



Rule Self-Certification

VIA CFTC PORTAL

November 19, 2021

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

**Re: SMFE 2021-022 - Self-Certification Pursuant to CFTC Regulation 40.6 –
Exchange Rules, Chapter 1, Definitions, and Exchange Rules 521 and 523**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6 of the Commission’s regulations thereunder, Small Exchange, Inc. (“SMFE” or the “Exchange”) submits this self-certification as written notice that the Exchange is amending Exchange Rules, Chapter 1, Definitions, and Exchange Rules 521 and 523, as set forth on the attached Exhibit A, which is attached hereto and incorporated herein by reference (“Rule Change”). The Rule Change is effective December 6, 2021.

The purpose of the Rule Change is to set forth: the Position Limits and Position Accountability Levels that the Exchange will follow in connection with the trading of Options on Futures, once self-certified for trading on the Exchange (Exchange Rule 521); a change to Exchange’s Definitions in order to facilitate such processes; and clarifying changes with respect to Exchange Rules 521 and 523.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act and identified that the Rule Change may have some bearing on the following Core Principles:

- Core Principle 2, Compliance with Rules: The Exchange shall continue their normal practice to establish, monitor, and enforce compliance with the rules applicable to the trading of Exchange Contracts.
- Core Principle 4, Prevention of Market Disruption: The Exchange has the capacity to detect abnormal price movements and unusual trading volumes, including such abnormal price movements or trading volumes as may be associated with bilaterally negotiated trades, and holds the authority to take remedial action as appropriate. Further, the Rule Change will not impact the Exchange’s ability to perform its trade

practice and market surveillance obligations under the CEA, CFTC Regulations and its Rules.

- Core Principle 9, Execution of Transactions: The Rule Change will further enable the Exchange to continue their current practice of providing a competitive, open, and efficient market mechanism for executing transactions.
- Core Principle 10, Trade Information: The Rule Change will enhance the Exchange's ability to maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the Exchange contract market to use the information to assist in the prevention of customer and market abuses and to provide evidence of any violations of the rules of the contract market.
- Core Principle 12, Protection of Market Participants: The Rule Change is subject to the Rules of the Exchange, which include prohibitions against abusive practices, including fraudulent, anti-competitive or unfair activity.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange certifies that the amendments comply with the Act, including regulations under the Act. The Exchange is not aware of any opposing views. The Exchange also certifies that this submission has been posted on the Exchange's website at www.themallexchange.com.

If you require any additional information regarding this submission, please contact the undersigned at (312) 761-1660.

Regards,

/s/ Peter D. Santori
Chief Regulatory Officer

Enclosed: Exhibit A

Exhibit A

(additions underlined; deletions ~~overstruck~~)

Chapter 1: Definitions

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Future(s) means any Contract for the purchase or sale of a commodity for future delivery.

Futures-Equivalent means, in relation to position limits, reporting levels, and accountability levels for Options products, the number of Options that are equal to one (1) Futures Contract. In this case, one (1) Options Contract is equivalent to one (1) Futures Contract.

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Rule 521. Position Limits and Position Accountability Levels

The Exchange shall designate for each Contract applicable position limits and/or accountability levels. Such position limits or accountability levels may be specific to a particular Contract or Contract expiration. Position limits and position accountability levels will be closely monitored by the Exchange's Regulatory Department. The Exchange will publish position limits and position accountability levels on its website. For any Contract that is subject to a position limitation established by the CFTC, pursuant to Section 4a(a) of the CEA, the Exchange shall set the position limitation of the Exchange at a level not higher than the position limitation established by the CFTC.

- (a) Aggregation of Positions, Position Limits and Position Accountability Levels. Position limits and accountability levels apply to all positions in accounts under common ownership (ownership interest of 10% or greater) or control. The provisions of this Rule shall apply to positions held by two or more Members or Participants acting pursuant to an expressed or implied agreement or understanding, and shall be considered the same as if the positions were held by or the trading of the positions was controlled by a single Member or Participant.

Notwithstanding the provisions of this paragraph, any Pperson that, by power of attorney or otherwise, holds or controls the trading of positions in more than one account or pool with substantially the exact same trading strategies, must aggregate all such positions with all other positions held and trading done by that Participant and the positions held in accounts which the Participant must aggregate in keeping with the provisions of this paragraph.

(b) Exemptions from Aggregation of Positions. Any Participant claiming an exemption from Exchange position limits under the provisions of CFTC Regulation 150.4(b)(1)(ii), (b)(2), (b)(3), (b)(4) or (b)(7) must file an aggregation exemption request with the Regulatory Department which sets forth:

(i) An identification of the aggregation exemption provision under Commission Regulation 150.4(b)(1)(ii), (b)(2), (b)(3), (b)(4) or (b)(7) pursuant to which disaggregation is requested, a description of the relevant circumstances that warrant disaggregation and any other information as may be required by the Exchange; and

(ii) A statement of a senior officer or representative of the Participant certifying that the conditions set forth in the applicable aggregation exemption provision have been met.

An aggregation exemption from Exchange position limits under the provisions of Commission Regulation 150.4(b)(1)(ii), (b)(2), (b)(3), (b)(4) or (b)(7) shall not become effective unless and until an Aggregation Exemption Request has been filed with and approved by the Exchange.

Upon request by the Exchange, any Participant seeking an aggregation exemption or has received an aggregation exemption shall provide any requested information to the Exchange in order to demonstrate that the Participant meets or continues to meet the requirements of the exemption.

In the event of a material change to the information provided in an Aggregation Exemption Request, an updated or amended Aggregation Exemption Request detailing the material change shall promptly be filed with the Exchange in a form and manner prescribed by the Exchange.

The Exchange, in its sole discretion, may determine not to grant or to amend, suspend, terminate or otherwise modify an aggregation exemption in the interest of market integrity.

(c) “Accountability ~~l~~Level(s)” are position levels which, if exceeded, may trigger enhanced reporting obligations by the Member and/or Participant of the Exchange exceeding such levels.

Position accountability levels may be exceeded without an exemption and will not be deemed a per se violation of this paragraph. ~~Market P~~Participants who hold a position in excess of an accountability level may be subject to a position accountability review and asked by the Regulatory Department to provide information regarding the trading strategy, hedging strategy and/or purpose underlying the position. In addition, Exchange

rules provide that a ~~market P~~participant holding or controlling a position in excess of a position accountability level automatically consents to not increase further and to decrease such positions when so ordered by the Regulatory Department. Generally, a ~~market P~~participant will be contacted ~~by the Regulatory Department~~ to obtain information about the position before such instructions are issued.

- (d) “Position limit(s)” are position levels that may not be exceeded on an intraday or end-of-day basis unless an exemption has been obtained from the Regulatory Department. If a position limit is exceeded without a valid exemption in place, such conduct shall be considered a violation of this Rule.
- (e) Exemptions from Position Limits. A Person seeking an exemption from position limits must apply to the Regulatory Department for such an exemption on forms provided by the Exchange. In order to obtain an exemption from position limits, a Person must:
 - (i) If seeking a qualified bona fide hedge transaction, provide a written representation that such transaction or position satisfies the requirements of Commission Regulation 1.3(z), with a written description of how the transaction would satisfy the requirements of Commission Regulation 1.3(z);
 - (ii) If seeking an exemption other than a bona-fide hedge, provide a written description of the exemption sought, including whether the exemption is for risk management positions and/or arbitrage/spread positions;
 - (iii) Provide a complete and accurate written explanation of the underlying exposure related to the exemption request;
 - (iv) Agree to promptly provide, upon request by the Regulatory Department, information or documentation regarding the Pparticipant’s financial condition;
 - (v) Agree to comply with all terms, conditions or limitations imposed by the Regulatory Department with respect to the exemption;
 - (vi) Agree to initiate and liquidate positions in an orderly manner;
 - (vii) Agree to promptly submit a supplemental written statement to the Regulatory Department whenever there is a material change to the information provided in the most recent application;
 - (viii) Agree that the Regulatory Department may, at any time, modify or revoke the exemption;

- (ix) Provide a written representation that the bona fide hedge, risk management, arbitrage or spread transaction will not be used in an attempt to violate or avoid any Rule of the Exchange; and
- (x) Provide a written representation that such Person has complied with all applicable Commission regulations relating to bona fide hedging, risk management, arbitrage or spread transactions.

A Person intending to exceed position limits, including limits established pursuant to a previously approved exemption, must file the required application and receive approval from the Regulatory Department prior to exceeding such limits.

The Regulatory Department shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Regulatory Department may approve, deny, condition or limit any exemption request based on factors deemed by the Regulatory Department to be relevant, including, but not limited to, the applicant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner given characteristics of the market for which the exemption is sought.

Nothing in this rule shall in any way limit the authority of the Exchange to take emergency action; or the authority of the Regulatory Department to review at any time the positions owned or controlled by any Person and to direct that such position be reduced to the position limit.

A Person who has received written authorization from the Regulatory Department to exceed position limits must annually file an updated application not later than one year following the approval date of the most recent application. Failure to file an updated application will result in the expiration of the exemption.

- (f) Risk Management Positions. The Regulatory Department may grant exemptions from the position limits for risk management positions. For the purposes of this rule, risk management positions are defined as Futures and Options positions which are held by or on behalf of an entity or an Affiliate of an entity which typically buys, sells or holds positions in the underlying cash market, a related cash market, or a related over-the-counter market and for which the underlying market has a high degree of demonstrated liquidity relative to the size of the positions and where there exist opportunities for arbitrage which provide a close linkage between the Futures or Options market and the underlying market in question.

- (g) Arbitrage and Spread Positions. The Regulatory Department may grant exemptions from the position limits for arbitrage, intra-commodity spread, inter-commodity spread, and eligible Option/Option or Option/Futures spread positions.
- (h) Position Limit Violations. No Person shall own or control, separately or in combination, a net long position or a net short position in a Contract in excess of any position limit established by the Exchange and as designated for a Contract. Any positions, including positions established intraday, in excess of those permitted under the rules of the Exchange, shall be deemed position limit violations.

If a position exceeds the applicable position limits as a result of an Option assignment, the Person who owns or controls such position shall be allowed one (1) Business Day to liquidate the excess position without being considered in violation of such the limits. Additionally, if, at the close of trading, a position that includes Options exceeds the applicable position limits when evaluated using the Futures-Equivalent delta factors as of that Business day's close of trading, but does not exceed the limits when evaluated using the previous Business day's Futures-Equivalent delta factors, then such the position shall not constitute a position limit violation.

A Person ~~customer~~ who exceeds the position limits as a result of maintaining positions at more than one (1) Clearing Member shall be deemed to have waived confidentiality regarding its positions and the identity of the Clearing Members at which such positions are maintained. A Clearing Member carrying such positions shall not be in Violation of this Rule if, upon notification by the Regulatory Department, it liquidates its pro-rata share of the position in excess of the limits or otherwise ensures that its Customer is in compliance with the limits within a reasonable period of time as determined by the Regulatory Department.

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Rule 523. Reports of Large Positions and Ownership and Control Reporting

- (a) Large Trader Reporting
 - (i) Clearing and/or Corporate Members shall submit to the Exchange a daily report of all aggregate positions required to be reported as set forth in this Chapter. Large trader reporting requirements will be posted to the Exchange website.
 - (ii) All Large trader reports, including intermediated trades, shall be submitted in a form acceptable to the Exchange. The Exchange may require that more than

one (1) Large ~~t~~Trader ~~r~~Report be submitted daily. The Regulatory Oversight Committee or the Exchange may require reports from any Clearing and/or Corporate Members on a lesser number of positions than reflected ~~in the Table in~~ Rule 522.

(b) Ownership and Control Reporting

- (i) Clearing and/or Corporate Members must provide the Regulatory Department of the Exchange with the required CFTC Form 102A and/or Form 102B identifying the owner, any controlling parties and any additional required information for each reportable Account. A reportable Account for the purposes of this Rule is an Account at or above the ~~r~~Reportable Futures ~~l~~Level, as set forth ~~in the Table referenced in~~ Rule 522.
- (ii) The applicable Form 102A and/or Form 102B must be submitted to the Regulatory Department no later than 9:00AM CT on the Business Day following the date on which the Account becomes reportable. Additionally, Clearing and/or Corporate Members must submit a revised form reflecting any material changes to the information previously provided to the Regulatory Department within three (3) Business Days of such changes becoming effective. In the absence of any material changes, the Exchange may require electronic submission of a new Form 102A and/or Form 102B on an annual basis for the maintenance of accurate records.

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Notwithstanding the provisions of this paragraph, any Person that, by power of attorney or otherwise, holds or controls the trading of positions in more than one account or pool with substantially the exact same trading strategies, must aggregate all such positions with all other positions held and trading done by that Participant and the positions held in accounts which the Participant must aggregate in keeping with the provisions of this paragraph.

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