

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 14-455 (5 of 5)

Organization: The Board of Trade of the City of Chicago, Inc. ("CBOT")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/27/14 Filing Description: Notification Regarding Listing of Treasury Invoice Swaps

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- |                          |                                     |            |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification                       | § 40.6(a)  |
| <input type="checkbox"/> | Approval                            | § 40.5(a)  |
| <input type="checkbox"/> | Notification                        | § 40.6(d)  |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change         | § 40.10(h) |

**Rule Numbers:**

**New Product**

Please note only ONE product per Submission.

- |                                     |                                       |            |
|-------------------------------------|---------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification                         | § 40.2(a)  |
| <input type="checkbox"/>            | Certification Security Futures        | § 41.23(a) |
| <input type="checkbox"/>            | Certification Swap Class              | § 40.2(d)  |
| <input type="checkbox"/>            | Approval                              | § 40.3(a)  |
| <input type="checkbox"/>            | Approval Security Futures             | § 41.23(b) |
| <input type="checkbox"/>            | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/>            | Swap Submission                       | § 39.5     |

**Official Product Name:** Long-Term Treasury Bond Invoice Swap

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

- |                          |   |                      |
|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification   | § 40.6(a)            |
| <input type="checkbox"/> | Certification Made Available to Trade Determination     | § 40.6(a)            |
| <input type="checkbox"/> | Certification Security Futures                          | § 41.24(a)           |
| <input type="checkbox"/> | Delisting (No Open Interest)                            | § 40.6(a)            |
| <input type="checkbox"/> | Approval  | § 40.5(a)            |
| <input type="checkbox"/> | Approval Made Available to Trade Determination          | § 40.5(a)            |
| <input type="checkbox"/> | Approval Security Futures                               | § 41.24(c)           |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | "Non-Material Agricultural Rule Change"                 | § 40.4(b)(5)         |
| <input type="checkbox"/> | Notification  | § 40.6(d)            |

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

**Rule Numbers:**

October 27, 2014

**VIA ELECTRONIC PORTAL**

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

**RE: CFTC Regulation §40.2(a) Certification. Notification Regarding Listing of Treasury Invoice Swaps  
CBOT Submission No 14-455 (5 of 5)**

Dear Mr. Kirkpatrick:

The Board of Trade of the City of Chicago, Inc. (“CBOT” or “Exchange”) hereby notifies the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying terms and conditions for Treasury invoice swaps, a type of standardized, forward-starting Libor-reference interest rate swap (“IRS”), to be listed for trading on the CME Globex electronic trading platform (“CME Globex”) and for submission to the Exchange of privately negotiated block trades via CME ClearPort, for first trade date of Monday, December 15, 2014.

CBOT is self-certifying certain Treasury invoice swap contracts described herein solely for the purpose of offering on its designated contract market (“DCM”) intercommodity spreads, comprising such swap contracts and specified relevant CBOT Treasury Note or Bond Futures contracts (“CBOT Treasury futures”), that will (1) provide additional optionality in terms of trading protocol for such spread exposures and (2) enable market participants to continue to trade such spread exposures in a manner compliant with all applicable laws and regulations as discussed in more detail below.

This submission is organized as follows:

Section 1 sets forth the legal and regulatory background relevant to the Exchange’s decision to list the Treasury invoice swap contracts certified herein as components of intercommodity spreads. Section 2 summarizes contract features and discusses contract structure and function. (Appendix 1, attached hereto, presents the text of CBOT Rulebook Chapter 58, which sets forth contract terms and conditions.)

Section 3 describes requisite amendments to CBOT Rulebook Chapter 5 in regard to position accountability standards. Section 4 indicates the non-reviewable ranges that will apply to trading in CBOT Treasury invoice swap contracts on CME Globex.

Section 5 addresses standards that will apply to block trading in Treasury invoice swap contracts, with special attention to standards applicable to block trading in intercommodity spreads that entail Treasury invoice swap contracts and related CBOT Treasury futures contracts.

Section 6 summarizes the CME Globex and CME Clearing fees that will apply to CBOT Treasury invoice swap contracts.

Section 7 establishes compliance of the CBOT Rules and Rule amendments certified herein with the pertinent Core Principles (“Core Principles”) for DCMs set forth in the Commodity Exchange Act (“Act” or “CEA”).

## Section 1 – Background

CBOT is self-certifying certain Treasury invoice swap contracts described herein solely for the purpose of offering on its DCM intercommodity spreads, comprising such swap contracts and specified relevant CBOT Treasury futures contracts, that will enable market participants to trade such spread exposures in a manner compliant with all applicable laws and regulations.

An invoice spread typically involves the simultaneous execution of (1) a CBOT Treasury futures contract and (2) a swap structure referenced herein as a Treasury invoice swap.<sup>1</sup> In an invoice spread transaction, a fixed-rate payer (receiver) Treasury invoice swap is counterposed against a long (short) position in a specified relevant Treasury futures contract, such that the interest rate sensitivity of the Treasury invoice swap exposure is approximately equal in magnitude, and opposite in sign, to the aggregate interest rate sensitivity of the Treasury futures exposure.<sup>2</sup>

To date, invoice spreads involving CBOT's Treasury Futures contracts generally have been executed as privately negotiated, voice-based package transactions pursuant to CBOT's Rule 538, which permits certain Exchange of Futures for Related Position ("EFRP") transactions.<sup>3</sup> Under CBOT Rule 538, an EFRP transaction involves a privately negotiated off-exchange execution of an Exchange futures or options contract and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the cash product, by product, related product, or OTC derivative instrument<sup>4</sup> corresponding to the asset underlying the Exchange contract.

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<sup>1</sup> A Treasury invoice swap is a US dollar denominated forward-starting Libor-reference IRS wherein:

The **fixed interest rate** is set with reference to a given Treasury delivery invoice yield, that is, the yield to maturity associated with the delivery invoice price for a specified Treasury futures contract, fulfilled by delivery of a specified deliverable-grade Treasury security, on a specified futures contract delivery date.

**Fixed-rate interest payment dates**, which occur semiannually, are scheduled so as to align with the coupon payment dates for the specified deliverable-grade Treasury security (typically, but not always, the Treasury issue that is either cheapest to deliver (CTD), or a close contender for CTD status, in fulfillment of the specified Treasury futures contract).

**Floating-rate interest payment dates**, which occur quarterly, also are scheduled so as to align with the coupon payment schedule for the specified deliverable-grade Treasury security.

The Treasury invoice swap is priced, quoted, and dealt in terms of the **swap spread**, the spread between the Treasury delivery invoice yield and the fixed interest rate for the Treasury invoice swap.

<sup>2</sup> Market practitioners generally gauge such interest rate sensitivities in terms of the corresponding DV01s, where the DV01 is the (absolute) dollar value of a change of one basis point per annum, up or down, in the prevailing level of market yields.

<sup>3</sup> Treasury invoice swaps used in the trading of invoice spreads are subject to the clearing requirement of CEA Section 2(h)(1), but are not currently subject to the trade execution requirement of CEA Section 2(h)(8) ("Made Available To Trade Rule" or "MAT Rule"). Thus, while market participants clear these swaps through derivatives clearing organizations ("DCO"), current trading practice is generally to establish the invoice spread exposures through the privately-negotiated EFRP mechanism.

<sup>4</sup> A long-standing requirement of CBOT Rule 538 is that any swap used as the related position component of an EFRP, among other requirements, must be an over-the-counter swap (the "OTC requirement"). In light of regulatory changes affecting the swap market as a result of the Dodd-Frank Act and the Commission's regulations implementing the statute, CBOT clarified this requirement on 31 March 2014 in the FAQ component of its Rule 538 Market Regulatory Advisory Notice ("MRAN"), which was deemed approved by the Commission under CFTC regulation 40.5 after an extended public comment period. Question and Answer 3 of that FAQ explain, specifically, that because of the OTC requirement swaps executed on or subject to the rules of a SEF or a DCM cannot be used as the related position components of EFRPs.

Upon launch of the Treasury invoice swap contracts certified herein, a market participant will be able execute an invoice spread *via* any of the following means:

- (1) an intercommodity spread competitively executed on the CBOT,
- (2) a privately negotiated intercommodity spread block transaction subject to CBOT Rule 526.<sup>5</sup>
- (3) a (legged) spread transaction in which the futures component is competitively executed on the CBOT and the swap component is executed independently (but at approximately the same time) on a swap execution facility (“SEF”) or another DCM,<sup>6</sup> or
- (4) a privately negotiated EFRP transaction subject to CBOT Rule 538,

If, however, Treasury invoice swaps become subject to the trade execution requirements for swaps, executing an invoice spread involving a CBOT Treasury futures contract via CBOT Rule 538 may no longer be an option for many market participants. Specifically, in conjunction with the MAT determinations earlier this year, DMO Staff commented that package trades where one or more components are MAT swaps were not per se excluded from the trade execution requirements, and subsequently issued no-action relief exempting packaged transactions that include a MAT swap from, *inter alia*, the trading protocols applicable to MAT swaps. Thus, if that no-action relief is not extended and a MAT determination for an invoice swap becomes effective, market participants that are required to comply with this CFTC requirement would no longer be able to execute the swap leg of an invoice spread – and the invoice spread itself – via a privately negotiated OTC transaction pursuant to CBOT Rule 538.

We emphasize that even if Treasury invoice swaps as certified herein were to become subject to a MAT determination, the applicable rules and regulations noted herein would not prohibit market participants from executing invoice spreads that incorporate CBOT Treasury futures. What would change, however, is that the means by which such invoice spreads could be executed would be different for some market participants. Notably, the EFRP mechanism would no longer be available for market participants that are required to comply with the CFTC’s trade execution requirement, however, these participants would continue to have access to the remaining three avenues of trade execution identified above.

Importantly, we note that CBOT is not seeking a MAT determination with respect to the Treasury invoice swaps that it would list for trading pursuant to this filing. Therefore, absent a MAT filing by another venue and the Commission’s agreement that such products should be subject to the trade execution requirements, market participants can continue to execute invoice spread transactions involving a CBOT listed futures contract as they do today—as a privately negotiated EFRP transaction compliant with the CEA, CFTC regulations and CBOT Rule 538.

Finally, the CBOT futures leg of an invoice spread will be executed on CBOT’s DCM, which is required by Section 4(a) of the CEA. CBOT’s invoice spread offering will, therefore, comply with all applicable swaps and futures rules and regulations.

## **Section 2 – Treasury Invoice Swaps: Contract Specifications and Design**

Tables 1 and 2 summarize Treasury invoice swap contract specifications. (All times of day referenced there and elsewhere in this memorandum are Chicago time, unless otherwise noted.)

### **Table 1 – CBOT Treasury Invoice Swaps**

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<sup>5</sup> Other invoice spread markets may exist or develop where a Treasury invoice swap is traded as a spread against another DCM’s Treasury futures contract. Thus, the four CBOT options outlined above are not exhaustive.

<sup>6</sup> Though this method introduces the potential for “price slippage,” spreading technology is widely used for trading strategies that involve execution of two or more different instruments traded on different markets.

<b>Trading Unit</b>	USD forward-starting Libor-reference interest rate swap, cleared by CME Clearing, traded on CME Globex, and standardized with reference to: (a) a specified related CBOT Treasury futures contract; (b) coupon rate per annum and maturity date of a specified related Treasury security eligible for delivery into related futures contract (a); and (c) a specified related delivery date allowable under the terms of related futures contract (a).
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<b>Swap Tenors</b>	<b>Related CBOT Treasury Futures Contract</b>	<b>Approximate IRS Tenor</b>
<b>UB IS</b>	Long Term "Ultra" Treasury Bond (UB)	25 yrs
<b>US IS</b>	Treasury Bond (US)	20 yrs
<b>TY IS</b>	10-Year Treasury Note (TY)	6 yrs 6 mos
<b>FV IS</b>	5-Year Treasury Note (FV)	4 yrs 3 mos
<b>TU IS</b>	2-Year Treasury Note (TU)	1 yr 9 mos

<b>Effective Dates</b>	Either first (F) or last (L) delivery date for the related CBOT Treasury futures contract	
	<b>F</b>	<b>L</b>
<b>UB IS</b>	First bus day of	Last bus day of
<b>US IS</b>	Mar, Jun, Sep, or Dec	Mar, Jun, Sep, or Dec
<b>TY IS</b>		Mar: 3 <sup>rd</sup> bus day of Apr
<b>FV IS</b>	First bus day of	Jun: 3 <sup>rd</sup> bus day of Jul
<b>TU IS</b>	Mar, Jun, Sep, or Dec	Sep: 3 <sup>rd</sup> bus day of Oct Dec: 3 <sup>rd</sup> bus day of Jan

<b>Price Basis</b>	Swap spread, quoted in basis points per annum
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<b>Minimum Price Increment</b>	1/10 <sup>th</sup> of one basis point per annum, eg, 11.8, 11.9, 12.0, 12.1
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<b>Termination of Trading</b>	Coincident with termination of trading in the related Treasury futures contract, if the related delivery date is the futures contract's last delivery date.  Close of trading on second business day before first delivery date of the related Treasury futures contract, if the related delivery date is the futures contract's first delivery date.
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<b>Swap Elections</b>	See Table 2.
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<b>Trading Hours</b>	CME Globex: 5pm to 4pm, Sun-Fri. CME Globex Trade Match Algorithm: First In First Out (FIFO) CME ClearPort: 5pm to 4:15pm, Sun, Fri. For submission of block trades only.
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<b>Commodity Codes</b>	<b>Initial Contract Listing</b>	<b>Secondary Contract Listing</b>	<b>Tertiary Contract Listing</b>
<b>UB IS</b>	U1A	U2A	U3A
<b>US IS</b>	B1A	B2A	B3A
<b>TY IS</b>	N1A	N2A	N3A
<b>FV IS</b>	F1A	F2A	F3A
<b>TU IS</b>	T1A	T2A	T3A

**Table 2 – CME Clearing Elections for CBOT Treasury Invoice Swaps**

<b>Effective Date</b>	Either first delivery date or last delivery date allowable for a specified related CBOT Treasury futures contract.
<b>Currency</b>	USD
<b>Notional Amount</b>	Minimum increments of \$0.01
<b>Business Day(s)</b>	New York and London
<b>Business Day Convention</b>	Modified Following
<b>Termination Date</b>	Maturity date for a specified related Treasury security eligible for delivery into the related CBOT Treasury futures contract
<b>Fixed Rate Payment Dates</b>	All semiannual period dates made with reference to Termination Date, within interval starting with (and excluding) Effective Date and ending with (and including) Termination Date.
<b>Fixed Rate</b>	(Treasury futures contract delivery invoice yield) + (Treasury invoice swap spread / 100).
<b>Fixed Rate Day Count</b>	30/360
<b>Floating Rate Payment Dates</b>	All quarterly period dates made with reference to Termination Date, within interval

	starting with (and excluding) Effective Date and ending with (and including) Termination Date.
<b>Floating Rate Option</b>	USD-LIBOR-BBA
<b>Floating Rate Designated Maturity</b>	3-Month except for Initial Floating Rate Payment
<b>Floating Rate Day Count</b>	Actual/360
<b>Floating Rate Spread</b>	None
<b>Compounding</b>	None
<b>Initial Floating Rate Payment</b>	<p>(a) Set by linear interpolation, on the basis of actual/360 day count, with respect to New York and London Business Days subject to Modified Following Business Day Convention,</p> <p>(b) applied to two (2) USD-LIBOR-BBA values for notional settlement on Effective Date,</p> <p>(c) where one such USD-LIBOR-BBA value is for the standardized Designated Maturity date next preceding the date of the Initial Floating Rate Payment, and the other such USD-LIBOR-BBA value is for the standardized Designated Maturity date next following the date of the Initial Floating Rate Payment.</p> <p>Interpolation typically will be applied to pairs of USD-LIBOR-BBA values for Designated Maturities of two (2) months and three (3) months, or of one (1) month and two (2) months, or of one (1) week and one (1) month.</p>

## Section 2.1 – Swap Structure

In light of the overview presented in Section (1), any CBOT Treasury invoice swap listed for trading on CME Globex would be standardized in terms of: (a) a specified related CBOT Treasury futures contract, (b) the coupon rate per annum and maturity date of a specified related Treasury security eligible for delivery in fulfillment of the related futures contract (a), and (c) a specified delivery date allowable under the terms of the related futures contract (a).

Each such Treasury invoice swap would be designated by an alias that conveys these attributes.

### Examples

#### 2-Year Treasury Invoice Swap: TUU4F015030JUN16

The swap is specified in terms of CBOT 2-Year Treasury Note futures for Sep 2014 delivery, on the premise that the related Treasury note to be delivered in fulfillment of contract will be 1-1/2% of 30 June 2016, and that the related futures delivery date (and swap effective date) will be the futures contract's first allowable delivery day, 2 September 2014. The swap tenor (from the swap effective date, 2 September 2014, to the related Treasury security's maturity date, 30 June 2016) is approximately 1 year 10 months.

TUU4            Related Treasury futures contract:  
CBOT 2-Year Treasury Note futures (TU) for delivery in September 2014 (U4).

F                Related futures delivery date = Swap effective date:  
First (F) delivery date for TUU4 (Tue, 2 September 2014).

0150            Indicates that coupon rate per annum of related Treasury note is 1-1/2%.

30JUN16        Indicates that maturity date of related Treasury note is 30 June 2016.

#### 16-Year Treasury Invoice Swap: USU4L062515MAY30

The swap is specified in terms of CBOT Treasury Bond futures for Sep 2014 delivery, on presumption that the related Treasury bond to be delivered in fulfillment of contract will be 6-1/4% of 15 May 2030, and that the related futures delivery date (and swap effective date) is the futures contract's last delivery day, 30 Sep 2014. The resultant swap tenor (from the swap effective date, 30 September 2014, to the related Treasury security's maturity date, 15 May 2030) is approximately 15 years 7-1/2 months.

USU4	Related Treasury futures contract: CBOT Treasury Bond futures (US) for delivery in September 2014 (U4).
L	Related futures delivery date = Swap effective date: Last (L) delivery date for USU4 (Tue, 30 September 2014).
0625	Indicates that coupon rate per annum of related Treasury note is 6-1/4%.
15MAY30	Indicates that maturity date of related Treasury note is 15 May 2030.

## Section 2.2 – Swap Fixed Interest Rates

The fixed interest rate for any Treasury invoice swap certified herein would be based on the invoice swap rate,  $r$ , established through centralized and competitive trading of the corresponding invoice spread package as follows:

$$r = y + s$$

$r$  Treasury invoice swap fixed rate per annum, accruing on 30/360 day count basis.

$y$  forward starting yield to maturity of the related Treasury security, for forward start on the related futures delivery date, with the yield based upon the CME Last (or “C-Last”) price of the Treasury invoice swap’s related Treasury futures contract, as of the timestamp of the Treasury invoice swap transaction.<sup>7</sup>

$s$  Treasury invoice swap spread

The Treasury invoice swap spread,  $s$ , is the price measure by which a Treasury invoice swap is quoted and transacted. (Because the invoice swap spread is quoted in basis points per annum,  $s$  is the quoted spread divided by 100.)

### Examples

On an arbitrarily chosen date in February 2014, consider a hypothetical Treasury invoice swap specified in terms of delivery of 3-5/8% of 15 Feb 2021 Treasury note, in fulfillment of March 2014 10-Year Treasury Note futures (TYH4), on 31 March 2014 (TYH4’s last delivery date). Assume TYH4 is priced so that the forward-starting yield to maturity for the specified related Treasury note (based on the delivery invoice amount for the Treasury note implied by the futures contract’s market price) is 2.2515 percent per annum (where the forward start date is the specified related Treasury futures contract’s last delivery date, 31 March 2014). Assume the related invoice swap spread is priced at 11.0 basis points (equal to 0.11 percent) per annum. The resultant Treasury invoice swap is booked at a fixed rate of 2.3615 percent per annum, equal to the Treasury delivery invoice yield of 2.2515 percent plus a swap spread of 0.1100 percent.

<sup>7</sup> The C-Last price for a CBOT Treasury futures contract is the contract’s latest trade price, or actionable price indication, or settlement price. Specifically, the C-Last price is the most recent of:

- (i) the contract’s latest CME Globex transaction price, or
- (ii) the CME Globex bid price that betters the bid side of the market, or
- (iii) the CME Globex asking price that betters the ask side of the market, or
- (iv) the contract’s latest daily settlement price.

In respect of items (ii) and (iii), a bid that betters the market is understood to be a bid to buy at a higher price than the incumbent C-Last price. Similarly, a better ask price is an offer to sell at a price below the preceding C-Last price.

Similarly, consider a hypothetical Treasury invoice swap for which the specified related futures contract is the same (TYH4), and the specified related delivery date is the same (TYH4's last delivery date), but for which the specified related Treasury note is 2-5/8% of 15 Nov 2020. Assume market conditions, including TYH4's price, are such that the forward-starting yield to maturity for the Treasury note (calculated, as before, on the basis of the delivery invoice amount for the Treasury note, as implied by the market price of the futures contract) is 2.2080 percent per annum. Assume as before that the price of the invoice spread is 11.0 bps per annum. The Treasury invoice swap is booked at a fixed rate 2.3180 percent per annum, equal to the Treasury delivery invoice yield of 2.2080 percent plus 0.1100 percent.

### Section 2.3 – Trading Treasury Invoice Swaps

Any party entering an order for or executing a transaction in any Treasury invoice swap certified herein, or in any intercommodity spread that entails such Treasury invoice swap, shall be required to be either a CME IRS Clearing Member or an IRS Participant registered with CME. Such Treasury invoice swaps shall not be available for trading in open outcry.

Trading in Treasury invoice swaps shall be subject, moreover, to three provisional restrictions, codified as interpretations and special notices to the contract terms and conditions. See Appendix 1.

First, Treasury invoice swap contracts shall be permitted to trade *only* as components of intercommodity spreads with the corresponding related Treasury futures contracts, until such time as the Exchange may decide, in light of the needs of market participants among other considerations, to enable outright trading in Treasury invoice swaps. Specifically, any party entering such Treasury invoice swap as the payer of fixed rate interest shall be required to be a purchaser of the related Treasury futures contract through an intercommodity spread, and conversely any party entering such Treasury invoice swap as the receiver of fixed rate interest shall be required to be a seller of the related Treasury futures contract.

Second, the trading unit for any Treasury swap shall be prescribed by the Exchange from time to time so that the order of magnitude of such swap's notional principal amount is comparable to the order of magnitude of the unit of trade for the corresponding related Treasury futures contract. Without limitation, the intent of this restriction is to enable the Exchange to establish a Treasury invoice swap's unit of trade so that the DV01 of the swap structure is approximately comparable to the DV01 of the related Treasury futures contract exposure.

Third, the *only* admissible price basis for quoting or trading a Treasury invoice swap contract shall be the corresponding Treasury invoice swap spread, as described and exemplified in Section (2.2) above. Any Treasury invoice swap transacted at a given Treasury invoice swap spread shall be submitted to CME Clearing for clearing and guarantee at fixed rate equal to the sum of (a) the swap spread (in percent per annum terms) plus (b) the forward-starting yield to maturity of the related Treasury security, for forward start on the related futures delivery date, where such yield to maturity shall be based upon the C-Last price of the swap's specified Treasury futures contract as of the timestamp of the Treasury invoice swap transaction.



### Section 3 – Position Accountability Standards

CBOT Treasury invoice swaps shall not be subject to position limits. Any Treasury invoice swap executed on the CBOT DCM shall be subject to a position accountability threshold of \$1, expressed in terms of the US dollar value of swap notional principal value as shown in Appendix 2 (attached under separate cover).

### Section 4 – Globex Non-Reviewable Trading Ranges

Non-reviewable ranges for trading in CBOT Treasury invoice swaps on CME Globex are set forth in Appendix 3.

### Section 5 – Block Trade Standards

Intermarket spreads that combine CBOT Treasury invoice swaps and the corresponding relevant CBOT Treasury futures will be eligible for execution as privately negotiated block trades, subject to the following two conditions.

First, for any block transaction in an intercommodity spread comprising a CBOT Treasury invoice swap and a related CBOT Treasury futures contract, the minimum size for each leg of such block transaction shall be no less than the minimum size threshold for block transactions in such CBOT Treasury invoice swap (where minimum size shall be understood to apply to the aggregate of contract notional face value in the case of the CBOT Treasury futures component of such intercommodity spread, and to the size of swap notional principal in the case of the CBOT Treasury invoice swap component of such intercommodity spread).

Second, contingent trade in CME Cleared interest rate swaps, including CBOT Treasury invoice swaps, is prohibited, irrespective of the trading venue in which such CME Cleared interest rate swaps may be executed, for which the effect of such contingent trade would be to circumvent minimum quantity requirements for block trades in outright CBOT Treasury futures.

Standards for block trades in such intermarket spreads are displayed in Table 3 and shall be certified with the Commission under a separate submission that sets forth the requisite amendments to Section 12 of *CME & CBOT Market Regulation Advisory Notice RA 1406-3 for Block Trades*, 3 October 2014.

**Table 3 – Block Trade Standards for CBOT Treasury Invoice Swaps and Swap Spreads**

<i>Intercommodity Spread</i>	<i>Minimum Block Trade Threshold -- Invoice Swap Notional Principal Amount (\$ mlns)<sup>8</sup></i>	<i>Minimum Block Trade Threshold – Treasury Futures Contracts</i>
<b>2-Year Invoice Spread</b>	460	2,300
<b>5-Year Invoice Spread</b>	240	2,400
<b>10-Year Invoice Spread</b>	170	1,700
<b>Treasury Bond Invoice Spread</b>	120	1,200
<b>Ultra Bond Invoice Spread</b>	120	1,200

<sup>8</sup> See 17 CFR Part 43, Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades, 31 May 2013, effective 30 July, 2013, available at <http://www.cftc.gov/LawRegulation/DoddFrankAct/Dodd-FrankFinalRules/ssLINK/2013-16938a>

## Section 6 – Exchange Fees

The fees that will apply to trading and clearing CBOT Treasury invoice swaps are as summarized below –

### ***CME Globex execution fees***

A CME Globex transaction fee of \$0.10 per swap contract side shall be levied per \$100,000 of principal amount of any CBOT Treasury invoice swap that is transacted. This fee shall apply as a flat rate, irrespective of the CBOT membership category of any party to such transaction.

### ***CME Clearing fees***

Any CBOT Treasury invoice swap as certified herein shall be subject to such CME IRS Clearing fees (ie, the High Turnover Schedule, the Standard Fee Schedule, or the Magellan Dealer schedule) as may apply to any party to a transaction in such Treasury invoice swap. CME OTC Cleared IRS Customer Fee Details that are in effect at any given time are available at <http://www.cmegroup.com/trading/interest-rates/files/CME-IRS-Customer-Fee.pdf> or at <http://www.cmegroup.com/trading/interest-rates/cleared-otc-irs-customer-fees.html>

### ***Block trade surcharges***

A surcharge of \$0.25 per swap contract side shall be levied per trading unit of any CBOT Treasury invoice swap made through a block transaction.

Any CBOT Treasury futures contract that is traded through an intercommodity spread with a CBOT Treasury invoice swap shall be subject to such applicable CBOT transaction fees, surcharges, and clearing fees as are in effect at the time of transaction. The CBOT Transaction Fee Schedules for Financial Products, and for Ex-Pit Surcharges, Non-Trades, and Clearing Fees that are in effect at any given time are available at <http://www.cmegroup.com/company/clearing-fees/>

## Section 7 – Compliance with Core Principles

The Exchange's Research Department and Legal Department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act"). During the review, we have determined that the new product terms and conditions certified herein may bear upon the following Core Principles:

**Core Principle 2 – Compliance with Rules:** Trading in the contracts certified herein shall be subject to CBOT Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Additionally, trading in these contracts shall be subject to the Exchange's trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. Trading activity in these contracts shall be subject to monitoring and surveillance by CME Group's Market Regulation Department, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

**Core Principle 3 – Contracts Not Readily Subject to Manipulation:** Each CBOT Treasury invoice swap shall entail payment (receipt) of semiannual fixed interest amounts determined by reference to the swap fixed rate (established by means of centralized and competitive trading on the CBOT DCM) in exchange for receipt (payment) of quarterly floating interest amounts determined by reference to values of 3-month US Dollar ICE LIBOR on each of such Treasury invoice swap's quarterly floating interest rate reset dates. See Appendix 1, Rule 58101.B.<sup>9</sup> Please refer to Appendix 4 for a review of the administration, definition,

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<sup>9</sup> More precisely, for a given Treasury invoice swap the floating rate designated maturity shall be 3 months for all floating rate interest intervals entailed in such swap, with the exception of the initial floating rate interest interval (or "stub" interval), which typically will be shorter than 3 months. Accordingly, the terms and conditions for CBOT Treasury invoice swaps allow for the corresponding initial floating interest rate to be set:

- (a) by linear interpolation, on the basis of actual/360 day count, with respect to New York and London Business Days subject to Modified Following Business Day Convention,

calculation and regulatory oversight of the 3-month US dollar ICE LIBOR in connection with this Core Principle.

Core Principle 4 – Prevention of Market Disruption: Trading in the swap contracts certified herein shall be subject to CBOT Rulebook Chapters 4 and 7, which include prohibitions on manipulation and price distortion. As with any new product listed for trading on a CME Group DCM, trading activity in the swap contracts certified herein shall be subject to monitoring and surveillance by CME Group’s Market Regulation Department.

Core Principle 5 – Position Limits or Accountability: CBOT Treasury invoice swaps as certified herein are financially-settled contracts that are based on an excluded commodity. Accordingly, these swaps will not be subject to Exchange-set position limits. Rather, any such Treasury invoice swap executed on the CBOT DCM shall be subject to a position accountability threshold of \$1, expressed in terms of the US dollar value of swap notional principal value. See Section (3) above and Appendix 2, below.

Core Principle 7 – Availability of General Information: The Exchange shall publish on its website information in regard to Treasury invoice swap contract specifications, terms, and conditions, as well as daily trading volumes in such swaps, the outstanding notional principal amounts of such swaps, and price information.

Core Principle 8 – Daily Publication of Trading Information: The Exchange shall publish daily information in regard to daily trading volumes in such swaps, the outstanding notional principal amounts of such swaps, and price information on its website and through quote vendors.

Core Principle 9 – Execution of Transactions: CBOT Treasury invoice swaps, as certified herein, shall be listed for trading on CME Globex as components of the intercommodity spreads discussed above. CME Globex provides for competitive and open execution of transactions, and affords the benefits of reliability and global connectivity. Block trades will be permitted as described above. CME Globex non-reviewable trading ranges for the Treasury invoice swaps certified herein are set forth in Appendix 3, below.

Core Principle 10 – Trade Information: All requisite trade information shall be included in the audit trail for the Market Regulation Department to monitor for market abuse.

Core Principle 11 – Financial Integrity of Transactions: Any CBOT Treasury invoice swap, as certified herein, shall be cleared by CME Clearing as an IRS Product subject to the Clearing House financial safeguards provided by the IRS Guaranty Fund. CME Clearing is registered with the Commodity Futures Trading Commission as a Derivatives Clearing Organization and is subject to all CFTC regulations related thereto.

Core Principle 12 – Protection of Markets and Market Participants: CBOT Rulebook Chapters 4 and 5 set forth multiple strictures that preclude intermediaries from disadvantaging their customers. These Rules apply to trading in all of the Exchange’s competitive trading venues and will apply to transactions in the Treasury invoice swap contracts certified herein.

Core Principle 13 – Disciplinary Procedures: CBOT Rulebook Chapter 4 provides for the Exchange to discipline, suspend, or expel members or market participants who violate the rules of the Exchange. Trading in the Treasury invoice swap contracts certified herein will be subject to these provisions. The

- 
- (b) applied to two (2) USD-LIBOR-BBA values for notional settlement on Effective Date,
  - (c) where one such USD-LIBOR-BBA value is for the standardized Designated Maturity date next preceding the date of the Initial Floating Rate Payment, and the other such USD-LIBOR-BBA value is for the standardized Designated Maturity date next following the date of the Initial Floating Rate Payment.

Such interpolation typically will be applied to USD-LIBOR-BBA values for one of three pairs of Designated Maturities: 2 months and 3 months, 1 month and 2 months, or 1 week and 1 month.

Market Regulation Department has the authority to exercise its powers of enforcement, in the event that rule violations in these products are identified.

Core Principle 14 – Dispute Resolution

Disputes with respect to the Treasury invoice swap contracts certified herein will be subject to the arbitration provisions set forth in CBOT Rulebook Chapter 6, which allow all nonmembers to submit claims for financial losses resulting from transactions on the Exchange to arbitration. Pursuant to these provisions, any member named as a respondent in any such claim submitted by a nonmember is required to participate in arbitration proceedings. Additionally, the Exchange requires members to resolve via arbitration all disputes concerning transactions on the Exchange.

The Exchange certifies that the Treasury invoice swaps certified herein comply with the Act and rules thereunder. There were no substantive opposing views to the proposed terms and conditions.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-fillings.html>.

If you require any additional information regarding this action, please do not hesitate to contact me ([christopher.bowen@cmegroup.com](mailto:christopher.bowen@cmegroup.com), 212 299 2200) or my colleague Frederick Sturm ([frederick.sturm@cmegroup.com](mailto:frederick.sturm@cmegroup.com), 312 930 1282).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix 1–CBOT Rulebook Chapter 58  
Appendix 2– Amendments to Interpretations Section of CBOT Rulebook Chapter 5:  
Position Accountability Levels for Treasury Invoice Swaps (attached under separate  
cover)  
Appendix 3– Amendments to CBOT Rule 588.H. Globex Non-Reviewable Trading  
Ranges  
Appendix 4–Review of ICE LIBOR under Core Principle 3

**Appendix 1**  
**CBOT Rulebook Chapter 58 – Treasury Invoice Swaps**  
(additions underlined)

**58100. SCOPE OF CHAPTER**

This chapter is limited in application to trading of Treasury Invoice Interest Rate Swaps (“Treasury Invoice Swaps”). Procedures for trading, clearing, settlement, and any other matters not specifically covered herein, shall be governed by the general rules of the Exchange and of Chicago Mercantile Exchange (“CME”) Rulebook Chapters 8F, 8G, 900, and 901, as applicable (“Rules”).

Capitalized terms in this Chapter that are not otherwise defined in this Chapter shall have the meanings given to such terms in other Chapters of the Rules. Except as noted, references in this Chapter to Rules or Chapters shall be to the Rules of the CBOT or to the Chapters of the CBOT Rulebook. Capitalized terms in this Chapter that are not otherwise defined in this Chapter or in the other Chapters of the Rules shall have the meanings set forth in the ISDA Definitions (CME Rule 90002.N.).

Except as noted, all times referenced in this Chapter are Chicago times and are subject to change by the Exchange.

**58101. CONTRACT SPECIFICATIONS**

**58101.A. Definitions**

1. CBOT Treasury Futures Contract

Short-Term U.S. Treasury Note (2-Year) futures (Chapter 21), Medium-Term U.S. Treasury Note (5-Year) futures (Chapter 20), Long-Term U.S. Treasury Note (6 ½ to 10-Year) futures (Chapter 19), U.S. Treasury Bond futures (Chapter 18), or Long-Term U.S. Treasury Bond futures (Chapter 40) listed for trading on the CBOT.

2. Related Futures Contract

For a given Treasury Invoice Swap made under these rules, a given CBOT Treasury Futures Contract (Rule 58101.A.1.) for a given delivery month as specified in the Swap Elections for such Treasury Invoice Swap, including but not limited to the Effective Date (Rule 58101.B.1.), Fixed Rate Payment Dates (Rule 58101.B.7.), Floating Rate Payment Dates (Rule 58101.B.10.), and Initial Floating Rate Payment (Rule 58101.B.16.).

3. Related Treasury CUSIP

A given Treasury security designated by the Exchange as eligible for delivery in fulfillment of the Related Futures Contract (Rule 58101.A.2.).

4. Related Futures Delivery Date

A given date allowable for delivery of Treasury securities in fulfillment of the Related Futures Contract (Rule 58101.A.2.). Without limitation to the foregoing, such Related Futures Delivery Date typically shall be either the first delivery date or the last delivery date allowable under the terms of such Related Futures Contract.

**58101.B. Swap Elections**

Any contract made under these Rules shall be an Interest Rate Swap Contract (“IRS Contract” per CME Rule 90002.J.) that is accepted for clearing by the Clearing House subject to CME Rulebook Chapters 8F, 8G, 900, and 901, and that is subject to the following Contract Elections (CME Rule 90002.F.):

1. Effective Date: A specified Related Futures Delivery Date (Rule 58101.A.4.) for a specified Related Futures Contract (Rule 58101.A.2.).
2. Currency: US dollars (CME Rule 90102.B.).
3. Notional Amount: Any integer multiple of \$0.01.
4. Business Day(s): New York and London.
5. Business Day Convention: Modified Following.
6. Termination Date: Maturity date of a given Related Treasury CUSIP (Rule 58101.A.3.).
7. Fixed Rate Payment Dates: All semiannual period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
8. Fixed Rate: See Rule 58102.C.
9. Fixed Rate Day Count: 30/360.
10. Float Rate Payment Dates: All quarterly period dates, made with reference to a given Termination Date (Rule 58101.B.6.), in the interval beginning with and not including the Effective Date (Rule 58101.B.1.) and ending with and including such Termination Date.
11. Floating Rate Option: USD-LIBOR-BBA (CME Rule 90102.E.1.).
12. Designated Maturity: Three (3) months, subject to Rule 58101.B.16.
13. Floating Rate Day Count: Actual/360.
14. Spread: None.
15. Compounding: None.
16. Initial Float Rate Payment: The floating rate for determination of the Initial Floating Rate Payment shall be set:
  - (a) by linear interpolation, on the basis of Actual/360 Floating Rate Day Count (Rule 58101.B.13.) with respect to New York and London Business Days (Rule 58101.B.4.) subject to the Modified Following Business Day Convention (Rule 58101.B.5.),
  - (b) applied to two (2) USD-LIBOR-BBA values for notional settlement on the Effective Date (Rule 58101.B.1.),
  - (c) where one such USD-LIBOR-BBA value is for the standardized Designated Maturity date next preceding the date of such Initial Floating Rate Payment, and the second such USD-LIBOR-BBA value is for the standardized Designated Maturity date next following the date of such Initial Floating Rate Payment.

Without limitation to the foregoing, such interpolation typically will be applied to pairs of USD-LIBOR-BBA values for Designated Maturities of two (2) months and three (3) months, or of one (1) months and two (2) months, or of one (1) week and one (1) month.

## **58102. TRADING SPECIFICATIONS**

For Treasury Invoice Swap contracts made under these Rules, the number of Effective Dates (Rule 58101.B.1.) and Termination Dates (Rule 58101.B.6.) open for trading at a given time shall be determined by the Exchange.

Trading in any Treasury Invoice Swap contract made under these Rules shall be subject to the Interpretations & Special Notices Relating to Chapter 58.

### **58102.A. Trading Schedule**

The hours of trading shall be determined by the Exchange.

### **58102.B. Trading Unit**

The contract quantity shall be an integer multiple of \$0.01 of Notional Amount (Rule 58101.B.3.), subject to the Interpretations & Special Notices Relating to Chapter 58.

### **58102.C. Price Basis**

Any price quoted or made in connection with creation of a Treasury Invoice Swap contract under these Rules shall be in terms of the Fixed Rate for such swap (Rule 58101.B.8.), subject to the Interpretations & Special Notices Relating to Chapter 58.

### **58102.D. Position Limits and Position Accountability**

The applicable position limits and/or accountability levels are set forth in the Position Limit and Position Accountability Table in the Interpretations & Special Notices Section of Chapter 5.

A person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

### **58102.E. Termination of Trading**

Trading on CBOT in any Treasury Invoice Swap made under these Rules shall terminate with termination of trading in the Related Futures Contract (Rule 58101.A.2.) corresponding to such Treasury Invoice Swap.

## **58103. CLEARING GUARANTEE**

### **58103.A. Requirements for Market Participation**

Any party entering an order for, or executing a transaction in, any Treasury Invoice Swap made under these Rules shall be either an IRS Clearing Member (CME Rule 90002.I) or an IRS Participant registered with CME pursuant to CME Rule 90005.A or CME Rule 90005.B , respectively.

### **58103.B. IRS Product Account Registration**

Any order for, or transaction in, a Treasury Invoice Swap made under these Rules must be identified with an IRS Product account number that identifies the holder of such IRS Product account, and that specifies whether such IRS Product account is either (1) a proprietary account of an IRS Clearing Member or (2) held by a customer registered with CME by an IRS Clearing Member as an IRS Participant (CME Rule 8F009. and CME Rule 90005.B.). Such IRS Clearing Member shall guarantee and assume complete responsibility for the financial obligations of the party on whose behalf such order or trade is entered.

### **58103.C. Clearing House Financial Safeguards**

Any Treasury Invoice Swap made under these Rules shall be an IRS Product subject to the Clearing House financial safeguards provided by the IRS Guaranty Fund.

## **INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 58**

### **1. Trading Specifications**

Until such time as the Exchange shall enable outright trading in Treasury Invoice Swap contracts made under these Rules, trading in any such Treasury Invoice Swap contract shall be permitted only where such Treasury Invoice Swap contract is traded as a component of an intercommodity combination with the corresponding Related Futures Contract (Rule 58101.A.2.) in which (a) any party entering such Treasury Invoice Swap as the payer of Fixed Rate interest (Rule 58101.B.8.) shall be a purchaser of such Related Futures Contract, and (b) any party entering such Treasury Invoice Swap as the receiver of Fixed Rate interest shall be a seller of such Related Futures Contract.

### **2. Trading Unit**

Subject to Special Notice 1. for Trading Specifications of these Interpretations & Special Notices, the Trading Unit for any Treasury Invoice Swap contract made under these Rules shall be as prescribed by the Exchange from time to time.

Without limitation to the foregoing, the Exchange typically shall prescribe the Trading Unit for such Treasury Invoice Swap contract so that the order of magnitude of the corresponding Notional Amount (Rule 58101.B.3.) shall be comparable to the order of magnitude of the Trading Unit for the corresponding Related Futures Contract. (See CBOT Rule 21102.B. where such Related Futures Contract is Short-Term U.S. Treasury Note (2-Year) futures, CBOT Rule 20102.B. where such Related Futures Contract is Medium-Term U.S. Treasury Note (5-Year) futures, CBOT Rule 19102.B. where such Related Futures Contract is Long-Term U.S. Treasury Note (6 ½ to 10-Year) futures, CBOT Rule 18102.B. where such Related Futures Contract is U.S. Treasury Bond futures, or CBOT Rule 40102.B. where such Related Futures Contract is Long-Term U.S. Treasury Bond futures.)

### **3. Price Basis**

Subject to Special Notice 1. for Trading Specifications of these Interpretations & Special Notices, the Price Basis for any Treasury Invoice Swap contract under these Rules shall be the corresponding Swap Spread. Such Swap Spread shall be quoted and made as an integer multiple of one tenth (1/10) of one interest rate basis point per annum (1/100th of one percent per annum), on the basis of 30/360 day count (Rule 58101.B.9.), with semiannual compounding of interest (Rule 58101.B.7.). Any such Swap Spread shall be quoted in a minimum increment of one tenth (1/10) of one basis point per annum (eg, 10.9, 11.0, 11.1, or 11.2 basis points per annum).

Where a Treasury Invoice Swap contract is made at a given Swap Spread:

**3.a. The Fixed Rate** of interest (Rule 58101.B.8.) for such Treasury Invoice Swap contract shall be the sum of such Swap Spread, re-expressed in terms of interest rate per annum, plus the corresponding Treasury Delivery Invoice Yield.

*Example:* Assume that a given CBOT Treasury Invoice Swap trades at a price equal to 11.2 basis points per annum or, equivalently, 0.112 percent per annum. Assume moreover that for the corresponding Related Futures Contract, Related Treasury CUSIP, and Related Futures Delivery Date, the Treasury Delivery Invoice Yield is equal to 2.550 percent per annum. Then such Treasury Invoice Swap shall be submitted to CME Clearing for centralized clearing and guarantee at a Fixed Rate of 2.662 percent per annum, equal to 2.550 percent plus 0.112 percent.

**3.b. Such corresponding Treasury Delivery Invoice Yield** shall be defined as the yield to maturity that corresponds to the delivery invoice amount implied by the market price of the corresponding Related Futures Contract (Rule 58101.A.2.), to be fulfilled by delivery of the corresponding Related Treasury CUSIP (Rule 58101.A.3.) for settlement on the corresponding Related Futures Delivery Date (Rule 58101.A.4.).



3.c. Such market price of the corresponding Related Futures Contract shall be defined as the CME Last price of such Related Futures Contract, as indicated on the CME Globex electronic trading platform at the time of transaction of such Treasury Invoice Swap contract. Without limitation to the foregoing, for a given Related Futures Contract the CME Last price shall be the most recent of:

- (i) such Related Futures Contract's latest CME Globex transaction price, or
- (ii) the CME Globex bid price that betters the bid side of the market, or
- (iii) the CME Globex asking price that betters the ask side of the market, or
- (iv) such Related Futures Contract's latest daily settlement price.

**Appendix 2**  
**Amendments to Interpretations Section of CBOT Rulebook Chapter 5:**  
**Position Accountability Levels for Treasury Invoice Swaps**

Attached under separate cover with additions underlined.

### Appendix 3

## Amendments to CBOT Rule 588.H. Globex Non-Reviewable Trading Ranges

(additions underlined)

#### Interest Rate Swaps

Instrument	Globex Symbol	Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks
...	...	...	...	...
<b>Two-Year Treasury Invoice Swap</b>	<u>T1A, T2A, T3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<b>Five-Year Treasury Invoice Swap</b>	<u>F1A, F2A, F3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<b>Ten-Year Treasury Invoice Swap</b>	<u>N1A, N2A, N3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<b>Treasury Bond Invoice Swap</b>	<u>B1A, B2A, B3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
<b>Long-Term Treasury Bond Invoice Swap</b>	<u>U1A, U2A, U3A</u>	<u>2 1/2 basis points</u>	<u>2.50</u>	<u>25</u>
...	...	...	...	...

## Appendix 4

### Review of ICE LIBOR under Core Principle 3

#### **Administration and Oversight of LIBOR**

Since mid-2012, the US Commodity Futures Trading Commission, the UK Financial Conduct Authority (FCA) and its predecessor, the UK Financial Services Authority (FSA), and other financial regulators have brought enforcement actions against several commercial banks and interbank brokerage firms in connection with misconduct in respect of Libor and other short-term interest rate benchmarks. To date, such enforcement actions undertaken by the FSA, and latterly the FCA, and the corresponding financial penalties, are as follows<sup>10</sup> --

Jun 2012	Barclays Bank plc	£59.5 mln
Dec 2012	UBS AG	£160.0 mln
Feb 2013	Royal Bank of Scotland plc	£87.5 mln
Sep 2013	ICAP Europe Ltd	£14.0 mln
Oct 2013	Rabobank BA	£105.0 mln
May 2014	Martin Brokers (UK) Ltd	£630,000
Jul 2014	Lloyds Bank plc/Bank of Scotland plc	£105.0 mln

The FCA continue “to take enforcement action in relation to benchmark misconduct.”<sup>11</sup>

In July 2012, the Chancellor of the Exchequer commissioned the Wheatley Review of Libor to perform an independent review of the setting and use of Libor.<sup>12</sup> Among the Wheatley Review’s recommendations was that a legislative framework should be enacted for regulation of financial market benchmarks, such as Libor. The elements of the recommended framework included the creation of two new regulated activities: (i) administering a specified benchmark; and (ii) providing information in relation to a specified benchmark. The recommended regulatory regime became law through amendments to Financial Services and Markets Act of 2000 (via passage of the Financial Services Act of 2012) and to the associated Regulated Activities Order. In consequence, the laws of England now require that firms that either contribute to or administer any ‘specified benchmark’ named by HM Government in secondary legislation must be authorized by the FCA. Moreover, any firm so authorized may face sanctions, including financial penalties, suspensions, and censures, if it breaches any of the FCA’s rules and principles. The Financial Services Act of 2012 identified Libor as a ‘specified benchmark.’

Another of the principal recommendations of the Wheatley Review of Libor was that the incumbent Libor administrator, BBA Libor Ltd, should cede responsibility for management of Libor to a newly appointed administrator. For this purpose, on 25 February 2013 HM Government empaneled the independent Hogg

<sup>10</sup> See <http://www.fca.org.uk/firms/being-regulated/enforcement/fines/2013>,

<http://www.fca.org.uk/firms/being-regulated/enforcement/fines>,

UK Financial Services Authority, Enforcement Annual Performance Account 2012/13, 1 July 2013, available at <https://www.google.com/url?q=http://www.fca.org.uk/static/documents/annual-report/fsa-enforcement-performance-account-2012-13.pdf&sa=U&ei=mHotVOurlSk3yATxiYCQAQ&ved=0CA0QFjAE&client=internal-uds-cse&usq=AFQjCNH3ZJEBsYE16FyZirJ2aQQ0uU2Y-Q>, and

UK Financial Conduct Authority, Enforcement Annual Performance Account, 1 July 2014, available at <https://www.google.com/url?q=http://www.fca.org.uk/static/documents/corporate/enforcement-annual-performance-account-13-14.pdf&sa=U&ei=mHotVOurlSk3yATxiYCQAQ&ved=0CAwQFjAD&client=internal-uds-cse&usq=AFQjCNHHQccs4QLbS6ivYWohUd7mlo1fCw>

<sup>11</sup> See, eg, UK Financial Conduct Authority, Enforcement Annual Performance Account, 1 July 2014, *ibid*.

<sup>12</sup> Wheatley, Martin, et al. The Wheatley Review of Libor: Final Report, 28 September 2012, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191762/wheatley\\_review\\_libor\\_final\\_report\\_280912.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191762/wheatley_review_libor_final_report_280912.pdf)

Tendering Advisory Committee for Libor (Committee), which was mandated by HM Treasury and the FSA to oversee selection of a new Libor administrator and to recommend its selection to the British Bankers' Association (BBA) as a replacement for BBA Libor Ltd.

On 17 April 2013, the Committee published an Invitation to Tender (ITT). After assessing the bid responses in light of the criteria in the ITT, the Committee concluded that NYSE Euronext Rate Administration Ltd was best placed among them to achieve an orderly transition to an effective new regime for management of Libor and to restore Libor's credibility. On 9 July 2013 it was announced that the BBA, which supported the appointment of the Committee and the tender process, had accepted the Committee's recommendation that NYSE Euronext Rate Administration Ltd should be the new Libor administrator.

NYSE Euronext Rate Administration Ltd was subsequently reorganized as ICE Benchmark Administration Ltd, following the acquisition of NYSE Euronext by the Intercontinental Exchange (ICE) on 13 November 2013. On 17 January 2014 the UK Financial Conduct Authority (FCA) confirmed formal authorization for ICE Benchmark Administration Limited to succeed BBA Libor Ltd as the administrator of Libor. On 1 February 2014, ICE Benchmark Administration Limited, a UK-based company regulated in the UK by the FCA, commenced operating as the administrator of Libor.

### ***ICE LIBOR and Floating Rate Resets for CBOT Treasury Invoice Swaps***

Despite past misdeeds having cast doubt upon Libor's integrity, ICE LIBOR remains the primary gauge of the prevailing rate at which a leading bank can obtain unsecured funding in the London interbank market.<sup>13</sup>

For daily settings of US dollar Libor, ICE Benchmark Administration Limited relies upon a Contributor Panel of 18 Contributor Banks. Since 1 December 2011, these Contributor Banks are:

Bank of America	JP Morgan Chase
Bank of Tokyo-Mitsubishi UFJ Ltd	Lloyds Banking Group
Barclays Bank plc	Norinchukin Bank
BNP Paribas	Rabobank
Citibank NA	Royal Bank of Canada
Credit Agricole CIB	Royal Bank of Scotland Group
Credit Suisse	Société Générale
Deutsche Bank AG	Sumitomo Mitsui Banking Corporation
HSBC	UBS AG

### ***ICE LIBOR Defined***

The ICE LIBOR Code of Conduct defines ICE LIBOR for any given term to maturity as the rate at which a Contributor Bank could borrow funds at that term to maturity, were it to do so by asking for and then accepting interbank offers in reasonable market size just prior to 11 am London time. (See Section 3.1 of ICE LIBOR Code of Conduct at [https://www.theice.com/publicdocs/IBA\\_Code\\_of\\_Conduct.pdf](https://www.theice.com/publicdocs/IBA_Code_of_Conduct.pdf).) This definition is legally required to undergo regular review by an Oversight Committee, which ICE Benchmark Administration Limited is legally required to empanel and to regularly convene. (See Chapter 8 of FCA Market Conduct Sourcebook at <http://fshandbook.info/FS/html/handbook/MAR/8>.) Since 1 February 2014, the Oversight Committee includes a representative of CME Group.

The methodological framework and standards that LIBOR Contributor Banks are legally required to uphold is set forth in the Submission Methodology Annex of the ICE LIBOR Code of Conduct. (See pp 12-13 and pp 24-27 of ICE LIBOR Code of Conduct, available at [https://www.theice.com/publicdocs/IBA\\_Code\\_of\\_Conduct.pdf](https://www.theice.com/publicdocs/IBA_Code_of_Conduct.pdf).)

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<sup>13</sup> For a recent and definitive survey of the extent of US dollar Libor's use, and of the breadth of purpose to which market practitioners apply it, see Duffie, Darrell, et al. Market Participants Group on Reforming Interest Rate Benchmarks – Final Report, Chapters 1 and 2, Financial Stability Board, March 2014, available at [http://www.financialstabilityboard.org/publications/r\\_140722b.htm](http://www.financialstabilityboard.org/publications/r_140722b.htm)

### **Calculation of ICE LIBOR**

Data submitted by Contributor Banks are received and processed by Thomson Reuters, which remains the designated calculation agent for ICE LIBOR, and are used to calculate ICE LIBOR according to guidelines set forth in the ICE LIBOR Code of Conduct.

A Thomson Reuters communication software application is installed at each Contributor Bank, enabling it to make its rate submissions confidentially. Each morning, during a submission interval between 11:00am and 11:10am London time, a Benchmark Manager responsible for the Contributor Bank's formulation of its rate submissions transmits them via the application to a rate-setting team at Thomson Reuters.

Under the regulations enforced by the FCA, the role of Benchmark Manager is recognized as a Controlled Function (CF40). Accordingly, the Benchmark Manager must be a natural person approved by the FCA to exercise the controlled function relating to the oversight of the respective Contributor Bank's compliance with Section 8.2 of the FCA Market Conduct Sourcebook (MAR), as required by MAR Section 8.2.3R. (See ICE LIBOR Code of Conduct, especially Section 1 and Section 2. See also FCA Market Conduct Sourcebook, Chapter 8, at <http://fshandbook.info/FS/html/handbook/MAR/8> .)

No Contributor Bank can see other Contributor Bank rate submissions during the submission interval. Before sending a Contributor Bank's rate submissions for calculation, Thomson Reuters perform a battery of automated and manual diagnostic tests to identify data points requiring scrutiny. These tests include filters to detect the following potential anomalies:

Any rate submission (for a given currency denomination and tenor) that moves more than 4 basis points per annum from the previous corresponding rate submission.

Any rate submission that "crosses the quote," ie, a rate submission that is below the preliminary ICE LIBOR value for today, but for which the previous corresponding rate submission was above the previous day's ICE LIBOR value (or vice versa).

Any rate submission that signifies a spike up or down relative to a linear interpolation of adjacent points on the term structure of the Contributor Bank's set of rate submissions for a given currency denomination.

Thomson Reuters analysts are instructed to confirm with the pertinent Contributor Bank any data point that these filters identify as unusual or anomalous.

With the primary data having been thus filtered and checked, each Libor value is calculated as an interquartile mean. That is, for any given interest rate tenor and currency denomination, Thomson Reuters rank the corresponding submitted values in descending order, then trim out approximately the highest and lowest quartiles. For US dollar Libor the trimming process is as follows:

Number of Contributor Banks: 18

Trimming Methodology: Exclude 4 highest rates, and exclude 4 lowest rates.

Number of Contributor Banks on which US Dollar ICE LIBOR is based: 10

Remaining Contributor Bank rate submissions – approximately those within the interquartile range – are arithmetically averaged to create that day's Libor value.

At the conclusion of the process, results are published via Thomson Reuters and other licensed data vendors, generally around 11:45am London time.