

## **NOTICE OF LISTING OF PRODUCTS BY ICAP SEF (US) LLC FOR TRADING BY CERTIFICATION**

1. This submission is made pursuant to CFTC Reg. 40.2 by ICAP SEF (US) LLC (the "SEF").
2. The products certified by this submission are the following: Electricity Swaps – Real Time Locational Marginal Pricing (the "Contract") and options thereon (the "Option").
3. Attached as Attachment A is a copy of the Contract's rules and attached as Attachment B is a copy of the Option's rules.
4. The Contract and the Option are currently listed for trading on the SEF and were certified on September 29, 2013. This submission supplements the previous certification of the Contract and the Option and contains additional explanatory material. However, the substantive terms and conditions of the Contract and the Option are not being amended by this filing. The SEF intends to make this resubmission of the certification of the Contract and the Option effective on the day following submission pursuant to CFTC Reg. 40.2(a)(2).
5. Attached as Attachment C is a certification from the SEF that each Contract and Option complies with the Commodity Exchange Act and CFTC Regulations, and that the SEF has posted a notice of pending product certification and a copy of this submission on its website concurrent with the filing of this submission with the Commission.
6. As required by Commission Regulation 40.2(a), the following concise explanation and analysis demonstrates that each of the Contract and the Option complies with the core principles of the Commodity Exchange Act for swap execution facilities, and in particular Core Principle 3, which provides that a swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation, in accordance with the applicable guidelines in Appendix C to Part 38 of the Commission's Regulations for contracts settled by cash settlement and options thereon.

## The Contract

The Contract is a cash-settled swap that allows a party to speculate on, or hedge risks associated with, the price of electricity at specific delivery locations in the United States. The counterparties to the Contract exchange a fixed price for electricity at a specific delivery location and a floating price based on the price for such location published by the relevant Independent System Operator ("ISO") for daily Real Time Locational Marginal Pricing ("LMP"). The Contract has several flexible terms, which are listed in the attached specification. All of the essential terms of the Contract, other than the floating price, are agreed at the Effective Date. Following is an explanation of why the Contract is not readily susceptible to manipulation in accordance with section (c) of Appendix C to Part 38.

### **Appendix C to Part 38—Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation**

#### *Section (c) Contracts Settled by Cash Settlement*

- (1) Calculation of Cash Settlement Price. One leg of the Contract will pay a fixed price for a specified multiple of 1 megawatt hour ("MWh") of electricity for delivery at a specific delivery location on a specific delivery date during one of three types of flow periods: Peak, Off-Peak or Flat. This fixed price is established at the Effective Date and will remain unchanged throughout the life of the Contract. The other leg of the Contract will pay a floating price that is based on the U.S. dollar specified price per MWh of electricity for delivery at the specified delivery date, location and flow, as published by the relevant ISO for Real Time LMP. These published prices are reliable, widely accepted and publically available. On the Maturity Date, the counterparties will calculate the difference between the fixed price and the floating price and exchange a final settlement payment.
- (2) Contract Not Readily Susceptible to Manipulation. The Contract is not readily susceptible to manipulation for a number of reasons. As noted above, all of the essential terms of the Contract, other than the floating price, are agreed to at the Effective Date of the Contract, thereby reducing the impact of potentially unrepresentative data. The floating price itself is based on power prices published by ISOs, which are regulated by the Federal Energy Regulatory Commission ("FERC"). The size and liquidity of the cash market for electricity is well documented. The prices published by ISOs are closely followed by market participants and the LMP methodology is a long-established market-based pricing approach used by ISOs to provide an accurate price of electricity at every location on the power grid, while taking into account the transmission capacity constraints in delivering electricity to each delivery location. Detailed information on how the power prices published by the ISOs are calculated is publically available on each relevant ISO's website. There are numerous futures contracts currently trading on futures exchanges with settlement prices based on either Day Ahead LMP or Real Time LMP, including contracts listed on CME,<sup>1</sup> ICE Futures<sup>2</sup> and Nodal Exchange.<sup>3</sup> Furthermore, each of the electricity markets for the delivery locations specified has a high volume of cash market transactions and a high number of market participants trading in the cash market, which make the ISO published Real Time LMP price (the price upon which the Contract's cash settlement price is calculated) unlikely to be the subject of an attempt to manipulate. Accordingly, the Contract is not easily susceptible to manipulation or price distortion because the method of determining the cash settlement price is based on terms that are fixed at the Effective Date of the Contract and a reliable floating price.

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<sup>1</sup> See <http://www.cmegroup.com/trading/energy/>.

<sup>2</sup> See <https://www.theice.com/electricity.jhtml>.

<sup>3</sup> See [http://www.nodalexchange.com/products\\_and\\_services/contracts\\_and\\_trading/contracts\\_and\\_trading.php](http://www.nodalexchange.com/products_and_services/contracts_and_trading/contracts_and_trading.php).

- (3) Independent Third-Party Pricing of Underlying Commodities. The prices of the electricity upon which the floating price leg of the Contract is based are published by ISOs and are publically available on the ISOs' websites, thereby making an information sharing or licensing agreement unnecessary. However, the SEF will notify each of the relevant ISOs that the Contract is based on the relevant ISOs' published prices and, upon request, provide the ISOs with relevant data on the open swap positions in order to enable the ISOs and the FERC to better monitor the underlying market for price manipulation. The SEF believes that each of the ISOs is impartial, employs appropriate safeguards against manipulation to protect the value of the electricity to the market place, and uses business practices that minimize the opportunity or incentive to manipulate the Real Time LMP associated with the Contract's cash settlement price. Furthermore, the ISOs are regulated by the FERC, an independent federal agency that regulates the interstate transmission of electricity, natural gas and oil. The Real Time LMP price for electricity for the relevant delivery location is published by the relevant ISO and is publically available on a timely basis for the purposes of calculating the Contract's cash settlement price.
- (4) Contract Terms and Conditions. The essential terms and conditions of the Contract are attached as Attachment A.
- **Commodity Characteristics.** The electricity delivery locations and pricing methodology are listed in the terms and conditions.
  - **Contract Size and Trading Unit.** The contract size is agreed to between the parties and may be in multiples of 1 MWh. The size of the Contract is consistent with customary transactions in the cash market.
  - **Cash Settlement Procedure.** The cash settlement procedures and an explanation of how the Contract is not readily susceptible to manipulation are described above.
  - **Pricing Basis and Minimum Price Fluctuation.** The minimum price increment is set at \$0.01, which is equal to, or less than, the minimum price increment commonly observed in the cash market for electricity.
  - **Maximum Price Fluctuation Limits.** The maximum price fluctuation limit, if any, is agreed to between the parties.
  - **Last Trading Day.** The last trading day for a Contract is the last business day of each Contract month, which occurs on or before the publication of the prices of the relevant futures contracts.
  - **Trading Months.** The maturity date of the Contract is agreed to between the parties and based on their risk management needs. The maturity date may be any day in any calendar month.
  - **Speculative Limits.** None are currently required by the Commission. If and to the extent the Commission imposes speculative limits on the Contract, the limits imposed by the SEF will be the same.
  - **Reportable Levels.** None are currently required by the Commission. If and to the extent the Commission imposes a reporting requirement based on reportable levels of the Contract imposed by the Commission, the reportable levels imposed by the SEF will be the same.
  - **Trading Hours.** Trading hours are 08:00 – 17:00 (ET) Monday to Friday.

## The Option

The Option is a cash-settled option that settles into the corresponding Contract, which is in turn cash settled, as described above. Following is an explanation of why the Option is not readily susceptible to manipulation in accordance with section (d) of Appendix C to Part 38.

### **Appendix C to Part 38—Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation**

#### *Section (d) Options on a Contract*

- (1) Option Terms and Conditions. The essential terms and conditions of the Option are attached as Attachment B and closely adhere to cash market practices, making manipulation very difficult to achieve.
  - **Exercise Method**. The Option exercises into the corresponding Contract.
  - **Exercise Procedure**. The Option's style is European.
  - **Strike Price Listing**. Strike prices are agreed to between the parties and are quoted in dollars and cents per MWh.
  - **Strike Price Intervals**. Strike prices are in increments of \$0.01.
  - **Automatic Exercise**. All in-the-money Options with daily tenors are automatically exercised. All Options with longer than daily tenors must be exercised manually.
  - **Contract Size**. The Option size is equal to the size of the underlying Contract. A put or call option traded on the SEF represents an option to assume a short or long position in the corresponding Contract, at the strike price.
  - **Option Minimum Tick**. Option minimum tick is \$0.01, which is equal to or less than the minimum tick for the Contract.
- (2) Option Expiration and Last Trading Day. The expiration date and last trading day are as agreed to between the parties.
- (3) Speculative Limits. None are currently required by the Commission.
- (4) Options on Physicals Contracts. Not applicable.

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In addition to the foregoing, the SEF's predecessor brokers have experience executing trades in this Contract and Option, and in their experience they are not readily susceptible to being manipulated. Furthermore, the SEF has adopted rules in its Rulebook prohibiting any participant or customer from engaging in manipulative trading activity and the SEF is required to, and will, monitor all trading on the SEF in order to identify any such manipulative activity. The SEF has absolute discretion to impose on its participants and customers fines and disciplinary sanctions in the event that such manipulative activity has occurred.

Attachment A

SEF Rule 805 (12)(c)

# Product Descriptions – Electricity Swaps

## Electricity – Swaps

### Real Time Locational Marginal Pricing

Contract Description	Details
Product Description	<p>Cash settled swap contracts based on real time prices published by Independent System Operators ("ISO") for the specific electricity locations.</p> <p>The following Electricity products based on real time Locational Marginal Pricing settlements are traded at ICAP:</p> <ul style="list-style-type: none"> <li>Midwest ISO - Indiana Hub</li> <li>Pennsylvania, New Jersey &amp; Maryland - Baltimore Gas &amp; Electric Zone</li> <li>Pennsylvania, New Jersey &amp; Maryland - East</li> <li>Pennsylvania, New Jersey &amp; Maryland - West</li> <li>PJM AEP Dayton Hub</li> <li>PJM Northern Illinois Hub</li> </ul>
Trading Hours	08:00 – 17:00, Local Eastern Time (LET), Monday – Friday.
Flow Periods	Contracts may be agreed upon for the following types of flow periods: Peak, Off-Peak and Flat
Quotation	Contract prices are quoted in dollars and cents per MWh
Units of Trading	Any multiple of 1 MWh
Expiration Date	Trading shall cease at the end of the last business day of the contract period designated settlement period .
Settlement Terms	Cash
Minimum Price Fluctuation/Price Tick Size	The minimum price fluctuation is quoted in increments of \$0.01 cent per MWh
Settlement Price	REAL TIME Locational Marginal Pricing - the price for a pricing date will be that day's U.S. Dollar specified price per MWh of electricity for delivery on the agreed upon delivery date, published by the respective Independent System Operator ("ISO") for Daily Real-Time Locational Marginal Pricing (LMP) at the delivery location specified in the contract for the prices effective on agreed upon date.
Contract Size	The minimum contract size is 1 MWh and can be defined at the time of agreement
Effective Date	The Effective Date of the Swap must be a business day subject to the appropriate Business Day Convention.
Maturity Date	The Maturity Date may also be referred to as the Termination Date or End Date.
Tenor	<p>The duration of the time from the Effective Date to the Maturity Date.</p> <p>The contract terms available to be traded include:</p> <ul style="list-style-type: none"> <li>a) Balance Of Month</li> <li>b) Months</li> <li>c) Quarters</li> <li>d) Seasons</li> <li>e) Half Year</li> <li>f) Calendar Year</li> </ul>
Trade Types	<p>Electricity can be traded as one of the following trade type:</p> <ul style="list-style-type: none"> <li>a) Outright</li> <li>b) Spread –calendar</li> </ul>
Last Trading Day	Trading terminates at the close of business on the on the last business day of each contract month
Trading Conventions	<ul style="list-style-type: none"> <li>a) Buyer (Payer) , the fixed payer is the party of the contract who has bought the commodity or known to be 'long'.</li> <li>b) Seller (Receiver), the floating payer is the party of the contract who has sold the commodity or known to be 'short'</li> </ul>
Swap Leg Conventions	<ul style="list-style-type: none"> <li>a) Payment Frequency. Monthly, Quarterly, Semi-Annually, or Annually</li> <li>b) Holiday Calendar. NERC</li> <li>c) Business Day Convention. Modified Following with adjustment to period end dates. Business days in this convention must be valid business days on both the New York and London calendar. If not, it will be the next day that is a business day on both the New York and London calendar.</li> <li>d) Fixed Rate. The agreed rate of the product traded</li> </ul>
Options Available	<p>Contracts for Options will be available for the following Locations:</p> <p style="text-align: center;">Pennsylvania, New Jersey &amp; Maryland - West</p>

**Attachment B**

**SEF Rule 805 (12)(d)**

# Product Descriptions – Electricity Options

## Electricity – Options

### Real Time Locational Marginal Pricing

<b>Product Description</b>	Option contracts based on real time electricity prices published by Independent System Operators ("ISO") for the specific locations.  The following Electricity products based on real time Locational Marginal Pricing settlements are traded at ICAP:  Pennsylvania, New Jersey & Maryland – West
<b>Option Style</b>	European
<b>Trading Hours</b>	08:00 – 17:00, Local Eastern Time (LET), Monday – Friday.
<b>Flow Periods</b>	Contracts may be agreed upon for the following types of flow periods: Peak, Off-Peak and Flat
<b>Quotation</b>	Contract prices are quoted in dollars and cents per MWh
<b>Units of Trading</b>	Any multiple of 1 MWh
<b>Expiration Date</b>	Trading shall cease at the end of the last business day of the contract period designated settlement period
<b>Settlement Terms</b>	Exercise into underlying swap
<b>Minimum Price Fluctuation/Price Tick Size</b>	The minimum price fluctuation is quoted in increments of \$0.01 cent per MWh
<b>Settlement Price</b>	REAL TIME Locational Marginal Pricing - the price for a pricing date will be that day's U.S. Dollar specified price per MWh of electricity for delivery on the agreed upon delivery date, published by the respective Independent System Operator ("ISO") for Daily Real-Time Locational Marginal Pricing (LMP) at the delivery location specified in the contract for the prices effective on agreed upon date.
<b>Strike Prices</b>	Strike prices are available in increments of \$0.01 cent per MWh
<b>Contract Size</b>	The minimum contract size is 1 MWh and can be defined at the time of agreement
<b>Effective Date</b>	The Effective Date of the Swap must be a business day subject to the appropriate Business Day Convention.
<b>Maturity Date</b>	The Maturity Date may also be referred to as the Termination Date or End Date.
<b>Tenor</b>	The duration of the time from the Effective Date to the Maturity Date.  The contract terms available to be traded include: <ul style="list-style-type: none"> <li>a) Daily</li> <li>b) Balance Of Month</li> <li>c) Months</li> <li>d) Quarters</li> <li>e) Seasons</li> <li>f) Half Year</li> <li>g) Calendar Year</li> </ul>
<b>Exercise</b>	Daily Tenors: Automatic All Other Tenors: (i.e. monthly): Manual
<b>Trade Types</b>	Electricity can be traded as one of the following trade type: <ul style="list-style-type: none"> <li>c) Outright</li> <li>d) Spread –strike price and/ or Maturity Date</li> </ul>
<b>Last Trading Day</b>	Trading terminates at the close of business on the on the last business day of each contract month
<b>Trading Conventions</b>	<ul style="list-style-type: none"> <li>a) Buyer (Payer) , the fixed payer is the party of the contract who has bought the commodity or known to be 'long'.</li> <li>b) Seller (Receiver), the floating payer is the party of the contract who has sold the commodity or known to be 'short'</li> </ul>
<b>Swap Leg Conventions</b>	<ul style="list-style-type: none"> <li>e) Payment Frequency. Monthly, Quarterly, Semi-Annually, or Annually</li> <li>f) Holiday Calendar. NERC</li> <li>g) Business Day Convention. Modified Following with adjustment to period end dates. Business days in this convention must be valid business days on both the New York and London calendar. If not, it will be the next day that is a business day on both the New York and London calendar.</li> <li>h) Fixed Rate. The agreed rate of the product traded</li> </ul>



**ATTACHMENT C – CERTIFICATION PURSUANT TO CFTC REGULATION 40.2**

The undersigned hereby certifies that each product described in this submission complies with the Commodity Exchange Act and the CFTC Regulations thereunder, and that concurrent with the filing of this submission with the Commission, ICAP SEF (US) LLC will be posting on its website, prior to 8:00 a.m. on March 4, 2014, a copy of this submission and a notice of pending product certification of this product with the Commission.

ICAP SEF (US) LLC

A handwritten signature in black ink, appearing to read 'Gregory Compa', is written over a horizontal line.

By: Gregory Compa  
Title: Chief Compliance Officer  
Date: March 3, 2014