CX Futures Exchange, L.P.
Rule 40.2 New Contract Submission—Seasonal Aggregate Snowfall Index Swaps Contract Submission #2019-12

October 16, 2019

CX Futures Exchange, L.P. ("CX" or "Exchange") hereby certifies its listing of the following new contract: Seasonal Aggregate Snowfall Index ("SASI") 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

The Exchange currently offers a Daily Aggregate Snowfall Index Swaps Contract (the "DASI Contract"), which relates to the snowfall measurement on each calendar day at a given location.

The Exchange is adding a Seasonal Aggregate Snowfall Index ("SASI") Swaps contract to complement the DASI Contract. SASI Contracts are swaps (cash-settled options) that offer a contingent claim payout dependent upon, and as a function of, the seasonal aggregate snowfall 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 the SASI Contract will provide an opportunity for participants to hedge commercial risks arising from specified weather conditions.

The great majority of the contract specifications and trading mechanics of the SASI Contract retain the CX standards, trading mechanics and final settlement calculation methodology for CX's other weather-related contracts.

SASI Contracts differ from CX's other weather-related contracts in that the contract has a single Final Settlement Date for each location for a given year and the settlement value will be the season's total snowfall for that location.

Like all other CX contracts, trading is on a principles-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 has considered the Core Principles and Commission rules thereunder. Features in the SASI contract that differ from contracts previously listed by CX or other DCMs are explained in greater detail in Section II and Section III below. With this background, in accordance with the requirements of Commission Rule 40.2, CX notes that:

II. Core Principle 3

Core Principle 3 and Rule 38.200 provides that a DCM shall not list for trading contracts that are readily susceptible to manipulation. The SASI contract is a cash settled contract based upon the objective determination of the seasonal aggregate snowfall amount occurring at a specific location.

The cash settlement index of the SASI 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 snowfall 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 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 SASI Conversion Factor on all "out-of-the-money" positions; algorithmically this caps payouts at a maximum of 100:1 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.

In general, the SASI contract has specified a Final Settlement Date of May 31st as the end of seasonal snowfall for each location. However, CX recognizes that the last snowfall may end earlier at certain locations and therefore provides for a Final Settlement to occur on March 31st or April 30th for locations that have not experienced any snowfall amounts during the calendar months of March or April respectively.

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

A. Risk mitigation purpose of the contract

The SASI contracts are not the first contracts based on seasonal snowfall amounts.[1]

CX designed the SASI 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 seasonal snowfall. 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 snowfall, to reduce basis risk, to increase liquidity, and to ensure that the contract is not readily susceptible to manipulation.

Another designated contract market has explained that seasonal snowfall contracts enable "energy and tourism companies as well as state and local governments to more effectively manage their exposure to snowfall by providing a means to transfer their inherent risk."[2] Specifically, the SASI contract is designed to mitigate economic risk arising from seasonal snowfalls that deviate from a given amount, i.e. the "Strike Level".

While the Exchange's DASI Contracts enable the hedging of short-term, single-day snowfall events, the SASI Contract enables hedging of financial risks associated with longer term aggregate snowfall amounts. For example, purchasers of lower Strike Level contracts will receive higher payouts when seasonal snowfall is low and therefore may be used by businesses

[1] In 2006, the Chicago Mercantile Exchange ('CME") listed a suite of snowfall futures and options contracts and subsequently delisted these contracts in 2014.
[2] See, CME "Snowfall Futures and Options Fact Card."

such as ski resorts and snowplow companies that are economically harmed by low seasonal snowfall totals. Conversely, purchasers of high Strike Level contracts will receive higher payouts when seasonal snow is high and therefore may be used by businesses such as transportation companies and retailers that are economically harmed by high seasonal snowfall totals.

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 which issue the relevant seasonal snowfall reports. Additional factors that may be considered are: (1) whether snowfall 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 SASI 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 86 locations at the time of market launch and will add locations in its discretion as market demand dictates. All delivery locations will be published on the CX website and made available via the CX Direct System. This initial list of 86 locations provides highly localized hedging opportunities and reduces basis risk both by more precisely capturing the affected area of each snowfall 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 SASI 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 SASI 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. All SASI 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 on or before November 30th, the SASI 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 snowfall amounts improves significantly as the snowfall season matures, the SASI contract provides for an increasing contract premium price per contract, and corresponding Original Margin deposit, beginning December 1st through January 31st. Table 1 shows this relationship.

As provided in the Exchange's other weather contracts, 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 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 snowfall forecasts or market prices change. This ability to modify bid Strike Levels will assist the price discovery process and further hedging efficacy.

3. Payout

The payout structure for SASI Contracts is identical to that used for the DASI snowfall contract as shown in Table 2. Factors are approximately inversely proportional to the difference, measured in one-inch increments, by which the SASI snowfall amount exceeds the Strike Level.

III. Core Principle 9—Execution of Transactions

As noted above, the trading mechanics for the SASI Contract are identical to the DASI snowfall contract. 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. Termination of Trading for the contract occurs at 5:00 PM ET on January 31st.

During the open period, market participants may bid for contracts by specifying the Ticker Symbol including the SASI 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. 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 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 SASI will have a higher Final Settlement Price than positions that are in-the-money but further from the SASI (as determined by Table 2).

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 SASI 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 on a centralized market that is a "trading facility."

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 SASI 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 Seasonal Aggregate Snowfall Index Swaps Contract as consistent with, and in accordance with the Core Principles of Section 5 of the Commodity Exchange Act, and rules thereunder.

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 Seasonal Aggregate Snowfall 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
Title: COO
Date: 10/16/2019