Exhibit L – Compliance with Core Principles.

Attach as Exhibit L, a narrative and supporting documents that may be provided under other Exhibits herein that describe the manner in which the Applicant is able to comply with each core principle. The Applicant should include an explanation, and any other forms of documentation the Applicant thinks will be helpful in its explanation, demonstrating how the swap execution facility will be able to comply with each core principle. To the extent that the application raises issues that are novel, or for which compliance with a core principle is not self-evident, include an explanation of how that item and the application satisfy the core principles.

Index of Compliance Narrative

Core Principle	Related BGC Rules	Discussion of Compliance
Core Principle 1 – Compliance with Core Principles. To be registered, and maintain registration, as a swap execution facility, the swap execution facility shall comply with – (i) the core principles described in this subsection and (ii) any requirement that the Commission may impose by rule or regulation pursuant to section 8a(5).	BGC believes this application for registration as a swaps execution facility (the "Application") demonstrates compliance with Core Principle 1.	Page 1
Core Principle 2 – Compliance with Rules. A swap execution facility shall: ***(A) establish and enforce compliance with any rule of the swap execution facility, including the terms and conditions of the swaps traded or processed on or through the swap execution facility and any limitation on access to the swap execution facility;*** ***(B) establish and enforce trading, trade processing, and participation rules that will deter abuses and have the capacity to detect, investigate, and enforce those rules, including means to provide market participants with impartial access to the market and to capture information that may be used in establishing whether rule violations have occurred;*** ***(C) establish rules governing the***	<u>Core Principle 2(A):</u> Rule 1301: Swaps Made Available for Trading Rule 804: Financial Integrity for Uncleared Trades or Trades Not Accepted for Clearing Rule 302: Eligibility [for Admission as a Participants] Rule 305: Admission as Participant Rule 306: Authorized Traders and Authorized Customers of Participants Rule 410: Compliance by Participants Rule 901: Violation of Law Core Principle 2(B) Rule 901: Violation of Law Rule 902: Rule Violation Rule 905: Manipulation Prohibited Rule 906: Prohibition on Misstatements Rule 907: Employees of the Facility PART 10: DISCIPLINARY PROCEEDINGS	Page 1

operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades; and ***(D) establish rules that when a swap dealer or major swap participant enters into or facilitates a swap that is subject to the mandatory clearing requirement of section 2(h), the swap dealer or major swap participant shall be responsible for compliance with the mandatory trading requirement under section 2(h)(8).***	Rule 1003: Review of Investigation Report Rule 1015: Participant Responsibility Actions Core Principle 2(C) PART 5 TRADING Rule 501. Required Transactions Rule 502. Permitted Transactions Rule 503. Trading Hours Rule 504. Information Regarding Orders Rule 505. Pre-Execution Discussions and Cross Trades Rule 506. Allocation and Priority of Orders; No Withholding of Orders Rule 507. Prohibited Bids and Offers Rule 508. Orders Rule 510. Block Trades Rule 511. Public Disclosure of Data Rule 512. Reporting of Transactions to Facility by Introducing Brokers Part 6. TRADING VIA ELECTRONIC ORDER BOOK Rule 601. Scope Rule 602. Trade Execution via Electronic Order Book Rule 603. Orders Rule 604.Confirmations and Objections Rule 605. Trade Invalidation upon Revocation of Clearing Authorization Rule 606. Trade Cancellations and Price Adjustments Rule 607. Assisted Order Entry PART 7 TRADING VIA VOICE FUNCTIONALITY Rule 701: Scope	

	Rule 702: Trade Execution via Voice Functionality Rule 703: Voice Trading Sessions Rule 704: Confirmation of Voice Transactions and Objections Rule 705: Record-keeping and Reporting Part 7a. TRADING VIA REQUEST FOR QUOTE ("RFQ") FUNCTIONALITY Core Principle 2(D) Rule 501: Required Transactions	
Core Principle 3 – Swaps not readily susceptible to manipulation. The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.	PART 11: PRODUCTS Rule 204: Compliance Department Rule 308: Surveillance	Page 6
Core principle 4 – Monitoring of trading and trade processing. The swap execution facility shall: ***(A) establish and enforce rules or terms and conditions defining, or specifications detailing (i) trading procedures to be used in entering and executing orders traded on or through the facilities of the swap execution facility; and (ii) procedures for trade processing of swaps on or through the facilities of the swap execution facility; and*** ***(B) monitor trading in swaps to prevent***	<u>Core Principle 4(A)</u> Rule 602: Trade Execution via Electronic Order Book Rule 506: Allocation and Priority of Orders; No Withholding of Orders Rule 604: Confirmation and Objections Rule 603: Orders Rule 605: Trade Invalidation upon Revocation of Clearing Authorization Part 6. TRADING VIA ELECTRONIC ORDER BOOK Rule 601. Scope Rule 602. Trade Execution via Electronic Order Book	Page 8

manipulation, price distortion, and disruptions of the delivery or cash disciplinary practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.	Rule 603. Orders Rule 604.Confirmations and Objections Rule 605. Trade Invalidation upon Revocation of Clearing Authorization Rule 606. Trade Cancellations and Price Adjustments Rule 607. Assisted Order Entry PART 7 TRADING VIA VOICE FUNCTIONALITY Rule 701: Scope Rule 702: Trade Execution via Voice Functionality Rule 703: Voice Trading Sessions Rule 704: Confirmation of Voice Transactions and Objections Rule 705: Record-keeping and Reporting Part 7a. TRADING VIA REQUEST FOR QUOTE ("RFQ") FUNCTIONALITY Rule 702a. Request for Quotes Core Principle 4(B) Rule 207: Compliance Department Rule 308: Surveillance *See also,* Regulatory Services Agreement with the National Futures Association)	
Core principle 5 – Ability to obtain information. The swap execution facility shall: ***(A) establish and enforce rules that will allow the facility to obtain any necessary information to perform any of the functions described in this section; (B) provide the information to the Commission on request; (C)***	Rule 403: Recordkeeping and Reporting Requirements Rule 410: Compliance by Participants Rule 405: Cooperation in Investigations	Page 12

have the capacity to carry out such international information-sharing agreements as the Commission may require.		
Core principle 6 – Position limits or accountability. ***(A) In general – to reduce the potential threat of manipulation or congestion, especially during trading in the delivery month, a swap execution facility that is a trading facility shall adopt for each of the contracts of the facility, as is necessary and appropriate, position limitations or position accountability for speculators.*** ***(B) Position Limits. For any contract that is subject to a position limitation established by the Commission pursuant to Section 4a(a) of the Act, the swap execution facility shall: (1) Set its position limitation at a level no higher than the Commission limitation; and (2) Monitor positions established on or through the swap execution facility for compliance with the limit set by the Commission and the limit, if any, set by the swap execution facility.***	<u>Core Principle 6(A)</u> Rule 1302: Position Limits Rule 1304: Position Accountability Core Principle 6(B) Rule 1302: Position Limits (Regulatory Services Agreement with the National Futures Association)	Page 13
Core principle 7 – Financial integrity of the transaction. The swap execution facility shall establish and enforce rules and procedures for ensuring the financial integrity of swaps entered on or through the facilities of the swap execution facility including the clearance and	Part 8. CLEARING AND FINANCIAL INTEGRITY OF CONTRACTS Rule 801. Scope Rule 802. Relation to Clearing Organization Rule 803. Clearing Authorization Required	Page 14

settlement of the swaps pursuant to section 2(h)(1).	Rule 804. Financial Integrity for Permitted Transactions Rule 805. Trades Not Accepted for Clearing Rule 806. Disputes related to Clearing Rule 807. Establishment of Daily and Final Settlement Prices Rule 302: Eligibility [for Admission as a Participant] Rule 501: Required Transactions Rule 1305: Risk Controls for Trading	
Core principle 8 – Emergency authority. The swap execution facility shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, as is necessary and appropriate, including the authority to liquidate or transfer open positions in any swap or to suspend or curtail trading in a swap.	Rule 1204: Emergency Powers	Page 17
Core principle 9 – Timely publication of trading information. ***(A) In General – the swap execution facility shall make public timely information on price, trading volume, and other trading data on swaps to the extent prescribed by the Commission.*** ***(B) The swap execution facility shall be required to have the capacity to electronically capture and transmit trade information with respect to transactions executed on the facility***	Rule 603: Orders Rule 604: Confirmations and Objections Rule 704: Confirmation of Voice Transactions and Objections Rule 705: Recordkeeping and Reporting	Page 19
Core principle 10 - Recordkeeping and		Page 20

Reporting. ***(A In general – a swap execution facility shall – (1) maintain records of all activities relating to the business of the facility, including a complete audit trail, in a form and manner acceptable to the Commission for a period of 5 years; (2) report to the Commission, in a form and manner acceptable to the Commission, such information as the Commission determines to be necessary or appropriate; (3) keep any such records relating to swaps defined in Section 1a(47)(A)(v) of the Act open to inspection and examination by the Securities and Exchange Commission.*** ***(B) Requirements – The Commission shall adopt data collection and reporting requirements for swap execution facilities that are comparable to corresponding requirements for derivatives clearing organizations and swap data repositories.***	Rule 207: Compliance Department *See* Exhibit O, BGC Compliance Manual, and the Regulatory Services Agreement with the NFA	
Core principle 11 – Antitrust Considerations. Unless necessary or appropriate to achieve the purposes of this Act, the swap execution facility shall not: ***(A) Adopt any rules or take any actions that result in any unreasonable restraint of trade; or (B) Impose any material anticompetitive burden on trading or clearing.***		Page 20
Core principle 12 – Conflicts of Interest. The		Page 21

swap execution facility shall: ***(A) Establish and enforce rules to minimize conflicts of interest in its decision-making process; and (B) Establish a process for resolving the conflicts of interest.***	PART 2: GOVERNANCE Rule 208: Restrictions on Participants with an Ownership Interest Rule 207: Restrictions on Directors, Officers, Committee Members, Employees and Consultants Rule 209: Conflicts of Interest Rule 1017: Conflicts of Interest or Bias	
Core principle 13 – Financial Resources. ***(A) In general. The swap execution facility shall have adequate financial, operational, and managerial resources to discharge each responsibility of the swap execution facility.*** ***(B) Determination of resource adequacy. The financial resources of a swap execution facility shall be considered to be adequate if the value of the financial resources exceeds the total amount that would enable the swap execution facility to cover the operating costs of the swap execution facility for a one-year period, as calculated on a rolling basis.***	*See* Exhibit C, Exhibit E, Exhibit F	Page 22
Core principle 14 – System Safeguards. The swap execution facility shall: ***(A) Establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and procedures, and automated systems, that: (1) Are reliable and secure; and (2) Have adequate scalable capacity;*** ***(B) Establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allow for: (1) The timely***	*See* BGC Technical Manual, BGC User Guide, Compliance Manual	Page 23

recovery and resumption of operations; and (2) The fulfillment of the responsibilities and obligations of the swap execution facility; and (C) Periodically conduct tests to verify that the backup resources of the swap execution facility are sufficient to ensure continued: (1) Order processing and trade matching; (2) Price reporting; (3) Market surveillance; and (4) Maintenance of a comprehensive and accurate audit trail.		
Core principle 15 – Designation of Chief Compliance Officer ***(A) In general. Each swap execution facility shall designate an individual to serve as a chief compliance officer;*** ***(B) Duties. The chief compliance officer shall: (1) Report directly to the board or to the senior officer of the facility; (2) Review compliance with the core principles in this subsection; (3) In consultation with the board of the facility, a body performing a function similar to that of a board, or the senior officer of the facility, resolve any conflicts of interest that may arise; (4) Be responsible for establishing and administering the policies and procedures required to be established pursuant to this section; (5) Ensure compliance with the Act and the rules and regulations issued under the Act, including rules prescribed by the Commission pursuant to this section; and (6) Establish procedures for the remediation of***	Rule 203: Regulatory Oversight Committee Rule 205: Compliance Department	Page 25

noncompliance issues found during compliance office reviews, look backs, internal or external audit findings, self-reported errors, or through validated complaints; ***(C) Requirements for procedures. In establishing procedures under paragraph (b)(6) of this section, the chief compliance officer shall design the procedures to establish the handling, management response, remediation, retesting, and closing of noncompliance issues;*** ***(D) Annual reports. (1) In general. In accordance with rules prescribed by the Commission, the chief compliance officer shall annually prepare and sign a report that contains a description of: (i) The compliance of the swap execution facility with the Act; and (ii) The policies and procedures, including the code of ethics and conflict of interest policies, of the swap execution facility. (2) Requirements. The chief compliance officer shall: (i) Submit each report described in clause (1) with the appropriate financial report of the swap execution facility that is required to be submitted to the Commission pursuant to this section; and (ii) Include in the report a certification that, under penalty of law, the report is accurate and complete.***		

Core Principle 1 – Compliance with Core Principles. To be registered, and maintain registration, as a swap execution facility, the swap execution facility shall comply with – (i) the core principles described in this subsection and (ii) any requirement that the Commission may impose by rule or regulation pursuant to section 8a(5).

BGC Derivative Markets, LP ("BGC") is submitting for review by the Commodity Futures Trading Commission (the "Commission") an application to operate as a swap execution facility ("SEF" or the "Facility"), demonstrating BGC's compliance with the SEF Core Principles. As noted by the Commission, a SEF shall have reasonable discretion in establishing the manner in which the swap execution facility complies with the core principles proscribed in section 5h of the Act.[1] As described more fully below, BGC believes that this Application and the accompanying appendices meet the relevant criteria and demonstrate its compliance with the core principles.

Core Principle 2 – Compliance with Rules. A swap execution facility shall:

(A) establish and enforce compliance with any rule of the swap execution facility, including the terms and conditions of the swaps traded or processed on or through the swap execution facility and any limitation on access to the swap execution facility;

Rules regarding Terms and Conditions of Swaps:

The SEF will establish and enforce rules including the terms and conditions of the Swaps[2] traded or processed on or through the facility and any limitation on access to the swap execution facility. The Facility will determine the swaps to be listed for trading through the Facility or subject to its rules (the "Trading System").[3] Part 13 of the Rules of the Facility provides that, in accordance with Section 2(h)(8) of the Act and §§37.10 and 38.12, every swap or an economically equivalent swap made available for trading on a swap execution facility and listed for trading on the Facility is available for trading on the Facility.[4] Part 13 of the Rules contains additional terms and conditions applicable to swaps listed on the Facility, such as position limits. Pursuant to Part 8 of the Rules, the Facility will establish the clearing and financial integrity requirements for swap contracts.

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[1] *See* Appendix B to Part 37 – Guidance on, and Acceptable Practices in, Compliance with Core Principles ("Commission Guidance on Core Principles").

[2] The Rules define a Swap as having the meaning set forth in section 1a(47) of the Act, and includes, among others, options and swaptions, caps and floors.

[3] *See* Rule 1301.

[4] The Commission defines "economically equivalent swap" as a swap that the SEF determines to be economically equivalent with another swap after consideration of each swap's material pricing terms.

Access to the Facility:

The Facility will limit access to the Facility only to persons that satisfy the eligibility requirements in Rule 302 to be registered with the Facility as Participants or are otherwise granted access to the Trading System.[5] For example, to be registered as a Participant, the Participant must, among other things, satisfy the definition of eligible contract participant ("ECP"), as defined by the Act, and have adequate financial resources and credit. The Facility will provide access to all qualifying Participants and employees of a Participant, an employee of a Participant's affiliate provided the Participant maintains supervisory authority over such employee ("Authorized Traders"). In addition, Trading Participants may permit Authorized Customers[6] and their respective employees (Authorized Traders) to access the Facility. The Facility will provide all Introducing Brokers with impartial access; however, the Facility will have available to it certain information from Introducing Brokers that are an affiliate of the Facility and, for that administrative efficiency reason, such IBs will be required to provide less information to the Facility. Access to the Facility is further conditioned upon the Participant or Authorized Customer having in place appropriate financial and clearing arrangements. In the case of cleared Swaps, Participants are required to provide evidence to the Facility that it has established either (i) a relationship with a member of a Designated Clearing Organization that will be responsible for the clearance and settlement of the Swaps; or (ii) that the Participant itself is a member of a Designated Clearing Organization.[7] With respect to uncleared Swaps that are traded on or subject to the rules of the Facility, Participants also are required to provide evidence to the Facility that it has the necessary credit documentation to enter into bilateral Swaps.[8] The Facility will also offer impartial access to ISVs.

Enforce Compliance with Rules:

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[5] Subject to the requirements and procedures set forth in this Part 3 of the Rules, Trading Privileges shall be offered to all persons applying to be registered with the Facility from time to time approved by the Facility as eligible to be Participants, subject to any limitation, restriction or revocation from time to time imposed by the Facility. Trading Privileges are non-transferable, non-assignable and may not be sold or leased.

[6] The Rules define an "Authorized Customer" as a customer that has been authorized by a Sponsoring Participant to access the Trading System directly or through a BGC Broker and thereby enjoy Trading Privileges. Trading Privileges mean the right granted to a Participant, Authorized Customer and their Authorized Traders to submit Orders directly to the Trading System. No person may exercise Trading Privileges during any suspension of such Person's Trading Privileges ordered by the Facility.

[7] *See* Rule 305.

[8] The necessary credit documentation includes, but is not limited to, an ISDA Master Agreement.

The Facility will enforce compliance with its rules in a number of ways. As outlined below, the Facility will have authority and jurisdiction over all transactions executed on the Facility. Secondly, BGC has a process in place to discipline any potential violation of the Facility's Rules. Lastly, BGC, along with its regulatory services provider, will actively monitor all transactions executed on or through the Facility for compliance with its Rules and Applicable Law.

The Application provides that by accessing the Facility, a Participant thereby agrees to abide by the Rules of the SEF and adhere to the SEF Rules.[9] Specifically, Rule 410 provides that each Participant and Authorized Trader by placing an Order on the Facility to have agreed to (i) be bound by the Rules of the Facility, (ii) be subject to the jurisdiction of the Facility, (iii) comply with all applicable Rules of the Facility and (iv) comply with Applicable Law.[10] Authorized Customers and their Authorized Traders, likewise, have agreed to be (i) bound by the Rules of the Facility, (ii) subject to the jurisdiction of the Facility, (iii) comply with all applicable Rules of the Facility and (iv) comply with Applicable law.[11]

It is an offense for any Participant or Authorized Customer, or their respective Authorized Traders, to violate or fail to conform to the Rules and procedures of the Facility; or with any decision or order of a committee of the Facility; or any order of any officer, employee or agent of the Facility when acting within his or her or its jurisdiction.[12]

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[9] The Participant Application is the application that must be completed by potential Participants to be granted access to the Facility and to be authorized to to trade on the Trading System.

[10] "Applicable Law" is defined in the Rules as (i) the Commodity Exchange Act, and all rules and interpretations of the Commission; (ii) the Securities Exchange Act and all rules and interpretations of the Securities and Exchange Commission ("SEC"); (iii) the constitution, by-laws, rules, regulations, policies, procedures, interpretations and customs of any applicable U.S. or non-U.S. board of trade, exchange, contract market, trading facility or execution facility, including, without limitation, an electronic trading system, facility, venue or service, or Clearing Organization or of any self-regulatory agency or organization; and (iii) any other laws, rules, interpretations, customs or usage of the trade applicable to trading on the Facility; all as in force from time to time.

[11] *See* Rule 306 Authorized Traders and Authorized Customers of Participants and the "Sponsored Access Agreements," which include the Sponsoring Participant Agreement, the Authorized Customer Agreement and the Sponsoring Participant Acknowledgement.

[12] *See* Part 9 of the Rules governs the Business Conduct of Participants and Authorized Traders; *see e.g.*, Rule 901 Violation of Law and Rule 902 Rule Violation. Rule 901 notes that it "shall be an offense for any Participant or Authorized Customer to violate or rail to conform to applicable provisions of the Act, Commission Regulations or any other law applicable to trading on the Facility." Rule 902 provides that "it shall be an offense for any Participant or Authorized Customer to violate or fail to conform to the Rules and proceedings of the Facility or with any decision or order of a committee of the Facility or any order of any officer, employee or agent of the Facility when acting within his, her or its jurisdiction.

In the event a Participant violates a Rule of the Facility, the Participation would be subject to disciplinary proceedings as governed by Part 10 of the Rules. An investigation of potential rule violations will be initiated pursuant to Rule 1001. Rule 1001 provides that the Enforcement Staff of the Compliance Department and its designees is responsible for investigating possible violations of the Rules upon request from the Commission staff or the discovery or receipt of information which indicates a possible basis for finding that a violation has occurred or will occur. After an investigation is completed, an Investigation Report will be prepared.[13] Upon completion of the Investigation Report, the Enforcement Staff either may make a recommendation as to whether the Disciplinary Committee should proceed with the matter, or to issue a warning letter to the person being investigated.[14] If the Disciplinary Committee elects to proceed, notices of charges will be provided pursuant to Rule 1005. BGC notes that Rule 1005 satisfies the recommended criteria set forth by the Commission in Appendix B to Part 37.[15] The person subject to the disciplinary action, (the Respondent), has the right to respond to the notice of charges, as provided in Rule 1007, and has a reasonable period to respond.[16] Additionally, the Respondent has the right to representation by legal counsel or any other representative of the Respondent's choosing.[17]

The Facility notes that although it will retain ultimate responsibility, the Facility will delegate certain of its monitoring and enforcement functions to the National Futures Association (the "NFA") for most of the Swaps traded on the Facility. BGC has executed a Regulatory Services Agreement with the NFA (the "Regulatory Service Agreement") to perform certain of its market surveillance, compliance and enforcement functions as its designated regulatory service provider. A copy of the executed Regulatory Service Agreement is being submitted to the Commission as part of BGC's application. The NFA will provide the Facility with market and trade practice surveillance and ongoing surveillance of the financial and operational status of Participants and Authorized Traders. The Facility's Compliance Department will coordinate with the NFA to address market actions deemed inappropriate as a result of NFA's ongoing market surveillance activities. The NFA will have the authority to investigate any potential rule

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13 *See* Rule 1002. Investigation Report.

14 As noted in paragraph (a)(1) of the Commission Guidelines on Core Principle 2, the rules of a SEF may authorize its compliance staff to issue a warning letter to a person or entity under investigation or to recommend that a disciplinary panel take such an action.

15 *See* Commission Guidelines on Core Principle 2, paragraph (a)(4).

16 *See* Commission Guidelines on Core Principle 2, paragraph (a)(6).

17 *See* Commission Guidelines on Core Principle 2, paragraph (a)(5); *see also* Rule 1008.

violations and to submit investigation reports to the Facility's Compliance Department. In addition, the Facility will conduct monitoring and enforcment functions directly for certain very low volume contracts. These contracts are anticipated to be Permitted Transactions that trade infrequently.

(B) establish and enforce trading, trade processing, and participation rules that will deter abuses and have the capacity to detect, investigate, and enforce those rules, including means to provide market participants with impartial access to the market and to capture information that may be used in establishing whether rule violations have occurred;

The Exchange will establish and enforce trading rules to ensure fair and equitable trading. All Participants and their Authorized Traders and Authorized Customers will have impartial access to the Trading System, including information regarding prices, bids and offers. Orders will be executed impartially by the Trading System in accordance with Part 5 of the Rules.

The Facility will enforce its Business Conduct Rules contained in Part 9 of the Rules of the Facility. Rule 901 specifically prohibits any Participant from violating or failing to conform to the Act, Commission Regulations or any other law applicable to trading on the Facility. Additionally, Rule 902 makes it an offense for any Participant to violate or fail to conform to the Rules and procedures of the Facility, or with any decision or order of a committee of the Facility, or any order of any officer, employee or agent of the Facility when acting within his, her or its jurisdiction. Rules 904 – 908 prohibit specific abusive practices by Participants. For example, Rule 906 prohibits any person from disseminating any false or misleading or knowingly inaccurate information; and Rule 908 prohibits any Participant from creating fictitious or wash transactions, or entering into non-competitive transactions except as otherwise authorized by these Rules, or executing any such order on behalf of another with such knowledge of its nature. Generally, all Participants and Authorized Customers must engage in equitable and just principles of trade.[18]

As noted above, the NFA will assist the Facility with its market and trade practice surveillance and ongoing surveillance and coordinate with BGC's Compliance Department to address potential inappropriate actions. Disciplinary and enforcement rules designed to deter abuses are contained in Part 8 of the Rules. The Enforcement Staff of the Compliance Department, Disciplinary Committee and Appeals Panel will enforce compliance with the Rules

[18] Rule 909 prohibits any person from engaging in conduct or practices inconsistent with just and equitable principles of trade or conduct or practices detrimental to the best interests of the Facility.

of the Facility in conjunction with the surveillance services to be provided by NFA. Pursuant to Rule 803, the Review Panel will review investigation reports prepared by the Enforcement Staff in consultation with the NFA, in the event the NFA recommended the investigation.

The Disciplinary Committee organized upon the recommendation of the Compliance Department will conduct disciplinary hearings and render a decision following each hearing pursuant to procedures detailed in Part 8. Additionally, the Facility will have the authority, pursuant to Rule 1204, to summarily suspend any Participant or take other summary action against a Participant if the Facility reasonably believes that such immediate action is necessary to protect the best interests of the marketplace.

(C) establish rules governing the operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades; and

The Facility has established rules that govern the operation of the Trading System, the Facility's system for execution of Swap transactions. The Trading System is a proprietary trade-matching system developed by BGC, accessed via private lines using Citrix services such that the User's[19] interface is hosted locally at BGC and each session is accessed remotely by the User. The order entry procedures and acceptable order types are described in Part 5 of the Rules of the Facility. Specifically, Rule 602 contains the procedures for the electronic trade execution and describes the three different ways in which trades may be matched on the Trading System. Additionally, pursuant to Rule 603, Participants or Authorized Customers may request that bids or offers from particular Participants or Authorized Customers be displayed in various ways. Rule 505 requires that all transactions of any type in or involving Swaps must be bid, offered and executed through the Trading System or subject to the rules of the Facility and provides what types of orders may be entered into the Trading System. Rule 506 describes the allocation and priority of orders. Rule 510 provides the manner in which a Swap eligible for privately negotiated transactions ("block trades") may be executed. Specifically, the Facility may designate any Swap as eligible for privately negotiated transactions, block trades. It will also determine the minimum size thresholds for the Swaps in which block trades are permitted.

[19] For purposes of this Exhibit L, the term "User" means either a Participant or Authorized Customer.

Bids and offers may be entered into the Trading System in various ways. For example, a Participant can submit its bid or offer through a BGC Broker,[20] or directly to the Trading System. Block trades may be entered by a BGC Broker or submitted directly to the Trading System in accordance with Rule 510. The manner in which Participants and Authorized Traders can enter orders into the Trading System is described in greater detail in The BGC Derivative Markets, LP User Guide ("User Guide"). A copy of the User Guide is being submitted to the Commission as Exhibit M-2 of BGC's application. The BGC Derivative Markets, LP Technical Manual ("Technical Manual") also describes in great detail the architecture of the Trading System in addition to the matching algorithms employed by the Trading System. The Technical Manual also explains the capabilities of the Trade System with respect to quotation, order placement, and cancellation of orders. A copy of the Technical Manual is being submitted to the Commission as Exhibit M-3 of BGC's application.

In addition the to the Electronic Order Book and the various electronic Trading Sessions described in the Rules, the Facility provides for tade excecution through Voice Functionality. Voice Functionality is provided for in Part 7 of the Facility's Rules. Trade execution via voice functionality takes place through a physical Trading Facility, as defined by section 1a(51) of the Act, that enables multiple participants to offer Bids or Offers that are open to multiple participants through the use of telephone, electronic messaging or other communications devices acceptable to the Facility. Voice Trading is facilitated by a BGC Broker who makes known to Participants the existence of trading interest in a Swap, facilitates the communication of Bids or Offers among multiple Participants, and assists in orderly trading on the Facility. In addition, Voice Funtionality may include certain Technology-assisted Voice Trading. This provides a mechanism by which Participants may make the use of an Electronic Whiteboard as a means of faciliating Voice Trading functionality. Voice Functionality includes a number of distinct and separate trading sessions that provide for a number of types of trading session. Voice Functionality recognizes a priority for the Participant with the best priced and oldest resting bid or offer in responding to new bids or offers being entered into the market. Session.

[20] The Rules define a "BGC Broker" as an employee of the Facility acting as agent to one or more Participants using telephonic or other means of electronic communication devices: (1) to assist in matching a Swap transaction not required to be matched by the Trading System; or (2) to assist Participants in the entry or withdrawal of Orders into the Trading System for matching by the Trading System.

(D) establish rules that when a swap dealer or major swap participant enters into or facilitates a swap that is subject to the mandatory clearing requirement of section 2(h), the swap dealer or major swap participant shall be responsible for compliance with the mandatory trading requirement under section 2(h)(8).

The Facility, pursuant to Rule 501(c), will require that a Participant that is a swap dealer or a major swap participant (as those terms are defined in the Act) that enters into or facilitates a Swap transaction on the Facility that is subject to mandatory clearing pursuant to Section 2(h) of the Act be responsible for compliance with the mandatory trading requirement under Section 2(h)(8) of the Act.

Core Principle 3 – Swaps not readily susceptible to manipulation. The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.

The Facility will permit trading in a number of Made Available to Trade contracts in addition to offering for trading as Permitted Transactions in any Swap for which terms have been defined in the Facility Rules. These Swaps are currently available to trade on the Facility and are not readily susceptible to manipulation. BGC will offer for trading through the Facility Swaps the economic terms of which are commonly traded by market participants. Permitted Transactions will be traded on the Facility and may be less liquid than MATT contracts. By definition, trading in particular Permitted Transaction Swaps will be relatively modest in size. Accordingly, these Swaps will not be traded in sufficient quantities to create opportunities for market manipulation. Furthermore, both Required and Permitted Transaction Swaps traded on or through the Facility will be subject to NFA supervisory oversight.

Core Principle 3 requires that the "reference price"[21] used by a Swap not be readily susceptible to manipulation. As a result, when identifying a reference price, the Commission has provided that a swap execution facility should either (i) calculate its own reference price using suitable and well-established acceptable methods or (ii) carefully select a reliable third-party index.[22] The Facility will calculate a daily settlement price for each Swap listed for trading on the Facility and priced that day either through firm or indicative orders pursuant to Rule 807. The Facility will calculate daily settlement prices for Swaps receiving bids or offers through the

[21] The Commission noted that a swap contract is an agreement to exchange a series of cash flows over a period of time based on some "reference price," which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. *See* Commission Guidance on Core Principles, Core Principle 3.

[22] *See* Commission Guidance on Core Principles.

day only. The settlement price will be established using an algorithm that calculates the settlement price using the following hierarchy of price inputs: (i) the mid price of the best executable bid/offer spread present at the close, rounded to the nearest price increment; (ii) the mid of an indicative bid/offer spread present at the close, rounded to the nearest price increment; or, if neither of the above, then (iii) the most recent of (A) the actual bid; (B) the actual offer; (C) the indicative bid; (D) the indicative offer; (E) the last trade. The Facility further notes that all cleared Swaps will be settled in accordance with the rules of the designated Clearing Organization.

The Facility will be staffed with a designated group of employees who are responsible for Facility market operations, real-time market monitoring, customer support and surveillance ("Control Desk"). The Facility will employ an application entitled "Max price range check" to ensure that Swaps traded are not readily susceptible to manipulation by monitoring the changes in new order prices from last accepted prices. For each Swap instrument traded electronically, the Control Desk may set a percentage move from the last accepted price for that day (including indicative orders entered by the Facility's analytical pricing systems) which will control the lowest bid and highest offer that can be entered into the system. The range thus dynamically adjusts each day based on the last accepted order.

Core principle 4 – Monitoring of trading and trade processing. The swap execution facility shall:

(A) establish and enforce rules or terms and conditions defining, or specifications detailing (i) trading procedures to be used in entering and executing orders traded on or through the facilities of the swap execution facility; and (ii) procedures for trade processing of swaps on or through the facilities of the swap execution facility; and

The Facility will establish and enforce the trading procedures to be used in entering and executing orders traded on or through the Facility. As noted above, in response to Core Principle 2 (C), Part 5 of the Rules of the SEF govern trading on or through the Facility. Rule 602 establishes the various trading sessions and the means by which bids and offers can be submitted to the Trading System. Authorized Traders can enter bids and offers directly onto the Trading System or through a BGC Broker.[23] The manner in which Participants and Authorized Traders

[23] BGC notes that its Control Desk surveils and monitors the prices of the Swap transactions executed on the Trading System; furthermore the Trading System alerts the Control Desk when a new Swap order is submitted.

can enter orders into the Trading System is described more fully in the User Guide. A copy of the User Guide is being submitted to the Commission as Exhibit of BGC's Application.

Under Rule 602, trades may be matched by the Trading Session in any one of several separate Trading Sessions. These separate Trading Sessions are discussed briefly below; however the Trading Sessions are described in greater detail in the "Trade Narrative," a copy of which is being submitted to the Commission as Exhibit Q of BGC's application as described below.

Trading Sessions:

1. "Electronic Order Book Trading Session." This is the trading system which relies upon an electronic central order book for trade execution. Trades are executed by one Party electronically hitting a displayed bid or lifting a displayed offer. In addition, new contra orders that match in price with existing orders may automatically be executed by the Trading System.

2. "Volume Clear Trading Session." This Trading Session encourages Participants to provide greater liquidity to the market by providing after a trade has been executed a period of time during which the original Parties to the transaction and others in the market may execute additional trades at the initial execution price. Specifically, once a bid or offer is entered into the Trading System, or if bids and offers at the same price automatically match, a trade state session is initiated where the initial buyer and initial seller are invited to trade a greater amount along with any other Participants that desire to join the trade. This trade matching session is anonymous; the identity of each Participant that wants to trade at the price initially set is not disclosed to the contra-side Participant. The Trading System's matching engine matches all sizes it can in accordance with the Rules.

3. "Volume Match Trading Session." This Trading Session consists of a separate auction held periodically throughout the Trading day during which trades will be executed at a single, market clearing price determined by the Facility's Control Desk based upon indicative and executable quotes entered in the Central Limit Order Book up to the Volume Match Trading Session.

4. "Volume Match Plus Trading Session." This trading session operates as an auction separate from the Regular Order Trading Session and is held periodically during the Business Day. The auction operates similar to the Volume Match Trading Session; however, during the auction Participants are able, in response to changing market conditions, to submit Bids higher or Offers lower than the initial price originally determined by the Trading System thereby shifting the indicated execution price to another value for the duration of that auction.

5. "Request for Quote Match Trading Session." This Trading Session operates the same as the Volume Match Trading Session with the difference that the market clearing price is

established based upon bids and offers entered during the Request for Quote Match Trading Session.

Additionally, Participants and Authorized Customers will be able to request that bids or offers from particular Participants or Authorized Customers be displayed in accordance with Rule 702a, "Request for Quote." Generally, Rule 702a provides Participants and Authorized Customers may request that bids or offers from be displayed. Participants and Authorized Customers may submit such requests either directly into the Trading System or with the assistance of a BGC Broker

Rule 603 defines which types of orders may be entered into the Trading System. In particular, orders may be entered into the Trading System only in such form and during such times as the Facility will prescribe and by a Participant, its Authorized Traders, and/or an Authorized Customer and its Authorized Traders. The Facility will limit the types of orders that may be entered into the Trading System to the following:

1. "Good-until-Bettered Orders." A good-till-bettered order is an order to buy or sell a stated amount of a Swap or strategy to be executed at the displayed price until bettered by another order (whether form the original participant or another) or cancelled. Provided, however, their validity may also be made subject to the condition that the order is "Good-till-Cancelled" (valid until withdrawn, which can be at a time pre-arranged by automated timer until the end of the trading day).
2. "Limit Orders. A limit order is an order to buy or sell a stated amount of a Swap or strategy to be executed at the price stated in the order or better, such that the order will persist even if bettered and until cancelled. Provided, however, their validity may be subject to the condition that the order is "Good-till-Cancelled" (valid until withdrawn).
3. "Fill and Kill ('FAK') Orders." An FAK is request to Hit or Take on the Trading System at a pre-determined price that, if matched, may start a trade and persist during the flash of that trade until fully executed, cancelled or the trade ends."

BGC has established rules and procedures for trade processing of swaps on or through the Facility. For example, Rule 506 describes the allocation and priority of orders; in particular Participants are required to ensure that orders are allocated to the appropriate accounts. The Facility will provide confirmation of the transactions pursuant to Rule 604, in addition to a procedure for the Participant to object to the contents of the transaction. Additionally, Rule 606

contains detailed policies and procedures for cancellation of trades and the review of trades. All Swaps will be settled in accordance with the rules of the applicable Designated Clearing Organization.[24]

(B) monitor trading in swaps to prevent manipulation, price distortion, and disruptions of the delivery or cash disciplinary practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.

BGC, and the NFA as its RSP, will monitor trading in Swaps to help assure against manipulation. The NFA will be tasked with on-going market, trade practice and financial surveillance in coordination with BGC's Compliance Department to address potential inappropriate activities. In furtherance of its monitoring responsibility, BGC will have a complete audit trail of activity on its Trading System. The Facility will require, among other things, that each order submitted to the Trading System be submitted under an applicable User ID, and shall maintain electronic records relating to trade execution, and submittal of matched trades to a Designated Clearing Organization, or as applicable, a trade confirmation and affirmation platform.25 Consequently, the Facility will be able to track and monitor all trades attributable to each Authorized Trader.

BGC's Control Desk also will monitor trading activities in real-time. To facilitate monitoring and surveillance, the Trading System will capture trade data in real-time. The Trading System has a number of functionalities and applications designed to assist the Control Desk to surveil and monitor trade activity in real-time. Highlighted below are a few of the tools that the Control Desk will use to surveil trading activity.[26]

1. *Order Monitor Function*: This application enables the Control Desk and Production Support to view in real-time each order residing in the Order Book and its associated details. The Order Monitor provides the ability to view individual orders, sorted by User ID and by Order ID allowing the Control Desk to cancel specific resting orders if necessary.

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[24] *See* Rule 802.

[25] The Rules define User ID as an identification code assigned by the Control Desk to each Authorized Trader employed by such Participant or Authorized.

[26] The Facility intends to update and enhance its surveillance capabilities on an ongoing basis and in cooperation with the NFA.

2. *Market Price Monitors*: This application continuously compares the best bid and offer quotes posted on the Trading System against comparable pricing on the related indicative market screens on Reuters and Bloomberg market data venders and with price levels created by BGC through its own theoretical analytical pricing algorithms. This application will determine and provide the variance between prices on the Trading System and the theoretical mid price derived by BGC. Consequently, this application will highlight when a price is at a configurable threshold away from related reference values. The application also can apply compare the best bid and offer quotes posted on the Trading System against prices of other swaps execution facilities, if such market data is made available.
3. *Max price range check*. Using trading system database entries, the Control Desk and Production Support may set a percentage move from the day's most recently entered firm or indicative price, which will control the lowest bid and highest offer that can be entered into the system. The acceptable price range thus dynamically adjusts each day based on recent prices entered for each Swap and can be re-set for particular market sector movement shifts. Indicative prices for liquid swaps may also be entered, sourced from Broker's analytical pricing engines to help avoid User order entry errors.
4. *NFA Compatible Logging and Order Feeder*. The Trading System generates logging that will support an "NFA Feed" (a data feed that can be transmitted directly to the NFA). If the NFA or a regulator needs real-time data to assist in its oversight and surveillance of the transactions on and through the Facility, BGC will be able to provide the requested data via an NFA feed that includes an "Order Feed" and a "Trade Feed" for intraday market monitoring.
5. *Intra Entity Trade Activity*. The Facility will have the ability to create "Intra Entity " Reports that compare buys and sells at the same price level for the same User ID. The occurrence of same Entity trades between buy and sell (or pay and receive) orders of any one User ID and of User IDs of the same Entity can be seen and the timing investigated.
6. *Maximum Transaction Functionality*. The Trading System will prevent a Participant, an Authorized Customer and their respective Authorized Traders from trading over a specified size per side, per transaction, per Swap. The User Interface to the system additionally has the functionality that limits a User to a "clip-size" of a User prescribed

multiple of their usual default order entry size, which also has an alert programmed that will warn the Authorized if an attempt is made to enter an order for more than the chosen multiple of that default.

Capturing the trade data in real time will facilitate the Compliance Department of the Facility and the NFA to monitor trading in Swaps to prevent and detect manipulation and other prohibited activities.

Core principle 5 – Ability to obtain information. The swap execution facility shall:

(A) establish and enforce rules that will allow the facility to obtain any necessary information to perform any of the functions described in this section; (B) provide the information to the Commission on request; (C) have the capacity to carry out such international information-sharing agreements as the Commission may require.

The Facility has the ability to obtain any needed information and to carry out information-sharing agreements as the Commission may require. Pursuant to Rule 403, Participants will be required to make their books and records available for inspection by, and deliver copies thereof to, the Facility, the NFA, the Commission, the Department of Justice and their respective authorized representatives upon request. Additionally, as previously noted, each Participant and Authorized Trader has agreed to be subject to the jurisdiction of the Facility pursuant to Rule 410. Each person subject to the jurisdiction of the Facility is required to respond to interrogatories and furnish documentary materials and other information requested by the Exchange in connection with disciplinary investigations. Rule 405 requires that each Participant cooperate with any investigation of the Facility, its designee, the Commission or the SEC.

Core principle 6 – Position limits or accountability.

(A) In general – to reduce the potential threat of manipulation or congestion, especially during trading in the delivery month, a swap execution facility that is a trading facility shall adopt for each of the contracts of the facility, as is necessary and appropriate, position limitations or position accountability for speculators.

The Facility will establish and enforce for each of the Swaps listed or traded through the Trading System, as is necessary and appropriate, speculative position limitations or position accountability rules. Specifically, pursuant to Rule 1302, the Facility has the authority to establish speculative position limits for any Swap listed for trading on the Facility. The Facility will prohibit any Participant from establishing a position through the Facility in excess of such

position limits. The Facility also will prohibit a Participant from maintaining a position in excess of such position limits for a customer if the Participant knows, or with reasonable care should know, that the position would cause the customer to exceed the applicable position limits. Position limits will apply to: (i) all positions in accounts for which any Person, by power of attorney or otherwise, directly or indirectly holds positions or controls trading; and (ii) positions held by two or more Persons pursuant to an expressed or implied agreement or understanding, as if the positions were held by, or the trading of the positions were done by, a single Person.[27] The Facility currently does not list for trading any instrument for which the Commission requires speculative position limits to be set.

For those Swaps not subject to speculative position limits, the Facility Rule 1304 provides that the Facility will have the authority to establish Position Accountability levels for any Swap contract listed for trading on the Facility. In the event a Person establishes Swaps positions on the Facility in excess of the applicable Position Accountability level, that Person will be required to provide any information requested by the Facility. Currently, the Facility has not set specific position accountability levels for Swaps under Rule 1304(c).

(B) Position Limits. For any contract that is subject to a position limitation established by the Commission pursuant to Section 4a(a) of the Act, the swap execution facility shall: (1) Set its position limitation at a level no higher than the Commission limitation; and (2) Monitor positions established on or through the swap execution facility for compliance with the limit set by the Commission and the limit, if any, set by the swap execution facility.

Pursuant to Rule 1302, for any contract that is subject to position limits established by the Commission pursuant to Section 4a(a) of the Act, the Facility may: (i) set its position limit at a level no higher than the Commission limit; (ii) monitor positions established on or through the Facility for compliance with the limit, if any, set by the Facility; and (iii) reduce a Participant's ability to place Bids or Offers on the Facility to ensure compliance with the limit.

The Trading System has a functionality specifically designed to monitor for compliance with position limits, as noted in response to Core Principle 4(B) above. The "Positions Monitor" is an application used by BGC's Control Desk and Compliance Department to view in real-time intraday positions. The Positions Monitor shows when a particular User ID acquires a net

[27] BGC notes that the Facility will have the ability to exempt any Person from the position limits referenced in Rule 1102. A Person will need to file an application with the Facility and all decisions by the Facility will be final.

position that meets or exceeds a specified thresholdfor any prescribed limits for any particular Swap and then shows if the net position meets or exceeds the Facility's established Position Accountability Levels for that Swap market sector.

In addition to the "Position Monitor," the Trading System also will employ a "Credit Engine" application to assist in monitoring for compliance with position limits. The Credit Engine will read the "All Trades Feed" and detail in real-time all long and short positions for an individual User ID in the instruments traded. The Credit Engine will monitor position limits in real-time for both individual User IDs and groups of User IDs collectively monitored such that in the event a pre-configured position threshold would be breached by a new order, that new order will be declined by the Trading System. If a pre-configured threshold is reached for either a User ID and/or the Participant ID[28] (or any other suitable group of IDs collectively monitored), the Credit Engine can (if so configured) send a shut-off signal to the Trading System's matching engine for the Buy (Pay) side and/or the Sell (Receive) Side as appropriate. When the position drops, the Credit Engine may re-enable the Buy (Pay) or Sell (Receive) signal into the Trading System.

Furthermore, as noted above, the NFA will assist the Facility in its real-time monitoring of the trade activity of the Participants, including for speculative position limit violations, a violation of which could result in a disciplinary action.

Core principle 7 – Financial integrity of the transaction. The swap execution facility shall establish and enforce rules and procedures for ensuring the financial integrity of swaps entered on or through the facilities of the swap execution facility including the clearance and settlement of the swaps pursuant to section 2(h)(1).

The Facility will establish and enforce the rules and procedures to ensure the financial integrity of Swaps entered on or through the Facility, including the clearance and settlement of the Swaps pursuant to Section 2(h)(1) of the Act.

Part 8 of the BGC Rulebook contains the provisions related to the clearing and financial integrity of contracts executed on or through the Facility. Pursuant to 802, the Facility will require that every Swap be centrally cleared if it is either (i) executed on or subject to the Rules of the Facility that is required to be cleared under Section 2(h)(1) of the Act, or (ii) not required to be cleared but offered for clearing by a Clearing Organization and elected to be cleared by the

[28] The Rules define a Participant ID as the unique identifier code assigned by the Facility to each Participant.

Participants to the transaction. Rule 802 identifies the Clearing Organizations available for a Participant to designate for clearing the transaction. The Facility will incorporate the terms and conditions of the Swap as established by the designated Clearing Organization as the terms and conditions of the Swap available for trading on the Facility.[29] As noted previously, the Facility will require that a Participant that is a swap dealer or a major swap participant (as those terms are defined in the Act), and that enters into or facilitates a Swap transaction on the Facility that is subject to mandatory clearing pursuant to Section 2(h) of the Act, be responsible for compliance with the mandatory trading requirement under Section 2(h)(8) of the Act pursuant to Rule 501.

As of the time of this Application, no Made Available To Trade determinations have been made by the Commission. However, the Facility under Rule 1306 intends to request that the Commission treat as MATT on the Facility all Swaps which have been subject to a mandatory clearing determination, including broken dated and forward starting Interest Rate Swaps with respect to those instruments subject to mandatory clearing.

(b) The terms and conditions of the Swap as established by the Clearing Organization in its Rules or Bylaws are incorporated by reference herein, and are the terms and conditions of the Swap which is Made Available to Trade on the Facility.

The Facility also will allow trading of Swaps that are Permitted Transactions. Rule 1307 establishes the parameters of the terms of contracts which are offered for traded as Permitted Transactions. Participants through the Whiteboard trading mechanism may request that particular terms and conditions of a Swap be offered for trading via Technology Assisted Voice Functionality.

The Facility requires under Rule 804 that a Participant that transacts Permitted Transactions in Swaps upon request provide evidence to the Facility that it has (1) current Swap transaction documentation, including credit arrangement documentation, which would apply to the transaction; and (2) current arrangements for the exchange of collateral. Furthermore, each Participant and Authorized Customer will be required to meet any credit filters adopted by the Facility to enter an order for an uncleared Swap transaction.[30] The Trading System may prohibit specified Participants from transacting with each other if the Participants fail to satisfy the

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[29] *See* Rule 1106.

[30] *See* Rule 604(d).

required credit filters. The Trading System has an electronic credit application that may be used to adjust the credit filters on a per tenor basis. Specifically, the elecronic credit application will enable the Facility and Participants to track the credit available for transacting non-cleared Swaps, as applicable. Credit Officers at the Participants and the Control desk will have access to adjust credit as required.

The Facility also will impose risk controls for trading that will assist in ensuring the financial integrity of Swaps entered on or through the Facility. Specifically, in the event of price movement in a specific Swap in excess of a triggering event or level, as determined by the Control Desk and in consultation with the Chief Compliance Officer, the Facility will be able to restrict or halt trading in that particular Swap.

Lastly, the Facility notes that it will establish and enforce rules that provide for the financial integrity of its transactions by establishing minimum financial standards for its members in accordance with §37.702. Pursuant to Rule 302, an applicant will be required to satisfy the definition of an Eligible Contract Participant.[31] The Facility will require that an applicant have adequate financial resources and credit to conduct business as a Participant.

Core principle 8 – Emergency authority. The swap execution facility shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, as is necessary and appropriate, including the authority to liquidate or transfer open positions in any swap or to suspend or curtail trading in a swap.

Pursuant to Rule 1204, the Facility will have the authority to exercise emergency powers. Paragraph (a) of Rule 1204 defines occurrences that may be deemed emergencies;[32] however the Facility is not limited to the events specified in the Rule when electing to exercise its emergency authority. The Facility, in consultation and cooperation with the Commission, will have authority to intervene as necessary to maintain fair and orderly trading and to prevent or address manipulation or disruptive trading practices, whether the need for intervention arises exclusively from the Facility's market or as part of a coordinated, cross-market intervention.

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[31] §37.702 requires that at a minimum, a member of a SEF must qualify as an eligible contract participant as defined in Section 1a(18) of the Act; the Facility defines "Eligible Contract Participant" accordingly.

[32] For example, instances that could trigger emergency authority include, but are not limited to: (i) any manipulative activity or attempted manipulative activity; (ii) any actual, attempted, or threatened corner, squeeze, congestion or undue concentration of positions; (iii) any circumstance which may materially affect the performance of Swaps, including failure of any payment system; (iv) the bankruptcy or insolvency of any Participant or the imposition of any injunction or other restraint by any Government Agency, court or arbitrator upon any Participant which may affect the ability of any Participant to perform its Swaps.

Pursuant to Rule 1204(b), the Facility has the authority to take any or all of the following actions or *any other action that may be appropriate* under the circumstances:

- impose trading and/or modify an existing position limits;
- impose or modify any existing price limits;
- impose or modify any existing circuit breakers;
- order the fixing of a settlement price
- extend or shorten the trading hours;
- suspend or curtail trading;
- modify or suspend any provision of BGC's Rules.[33]

These authorities meet Commission guidance related to the exercise of emergency authority by a SEF.[34]

Additionally, the Trading System short of a market emergency, will be able to suspend an individual Swap instrument and/or Swap markets. The Control Desk also will be able to establish and adjust trading limits to specific Swap tenors where appropriate. Thus, the Control Desk is capable of responding to volatile trading in a particular Swap. BGC further notes that the trading privileges of a specific Authorized Trader can be either suspended or terminated if needed in an emergency. The Control Desk will have the ability to track in real-time the specific users and application programming interface ("API") connectivity routes through BGC's architecture and therefore cancel the specific Authorized Trader's connectivity to the Trading System if needed.

The Commission has provided that a SEF's rules should include procedures and guidelines for decision making and implementation of emergency intervention that avoid conflicts of interest in accordance with the provisions of §40.11 and include alternate lines of communication and approval procedures to address emergencies associated with real time events.[35] The Facility will have the authority to determine any "unusual, unforeseeable and adverse circumstance with respect to which it is not practicable for the Facility to certify a rule or rule amendment to the Commission prior to its implementation, or, in a timely fashion to submit to the Commission for its prior approval or reviewable rule." Consequently, the Facility has the

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[33] *See* Rule 1004 [emphasis added].

[34] *See* Commission Guidance on Core Principles.

[35] *See* Commission Guidance on Core Principles.

necessary flexibility and an alternative approval procedure in place to address extraordinary circumstances.

BGC understands that the Commission expects to be notified promptly of the SEF's exercise of emergency action, explaining its decision-making process, the reasons for using its emergency authority, and how conflicts of interest were minimized, including the extent to which the SEF considered the effect of its emergency actions on the underlying markets and on the markets that are linked or references to the Swaps traded on its Facility, including similar markets on other trading venues.[36] Furthermore, the Commission has noted that information on all regulatory actions carried out pursuant to a SEF's emergency authority should be included in a timely submission of a certified rule pursuant to Part 40.

The Facility will promptly notify the Commission of its decision to exercise emergency authority. Specifically, Rule 1104(d) requires the Facility to notify the Commission (and the Board of Directors) of any exercise of emergency authority as soon as practicable. Additionally, the Facility is required to document the decision-making process and reasons for taking any emergency action. Any record documenting the decision-making process at the time of an emergency will be kept and maintained in accordance with Commission requirements.

Core principle 9 – Timely publication of trading information.

(A) In General – the swap execution facility shall make public timely information on price, trading volume, and other trading data on swaps to the extent prescribed by the Commission.

The Facility will establish and implement rules and procedures to make public timely information on price, trading volume and any other trading data on Swaps as required by the Commission. The Trading System will make settlement prices, time of sales and volumes available directly to a central counterparty and available via the Facility's website.

Pursuant to Rule 604, the Facility will make information regarding orders (including prices bid or offered), trades and any other matters it may deem appropriate available to Participants, Authorized Traders, other Supervised Persons and Authorized Customers at such times and in such manner (whether through the Trading System, a ticker, financial information services or otherwise) as it may consider necessary or advisable from time to time. As depicted

[36] *See* Commission Guidance on Core Principles.

in the User Guide, the Facility will make public the information necessary for its Participants to engage in Swaps transactions.

The Facility will immediately notify a Participant of the matching of bids and offers through the Trading System pursuant to Rule 604: Confirmations and Objections. Specifically, the Facility will provide an initial execution notification which includes price and side information to both sides of a trade, and a final notification upon completion of the transaction.

(B) The swap execution facility shall be required to have the capacity to electronically capture and transmit trade information with respect to transactions executed on the facility.

The Facility has the capacity to electronically capture and transmit trade information with respect to transactions executed on the Facility. As previously stated, the Trading System will capture trade data in real-time, as described in the Technical Manual. The Trading System will "log" every message processed by the Facility. The Trading System will generate logs that are available to be viewed by the Control Desk. Thus the Control Desk will be able to determine which Authorized Trader effected a particular trade and the log reports will enable the Control Desk to identify the specific message that effected the transaction.

Additionally, as described in detail in the Technical Manual and in response to Core Principle 14 below, the Facility not only will capture the data transmitted over the Trading System but also will replicate the trade data and store "backup" copies of the data.

Core principle 10 - Recordkeeping and Reporting.

(A In general – a swap execution facility shall – (1) maintain records of all activities relating to the business of the facility, including a complete audit trail, in a form and manner acceptable to the Commission for a period of 5 years; (2) report to the Commission, in a form and manner acceptable to the Commission, such information as the Commission determines to be necessary or appropriate; (3) keep any such records relating to swaps defined in Section 1a(47)(A)(v) of the Act open to inspection and examination by the Securities and Exchange Commission.

BGC's recordkeeping practices, procedures and rules are consistent with the Commission's requirements. As noted previously, the Trading System will capture and make a record of every message processed by the Facility. Additionally, the Trading System will utilize a functionality entitled "Electronic Information Services" ("EIS") which generates ad-hoc real-time reports and records of trading activities and affords a view into Customer Static Data required by Commission regulations. As described in response to Core Principle 14, the Trading System records and maintains "backup" records of all trading activity, including a complete audit

trail. Additionally, Participants acknowledge and consent to the Facility's right and power to record conversations between employees, officers and agents of the Facility and Participants and Authorized Customers and, their employees, officers and agents. Participants and Authorized Customers shall inform their employees and agents of the Facility's right and power to record conversations and shall obtain their consent thereto. The Facility shall retain any such recordings under the terms and conditions the Facility may prescribe from time to time.

BGC notes that the Facility's compliance with the Commission's recordkeeping and reporting requirements will be audited regularly by its external auditors. Furthermore, BGC enforces written policies for compliance with all document retention requirements.

BGC will report to the Commission any information the Commission determines to be necessary or appropriate. The Facility also will provide any information requested on a non-routine basis by the Commission.

(B) Requirements – The Commission shall adopt data collection and reporting requirements for swap execution facilities that are comparable to corresponding requirements for derivatives clearing organizations and swap data repositories.

The Facility will comply with all data collection and reporting requirements established by the Commission.

Core principle 11 – Antitrust Considerations. Unless necessary or appropriate to achieve the purposes of this Act, the swap execution facility shall not:

(A) Adopt any rules or take any actions that result in any unreasonable restraint of trade; or (B) Impose any material anticompetitive burden on trading or clearing.

The Facility will not adopt any rules or take any actions that result in any unreasonable restraint of trade. Nor will the Facility impose any material anticompetitive burden on trading.

Core principle 12 – Conflicts of Interest. The swap execution facility shall:

(A) Establish and enforce rules to minimize conflicts of interest in its decision-making process; and (B) Establish a process for resolving the conflicts of interest.

As described below, Part 2 of the BGC Rulebook contains specific provisions designed to minimize conflicts of interest as well as processes for resolving any conflicts of interest.

No officer or employee of the Facility can be granted Trading Privileges pursuant to Rule 208. Specifically, Rule 208 prohibits any office or employee of the Facility from being admitted as a Participant with the exception of BGC Brokers. Rule 207 imposes restrictions on directors,

officers, members of Board committees, employees and consultants of the Facility and addresses the following issues:

- prohibition on improper use or disclosure of material non-public information;
- restrictions on trading by officers and employees;
- eligibility for service on boards and committees; and
- restrictions on participation on board and committees.[37]

Rule 208 contains restrictions on participants with an ownership interest. Specifically, no Participant with an ownership interest in the Facility shall use or disclose, for any purpose other than the performance of such Participant's official duties as a shareholder, any material non-public information obtained by such Participant as a result of such Participant's ownership.

Rule 209 directly address conflicts of interest. Paragraph (b) prohibits any officer, Chief Compliance Officer or member of the Board or any standing committee from knowingly participating in such body's deliberations or voting in any matter involving a named party in interest where such person is conflicted.[38] Paragraph (c) addresses conflicts of interest when an officer, Chief Compliance Officer or a member of the Board or any standing Committee has a financial interest in a significant action conflict. Prior to consideration of any matter involving a named party in interest, or any significant action, each member of the deliberating body is required to disclose to the Chief Executive Officer, or his or her designee, whether such member has a conflict or believes that he or she may be conflicted. The procedure and determination of whether a conflict exists is based upon an internal review.[39] Additionally, the Facility will document in minutes any meeting to which the Chief Executive Officer determines a conflict exists.

Furthermore, the Facility will ensure that the disciplinary proceedings are free of conflicts. Rule 1017 – Conflicts of Interest or Bias – prohibits a member of the committee of the Facility from knowingly participating in the committee's deliberations and voting on any matter involving a named party-in-interest where the member is precluded from doing so pursuant to.

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[37] *See* Rule 209(a)-(d) for additional information about the restrictions.

[38] The conflicts include when the person: (A) is a named party in interest, (B) is an employer, employee or fellow employee of a named party in interest, (C) is associated with a named party in interest through a broker association, (D) has a family relationship with a named party in interest or (E) has any other significant, ongoing business relationship with a named party in interest, excluding relationships limited to executing Swaps opposite each other or to clearing Swaps through the same Clearing Privilege Holders.

[39] *See* paragraphs (b)(iv) and (c)(iii) of Rule 211.

Additionally, as noted elsewhere in this application, certain functions at the Facility are performed by employees shared with affiliates. The Chief Compliance Officer reviews such arrangements for potential conflicts of interest.

Core principle 13 – Financial Resources.

(A) In general. The swap execution facility shall have adequate financial, operational, and managerial resources to discharge each responsibility of the swap execution facility.

BGC has adequate financial resources to discharge each responsibility of the Swap execution facility. Included in Exhibit I are copies of: (i) Statement of Financial Condition; (ii) Statement of Income and Expenses; (iii) Statement of Cash Flows; and (iv) Statement of Sources and Application of Revenues (collectively the "Financial Reports") and all notes or schedules thereto, as of the most recent fiscal year for BGC. The Financial Reports describe the financial condition of BGC and demonstrate that BGC is sufficiently funded to carry out its responsibilities as a swaps execution facility.

The Facility has adequate operational and managerial resources to discharge each responsibility of the swap execution facility. Included in Exhibit B is a list of the present officers, directors and members of all standing committees. The Facility will be managed by qualified directors, as described in the narrative that sets forth the fitness standards for the Board of Directors and its composition in Exhibit C. Additionally, the Facility will have qualified personnel for each category of professional employee employed by the BGC, as described in the narrative contained in Exhibit E. Furthermore, BGC has conducted an analysis of staffing requirements necessary to carry out operations of the Facility, and has identified and included the qualifications of each key staff person, as required, in Exhibit F.

(B) Determination of resource adequacy. The financial resources of a swap execution facility shall be considered to be adequate if the value of the financial resources exceeds the total amount that would enable the swap execution facility to cover the operating costs of the swap execution facility for a one-year period, as calculated on a rolling basis.

As demonstrated in the Financial Reports and the required narrative included in Exhibit I, the value of the financial resources of BGC is at least equal to a total amount that would enable BGC to cover its operating costs for a period of at least one year, calculated a rolling basis.

Core principle 14 – System Safeguards. The swap execution facility shall:

(A) Establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and

procedures, and automated systems, that: (1) Are reliable and secure; and (2) Have adequate scalable capacity;

Generally, BGC will follow generally accepted standards and practices with respect to the development, operation, reliability, security, and capacity of automated systems.[40] The Facility will establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk. This will include on-going, periodic assessments of the operational risk associated with operation of the Trading System.

A physical security policy ("physical security policy") is in place to protect BGC's critical business systems and core infrastructure from physical and environmental hazards. The physical security policy sets the minimum requirements necessary for personnel access to the building and data center facilities. Physical access to the building and data center is restricted to authorized personnel only. Authorized personnel are employees that have a business role that requires access to the building and/or data center. Authorized personnel will be required to use an electronic key to be granted access; BGC monitors the action and use of each electronic key. The physical security policy is consistent with industry best practices and defines the standards for user access control, logging, auditing, data retention, configuration standards, change management controls and system maintenance. Only system administrators have administrative access to the BGC System.

The Facility will ensure only Authorized Participants, Customers and Traders access the Trading System. Specifically, the trading application has three levels of security: (1) the user (Authorized Trader) level authentication; (2) site/customer level authentication; and (3) a proprietary communication protocol. Participants and Authorized Customers must provide BGC with a list of the traders that will access the BGC System to trade Swaps; the Authorized Traders will have a unique username and password to login into the System and a unique Authorized Trader identification (User ID). Therefore, ability to trade individual instruments and Swaps is authorized on a "user" level.

[40] *See* Commission Guidelines on Core Principle 14, paragraph (a)(1).

On the site/customer level, the identity of the customer is determined by the source of the inbound packets. Once the customer's company identity is confirmed, it is matched to the unique identifier assigned by BGC (Participant ID). If the username entered is not linked to the company (*i.e.*, if the user is not an employee of the company, which is the source of the packets) the connection is refused. Additionally, if the User ID does not match against a list of Authorized Traders of the Participant, the connection will be refused. In addition, the BGC System uses a proprietary protocol, developed internally, for all communication transmitted through the Trading System.

BGC will also ensure the security of its network. The network of the Trading System has two levels of security: (1) route distribution controls, which prevent Participants from "seeing" another Participant's networks; and (2) access controls, which restrict traffic to BGC application-specific data, meaning the private network utilized by BGC for the Trading System does not access the Internet at any given point.

The architecture of the Trading System provides inherent scalability in the basic design principles of the system.[41] The scalability of the Trading System can be achieved in the terms of user (or Participant) growth as well as product (Swap) expansion.

(B) Establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allow for: (1) The timely recovery and resumption of operations; and (2) The fulfillment of the responsibilities and obligations of the swap execution facility; and

BGC operates the Trading System with two geographically dispersed data centers. The centers are fully operational and in a perpetual state of readiness to address hardware and software failures. A dedicated team operates the data centers constantly (around the clock); the team is responsible for all day-to-day operational procedures, control of access to the data center and maintenance of the monitoring technology.

Redundancy is built into each aspect of the Trading System, encompassing network providers, network gear, server hardware, and so forth. BGC believes that resilience and redundancies are a prerequisite component for necessary technology solutions. BGC exercises its business continuity procedures as part of normal daily operations. Consequently, BGC will utilize all redundant systems as part of its mainline operation and therefore does not solely rely on backup components only in a state of emergency.

[41] For additional discussion of the scalability of the Trading System, *see* the Technical Manual, included as part of Exhibit M.

BGC utilizes one of the most robust disaster recovery infrastructures and support regimes available. BGC has separate disaster recovery sites that are in a constant state of "readiness." The disaster recovery sites can be utilized and will become fully operational within approximately ten minutes. BGC anticipates that the general return to operational status for any Participant would be no longer than the time necessary to "log in" to the Trading System. In the case of an extreme failure, such as the loss of BGC's primary data center, the Trading System will be restored and operational within minutes from the alternate data center. Additionally, committed transactions, or completed transactions, are replicated immediately "as they happen" and back-ups are generated each night and stored off-site. The Facility can constantly check "back-ups" during the operational day. All reference data is also stored in backup facilities. There are daily incremental back-ups of all data and weekly snap shots. As noted previously, all data is maintained in secure storage facilities.

(C) Periodically conduct tests to verify that the backup resources of the swap execution facility are sufficient to ensure continued: (1) Order processing and trade matching; (2) Price reporting; (3) Market surveillance; and (4) Maintenance of a comprehensive and accurate audit trail.

BGC will periodically conduct tests to verify that the backup resources of the Facility are sufficient. BGC notes that the Trading System will be frequently run in production from a disaster recovery site. The primary site is used as the back-up during these sessions. These tests are done on a quarterly basis. Additional information is available in BGC's response to the Technology Questionnaire, as required by Exhibit V, on the Facility's program of risk analysis and oversight. Specifically, BGC addresses the following information in the Technology Questionnaire: information security; business continuity-disaster recovery planning and resources; capacity and performance planning; system operations; systems development and quality assurance and physical security and environmental controls.

Core principle 15 – Designation of Chief Compliance Officer

(a) In general. Each swap execution facility shall designate an individual to serve as a chief compliance officer.

BGC has appointed Gary Distell as the Chief Compliance Officer of the Facility. Please see Exhibit B for further background on the appointed Chief Compliance Officer.

(B) Duties. The chief compliance officer shall: (1) Report directly to the board or to the senior officer of the facility; (2) Review compliance with the core principles in this subsection; (3) In consultation with the board of the facility, a body performing a function similar to that of a board, or the senior officer of the facility, resolve any conflicts of interest that may arise; (4) Be responsible for establishing and administering the policies and procedures required to be established pursuant to this section; (5) Ensure compliance with the Act and the rules and regulations issued under the Act, including rules prescribed by the Commission pursuant to this section; and (6) Establish procedures for the remediation of noncompliance issues found during compliance office reviews, look backs, internal or external audit findings, self-reported errors, or through validated complaints.

The Chief Compliance Officer will comply with all required duties. The Chief Compliance Officer will be provided with sufficient resources to effectively run the Compliance Department. The Chief Compliance Officer, with the assistance of the staff of the Compliance Department will establish and administer policies and procedures related to the operation of the Facility and compliance with the requirements of the Act and Commission Rules. Furthermore, the Chief Compliance Officer will ensure that its staff will undertake regular and routine reviews of the Facility's compliance with the Act.

(c) Requirements for procedures. In establishing procedures under paragraph (b)(6) of this section, the chief compliance officer shall design the procedures to establish the handling, management response, remediation, retesting, and closing of noncompliance issues.

Please see Exhibit O, the Facility's Compliance Manual.

(d) Annual reports. (1) In general. In accordance with rules prescribed by the Commission, the chief compliance officer shall annually prepare and sign a report that contains a description of: (i) The compliance of the swap execution facility with the Act; and (ii) The policies and procedures, including the code of ethics and conflict of interest policies, of the swap execution facility. (2) Requirements. The chief compliance officer shall: (i) Submit each report described in clause (1) with the appropriate financial report of the swap execution facility that is required to be submitted to the Commission pursuant to this section; and (ii) Include in the report a certification that, under penalty of law, the report is accurate and complete.

The Chief Compliance Officer will have the necessary resources to annually prepare and certify a report that contains a description of the Facility's compliance with the Act; and the policies and procedures, including the code of ethics and conflict of interest policies, of Facility. The Chief Compliance Officer will also comply with the Commission's requirement to submit appropriate financial reports and will be required to certify, under penalty of law, that the report is accurate and complete.