

TW SEF LLC
Market Regulation Advisory Notice
Subject: Trading and Execution Protocols v.2.0
Rule References: Rules 404 and 411
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Trading and Execution Protocols

TW SEF LLC (the SEF) offers Participants and Trading Customers the ability to execute Swaps (i) on the SEF through the Order Book and certain types of request for quote (RFQ) functionalities, and (ii) away from the SEF and processed through a sales entry ticket (SET). Each of these trading and execution protocols is described in detail below. Capitalized terms not defined herein have the meaning given such terms in the SEF Rulebook.

Order Book / Leave Order. The SEF's Order Book provides any Participant or Trading Customer the ability to leave a fully-disclosed resting limit Order, which includes Participant or Trading Customer name, notional amount and price on the Order Book. Additionally, the derivatives clearing organization is a material term of any Cleared Swap, so each SEF Order Book reflects the DCO for any resting bids or offers posted. These Order details are visible to all other Participants and Trading Customers. If there is a resting Order displayed in the SEF's Order Book, a Participant or Trading Customer may trade by aggressing against that Order. The SEF only offers "Leave Limit Order" and "Cancel Limit Order" functionality. No other order types are supported in the SEF Order Book.

As noted in Rule 404.A., the execution functionality of the Order Book requires a Participant or Trading Customer to execute any aggressing Order with the best displayed price in time priority such Order was entered into the Order Book on an all-or-none basis.

RFQ. The SEF offers several RFQ protocols, which are fully-disclosed trading protocols enabling an RFQ requester (referred to herein as "RFQ Requester") to hold a real-time auction with multiple RFQ recipients (referred to herein as "Quote Provider") and select the ~~best desired~~ price. For Required Transactions, an RFQ ~~R~~requester must select at least three unaffiliated¹ ~~RFQ recipients~~ Quote Providers for a particular Swap for a specified notional amount. The SEF's system does not establish a maximum number of ~~RFQ recipients~~ Quote Providers that an RFQ ~~R~~requester may select. Also, for Required Transactions, at the same time that the RFQ ~~R~~requester receives the first responsive Order quotation from an ~~RFQ recipient~~ Quote Provider, the SEF ~~communicates~~ displays to the RFQ ~~R~~requester any bid or offer pertaining to the same Swap resting on the Order Book and provides the RFQ ~~R~~requester with the ability to execute against any such resting Order. For Permitted Transactions, Permitted Package Transactions and Block Trades, there is no minimum number of RFQ recipients.

¹ For purposes of RFQs on the SEF, "unaffiliated" means an RFQ recipient that is neither an Affiliate of the Participant, Authorized User, or Trading Customer on whose behalf the RFQ is requested nor an Affiliate of another RFQ recipient of such RFQ.

The following types of RFQ functionalities are offered on the SEF:

- Standard RFQ. The SEF's Standard RFQ functionality permits an RFQ Requester to request a one-sided market (bid or offer quote) from identified Quote Providers. In the context of this protocol, the RFQ Requester specifies notional size (or quantity), Swap instrument, and side (or direction) it desires to transact.~~standard RFQ functionality permits an RFQ requester to request a one-sided market (bid or offer quote) from RFQ recipients.~~
- Request for Market (RFM). The SEF's RFM functionality permits an RFM requester to request two-sided market (bid and offer quotes) from ~~RFM recipients.~~Quote Providers. In the context of this protocol, the RFM Requester specifies notional size (or quantity) and Swap instrument, but its desired side (or direction) is not included. The RFM Requester does not disclose the direction in which it wishes to trade. Quote Providers respond with two-way prices/levels, and the RFM Requester can aggress against either side of the market at its discretion. The direction of the transaction is then disclosed to the Quote Provider post-execution. Please note that RFM functionality is only available for specific outright USD interest rate swaps, but is available to all Participants who wish to trade in such instruments.~~By using this protocol, the RFM requester does not disclose the side of the market on which it wishes to trade. The RFM recipients will respond with two-way firm prices, and the RFM requester can aggress against either side of the market at its discretion. The direction of the transaction is then disclosed to the RFM recipient post-execution.~~
- All Request for Quote (ARFQ). ARFQ is the all-RFQ function, meaning that the subject RFQ is transmitted to all Participants. The ARFQ function operates as any other RFQ, but with all SEF Participants as recipients of the request and the ability to provide responses.
- RFQ+. The SEF's RFQ+ functionality permits an RFQ+ Requester to request to see "persistent" quotes from Quote Providers in specified instruments in the same screen as resting Orders in the Order Book. In the context of this protocol, notional size (or quantity) and side (or direction) are not specified by the RFQ+ Requester. The Quote Provider provides either firm or indicative quotes in the size in which it is willing to transact, on one or both sides of the market. RFQ+ quotes are displayed alongside the Order Book related to a particular instrument, and are available for execution on a click-to-trade ("CTT") basis, regardless of the absence of a discrete RFQ/RFM negotiation related to that Swap from the RFQ Requester. Please note that a RFQ Requester must click the RFQ+ box on the Trade Manager to request to see RFQ+ quotations. As in any RFQ protocol, the Quote Provider determines whether it will provide its RFQ+ quotes to that requesting Participant and at what levels.~~RFQ or RFM requester to see all displayed streaming quotes from potential RFQ or RFM recipients in a~~

~~particular Swap in the same screen as resting Orders in the Order Book. Displayed Orders (including the streaming quotes) are available for execution on a click to trade (CTT) basis.~~

- ~~• Compression (All-or-None List Trading). Compression is an RFQ protocol that enables Participants or Trading Customers to create and execute offsetting trade lists of up to 150 line items to facilitate netting and compression of Cleared Swaps. The SEF validates all line items submitted and, if there are any MAT Swaps included, then minimum trade execution requirements are enforced by the SEF. Quote Providers must quote a level for the entire list as an aggregate NPV (net present value).~~
- ~~• Request for Stream (RFS). The SEF's RFS functionality permits an RFQ or RFM requester to request streaming prices for a given Swap from RFQ or RFM recipients, where those recipients are able to update their streaming prices every 250 milliseconds. As a result, RFS allows frequently updated displayed quotes during an inquiry, keeping prices even more accurately in line with market movements. Interest rate Swaps listed on the SEF use RFS for all RFQ settings. For credit default Swaps listed on the SEF, RFS must be affirmatively selected by the requester. Otherwise, recipients provide a specific price with a "wire time," for which period the price provided is actionable. is not a separate or discrete execution protocol, but rather simply a description of the nature of the responses that a RFQ Requester will receive from the Quote Provider. RFS permits a Quote Provider to update quoted levels as frequently as every 250 milliseconds during the course of a negotiation. RFS quotes in response to an RFQ/RFM/RFQ+ are to be contrasted with On the Wire ("OTW") responses to Standard RFQ; Quote Providers may not update quotes provided during the OTW period. It is misleading and confusing to describe RFS as an execution protocol, as (i) RFS can only exist as part of an RFQ/RFM/RFQ+, and (ii) in most scenarios, RFS is not a choice or option for an RFQ Requester, but rather a description of the nature of the responses provided by relevant Quote Providers through the SEF functionality.~~

RFS Responses and OTW Responses

As previously noted, RFS is not an execution protocol, but rather is a "marketing" term used by the SEF to reflect the fact that in certain instruments, Quote Providers provide to RFQ Requesters prices or levels that they have the ability to frequently update. As a result, the functionality allows for updated quotes during an RFQ or RFM negotiation, or as part of an RFQ+ persistent quote display, keeping quotes even more accurately in line with market movements. With regard to the great majority of the SEF business (interest rate swaps in major currencies), responses to RFQ/RFM/RFQ+ inquiries are of the RFS type, with the ability by the Quote Provider to update its quote every 250 milliseconds

or less frequently. In instruments where updates are not required as frequently (currently only credit default swaps), quotes may be returned to the RFQ Requester with an accompanying OTW, i.e., a period of time in which the quote is firm and the Quote Provider cannot update. During the OTW, the RFQ Requester is able to hit or lift the respective bid or offer. Should the OTW time expire without action by the RFQ Requester, the Quote Provider may then update the quote and provide a new OTW time. The OTW timer is shown right next to the level provided by the Quote Provider in the RFQ Responses box of the Execution Panel.

It is a function of the *asset class* whether a RFQ Requester will (i) receive RFS responses, which offer Quote Providers the ability to update quotes on a regular basis (e.g., as frequently as every 250 milliseconds), or (ii) receive levels with accompanying OTW times that only can be updated by Quote Providers after the OTW expires. See the chart below.

<u>ASSET CLASS</u>	<u>NATURE OF RFQ RESPONSES</u>
<u>Interest Rate Swaps (except CAD)</u>	<u>RFS, updated as often as every 250 Milliseconds</u>
<u>CAD Interest Rate Swaps</u>	<u>RFS, updated as often as every second</u>
<u>Credit Default Swaps</u>	<u>Requester's Option of RFS, updated as often as every second, or Quotes with OTW time</u>

SET. The SEF's SET functionality is available for trades permitted to "~~occur-be-executed off-facility away~~" from the SEF platform, but pursuant to the SEF rules and procedures, by Participants or Trading Customers (e.g., Block Trades). The SET is not RFQ-based, but is a ticket consisting of a set of material economic terms submitted to the SEF by one Participant ~~or Trading Customer~~ (typically by an API Participant), which the SEF transmits to the counterparty. The receiving counterparty reviews the ticket and can confirm, reject or revise the ticket. Once the ticket is first credit-checked and thereafter accepted by all parties, a completed trade will be executed and processed by the SEF ~~for purposes of~~ submitted for clearing and reporting. ~~as a trade executed pursuant to the rules of the SEF. The SEF does not consider any such SET trade "executed" unless and until it has been credit-checked via the normal SEF facilities and executed on the platform.~~

Minimum Notional and Increment Requirements on TW SEF. The following are the minimum and increment requirements on the SEF for all execution protocols:

Interest Rate Swaps (RFQ)

10k notional size for USD, CAD, AUD, NZD

50k notional size for EUR, GBP, CHF

500k SEK, DKK, NOK

150k PLN

500k ZAR

1mm JPY

\$1 minimum increment

Compression:

Minimum Notional (USD,CAD): \$1

Minimum Notional (GBP, JPY): 1,000

Minimum increment: \$.01 (All currencies)

Credit Default Swaps (IG, HY, ITraxx) RFQ:

\$1 minimum notional, \$1 minimum increment