



Rule Self-Certification

VIA CFTC PORTAL

April 21, 2022

Christopher J. Kirkpatrick
Secretary of the Commission
Division of Market Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: SMFE 2022-007 - Emergency Self-Certification Pursuant to CFTC Regulation 40.6(a)(6) – Exchange Rules 34003.D. and 36003.D.

Dear Mr. Kirkpatrick,

This letter concerns the above-referenced matter (the “Rule Change”) and the Small Exchange, Inc.’s (the “Exchange”) use of Emergency Authority pursuant to CFTC Regulation 38.350 in this regard.

Exchange Rule 211 empowers the “Exchange, the Board, any Committee of the Board, or the President to take actions necessary or appropriate to respond to the Emergency, on its own or in coordination with another relevant Person, including but not limited to the following actions: . . . (ii) imposing or modifying price limits. . . .” In this regard, the Exchange has established a procedure which allows it to implement emergency rule certification. The procedure includes documenting the rationale for the change; obtaining approval from the Exchange’s Board; and reviewing the changes for any potential conflicts of interest.

In connection with the Rule Change, the Exchange had observed an increase in the amount of daily price limit pauses in the Small 10 Year US Treasury Yield Index Futures Contracts and Small 2 Year US Treasury Yield Index Futures Contracts in recent months due to the price increases and increased volatility in these products. Specifically, the Exchange observed a six-fold increase in the number of daily price limit pauses in these products during the first calendar quarter of 2022, when compared to the total number of such pauses during all of 2021. When the products are paused due to an overly restrictive daily price limit, this causes reputational harm to the Exchange in that participants are unable to trade the products for a period of time and they may think that the products are unreliable. Additionally, after such pauses, orders are frequently canceled which affects liquidity and results in an inability to estimate fill prices, having a further impact on the Exchange’s reputation. When such pauses persist, as the Exchange

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observed here, the likelihood of a participant trading a competitor's similar products unnecessarily increases.¹

The Exchange also notes that the actions of the Federal Reserve with regard to interest rate changes has directly led to increased volatility and trading volume in these Contracts which, in turn, led to daily pauses. These actions are expected to continue² in the future and the present filing is intended to decrease, on an emergency basis, the likelihood of daily pauses in these contracts.

As a result, the Exchange determined to treat this as an appropriate use of its Emergency Authority. By changing the price limits, as set forth in the Rule Filing, the Exchange intends to reduce the number of such pauses, which the Exchange found unnecessarily restricted and caused each Contract to pause. The daily limits that were imposed on each contract were applicable when price levels of the contracts were substantially lower. However, given the rapid increase in prices since launch of the Contracts, the current limits are overly restrictive and limit each Contract's new trading range.

In connection with the approval of this Rule Filing, Exchange Management sought and received approval from the Exchange's Board of Directors. The Exchange believes that any conflicts of interest that arose in connection with this Rule Change were mitigated, as the Rule Change focused only on adjusting price limits to reduce the likelihood of daily price limit pauses in these Contracts, and did not present any other potential conflicts to be mitigated as a matter of fact.

If you require any additional information regarding this submission, please contact the undersigned at (312) 761-1660.

Regards,

/s/ Peter D. Santori
Chief Regulatory Officer
and Head of Legal

¹ Further, had the limits not been adjusted in accordance with the Rule Filing, the Small 2YR US Treasury Yield Futures contracts would have paused on April 19 at 2:34PM CT, and would have caused a loss of 2.38% of that contract's volume for the day.

² See <https://www.reuters.com/business/fed-raise-rates-aggressively-coming-months-say-economists-2022-04-11/>.