CX Futures Exchange, L.P.
Rule 40.2 New Contract Submission—Daily Aggregate Rainfall Index Swaps Contract
Submission #2019-02

March 19, 2019

CX Futures Exchange, L.P. ("CX" or "Exchange") hereby certifies its listing of the following new contract: Daily Aggregate Rainfall Index ("DARI") Swaps Contract. This submission is being made in accordance with Section 5c(c)(1) of the Commodity Exchange Act, as amended, 7 U.S.C. §1 et seq. ("Act") and Commodity Futures Trading Commission ("Commission") Rule 40.2 thereunder:

1. The text of the proposed contract terms and conditions is attached.

2. The proposed listing date of the contract will be within 45 days of the effective date of the terms and conditions of the contract, but no less than two days following receipt by the Commission of this submission.

3. Attached, please find a certification that: (1) the contract complies with the Commodity Exchange Act, and the Commission's regulations thereunder; and (2) that CX posted on its website a notice of this pending product certification with the Commission and a copy of the submission, concurrent with the filing of this submission with the Commission.

4. A concise explanation and analysis of the product and its compliance with applicable provisions of the Act, including core principles, and the Commission's regulations thereunder, appears below.

5. Confidentiality for this submission is not requested.

CONCISE EXPLANATION AND ANALYSIS OF THE PRODUCT AND ITS COMPLIANCE WITH APPLICABLE PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION'S REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.2(a)(3)(v), the following is a concise explanation and analysis of the product and its compliance with the Act and Commission rules.

I. Introduction

CX Futures Exchange, L.P. ("CX" or "Exchange"), is adding a new swaps contract to its complex of weather-related contracts. This contract is a swap (cash-settled option) on rainfall. Specifically, Daily Aggregate Rainfall Index ("DARI") Swaps Contracts are swaps (cash-settled options) that offer a contingent claim payout dependent upon, and as a function of, the daily aggregate rainfall amount measured by the U.S. National Weather Service at various locations (typically airports) near major U.S. metropolitan areas. As with CX's other weather-related contracts, including its named storm and rainfall contracts, the DARI contract will provide an opportunity for participants to hedge commercial risks arising from specified weather conditions.

The contract specifications and trading mechanics of the rainfall contract are identical to CX's Daily Aggregate Snowfall Index ("DASI") contracts except that the undelying measurement is based upon measured rainfall rather than measured snowfall.

Like all other CX contracts, trading is on a principals-only basis, and all participants are self-clearing. Like all CX contracts, the Original Margin amount for the contract always equals the maximum at-risk amount. Accordingly, the risk position of all participants is fully margined in accordance with the CX Clearinghouse, L.P. (the "Clearinghouse") Order of Registration and its rules.

CX developed the DARI contract in conjunction with meteorological experts at AccuWeather. CX believes that the DARI contract is in accordance with the standards of the Commission's Guideline 1, now found in Appendix C to Part 38 of the Commission's rules, including as described in greater detail below, the ability to use the rainfall contract on more than an occasional basis for mitigating commercial risk.

CX has considered the Core Principles and Commission rules thereunder. Because features of the DARI contract are identical to contracts previously listed by CX, in accordance with the requirements of Commission Rule 40.2, CX notes that:

II. Core Principle 3

Core Principle 3 and Rule 38.200 provide that a DCM shall not list for trading contracts that are readily susceptible to manipulation. The DARI contract is a cash settled contract based upon the objective determination of the daily aggregate rainfall amount occurring at a specific location on a specific calendar day.

The cash settlement index of the DARI contract is not readily susceptible to manipulation due to its objective nature and its determination by a government agency. The National Weather Service is an agency of the U.S. government and the CLI report(s) used as the primary settlement source are publicly available, published within 24 hours of the contract's Final Settlement Date and based on objective information. No individual can manipulate or distort this information. Nor is any individual able to affect prices on CX by manipulating these reports. Thus, the cash settlement determination is based upon publicly available, timely information that is reliable and widely accepted as an authoritative source for this information.

As with its existing weather-related contracts, CX has retained authority to use other sources of information for determining the settlement number, i.e., the rainfall amount in its discretion, if the best interest of the market so requires. This authority would only be used in the unforeseen event that National Weather Service reports were unavailable, or transmission of such report was corrupted. Such a secondary source would also be objective and verifiable. CX would document any such decision.

The contract's design also renders the contract not readily susceptible to manipulation through abusive trading strategies. First, the contract is not readily susceptible to spoofing or similar forms of trade practice abuse because bids, once submitted may not be withdrawn (although they may be modified.) This renders spoofing an ineffective strategy. Similarly, excessively bidding one Strike Level in an effort to affect the price is discouraged because the size of the payment cannot be unduly influenced by one trader; the relative size of the counter positions taken by other market participants primarily determines the Final Settlement Price. Additionally, the Final Settlement Price methodology employed removes any possible distortion of Final Settlement Prices due to excessively large bids by providing for a minimum .01 DARI Conversion Factor on all "out-of-the-money" positions; algorithmically this caps payouts at a maximum of 250:1 ratio. In light of the low dollar value of the contract, this limitation effectively limits the incentive to attempt to manipulate the market in this way.

The DARI contract has specified delivery dates that correspond to the calendar day at the rainfall measurement reporting station. Each DARI contract will be available for trading until 5:00 PM Eastern Time on the Trading Day prior to the Final Settlement Date.

CX has provided for a position accountability level of 10,000 contracts for all DARI Contracts combined.

A. Risk mitigation purpose of the contract

CX designed the DARI contract with the assistance of informed experts in the field and looked at the experiences of other weather-related contracts that have been listed on CX and other designated contract markets. The design of the terms and conditions is intended to mitigate the financial risks related to rainfall. The salient features of the contract are designed to enable the contract to be used on more than an occasional basis for the mitigation of commercial risks relating to rainfall, to reduce basis risk, to increase liquidity, and to ensure that the contract is not readily susceptible to manipulation.

CX has previously noted that precipation-based weather contracts enable "energy and tourism companies as well as state and local governments to more effectively manage their exposure to adverse weather by providing a means to transfer their inherent risk."[1] In addition to those risks, other risks that can be hedged by the DARI contract include costs for rainfall related services, such as flooding, drought, revenue losses due to lower customer traffic, such as retail shopping establishments, and losses due to the disruption of the physical transportation and other infrastructure.

Specifically, the DARI contract is designed to mitigate economic risk arising from rainfalls in both above and below threshold amounts, i.e. the "Strike Level". Examples include a business that has costs associated with flooding if it rains 1 inch or more; a retail store or movie theater that has lost revenue due to decreased foot traffic when rainfall exceeds 0.25 inches; or a vacation home renter whose vacation is negatively impacted by rainfall. Inversely, by

[1] See, CME "Snowfall Futures and Options Fact Card."

purchasing options with a zero Strike Level, the farmer with added costs due to irrigation or crop loss is able to hedge its risk that rainfall will not occur.

1. Delivery location

Although each measurement location is analogous to a specific "delivery point," deliverable supplies are not a relevant consideration for this contract nor is location relevant to construction of a pricing index. CX will list contracts at locations that have a NWS measuring station and that issue the relevant daily rainfall reports. Additional factors that may be considered are: (1) whether rainfall is likely to be a meaningful factor in commercial activity for that area; (2) metropolitan area population; (3) representative geographical diversity; and (4) market liquidity limitations. Except for New York's Central Park reporting location, the DARI contract's measurement locations are major airports located in proximity to the listed city. These locations are well defined and almost immediately recognizable for most commercial market users.

CX intends to list approximately 80 locations at the time of market launch, and may list any location that has adequate weather reporting capabilities to calculate the DARI index value. All delivery locations will be published on the CX website and made available via the Cantor Direct System. This initial list of about 80 locations provides highly localized hedging opportunities and reduces basis risk both by more precisely capturing the affected area of each rainfall and permits individual commercial interests to customize and balance the concentration of geographical risk that their business profile might inherently have.

2. Contract pricing

For the DARI contract CX will use the same asynchronous, single-sided call market mechanism used in the DASI snowfall contract. This market structure is especially efficacious in weather markets, where there is no tradeable underlying instrument.As implemented for the DARI contract, the one-sided call market provides participants an opportunity to place bids into the market (and at that time depositing Original Margin equal to the maximum at-risk amount) with all bids converted into contract positions upon Termination of Trading. Once placed, bids may not be withdrawn and a contract position, once established, can be liquidated only by final cash settlement.[2] All DARI contract positions open at the time of Final Settlement will be automatically exercised through book entry with no action necessary on the part of the holder.

The current value of each Strike Level, based on current bids in the market, will be displayed on CX's web-based trading interface. For bids placed 7 or more days before contract expiration, the DARI contract provides that all bid contract premium prices and required Original Margin deposits are $1.00 per contract, which is also its notional value. Because the forecast accuracy of expected rainfall amounts improves significantly as the expiration date draws to within the 7-day forecast window (unlike for Atlantic Named Storms), to compensate for the accretive value contained in this information, the DARI contract provides for an increasing contract premium

[2] Because of the asynchronous nature of the single-sided call auction mechanism, once a position is established, it may only be exited via the DARI contract's Final Settlement process. This is designed to mitigate the detrimental effects on market information and pricing of traders placing large bids in the market and then cancelling such bids.

price per contract, and corresponding Original Margin deposit, inside of the 7-day forecast window. Table 1 shows this relationship.[3]

As provided in the DASI contract, after placing a bid, market participants may adjust their positions by switching from the current position's Strike Level to another Strike Level for the same delivery day and location by depositing any additional margin that may be required for the contract. This will enable participants to fine-tune their hedges after they obtain a position at a given Strike Level and shift their positions between Strike Levels as rainfall forecasts or market prices change. This includes, if desired, positions switching from a specified rainfall Strike Level to the zero "no rain" Strike Level. This ability to modify bid Strike Levels will assist the price discovery process and further hedging efficacy.

3. Payout for losses

The payout structure for these rainfall options is identical to that used for the DASI snowfall contract as shown in Tables 2 and 3. Factors are approximately inversely proportional to the difference, measured in one-quarter inch increments, by which the DARI rainfall amount exceeds the Strike Level.

III. Core Principle 9—Execution of Transactions

As noted above, the trading mechanics for the DARI contract are identical to the DASI snowfall contract. Each DARI contract opens at 5:00 PM Eastern Time on the first Trading Day. The Final Settlement Date for each contract may be any calendar day that is not more than ninety-one (91) days and not less than one (1) day from the current Trading Day as made available to Participants on the CX Direct System. Termination of Trading for each contract occurs at 5:00 PM ET on the Trading Day that precedes the Final Settlement Date. The system is available continuously (24 hours x 7 days per week) except that CX may reduce its availability for the purposes of technology maintenance, abbreviated holiday schedules, and as otherwise required by market or environmental considerations. Any such changes shall be posted on the Exchange website.

During the open period, market participants may bid for contracts by specifying the Ticker Symbol and DARI Strike Level of the contract. All bids will be at the contract premium price per contract specified in Table 1 and require Original Margin to be deposited with the Clearinghouse equal to the per-contract amount. Any such bids, once accepted by CX, may not be canceled. However, the Strike Levels of bids received by CX may be modified provided that it is still for the same measurement station and Final Settlement Date. The price difference, if any, between the original bid price and the contract premium price per contract in effect at the time of the bid

[3] The increase in Original Margin deposit is not designed to precisely account for differences in forecast accuracy, which is statistically indeterminate and unstable across time, but rather provides a known schedule that market participants will utilize to determine the timing of their bid placement. CX will monitor how market participants utilize the differentials in Table 1 and, if necessary, modify them in subsequent contract filings. Nevertheless, in all cases the amount in Original Margin will be no less than the at-risk amount.

modification (as specified in Table 1) must also be placed as Original Margin on deposit with the Clearinghouse.

The Final Settlement Price of the positions at various Strike Levels is a function of how many positions are aggregated at each Strike Level versus the total number of positions. Strike Levels that are in-the-money and closer to the DARI will have a higher Final Settlement Price than positions that are in-the-money but further from the DARI (as determined by Tables 2 and 3).

Core Principle 9 and CFTC Rule 38.500 provide that a designated contract market shall provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading in the centralized market. The DARI contract provides for trading on a centralized, open and competitive market in that all prices are derived from trading on CX and not through pre-arrangement or the private negotiation of two parties[4] on a centralized market that is a "trading facility."[5]

IV. Core Principle 11—Financial Integrity of Transactions

Core Principle 11 and Rule 38.601 require that a contract be subject to mandatory clearing. The DARI Contracts are subject to mandatory clearing on the same terms as all other contracts cleared by the Clearinghouse.

V. All Remaining Requirements

All remaining Core Principles are satisfied through operation of CX and the Clearinghouse under the Rules, processes and policies applicable to the other contracts traded thereon. Nothing in this contract requires any change from current rules, policies, or operational processes.

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Based on the above analysis, CX certifies the Daily Aggregate Rainfall Index Swaps Contract as consistent with, and in accordance with the Core Principles of Section 5 of the Commodity Exchange Act, and rules thereunder.

[4] The Commission has always analyzed "competitive markets" as those in which the price is determined through the centralized market and not through private negotiations. The Commission has said, "Proposed §38.502 implemented the core principle's requirement that DCMs provide a market and mechanism for executing transactions that protects the price discovery process of trading in its centralized market. The rule proposed a centralized market trading requirement for all contracts listed on a DCM." "Core Principles and Other Requirements for Designated Contract Markets; Final Rule," 77 *Fed Reg*. 36612 (June 19, 2012)("DCM Rulemaking") at 36643. The price for these contracts, determined at the time of settlement, is determined though the central market and not as a result of any non-competitive trading activity.

[5] Id. at 36622.
Transactions in the DARI contract occur as the result of the interaction of multiple bids that are matched (and settled) through the operation of a pre-determined, non-discretionary algorithm, clearly meeting prong (ii) of the definition "Trading Facility.". See, section 1a (51) of the Commodity Exchange Act.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.2, 17 C.F.R. §40.2

I hereby certify that:

(1) the Daily Aggregate Rainfall Index Swaps Contract complies with the Commodity Exchange Act, and the Commodity Futures Trading Commission's regulations thereunder; and

(2) concurrent with this submission, CX Futures Exchange, L.P. posted on its website: a notice of this pending product certification with the Commission and a copy of this submission, concurrent with the filing of this submission with the Commission.

Nolan Glantz

By: Nolan Glantz
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Date: 3/19/2019