

January 28, 2014

**Submitted via CFTC Portal**

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

Re: *tpSEF Inc. – Regulation 40.2 Certification of CDS - ABX Indices (Broad Based) Contracts*

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Ladies and Gentlemen:

tpSEF Inc. (“tpSEF”) hereby notifies the Commodity Futures Trading Commission (the “Commission”) of its intent to list CDS - ABX Indices (Broad Based) Contracts (the “Contracts”) on its swap execution facility. tpSEF intends to list these Contracts on January 30, 2014.

Pursuant to Commission Regulation 40.2, this submission includes:

- i. A copy of the submission cover sheet in accordance with the instructions in Appendix D to Part 40 of the Commission’s regulations, attached as Exhibit A;
- ii. The intended listing date – January 30, 2014;
- iii. A certification by tpSEF that: (a) the Contracts comply with the Commodity Exchange Act, as amended, and the Commission regulations thereunder; and (b) concurrent with this submission, tpSEF posted on its website: (i) a notice of pending certification of the Contracts and (ii) a copy of this submission, attached as Exhibit B;
- iv. The Contracts’ terms and conditions, attached as Exhibit C; and
- v. An explanation and analysis of the Contracts’ compliance with applicable core principles and Commission regulations, attached as Exhibit D.

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Questions regarding this submission should be directed to Brian Donnelly, Chief Compliance Officer, at (201) 984-6956 or by email at [bddonnelly@tullettprebon.com](mailto:bddonnelly@tullettprebon.com), or to Mark Campbell, Chief Operating Officer, at (201) 557-5786 or by email at [mcampbell@tullettprebon.com](mailto:mcampbell@tullettprebon.com).

Very truly yours,

A handwritten signature in black ink, appearing to be 'Mark Campbell', written over the closing text.

Mark Campbell

cc without enclosures:

Division of Market Oversight (Email: [dmosubmissions@cftc.gov](mailto:dmosubmissions@cftc.gov))  
David Van Wagner (Email: [dvanwagner@cftc.gov](mailto:dvanwagner@cftc.gov))  
Nancy Markowitz (Email: [nmarkowitz@cftc.gov](mailto:nmarkowitz@cftc.gov))  
Aaron Brodsky (Email: [abrodsky@cftc.gov](mailto:abrodsky@cftc.gov))  
Swati Shah (Email: [sshah@cftc.gov](mailto:sshah@cftc.gov))  
Brian Donnelly (Email: [bddonnelly@tullettprebon.com](mailto:bddonnelly@tullettprebon.com))

**EXHIBIT A**

**SUBMISSION COVER SHEET**

**Registered Entity Identifier Code** (optional)

**Date:** January 28, 2014

**IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**

**ORGANIZATION** | tpSEF Inc.

**FILING AS A:**  DCM  SEF  DCO  SDR  ECM/SPDC

**TYPE OF FILING**

• **Rules and Rule Amendments**

- Certification under § 40.6 (a) or § 41.24 (a)
- “Non-Material Agricultural Rule Change” under § 40.4 (b)(5)
- Notification under § 40.6 (d)
- Request for Approval under § 40.4 (a) or § 40.5 (a)
- Advance Notice of SIDCO Rule Change under § 40.10 (a)

• **Products**

- Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
- Swap Class Certification under § 40.2 (d)
- Request for Approval under § 40.3 (a)
- Novel Derivative Product Notification under § 40.12 (a)

**RULE NUMBERS**

Not applicable; the terms and conditions of “CDS - ABX Indices (Broad Based) Contracts” are attached as Exhibit C.

**DESCRIPTION**

This submission contains a self-certification by tpSEF Inc. of CDS - ABX Indices (Broad Based) Contracts.

**EXHIBIT B**

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

tpSEF Inc. ("tpSEF") hereby certifies that: (i) CDS - ABX Indices (Broad Based) Contracts (the "Contracts") comply with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and the Commodity Futures Trading Commission (the "Commission") regulations thereunder; and (ii) concurrent with this submission, tpSEF posted on its website: (a) a notice of pending certification of the Contracts with the Commission and (b) a copy of this submission.

TPSEF INC.

By:  \_\_\_\_\_

Name: Mark Campbell

Title: Chief Operating Officer

Date: January 28, 2014

**EXHIBIT C**

**Terms and Conditions**

Summary:	This covers credit default swaps on broad-based ABX indices (“CDS - ABX Indices (Broad Based) Contracts”).
Limitations on Available Selections and Default Settings:	The terms under which CDS - ABX Indices (Broad Based) Contracts may be traded are shown below or in the attached table(s) or the Relevant Annexes promulgated by the index sponsor and referenced below or in the attached table(s), as such Relevant Annexes may be amended from time to time by the Index Sponsor.  <b>NO ABX INDEX WILL BE TRADED ON THE SEF ONCE IT HAS CEASED TO BE A BROAD BASED INDEX UNDER CFTC REGULATIONS.</b>
Incorporated Standards:	This contract description incorporates by reference the following industry standard documentation and standards:  (a) 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the “Credit Derivatives Definitions”), NOT including supplements thereto; and  (b) the ABX Transactions Standard Terms Supplement, as published by CDS IndexCo LLC on July 19, 2006 (the “ABX Standard Terms”).
<b>Product Type/ISDA OTC Taxonomy:</b>	
ISDA OTC Asset Class:	Credit
ISDA OTC Base Product:	Index
ISDA OTC Sub-Product:	ABX
ISDA OTC Transaction type:	ABX.HE
Further Limitations:	None
<b>Terms:</b>	
Index:	The ABX Index selected by the parties from among the Available ABX Indices.  <b>NO ABX INDEX WILL BE TRADED ON THE SEF ONCE IT HAS CEASED TO BE A BROAD BASED INDEX UNDER CFTC REGULATIONS.</b>
Annex Date:	As specified for the applicable Index on the list of Available ABX Indices.
Trade Date:	As agreed by the parties.
Effective Date:	The Trade Date (unless otherwise specified by the parties).
Scheduled Termination Date:	The “Legal Final Maturity Date of the Index” specified in the Relevant Annex.
Floating Rate Payer:	As specified by the parties.
Fixed Rate Payer:	As specified by the parties.
Aggregate Floating Rate Payer Calculation Amount:	An amount in USD specified by the parties.

Fixed Rate:	A number of basis points equal to the “Applicable Coupon” as specified for the applicable Index on the Relevant Annex.
Initial Payment Payer:	As selected by the parties.
Initial Payment Amount:	As specified by the parties. Notwithstanding anything to the contrary contained in the ABX Standard Terms, the Initial Payment Amount shall be paid by the Initial Payment Payer on the date that is three Business Days following the Trade Date, unless otherwise specified by the parties.

Available ABX Indices for CDS - ABX Indices (Broad Based) Contracts

Index	Relevant Annex
ABX.HE.A.06-1	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.A.06-1.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.A.06-1.pdf</a>
ABX.HE.AA.06-1	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AA.06-1.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AA.06-1.pdf</a>
ABX.HE.AAA.06-1	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.06-1.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.06-1.pdf</a>
ABX.HE.AA.06-2	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AA.06-2.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AA.06-2.pdf</a>
ABX.HE.AAA.06-2	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.06-2.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.06-2.pdf</a>
ABX.HE.AAA.07-1	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.07-1.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.07-1.pdf</a>
ABX.HE.AAA.07-2	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.07-2.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.AAA.07-2.pdf</a>
ABX.HE.PENAAA.06-2	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.06-2.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.06-2.pdf</a>
ABX.HE.PENAAA.07-1	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.07-1.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.07-1.pdf</a>
ABX.HE.PENAAA.07-2	<a href="http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.07-2.pdf">http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/ABX.HE.PENAAA.07-2.pdf</a>

**NO ABX INDEX WILL BE TRADED ON THE SEF ONCE IT HAS CEASED TO BE A BROAD BASED INDEX UNDER CFTC REGULATIONS.**

## **EXHIBIT D**

### **EXPLANATION AND ANALYSIS OF THE CONTRACTS' COMPLIANCE WITH APPLICABLE CORE PRINCIPLES AND COMMISSION REGULATIONS**

As required by Commodity Futures Trading Commission ("Commission") Regulation 40.2(a), the following analysis, in narrative form, demonstrates that CDS - ABX Indices (Broad Based) Contracts (the "Contracts") are consistent with the requirements of the Commodity Exchange Act, as amended (the "Act"), and the Commission regulations and guidance thereunder (in particular, Appendix B to Part 37 and Appendix C to Part 38).

#### **Appendix B to Part 37—Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

##### **CORE PRINCIPLE 3 OF SECTION 5H OF THE ACT—SWAPS NOT READILY SUSCEPTIBLE TO MANIPULATION; CORE PRINCIPLE 4 OF SECTION 5H OF THE ACT—MONITORING OF TRADING AND TRADE PROCESSING**

**The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.**

#### ***(a) Guidance.***

**(1) In general, a swap contract is an agreement to exchange a series of cash flows over a period of time based on some reference price, which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. Moreover, such a reference price may be reported by the swap execution facility itself or by an independent third party. When listing a swap for trading, a swap execution facility shall ensure a swap's compliance with Core Principle 3, paying special attention to the reference price used to determine the cash flow exchanges. Specifically, Core Principle 3 requires that the reference price used by a swap not be readily susceptible to manipulation. As a result, when identifying a reference price, a swap execution facility should either: Calculate its own reference price using suitable and well-established acceptable methods or carefully select a reliable third-party index.**

**(2) The importance of the reference price's suitability for a given swap is similar to that of the final settlement price for a cash-settled futures contract. If the final settlement price is manipulated, then the futures contract does not serve its intended price discovery and risk management functions. Similarly, inappropriate reference prices cause the cash flows between the buyer and seller to differ from the proper amounts, thus benefitting one party and disadvantaging the other. Thus, careful consideration should be given to the potential for manipulation or distortion of the reference price.**

#### ***Reference Indices***

The reference index used to determine the exchange of cash flows for the Contract is one of the series of Markit Group Limited's ("Markit's") "ABX.HE Index" (the "ABX Index"). This well-established index is a synthetic tradable index referencing a basket of subprime mortgage-backed securities. The ABX Index is based on a comprehensive, well-established and transparent rules that outline, among other things, the selection of index constituents ("Reference Entities"), the selection of the constituents' loans



or bonds (“Reference Obligations”), and the removal/addition of entities to the index. The ABX Index is widely accepted by market participants as a reliable index.

***Reference Index is Not Readily Susceptible to Manipulation***

The ABX Index is not readily susceptible to manipulation. First, as noted above, it is a broad index containing a basket of subprime mortgage-backed securities. Second, as noted above, the development and management of the ABX Index is rules-based, therefore making it difficult for individuals or entities to change selection practices for purposes of manipulation.

***Contracts are Not Readily Susceptible to Manipulation***

The Contracts are not susceptible to manipulation for a number of reasons. ABX Index is a widely used benchmark rate in the relevant market space. The basket, and each component, is required to meet the definition of broad-based index (or, more precisely, avoid complying with the statutory definition of narrow-based index). That definition contains provisions that protect from manipulation by requiring at least a certain level of available information. Finally, tpSEF Inc. (“tpSEF”) has a robust market surveillance program that is effectively able to surveil this market, detect uncommon activity, and investigate any such activity for signs of manipulation. tpSEF staff conduct real-time market surveillance and the National Futures Association (“NFA”) provides regulatory services on a T+1 basis. NFA’s services include comprehensive trade practice and market surveillance services (the scope of which can be found in the Regulatory Services Agreement between NFA and tpSEF submitted to the Commission as part of tpSEF’s swap execution facility application) (note that the foregoing also demonstrates compliance with Core Principle 4).

**(3) For swaps that are settled by physical delivery or by cash settlement refer to the guidance in Appendix C to Part 38 of this chapter—Demonstration of Compliance that a Contract is not Readily Susceptible to Manipulation, section b(2) and section c(4), respectively.**

Please see below.

**Appendix C to Part 38—Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

**(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index’s calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).**

***Essential Economic Characteristics of the Contract Terms***

The terms and conditions of the Contract match the terms of credit default swaps on broad-based ABX Indices commonly offered in the market and are specified in Exhibit C.

### *Calculation of Cash Settlement Price*

The cash settlement price will be calculated based on credit losses on the underlying asset-backed securities (PAUG/pay-as-you-go).

**(2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity. The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.**

The Contracts operate in a market with numerous participants. Also, the cash settlement price is not easily susceptible to manipulation or distortion as the method of determining the price is based on losses on many separate mortgage loans underlying many separate transactions, which information is collected and collated by third-party servicers and trustees and by Markit. In addition, the ABX Index, the reference rate, is widely accepted by market participants.

**(3) Where an independent, private-sector third party calculates the cash settlement price series, a designated contract market should consider the need for a licensing agreement that will ensure the designated contract market's rights to the use of the price series to settle the listed contract.**

**(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.**

As described above, the cash settlement price is calculated through a cash settlement method that is not easily susceptible to manipulation.

**(ii) Where a designated contract market itself generates the cash settlement price series, the designated contract market should establish calculation procedures that safeguard against potential attempts to artificially influence the price. For example, if the cash settlement price is derived by the designated contract market based on a survey of cash market sources, the designated contract market should maintain a list of such entities which all should be reputable sources with knowledge of the cash market. In addition, the sample of sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.**

Please see above regarding the calculation of the cash settlement price.

**(iii) The cash-settlement calculation should involve computational procedures that eliminate or reduce the impact of potentially unrepresentative data.**

**(iv) The cash settlement price should be an accurate and reliable indicator of prices in the underlying cash market. The cash settlement price also should be acceptable to commercial users of the commodity contract. The registered entity should fully document that the settlement price is accurate, reliable, highly regarded by industry/market agents, and fully reflects the economic and commercial conditions of the relevant designated contract market.**

Please see above regarding the calculation of the cash settlement price.

**(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information that is appropriate for release to the public, available to the public when cash settlement is accomplished by the derivatives clearing organization. If the cash settlement price is based on cash prices that are obtained from non-public sources (e.g., cash market surveys conducted by the designated contract market or by third parties on behalf of the designated contract market), a designated contract market should make available to the public as soon as possible after a contract month's expiration the final cash settlement price as well as any other supporting information that is appropriate or feasible to make available to the public.**

Please see above regarding the calculation of the cash settlement price.

**(4) Contract terms and conditions requirements for futures contracts settled by cash settlement.**

**(i) An acceptable specification of the terms and conditions of a cash-settled commodity contract will also set forth the trading months, last trading day, contract size, minimum price change (tick size) and daily price limits, if any.**

Please see Exhibit C for the Contracts' terms and conditions.

**(A) *Commodity Characteristics*: The terms and conditions of a commodity contract should describe the commodity underlying the contract.**

The reference rate is included in the Contracts' terms and conditions. As noted above, the ABX Index is widely used in the market.

**(B) *Contract Size and Trading Unit:*** An acceptable specification of the trading unit would be a contract size that is consistent with customary transactions in the cash market. A designated contract market may opt to set the contract size smaller than that of standard cash market transactions.

The size of the Contracts are consistent with customary transaction sizes in the market.

**(C) *Cash Settlement Procedure:*** The cash settlement price should be reliable, acceptable, publicly available, and reported in a timely manner as described in paragraphs (c)(3)(iv) and (c)(3)(v) of this appendix C.

The cash settlement procedure and an explanation of how, in the context of these Contracts, it is not readily susceptible to manipulation, is described above.

**(D) *Pricing Basis and Minimum Price Fluctuation (Minimum Tick):*** The minimum price increment (tick) should be set a level that is equal to, or less than, the minimum price increment commonly observed in cash market transactions for the underlying commodity. Specifying a futures' minimum tick that is greater than the minimum price increment in the cash market can undermine the risk management utility of the futures contract by preventing hedgers from efficiently establishing and liquidating futures positions that are used to hedge anticipated cash market transactions or cash market positions.

As agreed between counterparties.

**(E) *Maximum Price Fluctuation Limits:*** Designated contract markets may adopt price limits to: (1) Reduce or constrain price movements in a trading day that may not be reflective of true market conditions but might be caused by traders overreacting to news; (2) Allow additional time for the collection of margins in times of large price movements; and (3) Provide a "cooling-off" period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price-limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract. For broad-based stock index futures contracts, rules should be adopted that coordinate with New York Stock Exchange ("NYSE") declared Circuit Breaker Trading Halts (or other market coordinated Circuit Breaker mechanism) and would recommence trading in the futures contract only after trading in the majority of the stocks underlying the index has recommenced.

As agreed between counterparties.

**(F) *Last Trading Day:*** Specification of the last trading day for expiring contracts should be established such that it occurs before publication of the underlying third-party price index or determination of the final settlement price. If the designated contract market chooses to allow trading to occur through the determination of the final settlement price, then the designated contract market should show that futures trading would not distort the final settlement price calculation.

The last trading day will be the maturity date of each contract, which is set by the individual counterparties.

**(G) *Trading Months*:** Trading months should be established based on the risk management needs of commercial entities as well as the availability of price and other data needed to calculate the cash settlement price in the specified months. Specification of the last trading day should take into consideration whether the volume of transactions underlying the cash settlement price would be unduly limited by occurrence of holidays or traditional holiday periods in the cash market. Moreover, a contract should not be listed past the date for which the designated contract market has access to use a proprietary price index for cash settlement.

Payments are settled on the termination date agreed by the parties.

**(H) *Speculative Limits*:** Specific rules and policies for speculative position limits are set forth in part 150 and/or part 151, as applicable, of the Commission's regulations.

tpSEF will comply with Parts 150 and 151 of the Commission's regulations.

**(I) *Reportable Levels*:** Refer to § 15.03 of the Commission's regulations.

tpSEF will adhere to the applicable reporting levels set forth in § 15.03 of the Commission's regulations.

**(J) *Trading Hours*:** Should be set by the designated contract market to delineate each trading day.

The Contracts are traded twenty-three hours a day from Sunday to Friday Eastern Time. The Contracts are not traded between 5:30 p.m. and 6:30 p.m. Eastern Time.