



September 29, 2013

**BY ELECTRONIC MAIL: [submissions@cftc.gov](mailto:submissions@cftc.gov)**

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

**Re: Commission Regulation 40.2(a) –  
Certification of Swaption Contract**

Dear Ms. Jurgens:

GFI Swaps Exchange LLC (“GFI”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying a swaption contract on U.S. dollar (“USD”), Mexican peso (“MXN”), Chilean peso (“CLP”), Colombian peso (“COP”) or Brazilian real (“BRL”) interest rate swaps (the “Swaption”) for trading on GFI’s electronic trading platform (the “Trading Platform”).

GFI will list the Swaption no earlier than October 2, 2013.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a concise explanation and analysis of the Swaptions.
- Attached as Exhibit B, a copy of the Swaption Rules, which will be published as contract specifications on GFI’s website in accordance with GFI Rule 1101.
- Attached as Exhibit C, a concise explanation and analysis of the products’ compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder.

GFI certifies that the Swaption complies with the CEA and Commission Regulations thereunder. GFI additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on GFI’s website.

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In the event that you have questions, please contact the undersigned at (212) 968-2982 or [daniel.glatter@gfigroup.com](mailto:daniel.glatter@gfigroup.com).

Sincerely,



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Daniel E. Glatter

**Exhibit A**

A Swaption is an option granting its owner the right but not the obligation to enter into the underlying USD, MXN, CLP, COP or BRL interest rate swap. For more information, the contract specifications for the Swaptions are attached as Exhibit B.

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Exhibit B

# GFI Contract Specifications

The terms and conditions of the swaptions incorporate by reference such credit and other terms as the parties may establish through their pre-existing bilateral agreement. The swaptions have the following characteristics:

<b>Contract Overview</b>	A <b>swaption</b> is a derivative financial instrument that gives the owner the right but not the obligation to enter into the underlying interest rate swap.
<b>Trade Date</b>	The date on which parties enter into the contract
<b>Swaption Type</b>	<input type="checkbox"/> A <b>payer swaption</b> gives the owner of the swaption the right to enter into a swap where they pay the fixed leg and receive the floating leg. <input type="checkbox"/> A <b>receiver swaption</b> gives the owner of the swaption the right to enter into a swap in which they will receive the fixed leg, and pay the floating leg.
<b>Payer Currency</b>	Currency for payer swaption
<b>Receiver Currency</b>	Currency for receiver swaption
<b>Strike Price</b>	The asset price at which the investor can exercise a swaption.
<b>Expiration Date</b>	Date at which swaption contract expires
<b>Expiration Time</b>	Time at which swaption contract expires
<b>Settlement Date</b>	Settlement date of the swaption contract
<b>Premium</b>	Premium amount expressed in premium currency
<b>Premium currency</b>	Currency in which swaption premium is expressed in
<b>Premium Date</b>	Date on which premium amount is due
<b>Quoting Convention and Minimum Increment</b>	Notional amount, as agreed by counterparties
<b>Minimum Size</b>	Notional amount, as agreed by counterparties
<b>Notional Currency</b>	Currency in which contract size is expressed in
<b>Settlement Procedure</b>	Bilateral settlement performed in settlement currency
<b>Trading Hours</b>	00:01 -24:00 Sunday-Friday Eastern Time
<b>Clearing Venue</b>	Bilateral

## Exhibit C

GFI has determined that the Swaptions certified herein bear upon the following Core Principles:

### **Core Principle 2 – Compliance with Rules**

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Trading in Swaptions will be subject to the GFI Rulebook (the “Rules”), which prohibits abusive trading practices, including: acts detrimental to GFI (Rule 522) or that are inconsistent with just and equitable principles of trade (Rule 510), fraudulent acts (Rule 511), fictitious or non-competitive transactions (Rule 512), market manipulation (Rule 515), disruptive trading practices (Rule 516), misstatements (Rule 521), wash sales (Rule 531) and pre-negotiated or non-competitive trades, including money passes (Rule 533). Trading in these Swaps will also be subject to Rules relating to protection of customers. *See* Rules 525-528.

As with all Swaps listed for trading on the Trading Platform (as such terms are defined in the GFI Rulebook), trading activity in Swaptions will be subject to monitoring and surveillance by GFI’s Market Regulation Department. GFI has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. *See* Chapter 7 of the Rules.

Pursuant to Rule 601(a)(i), each Swaption executed as a block trade must be for the quantity that is equal to or in excess of the applicable minimum block size for such Swaption set forth in Commission Regulations.

### **Core Principle 3 – Swaps Not Readily Susceptible to Manipulation**

A Swaption is an option granting its owner the right but not the obligation to enter into the underlying USD, MXN, CLP, COP or BRL interest rate swap. The value of the Swaption (the “Reference Price”) is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a cash market that has considerable depth and liquidity resulting from the involvement of numerous institutional participants; (ii) the way in which the Reference Price is calculated is well documented and well understood by swap market participants; (iii) it is commonly used in the swap markets; (iv) information about the Reference Price is publicly and readily available; and (v) many active participants in the relevant cash market are entities that are subject to regulation.

With respect to Swaptions that may convert into USD interest rate swaps, such interest rate swaps reference U.S. dollar LIBOR, which is the average rate at which contributor banks perceive that they can obtain unsecured funding in the London interbank market for a given period and in a given currency. Currently, LIBOR is administered by BBA Libor Ltd. and the rate is calculated by Thomson Reuters, using specific guidelines. To calculate LIBOR, which is a “trimmed mean,” Thomson Reuters collects the perceived rate daily from each of the contributor banks, discards the highest and lowest contributions (the top and bottom quartiles), and then uses the middle two quartiles. Both BBA Libor Ltd. and Thomson Reuters are separately regulated by the Financial Conduct Authority (“FCA”).

Recently, concerns have been raised with respect to the reliability of LIBOR as a reference price. As a result, British regulators and BBA Libor Ltd., the current administrator of LIBOR, have

taken steps to increase the robustness of the LIBOR process and inspire greater confidence in its reliability. These steps include:

- completion of a comprehensive review of LIBOR which resulted in a report with recommendations, entitled the “Wheatley Review of LIBOR” (“Wheatley Report”);
- establishment of an Interim LIBOR Oversight Committee (“ILOC”) to oversee the management of LIBOR, as required by the FCA regulations and recommended by the Wheatley Report;
- enactment of regulation which makes the administration of LIBOR a “regulated activity” under the Financial Services and Markets Act 2000;
- (ongoing) streamlining of the number of LIBOR currencies and maturities;
- initiation of the practice of publishing individual LIBOR submissions after three months in order to reduce the potential for submitters to attempt manipulation;
- establishment of the Hogg Tendering Advisory Committee (“Hogg Committee”) to recommend new institutions to oversee LIBOR;
- approval of an upcoming transfer of the administration of LIBOR to NYSE Euronext Rates Administration Limited, the bidder recommended by the Hogg Committee;
- confirmation by the FCA of the “Interim Code of Conduct for Contributing Banks” as Industry Guidance; and
- establishment of a Whistleblowing Policy for LIBOR, as approved by the ILOC, which outlines how any concerns about perceived irregularities in conduct related to the administration of LIBOR and/or LIBOR submissions could be raised.

As British regulators and the current LIBOR administrator make these and other changes to improve the robustness of LIBOR, LIBOR remains a widely used and relied upon benchmark.

The LIBOR rate, the reference rate upon which each IRS is based, is difficult for any entity or group of market participants to manipulate, especially given the recent changes and the enhanced public scrutiny. In addition, the IRS products are very liquid – the market is very large and deep, making manipulation very difficult to achieve.

#### **Core Principle 4 – Monitoring of Trading and Trade Processing**

Chapter 5 of the Rules prohibits traders from manipulating, distorting the price of, and disrupting the cash settlement process of the Swaps. Such Rules are enforced by the Market Regulation Department.

## **Core Principle 5 – Ability to Obtain Information**

Pursuant to the Rules, GFI will have the ability and authority to obtain sufficient information for each Swaption to allow GFI to fully perform its operational, risk management, governance and regulatory functions and requirements under Part 37 of Commission Regulations.

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## **Core Principle 6 – Position Limits or Accountability**

Rule 536 allows GFI to adopt position accountability levels for Required Transactions. Persons with positions in excess of position accountability levels established by GFI will be required to provide, upon request by GFI, information about their positions in excess of the relevant position accountability threshold and consent to halt any further increases in those positions. GFI's Rules relating to position limits, position accountability levels and aggregation standards are provided below:

### **535. Position Limits; Exemptions**

(a) The Company may establish position limits for one or more Swaps, and grant exemptions from position limits, in accordance with CFTC Regulations. A Person seeking an exemption from position limits must apply to the Market Regulation Department in the form and manner required by the Company.

(b) A Person intending to exceed position limits, including limits established pursuant to a previously approved exemption, must file the required application and receive approval from the Company prior to exceeding such limits. Notwithstanding the foregoing, a Person who establishes an exemption-eligible position in excess of position limits and files the required application with the Company shall not be in violation of this rule provided the filing occurs within one Business Day after assuming the position. In the event the positions in excess of the limits are not deemed to be exemption eligible, the applicant will be in violation of speculative limits for the period of time in which the excess positions remained open.

(c) The Company shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Company may approve, deny, condition or limit any exemption request based on factors deemed by the Company to be relevant, including, but not limited to, the applicant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner. A Person that has received an exemption from position limits pursuant to this Rule 535 shall be deemed to have agreed:

- (i) to comply with all terms, conditions or limitations imposed by the Company with respect to the exemption;
- (ii) that the Company may modify or revoke the exemption at any time;
- (iii) to initiate and liquidate positions in an orderly manner; and

(iv) to promptly submit a supplemental statement to the Company whenever there is a material change to the information provided in the most recent application.

(d) A Participant shall not be in violation of this Rule if it carries positions for its Customers in excess of the applicable position limits for such reasonable period of time as the firm may require to discover and liquidate the excess positions. For the purposes of this Rule, a reasonable period of time shall generally not exceed one Business Day. A Customer who exceeds the position limits as a result of maintaining positions at more than one Participant shall be deemed to have waived confidentiality regarding his positions and the identity of the Clearing Firm(s) at which they are maintained. A Participant carrying such positions shall not be in violation of this Rule if, upon notification by the Company, it liquidates its pro-rata share of the position in excess of the limits or otherwise ensures the Customer is in compliance with the limits within a reasonable period of time.

(e) Nothing in this Rule 535 shall in any way limit:

(i) the authority of the Company to take emergency action; or

(ii) the authority of the Company to review at any time any position owned or controlled by any Person and to direct that such position be reduced to the applicable position limit.

(f) A Person who has received written authorization from the Company for an exemption from position limits must annually file an updated application on or before the date that is one year following the approval date of the most recent application. Failure to file an updated application shall result in expiration of the exemption.

(g) No Person shall exceed position limits that may be established by the Company or the CFTC, unless an exemption is granted by the Company. Any Person making a bid or offer that would, if accepted, cause such person to exceed the applicable position limits shall be in violation of this Rule.

### **536. Position Accountability**

(a) The Company shall establish position accountability levels for Required Transactions unless the Company has previously established position limits pursuant to Rule 535. A Person who holds or controls aggregate positions in excess of position accountability levels shall:

(i) provide, in a timely manner upon request by the Company, information regarding the nature of the position, trading strategy, and hedging information, if applicable;

(ii) be deemed to have consented, when so ordered by the Company, not to further increase the positions which exceed such position accountability levels; and

(iii) initiate and/or liquidate such positions in an orderly manner.



(b) For purposes of this Rule 536, all positions in accounts for which a Person, by power of attorney or otherwise, directly or indirectly controls trading shall be included with the positions held by such Person. The provisions of this rule shall apply to positions held by two or more Persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by or the trading of the positions was controlled by a single Person.

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#### **537. Aggregation of Positions**

For purposes of Rule 535 and Rule 536, positions in Swaps shall be aggregated in accordance with CFTC Regulations.

#### **Core Principle 7 – Financial Integrity of Transactions**

All Swaps that are required to be cleared pursuant to Section 2(h) of the CEA or that are voluntarily cleared by the counterparties will be submitted for clearing through a DCO. *See* Rule 1002.

#### **Core Principle 9 – Timely Publication of Trading Information**

In accordance with Part 16 of Commission Regulations, GFI will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. In addition, GFI will publish for each trading day, by tenor of the Swap, the opening price and the high and low prices. GFI will publish a settlement price for each such Swap except that, in the case of swaps listed for clearing by a DCO, the applicable settlement price will be the settlement price established by the DCO and GFI's website will contain a hyperlink to the relevant settlement information. *See* Rule 407.

GFI will submit electronic reports of all primary economic terms data for each Swap to a registered swap data repository immediately following execution of such Swap. *See* Rule 528. All such reports will meet the standards set out in Commission Regulation 45.3, including the requirement to produce a unique swap identifier for each transaction. GFI will also issue confirmations of transactions pursuant to Rule 525.