



TRADITION SEF, LLC

Bennett Kirschner
General Counsel and Secretary

March 14, 2022

VIA E-MAIL (submissions@cftc.gov)

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**RE: CFTC Regulation 40.2 and 40.6(a) Certification. Request for New Product Certification of Tradition SEF's Interest Rate Swap Asset Class Product Listing and non-substantive changes to IRS Product Listing
Tradition SEF Submission No. 2022-02**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act, as amended (the "Act"), and Commodity Futures Trading Commission ("CFTC" or the "Commission") Regulations 40.2, Tradition SEF, LLC ("Tradition SEF" or "The SEF") hereby notifies the Commission of revisions to 1) its Interest Rate Swap Asset Class Product Listing Terms and Conditions (the "IRS Product Listing Terms and Conditions") with respect to the addition of the following interest rate index underlying the interest rate swaps offered for trading: Three-Month Bloomberg Short-Term Bank Yield Index ("BSBY") benchmark rate; and 2) Updates to its Trad-X Platform Supplement to include swaps eligible for admission to trading referenced to the SOFR, €STR, SONIA indexes; revised minimum order sizes and price increments for USD, EUR and GBP swaps; and, the discontinuation of CME/LCH CCP Auctions. Additionally, pursuant to Commission Regulation 40.6, Tradition SEF is making several non-substantive changes to reflect changes to market, clearing venues and updates to reflect ISDA's revised 2021 IRS swap definitions.

Regarding the addition of BSBY swaps for trading on the SEF, BSBY swaps will be listed with standard terms to facilitate portfolio compression. Tradition SEF will offer the option of clearing BSBY swaps via LCH and CME.

Redlined versions of IRS Product Listing Terms and Conditions, and Tradition SEF Trad-X Platform Supplement 1 are attached hereto as Exhibit A to reflect the changes. Please note that Tradition SEF Submission No. 2022-02 includes the following revisions to the IRS Product Listing and Terms and Conditions:

Appendix A, "General Information":

- Eurex AG has been designated as an additional clearing house under Rule S1-102 within Chapter S1-1 of Trad-X Platform Supplement 1.
- **BSBY** swaps have been added to Section 2 of the Product List within Appendix A to the Tradition SEF Rulebook.
- Clearing information for the designated clearing organizations associated with BSBY swaps has been added to Section 5 of Appendix A to the Tradition SEF Rulebook.
- Reference to BSBY swaps and Bloomberg Index Services Limited have been added to Table 2 within Appendix A to the Tradition SEF Rulebook detailing the available currencies and the current publisher associated with each of the aforementioned reference indexes.
- References have been added to reflect the adoption of 2021 ISDA Interest Rate Swap Definitions where appropriate in the swap specifications within Appendix A to the Tradition SEF Rulebook.
- Section 1 of Appendix 1 of Trad-X Platform Supplement 1 has been amended to include the addition of interest rate swaps eligible for admission to trading referenced to USD SOFR, and USD SOFR OIS.
- Section 1 of Appendix 2 of Trad-X Platform Supplement 1 has been deleted, removing CME/LCH CCP Auctions, and Appendix 2 is now reserved.
- Appendix 3 of Trad-X Platform Supplement 1 has been amended to update the minimum order sizes and price increments listed for USD Interest Rate Products.
- Appendix 4 of Trad-X Platform Supplement 1 has been amended to update the €STR OIS product type listed under EURO Interest Rate Swaps.
- Appendix 5 has been added and is reserved.
- Appendix 6 of Trad-X Platform Supplement 1 has been amended to add SONIA OIS as a product type listed under GBP Interest Rate Swaps and to delete GBP matched maturities of all liquid UK government gilts.
- Section 7 of Appendix 6 of Trad-X Platform Supplement 1 has been amended revise the price increments for GBP swaps.

Tradition SEF hereby certifies compliance with applicable provisions of the Act, including The SEF core principles (“Core Principles”) as set forth in Section 5h of the Commodity Exchange Act and Part 37 of the Commission’s regulations promulgated thereunder. In particular, the products listed in this submission adhere to Core Principles 3 (“Swaps Not Readily Susceptible to Manipulation”) and 7 (“Financial Integrity of Transactions”) and CFTC Rules 37.300-301 and 37.700-37.702.

Herein, Tradition SEF demonstrates that the contracts listed for trading on Tradition SEF are not readily susceptible to manipulation as follows:

BSBY Swaps:

The following oversight and controls to protect against manipulation have been imposed by Bloomberg Index Services Limited with respect to the calculation of BSBY:

BSBY uses an advanced curve-fitting methodology to calculate overnight, 1-month, 3-month, 6-month and 12-month yields. The index is based on aggregated anonymized data anchored in transactions and executable quotes sourced from Bloomberg’s electronic trading solutions and trades of short-term senior

unsecured bank corporate bonds reported by FINRA. BSBY is based on transactions of instruments used by banks to fund themselves, it includes a systemic credit spread in its rate and can be used as a supplement to SOFR in the lending market. The BSBY methodology has several protections against manipulation: The weight of each transaction is capped at \$500 million to help ensure stability and reduce the risk of the rate being unduly influenced by any single data point; There is a single issuer cap of 20% to ensure any given BSBY tenor is an average rate across an appropriately broad sample; all yields above the 75th volume percentile and below the 25th volume percentile are eliminated from the final calculation. BISL provides robust governance and oversight over its benchmark offerings. BSBY's transaction-based inputs, robust construction and resilient methodology are designed to meet the high standards of both the BMR and the IOSCO principles for financial benchmarks (IOSCO Principles). BISL confirmed BSBY adheres to the IOSCO Principles and an independent assurance report is available in the Resources section: <https://www.bloomberg.com/company/press/bloomberg-confirms-its-bsby-short-term-credit-sensitive-index-adheres-to-iosco-principles/>

In sum, the above-referenced governance, controls and processes implemented by Bloomberg Index Services Limited are sufficient to conclude that the BSBY indexes are reliable and subject to robust oversight such that swaps referencing them are not readily susceptible to manipulation.

Moreover, listed futures are available for trading on the BSBY index, providing liquidity for hedging in BSBY swaps. Additionally, the acceptance of BSBY swaps for clearing by two major Derivatives Clearing Organizations is evidence of the market's acceptance of BSBY as a commercially acceptable benchmark rate for U.S. Dollar denominated interest rate swaps.

Tradition SEF hereby certifies that the products comply with the Commodity Exchange Act and the Commission's regulations promulgated thereunder. No substantive opposing views were expressed that were not incorporated into the product amendments. Tradition SEF hereby certifies that it has posted a notice of pending certification with the Commission and a copy of the submission on its website (*See <http://www.traditionsef.com/news/>*), concurrent with the filing of this submission with the Commission.

Should you require additional information related to this submission, please contact the undersigned at 212-377-2337 or bennett.kirschner@tradition.com. Please reference Tradition SEF Submission No. 2022-02 in any related correspondence.

Sincerely,

Bennett Kirschner
General Counsel and Secretary

Att.
Exhibit A
Exhibit B

EXHIBITS

A) Appendix A to Tradition SEF Rulebook
Interest Rate Swap Product Listing

B) TRADITION SEF PLATFORM SUPPLEMENT 1