

# SUBMISSION COVER SHEET

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): \_\_\_\_\_

Organization: \_\_\_\_\_

Filing as a:        **DCM**        **SEF**        **DCO**        **SDR**    Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): \_\_\_\_\_ Filing Description:

**SPECIFY FILING TYPE**                      Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

Certification	§ 40.6(a)
Approval	§ 40.5(a)
Notification	§ 40.6(d)
Advance Notice of SIDCO Rule Change	§ 40.10(a)
SIDCO Emergency Rule Change	§ 40.10(h)

Rule Numbers: \_\_\_\_\_

**New Product**                                      Please note only ONE product per Submission.

Certification	§ 40.2(a)
Certification Security Futures	§ 41.23(a)
Certification Swap Class	§ 40.2(d)
Approval	§ 40.3(a)
Approval Security Futures	§ 41.23(b)
Novel Derivative Product Notification	§ 40.12(a)
Swap Submission	§ 39.5

Official Product Name: \_\_\_\_\_

**Product Terms and Conditions (product related Rules and Rule Amendments)**

Certification	§ 40.6(a)
Certification Made Available to Trade Determination	§ 40.6(a)
Certification Security Futures	§ 41.24(a)
Delisting (No Open Interest)	§ 40.6(a)
Approval	§ 40.5(a)
Approval Made Available to Trade Determination	§ 40.5(a)
Approval Security Futures	§ 41.24(b)
Approval Amendments to enumerated agricultural products	§ 40.4(a), § 40.5(a)
“Non-Material Agricultural Rule Change”	§ 40.4(b)(5)
Notification	§ 40.6(d)

Official Name(s) of Product(s) Affected: \_\_\_\_\_

Rule Numbers: \_\_\_\_\_



March 28, 2023

***Submitted via CFTC Portal and Email***

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: SpectrAxe LLC – Commission Regulation 40.2 Certification of NZD/USD Options

Dear Mr. Kirkpatrick:

SpectrAxe LLC (“SpectrAxe”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulations 40.2(a), of its intent to list NZD/USD options for trading on SpectrAxe’s electronic trading system (the “SEF Platform”). SpectrAxe intends to list NZD/USD options on April 10, 2023.

This submission letter contains the following attachments:

- The submission cover sheet;
- Attachment A, which provides a concise explanation and analysis of foreign currency options (“FX Options”), such as NZD/USD options;
- Attachment B, which provides the contract specifications for FX Options as published on SpectrAxe’s website, in accordance with Rule 901 of the SpectrAxe Rulebook (“Rulebook”);
- Attachment C, which provides a concise explanation and analysis of FX Options’ compliance with applicable provisions of the Commodity Exchange Act (the “Act”), including the Core Principles and the Commission’s Regulations thereunder.

Based on the foregoing, SpectrAxe certifies that the NZD/USD options comply with the Act and the Commission Regulations thereunder. Additionally, SpectrAxe certifies that it has concurrently posted a copy of this submission letter and attachments hereto on its website at [www.spectraxesef.com](http://www.spectraxesef.com).

\* \* \*

Mr. Christopher J. Kirkpatrick  
Commodity Futures Trading Commission  
March 28, 2023

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Should you have questions regarding this submission, please do not hesitate to contact Cheryl L. Isaac, K&L Gates, LLP, at +1-202-778-9089 or [Cheryl.Isaac@klgates.com](mailto:Cheryl.Isaac@klgates.com), or the undersigned at +1-212-651-3186 or [bflaster@spectrax.com](mailto:bflaster@spectrax.com).

Very truly yours,



Brad Flaster  
Chief Compliance Officer  
SpectrAxe

### **Attachment A**

SpectrAxe intends to offer FX Options, including NZD/USD options, on the SEF Platform.

An FX Option is a derivative financial instrument that gives the owner the right but not the obligation to buy or sell an agreed amount of one currency in exchange for an agreed amount of another currency at a specified exchange rate (the “strike price”).

There are two types of FX Options: call options and put options. A call option gives the owner the right to buy a currency at the strike price, while a put option gives the owner the right to sell a currency at the strike price.

FX Options traded on the SEF Platform will be settled physically, meaning that the owner actually buys or sells the underlying currency at the strike price.

FX Options available on the SEF Platform may be traded with or without underlying delta hedges, which are used to mitigate the directional risk associated with price movements in an underlying asset. A delta hedge may be spot dated or forward dated.

A Trade (as defined in the SpectrAxe Rulebook) involving FX Options can have a maximum of two vanilla options and up to two delta hedges.

For more information, the contract specifications for FX Options are attached as Attachment B.

**Attachment B**

SpectrAxe Contract Specifications

<b>DESCRIPTION</b>	Deliverable foreign exchange options (FX Options) offer the right but not the obligation to buy or sell an agreed amount of one currency in exchange for an agreed amount of another currency at a specified exchange rate (strike price).
<b>TRADE DATE</b>	The date the transaction is agreed between and becomes legally binding on the parties.
<b>OPTION STYLE</b>	European Style (FX Option buyer may only exercise the FX Option on the Expiry Date).
<b>EXPIRY DATE</b>	Between 1 day and 10 years, as agreed between the parties.
<b>AUTOMATIC EXERCISE</b>	Applicable, pursuant to the Rulebook.
<b>STRIKE PRICE</b>	As agreed between the parties.
<b>NOTIONAL AMOUNT</b>	As agreed between the parties.
<b>NOTIONAL AMOUNT MINIMUM</b>	Dependent on the currency pair underlying the FX Option.
<b>MINIMUM TICK</b>	Dependent on the currency pair underlying the FX Option.
<b>OPTION TYPE</b>	<ul style="list-style-type: none"> <li>• Put - FX Option buyer has the right to sell an agreed amount of the base currency at the agreed-upon strike price in exchange for a predetermined amount of the foreign currency.</li> <li>• Call - FX Option buyer has the right to buy an agreed amount of the base currency at the agreed-upon strike price in exchange for a predetermined amount of the foreign currency.</li> </ul>
<b>DELTA HEDGES</b>	<p>FX Options may be traded:</p> <ul style="list-style-type: none"> <li>• with an underlying delta hedge that is spot dated;</li> <li>• with an underlying delta hedge that is forward dated; or</li> <li>• without a delta hedge.</li> </ul> <p>Maximum of two vanilla options with up to two hedges may be traded in a single transaction.</p>
<b>AVAILABLE TENORS</b>	Dependent on the currency pair underlying the FX Option.
<b>SETTLEMENT DATE</b>	One or two business days after the Expiry Date, depending on the underlying currency pair, or as agreed between the parties.
<b>SETTLEMENT TYPE</b>	Physical delivery.
<b>PREMIUM AMOUNT</b>	As agreed between the parties.

<b>PREMIUM PAYMENT DATE</b>	Premium is valued before trade execution and may be paid spot or forward upon the settlement of the FX Option, as agreed between the parties.
<b>TRADING HOURS</b>	As set forth in the SpectrAxe website.
<b>HOLIDAY CALENDAR</b>	As agreed between the parties and suitable to the currency's market standards.
<b>CLEARING</b>	n/a - Not cleared.
<b>BLOCK MINIMUM</b>	n/a - No block trading allowed on the SEF.
<b>REPORTABLE LEVELS</b>	As set forth in CFTC Regulation 15.03.
<b>POSITION LIMITS</b>	As set forth in Part 150 of the CFTC Regulations.
<b>DEFINITIONS</b>	Unless explicitly defined, all capitalized terms are defined in the Rulebook or the 1998 ISDA FX and Currency Option Definitions, as updated. If there are any conflicts between definitions, the Rulebook shall prevail.

**Available Currency Pairs:**

AUD/CAD	EUR/CZK	GBP/JPY	USD/CZK
AUD/CHF	EUR/GBP	GBP/NOK	USD/HUF
AUD/JPY	EUR/HUF	GBP/NZD	USD/ILS
AUD/NZD	EUR/JPY	GBP/SEK	USD/JPY
AUD/USD	EUR/NOK	GBP/USD	USD/MXN
CAD/CHF	EUR/NZD	NOK/SEK	USD/NOK
CAD/JPY	EUR/PLN	NZD/CAD	USD/PLN
CHF/JPY	EUR/SEK	NZD/JPY	USD/SEK
EUR/AUD	EUR/USD	NZD/USD	USD/SGD
EUR/CAD	GBP/AUD	USD/CAD	USD/ZAR
EUR/CHF	GBP/CAD	USD/CHF	
EUR/CNH	GBP/CHF	USD/CNH	

## Attachment C

SpectrAxe has determined that FX Options, including NZD/USD options, bear upon the following Core Principles:

### **Core Principle 2 - Compliance with Rules**

Trading in FX Options will be subject to the Rulebook, which prohibits abusive trading practices, including: acts detrimental to SpectrAxe (see Rule 609); acts that are inconsistent with just and equitable principles (see Rule 602); fraudulent acts (see Rule 603); fictitious or non-competitive transactions (see Rule 604); market manipulation (see Rule 606); disruptive trading practices (see Rules 605 and 607); misstatements (see Rule 608); wash sales (see Rule 613); and pre-negotiated or non-competitive trades, such as money passes (see Rule 614).

As with all Swaps listed for trading on the SEF Platform (as such terms are defined in the SpectrAxe Rulebook), trading activity in FX Options will be subject to monitoring and surveillance by SpectrAxe's Market Regulation Team. SpectrAxe has the authority to exercise its investigatory and enforcement powers where potential rule violations are identified. See Chapter 7 of the Rulebook.

### **Core Principle 3 - Swaps Not Readily Susceptible to Manipulation**

FX Options will be based on SpectrAxe's specified market exchange rates and are not readily susceptible to manipulation because wide dealer and industry support provides significant liquidity in all market conditions for the currency pairs available on the SEF Platform.

SpectrAxe anticipates that the five most liquid currencies that will be traded on the SEF Platform are, in order: (1) USD, (2) EUR, (3) JPY, (4) GBP and (5) AUD.

SpectrAxe anticipates that the five least liquid currencies that will be traded on the SEF Platform are, in order: (1) COP, (2) CLP, (3) HUF, (4) IDR and (5) CZK.

To demonstrate the level of liquidity for these currencies, the chart below represents the average daily turnover of OTC foreign exchange instruments in these currencies in April 2022, as [reported](#) by the Bank of International Settlements:

<b>Currency</b>	<b>April 2022 daily average turnover*</b>
USD	\$6,639 billion
EUR	\$2,292 billion
JPY	\$1,253 billion
GBP	\$968 billion
AUD	\$479 billion
CZK	\$29 billion
IDR	\$28 billion
HUF	\$26 billion
CLP	\$24 billion
COP	\$14 billion

\* On a "net-net" basis, measured in USD

#### **Core Principle 4 - Monitoring of Trading and Trade Processing**

All trading activity of FX Options on SpectrAxe is monitored on a real-time basis by the Market Control Center. The Market Control Center conducts real-time monitoring in order to observe any aberrant or atypical price volatility or volume volatility. Real-time monitoring enables SpectrAxe to cancel FX Option trades as a means of mitigating any errors or malfunctions in the operations of the SEF, given that any such adjustments are made transparent to the impacted Participants and PFIs in accordance with the Rulebook.

The Market Control Center may contact the Compliance Department on a real-time basis if it identifies instances of FX Options trading behavior that may be inconsistent with the Rules and may warrant contacting the Participant. In addition, the Compliance Department reviews the SEF's audit trail on a T+1 basis to identify such instances.

The Compliance Department is authorized under Chapter 7 of the Rulebook to conduct investigations and disciplinary proceedings.

#### **Core Principle 5 - Ability to Obtain Information**

Pursuant to the Rulebook, SpectrAxe has the authority and ability to obtain sufficient information for each FX Option to allow SpectrAxe to fully perform its operational, risk management, governance and regulatory functions described in Section 5h of the Act and Part 37 of Commission Regulations (*see, e.g.*, Rule 503).

#### **Core Principle 6 - Position Limits or Accountability**

SpectrAxe may adopt position limits or position accountability levels for FX Options if necessary and appropriate, pursuant to Rules 408 and 409. SpectrAxe continually assesses whether position limits or position accountability levels are necessary, appropriate, and should be adopted for FX Options to reduce the threat of market manipulation or congestion.

Note that SpectrAxe, as well as individual PFIs (as such term is defined in the SpectrAxe Rulebook), currently manages Participant risk through the use of credit limits.

#### **Core Principle 7 - Financial Integrity of Transactions**

SpectrAxe has established trade procedures, including the involvement of Participating Financial Institutions, pursuant to the Rulebook, to ensure the financial integrity of FX Options entered through the SEF Platform.

#### **Core Principle 8 - Emergency Authority**

Pursuant to the Rulebook, SpectrAxe's Chief Compliance Officer ("CCO"), or any individual designated by the CCO and approved by SpectrAxe's Board of Directors ("Board"), is authorized to place, with immediate effect, a temporary emergency addition to the Rulebook that may provide for the Board or any committee thereof to undertake various actions necessary or appropriate to respond to the emergency, including (i) imposing or modifying position limits, price limits or intraday market restrictions on FX Options; (ii) ordering the liquidation or transfer of open positions in any FX Option; (iii) ordering the fixing of a settlement price on any FX Option; (iv) extending, limiting or changing the trading hours or expiration date of an FX Option; (v) suspending or curtailing trading, or limiting trading to liquidation only, in an FX Option; (vi) transferring FX Option



contracts and associated margin, or altering any FX Option's settlement terms or conditions; (vii) modifying or suspending any provision in the Rulebook; and/or (viii) taking market actions as may be directed by the Commission (see Rule 412(b)).

### **Core Principle 9 - Timely Publication of Trading Information**

In accordance with Part 16 of Commission Regulations, SpectrAxe will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. Further, SpectrAxe will publish for each trading day, by tenor of the Swap, the opening price and the high and low prices.

SpectrAxe will submit electronic reports of all primary economic terms data for each Swap to a registered swap data repository immediately following execution of such Swap, pursuant to its Rulebook and Commission Regulations. All such reports will meet the standards put forth in the Commission Regulations, including the requirement in CFTC Regulation 45.5 to include a "Unique Transaction Identifier" for each Swap.

### **Core Principle 10 - Recordkeeping and Reporting**

SpectrAxe keeps (or hires a third party to keep, on its behalf) all books and records regarding FX Options transactions required to be maintained under the Act and CFTC Regulations, including CFTC Regulations 37.1001 and 45.2(a). These books and records are retained for the life of the Trade and five years following the termination of the Trade, as required by Commission Regulations. Additionally, these books and records are readily accessible for inspection.