TeraExchange is open for business or as otherwise published on the TeraExchange website.