

# TERA<sup>^</sup> EXCHANGE

April 24, 2014

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

Melissa Jurgens  
Secretary  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21st Street, N.W.  
Washington, DC 20581

**Re: TeraExchange, LLC – 14-23 – Commission Regulation 40.2(a) – Certification of Interest Rate Options**

Dear Ms. Jurgens:

TeraExchange, LLC (“TeraExchange”) hereby notifies the Commodity Futures Trading Commission (the “Commission” or “CFTC”), pursuant to Commission Regulation 40.2(a), that is certifying interest rate options (the “Contracts”) for trading on its swap execution facility.

The intended listing date of the Contracts is April 28, 2014. The terms and conditions for the Contracts are attached as Exhibit A. A concise explanation and analysis of the Contracts’ compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the relevant core principles, and the Commission’s Regulations thereunder is attached as Exhibit B.

TeraExchange certifies that the Contracts comply with the CEA and the Commission Regulations thereunder. TeraExchange further certifies that concurrently with this filing it posted a copy of this submission on its website at [www.teraexchange.com/RND.html](http://www.teraexchange.com/RND.html).

Please contact the undersigned at (908) 273-8266 or at [pwilson@teraexchange.com](mailto:pwilson@teraexchange.com) with any questions.

Sincerely,

*Peter W. Wilson*

Peter W. Wilson  
Chief Compliance Officer

Cc: [submissions@cftc.gov](mailto:submissions@cftc.gov)  
Mark Schlegel  
Jasmine Lee

Exhibit A

Terms and Conditions

## Interest Rate Option

### General

|                                 |   |
|---------------------------------|---|
| Contract Structure              | An option that gives its owner the ability to limit interest rate exposure over the term of the contract.       |
| Clearing Venue Specifications   | Bilateral   |
| Currencies*                     | USD, EUR, JPY, GBP, DKK, ZAR, RUB, CHF, SEK, ILS, AUD, HKD, NZD, SGD, SAR, TRY, MXN                             |
| Quoting Convention              | Premium expressed in basis points   |
| Price Increment                 | 0.1 basis points  |
| Minimum Notional Size           | 1,000 notional units of the contract currency   |
| Minimum Notional Size Increment | 0.01 notional units of the contract currency  |
| Strike Price                    | The price or difference in price of the underlying Interest Rate Product(s).                                    |
| Types                           | Cap = owner limits exposure to rising interest rates<br>Floor = owner limits exposure to falling interest rates |
| Underlying Interest Rate        | Single - a single interest rate<br>Spread - the difference between 2 underlying interest rates                  |
| Payment Frequency*              | Monthly, Quarterly, Semiannually, Annually  |
| Payment Rate                    | Digital, Linear   |
| Trading Hours**                 | 00:01 to 24:00 Eastern Time   |
| Last Trade Date                 | Available to trade on every US business day.  |
| Payment Date                    | The date upon which the premium amount is exchanged.  |
| Expiry Date                     | The date upon which the option expires.   |
| Settlement Procedure            | As negotiated in the pre-existing bilateral agreement between the counterparties.                               |
| Position Accountability         | As may be determined and published by TeraExchange under CFTC Regulation 37.600 (c)                             |

### Underlying

|                         |   |
|-------------------------|---|
| Tenors                  | Up to 100 years   |
| Start Date              | The date upon which the underlying swap starts. Must be a valid business day per the holiday calendar schedule.   |
| End Date                | The date upon which the underlying swap ends. Must be a valid business day per the holiday calendar schedule.   |
| Payment Frequency       | As agreed upon by the counterparties.   |
| Reference Rates*        | EIBOR, BBSW, CDOR, LIBOR, PRIBOR, CIBOR, CIBOR2, HIBOR, BUBOR, TELBOR01, WIBOR, MOSPRIME, SAIBOR, TRILIBOR, NIBOR, STIBOR, JIBAR, SIBOR, MEXIBOR, CHILIBOR, EURIBOR, ISDAFIX  |
| Reset Frequency         | As agreed upon by the counterparties.   |
| Roll Convention         | Standard, IMM, EOM  |
| Compounding             | None, Flat  |
| Day Count Convention*   | 30/360, Act/360, Act/365, 360/360, 30E/360, AFI/365, ACT/366, ACT/ACT   |
| Holiday Calendars*      | Abu Dhabi, Sydney, Toronto, Prague, Copenhagen, Hong Kong, Budapest, London, Tel Aviv, Jaffa, Tokyo, Wellington, Seoul, Bangkok, Target, Warsaw, Moscow, Riyadh, Singapore, Istanbul, New York, Oslo, Stockholm, Johannesburg, Kuala Lumpur |
| Business Day Convention | Modified, Modified Following  |

## Exhibit B

This exhibit includes a concise explanation and analysis of the certified Contracts' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder.

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

As with all products listed for trading on TeraExchange, trading in the Contracts will be subject to compliance with the CEA, CFTC Regulations and the TeraExchange Rulebook (the "Rules"). Chapter 5 of the Rules sets out in detail the trading practice and business conduct rules applicable to all Participants. In general, under Rule 517, Participants are prohibited from engaging in any conduct in violation of Applicable Law or the Rules. Under Rule 518, any violation of the Rules or act constituting fraud, dishonorable or dishonest conduct, or conduct inconsistent with just and equitable principles of trade is an offense. Fraudulent acts of any kind, including but not limited to front-running, money passes, trading ahead of or against customers, and accommodation trading, are all prohibited under Rule 519. Also included in Chapter 5 is a series of specific Rules intended to deter abusive and disruptive trading practices, including prohibitions on the following: fictitious, wash or non-competitive transactions (Rule 520); market disruption, including violating bids and offers, closing period violations, and spoofing (Rule 521); market manipulation (Rule 522); misstatements (Rule 523); acts detrimental to the SEF (Rule 524); misuse of the SEF (Rule 525); withholding of orders (Rule 526); trading against or crossing orders (Rule 527); and disclosing orders (Rule 528).

TeraExchange market regulation staff, working in partnership with the staff of the National Futures Association as regulatory services provider, will conduct surveillance and initiate disciplinary proceedings as necessary to enforce compliance with the Rules, the CEA and Commission Regulations.

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

TeraExchange limits the indexes underlying its Contracts to well-established, publicly available third-party interest rate market benchmarks. Some are published by central banks, while others are calculated and published by reliable independent providers such as trade associations, exchanges or other third parties. The interest rate reference prices on TeraExchange are the timeliest, most widely recognized and reliable benchmarks for interest rates in their respective markets. The index levels are readily available and commercially acceptable as benchmarks for borrowers, lenders, investors, portfolio managers, governments and public policy makers.

TeraExchange believes that the large number of participants in each market, and the calculation of each index by well known, independent third parties further limits the susceptibility of manipulation of these indexes. TeraExchange believes that such benchmark indexes due to the large number of index participants, ubiquity, and broad-market nature are not readily susceptible to manipulation.

### **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.

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

TeraExchange will submit timely reports regarding the Contracts to a registered swap data repository as prescribed in Parts 43 and 45 of the CFTC Regulations. TeraExchange will also record, report and publish on its website all data required by Part 16 of the CFTC's Regulations.