



The Future of Futures

FairX (LMX Labs, LLC)
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FairX Submission #2022-01E

February 18, 2022

Mr. Christopher J. Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

VIA CFTC Electronic Filing

Re: CFTC Regulation 40.6 Certification: Modification of Nano Bloomberg US Large Cap Index™ Futures Terms and Conditions

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6, LMX Labs, LLC, operator of FairX, (the “Exchange”) hereby submits for self-certification its amendment to the Terms and Conditions of the Nano Bloomberg US Large Cap Index¹ futures currently offered for trading on the Exchange. The purpose of the amendment is to harmonize the settlement procedures for all FairX contracts.

Contract Description

The Nano Bloomberg US Large Cap Index futures contract (the “Contract”) will be a quarterly cash-settled contract with the following specifications:

Contract Name	Nano Bloomberg US Large Cap Index Futures
Contract Code	B5
Contract Size	\$100 x Nano Bloomberg US Large Cap Index (NBF)

¹ BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Indices. Bloomberg is NOT affiliated with FairX, and neither approves, endorses, reviews or recommends the Nano Bloomberg US Large Cap Index futures. Bloomberg does not guarantee the timeliness, accurateness or completeness of any data or information relating to the Nano Bloomberg US Large Cap Index, and neither shall be liable in any way to FairX, investors in the Nano Bloomberg US Large Cap Index futures or other third parties in respect of the use or accuracy of the the Nano Bloomberg US Large Cap Index or any data included therein.

Price Quotation	USD to two (2) decimal places
Minimum Tick Size	0.01 index points (\$1.00 per contract)
Listed Contracts	Initial listing of Three (3) months in the March/June/September/December quarterly cycle
Price Limits	7% and 13% Intraday 20% daily
Last Trading Day	Third Thursday of the contract month
Daily Settlement: Lead Month	<p><u>Lead Month</u>: primary contract for settlements with the expectation of having the most activity.</p> <p><u>Midday</u>: 10:00 CT</p> <ul style="list-style-type: none"> ○ 1-min VWAP of futures contract rounded to the nearest tradable tick ○ 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick ○ Cash index value² + (difference between previous day's cash index value and previous day's futures settlement) <p><u>EOD</u>: 15:00 CT</p> <ul style="list-style-type: none"> ○ 1-min VWAP of futures contract rounded to the nearest tradable tick ○ 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick ○ Cash index value¹ + (difference between previous day's cash index value and previous day's futures settlement)
Daily Settlement: Non-Lead Month	<u>Non- Lead Months</u> : all other contracts not the lead month

² Should option 3 be used, FairX will use the index value provided by Index Provider at the time closest to 10:00 CT and/or 15:00 CT, respectively.

Midday: 10:00 CT

- 1-min VWAP of futures contract rounded to the nearest tradable tick
- If the spread trades between 09:59:00-10:00:00 CT, then the spread VWAP is calculated, rounded to the spread's nearest tradable tick and then applied to the lead month settlement to derive the back month settlement.
- 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick
- Last spread trade price is applied to the lead month settlement to derive the settlement.
- Front month settlement value + (previous day's calendar spread).

EOD: 15:00 CT

- 1-min VWAP of futures contract rounded to the nearest tradable tick
- If the spread trades between 14:59:00-15:00:00 CT, then the spread VWAP is calculated, rounded to the spread's nearest tradable tick and then applied to the lead month settlement to derive the back month settlement.
- 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick
- Last spread trade price is applied to the lead month settlement to derive the settlement.

	<ul style="list-style-type: none"> ○ Front month settlement value + (previous day's calendar spread).
Final Settlement	Cash-settled to the closing value of the Nano Bloomberg US Large Cap Index (NBF) on the Last Trading Day for the Contract.
Position Limits	All Months 60,000 contracts
Large Trader Reporting	200 contracts
Trading Hours	5-4pm CT Sun-Fri, with trading halt from 4pm to 5pm CT Mon-Thurs.

Index Description

The Nano Bloomberg US Large Cap Index (NBF) (the "Index") is administered and published by Bloomberg Index Services, Limited ("BISL"). The Index is a rebased version of the Bloomberg US Large Cap Index with a starting level of 20. The Index is a float market-cap-weighted benchmark of the 500 most highly capitalized US companies. The Index methodology may be viewed [here](#). Per the methodology, the Index constituents are reviewed on a semi-annual basis in March and September and any changes are announced with ten (10) business days advance notice.

Compliance with Core Principles

The Exchange has reviewed the designated contract market (“DCM”) core principles (“Core Principles”) set forth in the Commodity Exchange Act and has identified that the Contract may most directly implicate the following Core Principles:

Core Principle 2 -- Compliance with Rules

Trading in the Contract is subject to the Exchange Rulebook (the “Rulebook”) including Chapter 5, which prohibits fraud, non-competitive trading, market manipulation and abusive and disruptive trade practices. Additionally, as with all contracts traded on the Exchange, trading is subject to monitoring and surveillance by the Market Regulation Department, which has the authority to investigate and enforce Exchange rules, as described in Chapter 7.

Core Principle 3 -- Contracts Not Readily Subject to Manipulation

The Index underlying the Contract is sufficiently broad as to deter attempts to corner, manipulate, or unduly influence the settlement price of expiring Contracts. As of February 17, 2022, the Index has 500 component equities that are widely traded in liquid markets that are themselves subject to extensive regulatory oversight and have an approximate total market capitalization of \$37.83 trillion.³

Core Principle 4 -- Prevention of Market Disruption

Chapter 5 of the Rulebook prohibits Participants from manipulating, distorting the price of, and disrupting the settlement process of the Contract. As with all contracts traded on the Exchange, trading in the Contract is subject to monitoring and surveillance by the Market Regulation Department. Further, trading in the Contract is subject to price limits consistent with the US equity market-wide circuit breakers. Moreover, regardless of price movement on the Exchange, trading in the Contract will halt when a general market-wide trading halt occurs in the US equity market (See, e.g., NYSE Rule 7.12).

Core Principle 5 -- Position Limits or Accountability

The Contract is subject to an all-month position limit of 60,000 contracts. This limit is comparable to limits imposed on similarly sized US equity index futures products traded on other DCMs. By way of providing context, using the closing value of the Index on February 17, 2022, of 24.96, the notional value of a 60,000 contract position would be approximately \$149 million, which represents less than 0.0004% of the Index’s \$37.83 trillion market capitalization.

Core Principle 7 -- Availability of General Information

The Exchange shall publish on its website and in its Rulebook the specifications, terms and conditions of the Contract.

Core Principle 8 -- Daily Publication of Trading Information

The Exchange shall publish on its website on a daily basis the trading volumes, open interest, and price information for the Contract.

³ Statistics sourced from Bloomberg on February 17, 2022.

Core Principle 9 -- Execution of Transactions

The Contract is listed for trading on the Exchange's trading system, which provides for efficient, competitive, and open execution of transactions.

Core Principle 10 -- Trade Information

All requisite trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.

Core Principle 11 -- Financial Integrity of Transactions

The Contract is cleared by Nodal Clear, LLC, a CFTC registered derivatives clearing organization subject to the CFTC regulations related thereto.

Core Principle 12 -- Protection of Markets and Market Participants

Chapters 4 and 5 of the Rulebook require all market participants, including futures commission merchants carrying customer accounts, to observe high standards of integrity, market conduct, commercial honor, fair dealing, and just and equitable principles of trade and prohibits, among other things, fraud, non-competitive trading, market manipulation, and abusive and disruptive trade practices. As with all contracts traded on the Exchange, trading is subject to monitoring and surveillance by the Market Regulation Department.

Core Principle 13 -- Disciplinary Procedures

Rulebook Chapter 7 sets forth the rules and procedures for the investigation, enforcement, and sanctioning of persons that violate the Exchange's Rules.

Certification

The Exchange is not aware of any substantive opposing views to the Contract. The Exchange certifies that the Contract and related rules certified herein comply with the Commodity Exchange Act and the rules and regulations promulgated thereunder.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at www.fairx.com.

If you have any questions or require any further information, please contact me at 773-409-4128 or aloranger@fairx.com.

Sincerely,

/s/

Anne Loranger
Chief Regulatory Officer and
Legal Counsel

Attachments: Appendix A Amendments to FairX Rulebook Chapter 11

APPENDIX A

Additions underscored; deletion are ~~struckthrough~~

CHAPTER 11: CONTRACTS

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RULE 1102. Nano Bloomberg US Large Cap Index Futures

(a) - (h) No Change

(i) Settlement. The B5 Contract is cash settled.

(1) Daily Settlement Price shall be determined as follows:

~~(i) Volume weighted average price of all trades occurring in the sixty (60) seconds prior to 3pm CT on the relevant Business Day;~~

~~(ii) If no trades occur during the sixty (60) seconds prior to 3pm CT, then the settlement value will be the time weighted average midpoint between the bid and ask during the sixty (60) seconds prior to 3pm CT; or~~

~~(iii) If a two-sided market is not available during the sixty (60) seconds prior to 3pm CT, then the settlement price will be determined using the following calculation: Cash index value + (Previous Day's Back-Front Spread / Days Between Front and Back Month Contracts) x Days to Expiration~~

(i) Lead Month: primary contract for settlements with the expectation of having the most activity.

a. Midday: 10:00 CT

i. 1-min VWAP of futures contract rounded to the nearest tradable tick

ii. 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick

iii. Cash index value⁴ + (difference between previous day's cash index value and previous day's futures settlement)

b. EOD: 15:00 CT

i. 1-min VWAP of futures contract rounded to the nearest tradable tick

ii. 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick

iii. Cash index value¹ + (difference between previous day's cash index value and previous day's futures settlement)

⁴ Should option 3 be used, FairX will use the index value provided by Index Provider at the time closest to 10:00 CT and/or 15:00 CT, respectively.

(ii) Non- Lead Months: all other contracts not the lead month

a. Midday: 10:00 CT

- i. 1-min VWAP of futures contract rounded to the nearest tradable tick
- ii. If the spread trades between 09:59:00-10:00:00 CT, then the spread VWAP is calculated, rounded to the spread's nearest tradable tick and then applied to the lead month settlement to derive the back month settlement.
- iii. 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick
- iv. Last spread trade price is applied to the lead month settlement to derive the settlement.
- v. Front month settlement value + (previous day's calendar spread).

b. EOD: 15:00 CT

- i. 1-min VWAP of futures contract rounded to the nearest tradable tick
- ii. If the spread trades between 14:59:00-15:00:00 CT, then the spread VWAP is calculated, rounded to the spread's nearest tradable tick and then applied to the lead month settlement to derive the back month settlement.
- iii. 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick
- iv. Last spread trade price is applied to the lead month settlement to derive the settlement.
- v. Front month settlement value + (previous day's calendar spread).

(2) - (3) No Change

(j) No Change