December 4, 2020

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Center
1155 21ˢᵗ Street NW
Washington, DC 20581

> **Re:** **SMFE 2020-015 - CFTC Regulation 40.2(a) Certification: Initial Listing of the Small 10-Year U.S. Treasury Yield Index Futures Contracts**

Dear Mr. Kirkpatrick:

Small Exchange, Inc. ("SMFE" or "Exchange") hereby notifies the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the initial listing of the Small 10-Year U.S. Treasury Yield Index Futures Contracts ("Contract" or "Contracts") as set forth below for trading on the Small Exchange matching engine and for submission for clearing via the Options Clearing Corporation ("OCC") effective December 4, 2020, for trade date December 7, 2020.

| Contract Title | Commodity Code | SMFE Rulebook Chapter |
|---|---|---|
| Small 10-Year U.S. Treasury Yield Index Futures | S10Y | 34 |

The underlying reference for the Contracts shall be the Small 10-Year U.S. Treasury Yield Index ("Index").

# Contract Description

The Small 10-Year U.S. Treasury Yield Index Futures Contracts are based on the Small 10-Year U.S. Treasury Yield Index, which is based on the U.S. 10-year continuous yield of the on-the-run U.S. 10-Year Treasury Note.  The Index is expressed as the computed yield multiplied by 1,000.

As described below, the Index is maintained by an independent Index Calculation Agent ("ICA") in accordance with the IOSCO Principles for Financial Benchmarking (the "IOSCO Principles").  The Index is calculated by the ICA using a methodology designed by Small Exchange, Inc. (the "Index Methodology") and disseminated to major market data vendors on a one-second frequency using trade and quote data of its underlying constituent from a list of contributors.

The Exchange believes the Contracts will appeal to a wide range of Exchange Participants based on the Index Methodology and the notional size of the Contracts.[1]  The Contracts help facilitate risk management for both retail and commercial Participants.  The smaller notional size of the Contracts afford Participants a capital-efficient way to mitigate interest rate volatility.  In addition to retail Participants, the Exchange expects the Contracts to appeal to financial advisors of Separately Managed Accounts ("SMAs"), pension funds, and institutions looking for particular interest rate exposure.

# Cash Market Overview

The Small 10-Year U.S. Treasury Yield Index Futures Contracts add unique value to the market by offering Participants asset exposure and risk mitigation not currently available with traditional interest rate products.

The on-the-run U.S. Treasury note comprises the Index. Using the on-the-run U.S. Treasury note ensures the output of the Index Methodology is an index that consists of the most relevant ten-year U.S. Government interest rate.  A breakdown of the methodology is detailed in Appendix E.

Fixed income securities are auctioned directly to primary dealers and the public.  A price for each issue is set by competitive sealed bidding amongst the primary dealers.  Other institutions and the general public (individual citizens) of the United States can also purchase these same issues at the rate set by the competitive bidders by submitting a non-competitive bid.  These non-competitive bids have the benefit of being guaranteed delivery unless the noncompetitive demand overwhelms the notional amount being issued.

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[1]  Each capitalized term used in this product filing and not defined herein shall have the meaning set forth in the Small Exchange Rulebook (as amended, restated, supplemented or otherwise modified from time to time in accordance with its provisions).

In order to finance the government's operations, the Treasury Department auctions 10-year notes four times a year, during February, May, August and November. Typically, these auctions are announced to the public the week before the auction detailing the issue date, maturity date, and coupon rate so participants can prepare their bids in advance. An example of a 10-year note auction announcement is detailed in Figure 1.



# TREASURY NEWS

Department of the Treasury • Bureau of the Fiscal Service

Embargoed Until 08:30 A.M.
May 06, 2020

CONTACT: Treasury Auctions
202-504-3550

## TREASURY OFFERING ANNOUNCEMENT [1]

| | |
|---|---|
| Term and Type of Security | 10-Year Note |
| Offering Amount | $32,000,000,000 |
| Currently Outstanding | $0 |
| CUSIP Number | 912828ZQ6 |
| Auction Date | May 12, 2020 |
| Original Issue Date | May 15, 2020 |
| Issue Date | May 15, 2020 |
| Maturity Date | May 15, 2030 |
| Dated Date | May 15, 2020 |
| Series | C-2030 |
| Yield | Determined at Auction |
| Interest Rate | Determined at Auction |
| Interest Payment Dates | November 15 and May 15 |
| Accrued Interest from 05/15/2020 to 05/15/2020 | None |
| Premium or Discount | Determined at Auction |
| Minimum Amount Required for STRIPS | $100 |
| Corpus CUSIP Number | 912821EK7 |
| Additional TINT(s) Due Date(s) and | None |
| CUSIP Number(s) | None |
| Maximum Award | $11,200,000,000 |
| Maximum Recognized Bid at a Single Yield | $11,200,000,000 |
| NLP Reporting Threshold | $11,200,000,000 |
| NLP Exclusion Amount | $0 |
| Minimum Bid Amount and Multiples | $100 |
| Competitive Bid Yield Increments [2] | 0.001% |
| Maximum Noncompetitive Award | $5,000,000 |
| Eligible for Holding in TreasuryDirect® | Yes |
| Estimated Amount of Maturing Coupon Securities Held by the Public | $56,961,000,000 |
| Maturing Date | May 15, 2020 |
| SOMA Holdings Maturing | $50,769,000,000 |
| SOMA Amounts Included in Offering Amount | No |
| FIMA Amounts Included in Offering Amount [3] | Yes |
| Noncompetitive Closing Time | 12:00 Noon ET |
| Competitive Closing Time | 1:00 p.m. ET |

[1]Governed by the Terms and Conditions set forth in The Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended), and this offering announcement.
[2]Must be expressed as a yield with three decimals e.g., 7.123%.
[3]FIMA up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority not to exceed $100 million per account.

*Figure 1 10-Year Treasury Note Auction Announcement*

The results are published after the close of the auction. An example of the same treasury note's auction result is depicted in Figure 2. When the note is issued, it is eligible to begin trading on the secondary market, where it is traded actively.

**TREASURY NEWS**

Department of the Treasury • Bureau of the Fiscal Service

For Immediate Release
May 12, 2020

CONTACT: Treasury Auctions
202-504-3550

**TREASURY AUCTION RESULTS**

| | | |
|---|---|---|
| Term and Type of Security | | 10-Year Note |
| CUSIP Number | | 912828ZQ6 |
| Series | | C-2030 |
| | | |
| Interest Rate | | 0-5/8% |
| High Yield [1] | | 0.700% |
| Allotted at High | | 28.91% |
| Price | | 99.276869 |
| Accrued Interest per $1,000 | | None |
| | | |
| Median Yield [2] | | 0.650% |
| Low Yield [3] | | 0.590% |
| | | |
| Issue Date | | May 15, 2020 |
| Maturity Date | | May 15, 2030 |
| Original Issue Date | | May 15, 2020 |
| Dated Date | | May 15, 2020 |

| | Tendered | Accepted |
|---|---|---|
| Competitive | $85,952,460,000 | $31,988,685,800 |
| Noncompetitive | $11,349,600 | $11,349,600 |
| FIMA (Noncompetitive) | $0 | $0 |
| **Subtotal [4]** | **$85,963,809,600** | **$32,000,035,400**[5] |
| | | |
| SOMA | $16,923,161,000 | $16,923,161,000 |
| | | |
| **Total** | **$102,886,970,600** | **$48,923,196,400** |

| | Tendered | Accepted |
|---|---|---|
| Primary Dealer [6] | $47,845,500,000 | $6,563,637,500 |
| Direct Bidder [7] | $8,604,000,000 | $4,266,000,000 |
| Indirect Bidder [8] | $29,502,960,000 | $21,159,048,300 |
| **Total Competitive** | **$85,952,460,000** | **$31,988,685,800** |

[1] All tenders at lower yields were accepted in full.
[2] 50% of the amount of accepted competitive tenders was tendered at or below that yield.
[3] 5% of the amount of accepted competitive tenders was tendered at or below that yield.
[4] Bid-to-Cover Ratio: $85,963,809,600/$32,000,035,400 = 2.69
[5] Awards to TreasuryDirect = $8,677,600.
[6] Primary dealers as submitters bidding for their own house accounts.
[7] Non-Primary dealer submitters bidding for their own house accounts.
[8] Customers placing competitive bids through a direct submitter, including Foreign and International Monetary Authorities placing bids through the Federal Reserve Bank of New York.

*Figure 2 10-Year Treasury Note Auction Results*

The most recently auctioned note or bond for a particular duration is called on-the-run.  Off-the-run is defined to be everything that is not on-the-run.  As soon as the above auction is complete, the 912828ZQ6 CUSIP note is the current on-the-run 10-year issue.  The most recently issued on-the-run notes are observed to trade at a higher price than off-the-run securities due to their greater liquidity.  Because of their massive liquidity, the on-the-run yields are considered the global benchmarks for risk-free rates.

Given the auction format, there are four times per year that the 10-year on-the-run issue will roll to a new security with a new CUSIP number.  When the 10-year on-the-run issue rolls to a new CUSIP, the

note has exactly 10 years to maturity.  The day before the roll, the on-the-run has roughly 9.75 years to maturity (as two months 29 days have passed since the last auction) and, the next day, the maturity will jump back to 10 years.  To minimize borrowing costs, the Treasury Department will auction off a "re-issue" during the off months (January, March, April, June, July, September, October and December), depending on their own internal financing needs.  These reissues may impact the market price by impacting supply, but they don't change the current on-the-run security.

Given the variability of duration for U.S. Treasury 10-year notes, a picture begins to emerge as to why an on-the-run yield index is important.  Given the changing duration characteristics of a bond and the dynamism of bond pricing, an investor may have a difficult time maintaining 10-year interest rate exposure.  A naive attempt to address this issue may be to sell the current 10-year note short but, if their exposure is only to price and not the coupon payment, that trade will resemble nothing of an interest rate trade.  Converting, instead to a yield-to-maturity allows clean exposure to this interest rate.

On the auction date, the existing on-the-run U.S. Treasury 10-year note will be used for index publishing until 6:00 PM CT – even when the auction results are reported at 12:00 PM CT of that day.  After the end of the day of the auction, the new on-the-run CUSIP will be used for the published calculation until the next auction/roll.

# Index Administration, Governance and Maintenance

The Index is calculated and published by dxFeed, an independent Index Calculation Agent.  dxFeed provides a state-of-the-art index management platform that supports multiple index families with controlled workflows and a flexible environment for data handling and research.  Their platform and templates help ensure that the indices they create and maintain have the desired qualities of a sound index: representativeness, economic significance, continuity and consistency of pricing.

dxFeed carries out the calculation of the Index in accordance with IOSCO Principles including, without limitation, index administration, conflicts of interests, internal oversight, governance, Index compilation, publication and distribution, and data sufficiency.

dxFeed provides a full lifecycle management solution for indices with support for index design, back testing, basket analysis reweighting and rebalancing, version management for index methodologies, and seamless transfer from research and development to production.

Additionally, dxFeed has a highly comprehensive feed handling solution offering a broad range of data services.  dxFeed's data is streamed to approximately 200,000 end-users simultaneously, including major data vendors such as ICE Data Services / SFTI, Refinitiv and Options-IT, and they deliver financial information for more than two million financial instruments (e.g., equities, futures, options, indices, FX, etc.) from a variety of exchanges in North America, Europe, and around the world.  This availability and

depth of product pricing helps ensure Index integrity because data inputs are sourced from a variety of reputable and recognized quality sources.

Exchange Affiliates have previously engaged with dxFeed for services.  Based on the level of satisfaction of such Affiliates with dxFeed in the areas of work quality, consistency in service support, and industry expertise, the Exchange undertook vetting dxFeed for index calculation and ultimately identified them as a top choice as an ICA.

The Index Methodology is publicly available on the ICA's website: https://indexit.dxfeed.com.

# Compliance with Core Principles

The Exchange has reviewed CFTC Part 38 "Designated Contract Markets", which sets forth the Core Principles with which every DCM must demonstrate compliance, and it has identified that the Contracts may obligate the Exchange to compliance with the following Core Principles:

## Core Principle 2 - Compliance with Rules

Trading in the Contracts will be subject to all the Exchange's Rules, including prohibitions against fraudulent, noncompetitive, manipulative, abusive, and disruptive practices as outlined in Chapter 6 of the Exchange's Rulebook, specifically, the Exchange's Trade Practice Rules.

As with all Contracts listed for trading on the Exchange, trading activity in the Contracts will be subject to monitoring, surveillance, and regulation by the Exchange's Regulatory Department as outlined in Chapter 5 of the Exchange's Rulebook.  The Regulatory Department has the authority to exercise its investigatory and enforcement jurisdiction where potential rule Violations are identified.  The Exchange has processes in place to monitor its markets for compliance with the Rules.

The Exchange has contracted the National Futures Association ("NFA") to be its Regulatory Service Provider.  As such, the NFA will work with the Exchange to provide trade practice surveillance, market surveillance, investigations and disciplinary escalations, regulatory reporting and recordkeeping, arbitration services, and audit trail requirements.  These regulatory functions will also be supported by the Exchange's technology, which will collect and transmit the bid, offer, and trade data to the NFA.

The Exchange has also contracted Eventus Validus as a software provider for real-time market surveillance.  The Exchange's regulatory staff uses the technology and services provided by Eventus along with the Exchange's proprietary software, Administration and Risk Monitor ("ARM") application to monitor positions and trading in real-time and to detect potential market anomalies, trade practice Violations, and large trader positions.  The ARM allows the Exchange staff to monitor trading and the market in real-time with the ability to query orders, trades, and current positions.  The ARM also monitors firms' risk limit usage and prevents new orders if pre-trade limits are breached.

The Exchange is a member of the Joint Compliance Committee ("JCC"). The JCC is a voluntary committee of self-regulatory organizations including DCMs, swap execution facilities, and registered futures associations. The JCC operates through its members to protect market integrity within and across its members' markets by providing a forum for information sharing related to investigations and disciplinary actions among other regulatory topics and issues that may impact their markets, members, or self-regulatory responsibilities.

Additionally, the Exchange is a member of the Joint Audit Committee ("JAC"). The JAC is a representative committee of the Audit and Financial Surveillance Departments of DCMs and has the responsibility to determine the best policies, practices, and procedures for conducting financial reviews, and to assist its members in the financial surveillance of Futures Commission Merchants ("FCM").

The Exchange is a member of the Futures Industry Association ("FIA"). The FIA is the leading global trade organization for futures, options, and centrally-cleared derivatives markets. The FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms, and commodities specialists from more than 48 countries and technology vendors, lawyers, and other professionals serving the industry. The FIA's mission is to support open, transparent, and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. The Exchange adheres to and supports the mission of the FIA through the enforcement of its Rules.

The Exchange is a member of the Intermarket Surveillance Group ("ISG"). The ISG is an international group of exchanges, market centers, and market regulators that perform market surveillance in their respective jurisdictions. The ISG provides a framework for the sharing of information and the coordination of regulatory efforts among exchanges trading securities and related products to address potential intermarket manipulations and trading abuses.

The Exchange certifies that its surveillance program and systems together with its participation in key industry groups for information sharing and regulatory coordination addresses the DCM requirements of Core Principle 2.

## Core Principle 3 - Contracts Not Readily Subject to Manipulation

The Exchange believes that the Contracts are not readily susceptible to manipulation because of their structural attributes, active underlying cash market, and reliance on a well-administered Index. The market for the components of the underlying reference Index of the Contracts is judged to be sufficiently broad to deter attempted cornering, manipulation, crowding, or exertion of undue influence during Exchange hours and the final settlement window of expiring Contracts.

The Index is composed of Treasury notes that are among the most actively traded in the market. There are numerous global entities that trade Treasury notes on a 24-hour basis, which market Participants, such as liquidity providers, pension funds, asset managers, and individual traders deem as providing

sufficient volume and liquidity to be viable cash marketplaces because of the large notional volume traded. Further, the Exchange has commitments from several large, well-known liquidity providers to post two-sided quotes in the Contracts.

The liquidity provider Participants with which the Exchange has commitments, are active in both the cash and derivative markets for each constituent comprising the Index. The Contracts complement these Participants' existing market exposure and can be used to further manage their own risk while creating a deeper pool of liquidity for other Participants. If a Participant takes a limit sized position, equal to 5,000 Contracts within five (5) business days prior to expiration, the depth of the related cash, futures, and option markets allows them to manage this position without causing market disruption.

The arbitrage opportunities that exist between the Contracts and constituent Treasury notes comprising the Index will help keep prices consistent with those of the marketplace. Additionally, the Exchange may implement a Liquidity Provider Incentive Program ("LPIP"), or a similar program, to encourage market participation and foster a fair, orderly, and liquid marketplace.

In addition to liquidity provider Participants, the Exchange expects market Participants to be individual traders and investors because the Index Methodology and the Contract's notional size afford these individuals a capital-efficient way to hedge interest rate market volatility, diversify a portfolio, or invest passively in U.S. Treasury 10-year interest rate.

Per the Index Methodology, the Contracts provide distinctive interest rate market exposure to one of the most prominent and widely referenced interest rates and an economic benefit to a broad pool of retail Participants. As volume and open-interest increase, the Exchange expects that the size of the Contracts will lend themselves to adoption by Commodity Trading Advisors ("CTA") and Commodity Pool Operators ("CPO") for more efficient account management. The Contracts allow a wide range of Participants, including individual traders and investors, liquidity providers, CTAs, CPOs, pension funds and asset managers, the ability to better manage and mitigate ten-year interest rate market risk.

The Exchange believes the Treasury notes comprising the Index are deemed as having sufficient volume and liquidity for market Participants. As demonstrated in Figure 2, during the recent Treasury auction $31,988,685,800 worth of Treasury notes were accepted by market participants. Additionally, for the week ended June 3, 2020, the primary dealer transactions in Treasury Bills due in more than 7 years, but less than or equal to 11 years, was more than $93 billion.[2] The Index is comprised of the on-the-run Treasury note which is liquid enough to mitigate the potential for market manipulation. Based on this liquidity, there will be minimal adverse market impact from Participants hedging in the Contracts. Thinly traded Treasury notes are more susceptible to manipulation, so given the depth of the market, the Contracts are not readily subject to manipulation.

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[2]  Federal Reserve Bank of New York Primary Dealers Weekly Positions, Transactions, and Financing.

The final settlement methodology and depth of constituent pricing makes it difficult for a market Participant to improperly affect the settlement value. The final settlement value is determined by the ICA in accordance with the final settlement methodology using reference data selected in consultation with the Exchange. Prices for the Index's components are taken from trade and quote data provided by MarketAxess. MarketAxess has over 1,700 contributors and trades on average $3.4 billion worth of debt securities daily.

The final monthly settlement value is determined by the ICA sampling a number of prices over a 90-second period between 14:58:30 CT to 14:59:59 CT (inclusive), reviewing those prices to ensure that they fall within a common range of prices that were printed on those markets, and then taking the average of that range. Using the last price for each of the Index's constituents, the value of the Index is calculated and disseminated on a one-second frequency. The final settlement value is calculated as the modified average of the Index prints during this 90-second period.

The final settlement value will be calculated by the ICA and subject to approval by the Exchange and the Derivatives Clearing Organization ("DCO"). The final settlement value will be published shortly after 15:00:00 CT, made available to the DCO, and made publicly available on the Exchange's website and through the Exchange's market data feed in a timely manner. Notice of the final settlement value for the Contract will be made available to all market Participants.

For more information surrounding the final settlement value calculation, refer to Appendix F.

The Exchange has in place surveillance tools and procedures to identify potential manipulation during trading hours and the final settlement window. As part of its market surveillance program for potential manipulation, the Exchange has contracted with Eventus Systems. Eventus Systems has exceptionally strong capabilities when it comes to data extraction, transformation, and loading, and their Validus software normalizes and reconciles Exchange data to create a holistic picture of activity for surveillance purposes. Eventus Validus software allows the Exchange's Regulatory Department to analyze Exchange market data during regular trading hours and perform real-time Index surveillance during the final settlement window.

All activity in the Contracts will be subject to monitoring and surveillance by the Exchange's Regulatory Department using the ARM and software provided by Eventus. Additionally, the NFA will carry out trade practice and market surveillance pursuant to the provisions of the Regulatory Services Agreement.

The Exchange certifies that its surveillance program and systems together with its participation in key industry groups for information sharing and regulatory coordination addresses the DCM requirements of Core Principle 3.

## Core Principle 4 - Prevention of Market Disruption

Trading in the Contracts will be subject to the Rules of the Exchange, which include prohibitions on manipulation, price distortion, and disruption to trading and the cash settlement process. Trading activity will be subject to monitoring and surveillance by the Exchange's Regulatory Department.

The Exchange utilizes risk controls and has the ability to pause and halt its market to prevent market disruption. The Exchange has three levels of risk controls: Exchange, firm, and Financial Information Exchange ("FIX") API. Exchange-wide risk controls include order validations, dynamic order protections, and price limits. Dynamic order protection validates incoming orders to prevent erroneously-priced orders from hitting the market while price limits protect the market from significant price moves from prior day's settlement.

Firm level risk controls include maximum order quantity limits, daily position exposure limits, a kill switch, self-trade match prevention, and execution rate protection. Maximum order limits can be set by Clearing Members on their Participant trading firms to limit the size of orders that can be placed through the Exchange Trading System. Daily position exposure limits are set by Clearing Members on their Participant trading firms to limit positions that can be held by such trading firms.

A kill switch can be enabled by the Exchange, a Clearing Member, or Participant trading firm through a FIX session or the Exchange's Trading System to simultaneously cancel all existing orders on all Exchange markets and to prevent placing any new orders until the kill switch has been disabled. Self-trade match prevention is an optional risk control intended to prevent matching of orders with common beneficial ownership.

Execution rate protection is a form of a risk control placed on a liquidity provider's grouped orders to limit the number of trades over a specified time range. On the FIX API level, there is an optional "cancel on disconnect" risk control by which all Day orders are canceled within a FIX session when disconnected from the gateway.

> The Exchange uses intraday and daily price limits to ensure its markets work in an efficient and orderly manner during large, unexpected movements and increased volatility. The Exchange employs two intraday limits of 1.75 (175 ticks) and 3.50 (350 ticks) and a daily limit of 5.00 (500 ticks) all using the Contract's previous day's Daily Settlement, as described below:
> - Once an intraday price limit is reached, the following actions take place over the next three (3) minutes:
>   - The market enters a "paused" state for all Contracts that are based on the Index for one (1) minute, with no order matching or trades occurring. Only order cancellations are allowed. New and replace orders are rejected by the Trading System.
>   - During the second minute, the market enters the "pre-open" state for all Contracts that are based on the Index, where no orders match and no Trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of Good Till Cancelled ("GTC") or Day. Orders can also be

canceled or replaced.  Market, Fill or Kill ("FOK") and Immediate or Cancel ("IOC") orders are rejected by the Trading System.

- o In the third minute, the market enters a "pre-open no cancel" state for all Contracts that are based on the Index, where no orders match and no Trades occur, but orders on opposite sides of the market may cross.  Limit, Stop and Stop-Limit order types are accepted with a time in force of GTC or Day.  Cancel and replace requests will not be accepted.  Market, FOK and IOC orders are rejected by the Trading System.
- o At the end of the third minute, the market enters an "open" state for all Contracts that are based on the Index, with regular price-time priority matching in effect, and all supported orders are accepted.  Upon reopening, the Exchange does not calculate or disseminate an opening print.
  - ▪ Once the market enters an "open" state after an intraday limit of 1.75 has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Day, only to an intraday limit of 3.50 and a daily limit of 5.00 on the up (down) side all using the Contract's previous day's Daily Settlement.
  - ▪ Once the market enters an "open" state after an intraday limit of 1.75 has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Day, only to a daily limit of 5.00 on the up (down) side all using the Contract's previous day's Daily Settlement.
- ● In the event that an intraday price limit is reached within three (3) minutes of the Exchange's market close time, the Exchange shall not reopen all Contracts that are based on the Index.  The Exchange will publish a Daily Settlement or a Final Settlement on the Contact's day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the intraday price limit pause time as the Exchange's market close time for the purposes of such process.
- ● The market cannot trade at prices 5.00 above or below the Contract's previous day's Daily Settlement.  This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

Price bands are based on the last-traded price and will prevent erroneously-priced orders from entering the market and significantly skewing prices.  The bands validate limit-price orders, and they reject any buy orders above the upper band and any sell orders below the lower band.  Band validation works equally well for single futures Contracts and calendar spreads.  Price bands are dynamic, set by the Exchange, and can be altered for a Contract intraday.

As its Regulatory Service Provider, the NFA works in conjunction with the Exchange on services including, but not limited to, market and trade surveillance.  The Exchange will utilize the Eventus Validus software to assist in real-time surveillance along with the Exchange's ARM.  The NFA's automated market surveillance system, DETECT, and Validus will use the Exchange's audit trail as the primary source of data.  These systems, along with the Exchange's ARM, will allow the Exchange's compliance staff to monitor large trader positions and to detect potential market anomalies and trade

practice Violations in real-time and on a T+1 basis.  The Exchange's ARM, along with DETECT and Validus, will alert the Exchange's compliance staff of potential position limit Violations and other potential market irregularities as they develop and before market disruptions occur or become more serious.

## Core Principle 5 - Position Limits or Accountability

To prevent price distortions and market disruptions, the Contracts will be subject to accountability levels and position limits.  The Exchange has determined position accountability levels to be 10,000 Contracts per tradable month and position limits to be 5,000 Contracts for the five (5) business days prior to expiration.

If a Participant's position exceeds the Contract's accountability level threshold, the Exchange may require the Participant to provide information pertaining to the nature of the position and the trading strategy employed.  The Exchange may also require the Participant to liquidate a portion of their position in an orderly manner to a level that is below the accountability threshold.

No person may hold or control positions separately or in combination, net long or net short, in the Contract in excess of the Exchange's set position limit.  The Exchange, in conjunction with the NFA, will closely monitor daily volume and open interest to determine if these accountability levels and/or position limits require modification, and it will make such modifications as deemed necessary.

While monitoring trading on the Exchange, the NFA will provide alerts that include, but are not limited to, the following: (a) whenever an account is identified as a large trader for the first time; (b) whenever large trader positions exceed reportable levels; (c) whenever large trader positions exceed speculative position limits, if any; or (d) whenever large trader positions exceed accountability levels.

Index levels and recent 10-year Treasury note auction results from the May 12, 2020 auction exemplify the conservatism of these position accountability levels and position limits.  On this date, the Index closed at $6.66 placing the notional value of one (1) Contract at $666.  This places a hypothetical 10,000 Contract position (i.e., at the Contract's accountability level) at approximately $6.6 million.  This signifies roughly 0.02% of the on-the-run Treasury notes accepted at auction.  Telescoping position limits to 5,000 Contracts for the five (5) business days prior to expiration helps further mitigate the potential for manipulation.

## Core Principle 7 - Availability of General Information

The Exchange will publish information on its website regarding specifications, terms and conditions, daily trading volume, open interest, and settlement value for the Contracts.  Any Exchange Rule amendments and product changes (including terms and conditions of the Contracts) will also be made available through the Exchange website.  Notice of new product listings, new rules, and rule amendments will be displayed on the Exchange website concurrent with the filing of such with the Secretary of the CFTC.

## Core Principle 8 - Daily Publication of Trading Information

The Exchange will publish information on settlement values, volume, open interest, and opening and closing ranges for Contracts on a daily basis on its website and via market data.

## Core Principle 9 - Execution of Transactions

The Contracts will be listed for trading on the Exchange's Trading System and cleared through its DCO the OCC.

## Core Principle 10 - Trade Information

All requisite trade information will be included in the audit trail, and it is sufficient for the Regulatory Department and the NFA as the Regulatory Service Provider to monitor for market abuses. The Exchange's Trading System will capture and maintain all information with respect to each order. This will include information on orders that were executed, those that were not executed, and all other information relating to the trade environment that determines the matching and clearing of trades, such as clearing information and number and type of Contracts. An order entered into the Exchange Trading System can be tracked from the time entered until the time that it is matched, canceled, or otherwise removed. All of this information is contained in the Exchange's audit trail.

## Core Principle 11 - Financial Integrity of Transactions

The Contracts will be cleared by the OCC, which is registered with the Commission as a DCO and subject to all CFTC regulations related thereto.

## Core Principle 12 - Protection of Markets and Market Participants

Chapters 4, 5, and 6 of the Exchange's Rulebook establish Rules to protect the market and market Participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. These Rules apply to all transactions in the Exchange's Contracts, which includes Small 10-Year U.S. Treasury Yield Index Futures Contracts.

## Core Principle 13 - Disciplinary Procedures

The Exchange has set forth Rules in Chapter 7 of the Exchange's Rulebook that provide for the Exchange to discipline, suspend, expel, or otherwise sanction Members, Participants, and Related Parties that violate the Exchange's Rules or the CFTC's Rules and Regulations. The Exchange has engaged the NFA to monitor and provide market surveillance, and they will work together with Exchange staff to identify and pursue potential Violations of applicable Rules. At the conclusion of any of its investigations, the NFA will provide its findings to the Exchange, and the Exchange will determine whether the facts and circumstances warrant the pursuit of appropriate disciplinary action.

## Core Principle 14 - Dispute Resolution

Chapter 8 of the Exchange's Rulebook establishes Rules concerning dispute resolution and provides for resolution through the NFA arbitration program.

# Contract Specifications

| | |
|---|---|
| Product Name | Small 10-Year U.S. Treasury Yield Index Future |
| Symbol | S10Y |
| Contract Description | Cash-settled futures Contract with the Small 10-Year U.S. Treasury Yield Index as its underlying |
| Contract Size | $100 x Small 10-Year U.S. Treasury Yield Index |
| Contract Listings | New Contracts will be added monthly with two (2) Contracts outstanding at any time.  Each Contract will expire monthly.<br><br>The First Trading Day ("FTD") shall be the first business day that is not more than 61 calendar days prior to the Last Trading Day ("LTD") for the respective Contract month.<br><br>There is no seasonality or other cyclical basis for listing the Contracts.  After surveying market Participants, the Exchange believes that the need for hedging equity exposure will be continual and therefore listing two (2) successive months will be useful to potential hedgers. |
| Tick Size / Price Increments | Tick Size: 0.01 Index Points ($1.00)<br>Contract Multiplier: $100 |
| Initial Price Limits | 1.75 (175 ticks), 3.50 (350 ticks), 5.00 (500 ticks) |
| Daily Settlement Value | **Daily Settlement of Front Month:**<br>If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value for the front month will be calculated using the volume weighted average price ("VWAP") of such Trades, rounded to the nearest tradable tick, or $0.01.  If there are no Trades during this time, the Exchange will use the following methodology to determine the daily settlement value for such Contracts:<br><br>*Cash Index Value + (Previous Day's Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration*<br><br>**Daily Settlement of Back Month:**<br>If a Trade occurs in the last sixty (60) seconds of the Contract's trading hours, the daily settlement value will be calculated using the VWAP of such trades rounded to the nearest tradable tick, or $0.01.  If there are no trades during this time, the settlement value of such back month Contract will be calculated using calendar spreads.  In the absence of relevant calendar spread trades during the trading day, the settlement value for such back month Contract will be the front month settlement value for such product plus the previous day's front month minus back month spread value. |
| Final Settlement Value | On the day of expiration, the final settlement value of the Contract is determined using the modified average cash value of the respective cash |

| | index, starting at 14:58:30 CT to 14:59:59 CT, inclusive.  The value of the cash index will be recorded for each second of this time frame.  In the event the cash index value does not change during the one-second aggregation period, the value for the prior second is carried forward to ensure this comprises 90 values; further, in the event the cash index value changes multiple times during such one-second aggregation period, the last value is used.  The average of these 90 values is the final settlement value for the product. |
|---|---|
| Last Trading Day & Time | The LTD is the maturity date of the Contract, which is the third Friday of the respective Contract month at 15:00:00 CT.  If that day falls on a holiday, the LTD is the first business day preceding the third Friday.<br><br>The Contract expires with the establishment of the final settlement value.  The final settlement value is published shortly after 15:00:00 CT. |
| Final Settlement Date | Cash settlement will occur the same business day as the expiration of the Contract. |
| Settlement Process | Contracts are settled to cash.  Payments will be determined by the final settlement value posted by the Exchange. |
| Large Trader Reporting Level | 300 |
| Position Accountability Level | 10,000 |
| Position Limits | 5,000 Contracts five (5) business days prior to expiration |
| Non-Competitive Trades | Block trades will not be supported for this Contract |
| Clearing | Contract will be cleared by the OCC |

# Market Participant Overview and Due Diligence

The Exchange has consulted with a wide range of market Participants taking into account their respective needs for a constant maturity 10-year U.S. Treasury note yield futures product.  In doing so, the Exchange has elicited feedback from and the needs of an extensive group of market Participants including individual retail traders and investors, institutional traders, proprietary trading groups, liquidity providers, CTAs and CPOs.

The Exchange has commitments from several well-capitalized liquidity providers to post competitive, two-sided quotes during the trading day in all Exchange products.  The depth and liquidity of the underlying components, along with the transparency of the Index Methodology, allow Participants to calculate the value of the Index so they are able to hedge and offset risk exposure.

To best serve its Participants, the Exchange displays and matches all orders through a Central Limit Order Book ("CLOB").  Transactions are algorithmically matched on a time-price priority basis using a first-in, first-out ("FIFO") methodology.

The use case for the Contract is twofold:

● First, it meets the demands of individual investors, retail traders, CTAs and CPOs for an interest rate index futures product that reflects the on-the-run 10-year U.S. Treasury Yield, for hedging

and risk mitigation, short-term investment opportunities, and long-term passive investment. Because the Treasury note in the Index is the on-the-run, the Contract is a way for individual Participants to gain exposure to one of the most pertinent interest rates and simultaneously control duration risk.

- Second, the small notional value of the Contract means individual traders with smaller accounts can diversify their portfolios with an asset class that is under-represented in the traditional portfolio construction of equities, bonds, and cash. Rather than using ETFs or building a basket of Treasuries, the Contract is a capital-efficient way to add interest rate exposure to a portfolio. While the Contracts are appealing to the growing retail segment of futures markets, they can also benefit advisors of separately managed accounts wishing to employ specific futures strategies.

The Exchange certifies that listing the Contract complies with the Act including all regulations thereunder. The Exchange is not aware of any consequential opposing views to this proposal.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at www.thesmallexchange.com. Should you have any questions concerning the above, please contact the undersigned at (312) 761-1660.

Sincerely,

/s/ Peter Santori
Chief Regulatory Officer

# Attachments

Appendix A: Small Exchange Rulebook Chapter 34
Appendix B: Applicable Position Limits and Reportable Position Levels
Appendix C: Applicable Non-Reviewable Trading Ranges
Appendix D: Pertinent Special Price Fluctuation Limits
Appendix E: Small 10-Year U.S. Treasury Yield Index Methodology
Appendix F: Settlement Day, Value, and Process
Appendix G: Exchange Fees
Appendix H: Historical Data

# Appendix A: Small Exchange Rulebook Chapter 34

## Small 10-Year US Treasury Yield Index Futures Contracts

34001.        Scope of Chapter

This chapter is limited in application to Small 10-Year US Treasury Yield Index Futures Contracts ("Contract" or "Contracts").  The provisions of these rules shall apply to all Contracts bought or sold on the Exchange for cash settlement based on the Floating Price, as defined herein.  The procedures for trading, clearing and cash settlement of Contracts and any other matters not specifically covered herein, shall be governed by the Rules of the Exchange.

34002.        Contract Specifications

The Floating Price for each Contract is based on the Small 10-Year US Treasury Yield Index ("Index"), an average of the constant maturity on-the-run 10-year U.S. Treasury yield.  The Index is expressed as the computed yield multiplied by 1,000.

34003.        Trading Specifications

The number of months open for trading at a given time shall be determined by the Exchange.

*34003.A.  Trading Schedule*

The hours of trading for this Contract shall be determined by the Exchange.

*34003.B.  Trading Unit*

The trading unit is equal to $100 times the Index.

*34003.C.  Price Increments*

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

*34003.D.  Daily Price Limits*

The Exchange uses intraday and daily price limits to ensure its markets work in an efficient and orderly manner during large, unexpected movements and increased volatility.  The Exchange employs two intraday limits of 1.75 (175 ticks) and 3.50 (350 ticks) and a daily limit of 5.00 (500 ticks) all using the Contract's previous day's Daily Settlement, as described below:
- Once an intraday price limit is reached, the following actions take place over the next three (3) minutes:

- o The market enters a "paused" state for all Contracts that are based on the Index for one (1) minute, with no order matching or trades occurring. Only order cancellations are allowed. New and replace orders are rejected by the Trading System.
- o During the second minute, the market enters the "pre-open" state for all Contracts that are based on the Index, where no orders match and no Trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of Good Till Cancelled ("GTC") or Day. Orders can also be canceled or replaced. Market, Fill or Kill ("FOK") and Immediate or Cancel ("IOC") orders are rejected by the Trading System.
- o In the third minute, the market enters a "pre-open no cancel" state for all Contracts that are based on the Index, where no orders match and no Trades occur, but orders on opposite sides of the market may cross. Limit, Stop and Stop-Limit order types are accepted with a time in force of GTC or Day. Cancel and replace requests will not be accepted. Market, FOK and IOC orders are rejected by the Trading System.
- o At the end of the third minute, the market enters an "open" state for all Contracts that are based on the Index, with regular price-time priority matching in effect, and all supported orders are accepted. Upon reopening, the Exchange does not calculate or disseminate an opening print.
  - ▪ Once the market enters an "open" state after an intraday limit of 1.75 has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Day, only to an intraday limit of 3.50 and a daily limit of 5.00 on the up (down) side all using the Contract's previous day's Daily Settlement.
  - ▪ Once the market enters an "open" state after an intraday limit of 1.75 has been reached on the up (down) side, all Contracts that are based on the Index will be subject, for the remainder of the Business Day, only to a daily limit of 5.00 on the up (down) side all using the Contract's previous day's Daily Settlement.
- ● In the event that an intraday price limit is reached within three (3) minutes of the Exchange's market close time, the Exchange shall not reopen all Contracts that are based on the Index. The Exchange will publish a Daily Settlement or a Final Settlement on the Contact's day of expiration, as appropriate, using the process set forth in Exchange Rule 904 and the intraday price limit pause time as the Exchange's market close time for the purposes of such process.
- ● The market cannot trade at prices 5.00 above or below the Contract's previous day's Daily Settlement. This is a pre-order validation that prevents the acceptance of orders at such prices in such circumstances.

*34003.E.  Position Limits, Exemptions, Accountability Levels and Reportable Levels*

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

Position accountability levels for the Contracts are 10,000.

Reportable levels for the Contracts are 300.

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

*34003.F.  Termination of Trading*
Trading shall cease on the last business day in the contract month, which is the third Friday of the month at 15:00:00 CT.  If that day falls on a holiday, the last trading day is the first business day preceding the third Friday.

34004.      Settlement Procedures
Contracts will be cash settled.

*34004.A.  Final Settlement Value*
On the day of expiration, the Final Settlement of the Contract will be determined pursuant to the process set forth in Exchange Rule 904(e)(ii).

*34004.B.  Final Settlement*
Clearing Members holding open positions in an expiring Contract at its termination of trading shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on such expiring Contract's Final Settlement.

34005.      Disclaimer
NEITHER THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE INDEX OR ANY OF THE DATA INCLUDED THEREIN.

THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES MAKES NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM THE USE OF THE INDEX, TRADING BASED ON THE INDEX, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACTS, OR, FOR ANY OTHER USE.  THE SMALL EXCHANGE, INC. AND/OR ITS AFFILIATES MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AND HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY

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# Appendix B: Applicable Position Limits and Reportable Position Levels

| | |
|---|---|
| **Instrument Name** | Small 10-Year U.S. Treasury Yield Index Futures Contracts |
| **Symbol** | S10Y |
| **Rulebook Chapter** | 34 |
| **Contract Size** | $100 x Small 10-Year U.S. Treasury Yield Index |
| **Type** | Future |
| **Settlement** | Cash |
| **Large Trader Reporting Level** | 300 |
| **Position Accountability Level** | 10,000 |
| **Expiring Month Position Accountability Level Five Business Days Prior to Expiration** | 5,000 |

# Appendix C: Applicable Non-Reviewable Trading Ranges

| Instrument Name | Symbol | Non-Reviewable Range (NRR) | NRR: Ticks |
|---|---|---|---|
| Small 10-Year U.S. Treasury Yield Index Futures Contracts | S10Y | 0.25 index points | 25 from last trade |

# Appendix D: Pertinent Special Price Fluctuation Limits

| Product | Rulebook Chapter | Commodity Code | Primary/Associated | Associated With | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|---|
| Small 10-Year U.S. Treasury Yield Index Futures Contracts | 34 | S10Y | Primary | Primary | 1.75 (175 ticks) | 3.50 (350 ticks) | 5.00 (500 ticks) |

# Appendix E: Small 10-Year U.S. Treasury Yield Index Methodology

Redacted

# Appendix F: Settlement Day, Value, and Process

Redacted

# Appendix G: Exchange Fees

**Non-Subscriber**

Exchange Fee                        $0.15 per Contract


**Individual Subscription Holders (Initial Lifetime Subscription Offer)**

Exchange Fee                        $0.07 per Contract (1/2 off rack rate $0.15)


**Market Maker**

Exchange Fee                        $0.05 per Contract

# Appendix H: Historical Data

Redacted