

## **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 – Heat Rate Index Options (the "Option").
3. Attached as Attachment A is a copy of the Option's rules.
4. The SEF intends to make this submission of the certification of the Option effective on the day following submission pursuant to CFTC Reg. 40.2(a)(2).
5. Attached as Attachment B is a certification from the SEF that the 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 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 options on a listed contract.

## The Option

The Option allows a party to speculate on, or hedge risks associated with, the price of electricity at specific delivery locations in the United States based on agreed "Heat Rate" prices derived from indices of natural gas prices published by Platts. Heat Rates are a measure of the efficiency of the production of electricity and are commonly used by market participants as a measure of how much demand there is for electricity at specific electricity delivery locations, as expressed in cost. Heat Rates may be expressed as a factor (also known as a "multiple") by which, in the Option's case, a natural gas price is multiplied in order to derive the cost of electricity. The Option's strike price is determined based upon a "multiple" agreed upon by the parties, which is then applied to the gas index price component of one of the three specified combinations of gas index price and electricity delivery location set forth in the specifications below. Each electricity delivery location has an associated pricing methodology (e.g., Day Ahead or Real Time Locational Marginal Pricing ("LMP")) under which the price for electricity at such location is calculated and published daily by the relevant Independent System Operator ("ISO"). An in-the-money Option exercises into a bilateral natural gas swap with a settlement price based on the relevant gas index and a bilateral electricity swap with a settlement price based on the relevant electricity delivery location and associated pricing methodology. These bilateral swaps are not listed on the SEF and are entered into off-SEF in the over-the-counter market (the "OTC Contracts") in the form customary for such swaps on the OTC market. 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 market practices for the underlying swap contract, making manipulation very difficult to achieve.
  - o **Exercise Method**. The Option exercises into OTC Contracts.
  - o **Exercise Procedure**. The Option's style is European.
  - o **Strike Price Listing**. Strike prices are agreed to between the parties and are quoted in dollars and cents per MWh.
  - o **Strike Price Intervals**. Strike prices are in increments of \$0.01.
  - o **Automatic Exercise**. All in-the-money Options with daily tenors are automatically exercised. All Options with longer than daily tenors must be exercised manually.
  - o **Contract Size**. The Option size is equal to the size of the underlying OTC Contracts. A put or call option traded on the SEF represents an option to assume a short or long position in the OTC Contracts, at the strike price.
  - o **Option Minimum Tick**. Option minimum tick is \$0.01.
- (2) Option Expiration and Last Trading Day. The expiration date and last trading day are as agreed to between the parties, and must be on the last business day of the designated settlement period.
- (3) Speculative Limits. None are currently required by the Commission.
- (4) Options on Physicals Contracts. Not applicable.

In addition to the foregoing, the SEF's predecessor brokers have experience executing trades in this Option, and in their experience they it is 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 authority 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)(I)

# Product Descriptions – Heat Rate Index Options

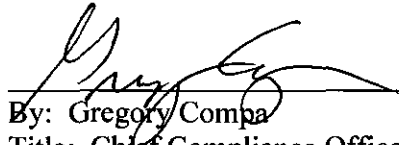
## Electricity — Heat Rate Index Options

Contract Specification	Details
Product Description	<p>Option contracts for power locations based on agreed Heat Rate prices derived from published indices of natural gas prices.</p> <p>Such options are available for the following electricity pricing locations' electricity products based on the agreed upon multiple of natural gas prices at the specified combination of electricity location and natural gas hub:</p> <p style="text-align: center;">SoCal GD Daily Index vs. Day Ahead LMP at CAISO South Path 15 EZ Gen Hub            TETCO M3 GD Daily Index vs. Real-Time LMP at PJM-W            Algonquin city-gates GD Daily Index vs. Day Ahead Market at New England Power Pool - Massachusetts Hub</p>
Option Style	European
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
Quotation	Contract premium 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	Exercise into the respective swap components for gas and power in the form customary for such swaps on the OTC market.
Minimum Price Fluctuation/Price Tick Size	The minimum price fluctuation is quoted in increments of \$0.01 per MWh
Strike Price	Strike prices are computed based upon the agreed multiple of the specified combination for the electricity location and gas index location. Gas indices locations as published by Platts.
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) 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>
Exercise	<p>Daily Tenors: Automatic</p> <p>All Other Tenors: (i.e. monthly): Manual</p>
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 (strike price or Maturity Date)</li> </ul>
Last Trading Day	Trading terminates at the close of business 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>

**ATTACHMENT B – 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 7, 2014, a copy of this submission and a notice of pending product certification of this product with the Commission.

ICAP SEF (US) LLC

  
By: Gregory Compa  
Title: Chief Compliance Officer  
Date: March 6, 2014