# SWAPEX™

May 5, 2015

**BY ELECTRONIC MAIL: submissions@cftc.gov**

Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**Re:** **SwapEx Submission 03-15: Certification Pursuant to Commission Regulation 40.2(a) of LCH Clearnet Limited Cleared Non-Deliverable Foreign Exchange Forwards**

Dear Ms. Jurgens:

SwapEx, LLC ("SwapEx") hereby notifies the Commodity Futures Trading Commission (the "Commission" or "CFTC"), pursuant to Commission Regulation 40.2(a), that it is certifying 12 non-deliverable foreign exchange forwards ("NDFs") for trading on SwapEx's electronic trading system (the "Trading System") and central clearing by LCH Clearnet Limited ('LCH'). Specifically, SwapEx certifies LCH NDFs in the following foreign exchange ("FX") pairs:

- USD/BRL; USD/CLP; USD/CNY; USD/COP; AUD/IDR; AUD/INR; USD/KRW; USD/MYR; USD/PEN; USD/PHP; USD/RUB; and USD/TWD

These NDFs are in addition to the 13 NDFs certified by SwapEx in its submission of September 30, 2013, the 65 NDFs certified by SwapEx in its submission of September 10, 2014 and the 17 NDFs certified by SwapEx in its submission of December 18, 2014.

The intended listing date of the NDFs (each, a "Swap," and collectively, the "Swaps") is May 7, 2015.

This submission letter contains the following attachments:

- The submission cover sheet.

- Attached as Exhibit A, a concise explanation and analysis of the Swaps.

- Attached as Exhibit B, a copy of the rules for the Swaps, which will be published as contract specifications on SwapEx's website in accordance with SwapEx Rule 901(c).
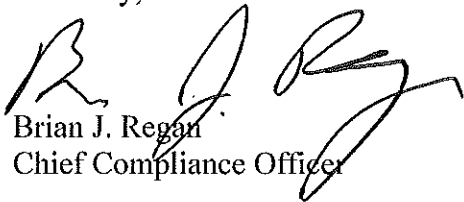
- Attached as Exhibit C, a concise explanation and analysis of the Swaps' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the Core Principles, and the Commission's Regulations thereunder.

SwapEx certifies that each Swap complies with the CEA and Commission Regulations thereunder. SwapEx additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on SwapEx's website at http://www.swapex.com/swapex/rules-policies-and-notices/recent-rule-filings-cftc/.

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In the event that you have questions, please contact the undersigned at (312) 798-6517 or at BJRegan@statestreet.com.


Sincerely,

Brian J. Regan
Chief Compliance Officer

<u>Exhibit A</u>

Below is a concise explanation and analysis of the Swaps:

<u>LCH Clearnet Limited cleared Non-Deliverable Forwards (LCH NDF)</u>

SwapEx hereby certifies 12 LCH NDFs in the following FX pairs:
- USD/BRL; USD/CLP; USD/CNY; USD/COP; AUD/IDR; AUD/INR; USD/KRW; USD/MYR; USD/PEN; USD/PHP; USD/RUB; and USD/TWD


Each LCH NDF is a cash-settled contract with notional amounts down to single currency units traded against counter currencies. For more information, the contract specifications for LCH NDF instruments are attached as Exhibit B.

# SwapEx Contract Specifications

The LCH Clearnet Limited Cleared Non-Deliverable Forward Contract Specifications are as follows:

| Contract Structure | Notional amounts down to single currency units traded against deliverable counter currencies for a custom or standard maturity using a default or custom fixing date. |
|---|---|
| Trading Hours | Trading hours consecutive from 5:00 p.m. EST on Sunday through to Friday at 5:00 p.m. EST. Each day at 5:00 p.m. EST, SwapEx rolls the trade date. |
| Reference Currency (i.e., Non-deliverable currency) | BRL – Brazilian Real<br>CLP – Chilean Peso<br>CNY – Chinese Renminbi<br>COP – Colombian Peso<br>IDR – Indonesian Rupiah<br>INR – Indian Rupee<br>KRW – South Korean Won<br>MYR – Malaysian Ringgit<br>PEN – Peruvian Nuevo Sol<br>PHP – Philippine Peso<br>RUB – Russian Ruble<br>TWD – Taiwan Dollar |
| Settlement Currency | USD |
| Underlying Swap Tenor | The duration of time from the Effective Date to the Fixing Date. Subject to specific end date defined by user within the requirements set by LCH Clearnet Limited. |
| Forward Rate | Currency exchange rate expressed as the amount of Reference Currency per unit of Settlement Currency.<br><br>Rate negotiated at the time of execution |
| Contract Size | Minimum contract size is $1. |
| Effective Date | The date on which the parties enter into the contract. |
| Maturity / Valuation Date | The date specified in the contract when the trade will be cash settled; it needs to be later than Effective Date within the requirements set by LCH Clearnet Limited. |

| | |
|---|---|
| **Fixing Dates** | The date at which the difference between the prevailing market exchange rate and the agreed upon exchange rate is calculated.<br>The Fixing Date is defined by the counterparties at the time of entering into the contract; it needs to be earlier than Maturity / Valuation Date. |
| **Last Trading Day for Defined (Fixed) Tenors** | The last day on which the contract can be traded is the New York business day preceding the Maturity Date |
| **Settlement Procedure** | Centrally cleared by LCH Clearnet Limited. |
| **Quoting Convention** | A currency pair is the quotation of the relative value of a currency unit against the unit of another currency in the foreign exchange market. SwapEx follows market convention with regards to quoting, but allows users flexibility with regards to whether the quantity traded is expressed in base or terms notional. NDFs can be quoted up to 6 decimal places. |
| **Derivatives Clearing Organization** | LCH Clearnet Limited |

The terms and conditions of the swap also include the product eligibility criteria, as established by LCH Clearnet Limited in its rules or bylaws, which are incorporated by reference herein as terms and conditions of the swap.

## Exhibit C

SwapEx has determined that the Swaps certified herein bear upon the following Core Principles:

### Core Principle 2 – Compliance with Rules

Trading in the Swaps will be subject to the SwapEx Rulebook (the "Rules"), which prohibits abusive trading practices, including: acts detrimental to SwapEx or that are inconsistent with just and equitable principles of trade (Rule 503), fraudulent acts (Rule 504), fictitious or non-competitive transactions (Rule 505), market manipulation (Rule 506), disruptive trading practices (Rule 507), misstatements (Rule 508), misuse of the trading system (Rule 509), wash sales (Rule 514) and pre-negotiated or non-competitive trades, including money passes (Rule 515). Trading in these Swaps will also be subject to Rules relating to protection of customers. *See* Rules 511-513, 516, 517.

As with all Swaps listed for trading on the Trading System, trading activity in the Swaps will be subject to monitoring and surveillance by SwapEx's Market Regulation Department. SwapEx has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. *See* Chapter 7 of the Rules.

### Core Principle 3 – Swaps Not Readily Susceptible to Manipulation

NDFs are cash-settled currency Swaps between two counterparties used to either hedge or speculate against currencies where exchange controls in a particular country make it difficult to trade in the spot market directly. No exchange of the underlying currency occurs. Instead, the contracts are settled in the applicable deliverable currency.

The cash settlement price for an NDF is determined on the Fixing Date. On the Fixing Date, the parties will identify the spot FX rate (the "Spot Rate") for the currency pair of such NDF. The Spot Rate is expressed as Reference Currency per unit of Settlement Currency. The LCH has elected to use reference rates set by the Emerging Markets Trade Association ('EMTA') for settlement of LCH cleared NDFs, The Relevant EMTA Template for a given NDF identifies the Spot Rate to be used, which in many cases is a rate determined by the Central Bank of the Reference Currency jurisdiction. This method for calculating the settlement price of the contract is a common, widely-used and widely accepted method of calculating the cash settlement of NDF contracts.

As noted above, there is no exchange of the underlying currency and the Swaps are settled in the Settlement Currency based on a reference prices that are publicly available on a timely basis. The reliability of the reference price is reflected through the wide acceptance of the relevant EMTA Templates in the FX marketplace.

## Core Principle 4 – Monitoring of Trading and Trade Processing

Chapter 5 of the Rules prohibits traders from manipulating, distorting the price of, and disrupting the cash settlement process of the Swaps. Such Rules are enforced by the Market Regulation Department.

## Core Principle 5 – Ability to Obtain Information

Pursuant to the Rules, SwapEx will have the ability and authority to obtain sufficient information for each Swap to allow SwapEx to fully perform its operational, risk management, governance and regulatory functions and requirements under Part 37 of Commission Regulations.

## Core Principle 6 – Position Limits or Accountability

As provided in Rule 519 and 520, SwapEx has the authority to establish position accountability levels and position limits for the Swaps. SwapEx's Rules relating to position limits, position accountability and aggregation standards are reproduced below:

### Rule 519. Position Accountability

A Person who holds or controls aggregate positions in any Swap in excess of the applicable position accountability levels set forth in Rule 523 shall:

(a) upon request by the Market Regulation Department, provide in a timely manner information regarding the nature of the position, trading strategy, and hedging information, if applicable; and

(b) if so ordered by the Market Regulation Department, not further increase positions that exceed the position accountability levels specified in Rule 523.

### Rule 520. Position Limits

The Company may establish position limits for one or more Contracts, which, if and when established will be set forth in Rule 523, and grant exemptions from position limits, in accordance with CFTC Regulations. A Person seeking an exemption from position limits must apply to the Market Regulation Department in the form and manner required by the Company.

### Rule 521. Position Information

Without limiting any other rights of the Company under these Rules or otherwise, the Company shall have the right to request position and trading information in respect of a given Contract from any Participant, Authorized Trader, Authorized User or Customer that has a position in such Contract at or above the applicable position accountability level.

## Rule 522. Aggregation of Positions

For purposes of Rules 519, 520 and 521, positions in Contracts shall be aggregated in accordance with CFTC Regulations.

## Rule 523. Position Limits and Position Accountability Levels

The position limits and position accountability levels for Swaps will be calculated on a net basis and are as follows. SwapEx will enforce position limits and position accountability levels only for Contracts executed on the Trading System and Block Trades executed pursuant to Chapter 6 of the Rules.

| Contracts | Daily Position Accountability Level | Position Limit Level |
|---|---|---|
| Interest Rate Swaps: | | |
| • Floating Rate Index: 3 Month USD LIBOR | $250 billion | N/A |
| • Floating Rate Index: 6 Month EURIBOR | €185 billion | N/A |
| • Floating Rate Index: 6 Month GBP LIBOR | £150 billion | N/A |

## Core Principle 7 – Financial Integrity of Transactions

All Swaps that are required to be cleared pursuant to Section 2(h) of the CEA or that are voluntarily cleared by the counterparties will be submitted for clearing through a DCO. *See* Rule 1002.

## Core Principle 9 – Timely Publication of Trading Information

In accordance with Part 16 of Commission Regulations, SwapEx will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. In addition, SwapEx will publish for each trading day, by tenor of the Swap, the opening price, the high and low prices and a settlement price. *See* Rule 407.

SwapEx 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. *See* Rule 528. All such reports will meet the standards set out in Commission Regulation 45.3, including the requirement to produce a unique swap identifier for each transaction. SwapEx will also issue confirmations of transactions pursuant to Rule 525.