November 13, 2013

<u>Submitted via CFTC Portal</u>

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: *<u>tpSEF Inc. – Regulation 40.2 Certification of Non-Deliverable Vanilla American or European Style Foreign Exchange Options</u>*

Ladies and Gentlemen:

tpSEF Inc. ("tpSEF") herby notifies the Commodity Futures Trading Commission (the "Commission") of its intent to list Non-Deliverable Vanilla American or European Style Foreign Exchange Options (the "Contracts") on its swap execution facility. tpSEF intends to list these Contracts on November 15, 2013.

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 <u>Exhibit A</u>;

ii. The intended listing date – November 15, 2013;

iii. A certification by tpSEF that: (a) the Contracts comply with the Commodity Exchange Act, as amended (the "Act"), 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 <u>Exhibit B</u>;

iv. The Contracts' terms and conditions, attached as <u>Exhibit C</u>; and

v. An explanation and analysis of the Contracts' compliance with applicable core principles and Commission regulations, attached as <u>Exhibit D</u>.

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

Very truly yours,

Mark Campbell

cc without enclosures:

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

EXHIBIT A

SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) **Date**: November 13, 2013

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 "Non-Deliverable Vanilla American or European Style Foreign Exchange Options" are attached as Exhibit C.

DESCRIPTION

This submission contains a self-certification by tpSEF Inc. of Non-Deliverable Vanilla American or European Style Foreign Exchange Options.

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) Non-Deliverable Vanilla American or European Style Foreign Exchange Options (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: November 13, 2013

EXHIBIT C

Terms and Conditions

Summary:	This covers non-deliverable vanilla American or European style foreign exchange options.
Limitations on Available Selections and Default Settings:	The terms under which a Non-Deliverable Vanilla American or European Style Foreign Exchange Option may be traded are as specified in these terms and conditions and in the attached tables. For amounts or rates, the relevant term cannot be less than the specified Minimum, must represent an even Increment and cannot exceed the Maximum; for a date, the date cannot be earlier than Earliest nor later than Latest. For Business Days, the defaults shall be the locations specified for the relevant currency, any additional locations specified for the relevant Floating Rate Options. The parties may add additional locations from the Available Locations and may eliminate some or all of the other locations, so long as there is at least one location in which payment may be made. For these purposes “TARGET”/EUTA is considered a location. In many cases there are normal “vanilla” terms on which the parties will transact. These are shown as “Default ” and will apply unless the parties vary them. It should be noted that these contracts can be traded in a variety of currencies. Since each national market has its own peculiarities, the “Available Terms” and/or “Default Terms” may vary by currency. In some cases, the same contract might have different terms depending on the market in which it is traded (e.g., London versus NY). In that case the default settings may vary by market.
Incorporated Standards:	This contract description incorporates by reference the following industry standard documentation and standards: (a) the 1998 FX and Currency Option Definitions and 2005 Amendment and Annex A and supplements (b) ISDA OTC Taxonomies (c) FpML Location Codes For convenience, certain terms are mapped to their FpML 5.5 equivalent. For purposes of this description, the term COP means the lawful currency of the Republic of Columbia
Product Type/ISDA OTC Taxonomy:	
ISDA OTC Asset Class:	Foreign Exchange

ISDA OTC Base Product:	Foreign Exchange
ISDA OTC Sub-Product:	Vanilla Option
Further Limitations:	None
FpML Schema:	“confirmation.fxOption”
Terms:	
Trade Date:	The date the transaction is agreed between and becomes legally binding on the parties.
Commencement Date (“americanExercise.commencementDate”):	As specified by the parties. This applies only where the Option Style is American.
Buyer (“buyerPartyReference”):	As specified by the parties.
Seller (“sellerPartyReference”):	As specified by the parties.
Currency Option Style:	As specified by the parties.
Currency Option Type:	A Call with respect to the Call Currency and a Put with respect to the Put Currency.
Call Currency (“callCurrencyAmount”):	The currency and amount as specified by the parties, or, if not so specified, derived from the Put Currency Amount and Strike Price. The Put Currency and Call Currency must represent a traded pair as shown on the attached list of currencies.
Put Currency (“putCurrencyAmount”):	The currency and amount as specified by the parties, or, if not so specified, derived from the Call Currency Amount and Strike Price.
Strike Price (“strikePrice”):	As specified by the parties (if only one of the Put Currency or Call Currency is specified). If no Strike Price is specified and Automatic Exercise is applicable, the Strike Price will be calculated using the Put Currency and Call Currency in order to determine if the Option is to be automatically exercised.
Reference Currency:	As specified by the parties.
Settlement Currency:	As specified by the parties.
Settlement Rate:	As specified by the parties, if no Settlement Rate Option is specified.
Settlement Rate Option:	As specified by the parties from among the Available Settlement Rate Options if the Settlement Currency is USD.
Expiration Date (“expiryDate”):	As specified by the parties.
Latest Exercise Time:	As specified by the parties. This applies only where the Option Style is American.
Expiration Time (“americanExercise.expiryTime” or “europeanExercise.expiryTime”):	The time in the location specified by the parities.
Automatic Exercise:	As specified by the parties.
Settlement Date:	As specified by the parties
Valuation Date:	As specified by the parties.
Averaging Dates:	As specified by the parties
Premium (“premium”)	As specified by the parties.
Premium Payment Date:	As specified by the parties.
Calculation Agent:	As specified by the parties.
Business Days for Premium Payment Date:	As specified by the parties.
Business Days for Settlement Date:	As specified by the parties.
Business Days for Exercise Date	For American Options, as specified by the parties.
Business Days for Expiration Date:	As specified by the parties.
Business Days (General):	As specified by the parties.
Business Day Convention for Premium Payment Date:	As specified by the parties.

Business Day Convention for Expiration Date:	As specified by the parties.
Business Day Convention for Settlement Date:	As specified by the parties.
Event Currency:	As specified by the parties if any Disruption Events are applicable.
Disruption Events:	As specified by the parties.
Disruption Fallbacks:	As specified by the parties for each Disruption Event applicable.

FX Non-Deliverable Vanilla Option Available Currencies and Principal Financial Centers

Three Letter Currency Code (ISDA/ISO)	Currency Name (ISDA)	Principal Financial Centers for Currency (FpML Codes)
ARS	Argentine Peso	ARBA
BRL	Brazilian Real	BRBR, BRRJ or BRSP
CLP	Chilean Peso	CLSA
CNY	Chinese Renminbi	CNBE
COP	Colombian Peso	COBO
EGP	Egyptian Pound	EGCA
EUR	Euro	EUTA
IDR	Indonesian Rupiah	IDJA
INR	Indian Rupee	INMU
KRW	Korean Won	KRSE
KZT	Kazakhstan Tenge	KZAL
MYR	Malaysian Ringgit	MYKL
PEN	Peruvian Nuevo Sol	PELI
PHP	Philippine Peso	PHMA
RUB	Russian Ruble	RUMO
TWD	Taiwanese Dollar	TWTA
USD	United States Dollar	USNY
VEB	Venezuelan Bolivar	VECA
VND	Vietnamese Dong	VNHA

The Minimum Amount for any currency pair is 5,000,000 of the Call Currency with an Increment of 5,000,000 of the Call Currency

FX Non-Deliverable Vanilla Option Available Settlement Rate Options

ARS	ARS01 ARS BNAR
ARS	ARS02 ARS OFFICIAL RATE
ARS	ARS03 CME/EMTA ARS INDUSTRY SURVEY RATE
ARS	ARS03 EMTA ARS INDUSTRY SURVEY RATE
ARS	ARS04 EMTA ARS INDICATIVE INDUSTRY SURVEY RATE
BRL	BRL01 BRL BRBY
BRL	BRL02 BRL OFFICIAL RATE
BRL	BRL03 BRL PCOT
BRL	BRL09 BRL PTAX
BRL	BRL10 BRL PTAX BRFR
BRL	BRL11 BRL INDUSTRY SURVEY RATE
BRL	BRL12 EMTA BRL INDUSTRY SURVEY RATE
BRL	BRL13 EMTA BRL INDICATIVE SURVEY RATE
CLP	CLP01 BCCCHILG

CLP	CLP02 CLP INFORMAL
CLP	CLP03 CLP INTERBANK
CLP	CLP04 CLP OBSERVADO
CLP	CLP08 CLP OFFICIAL RATE
CLP	CLP09 CLP TELERATE 38942
CLP	CLP10 CLP DOLAR OBS
CLP	CLP11 EMTA CLP INDICATIVE SURVEY RATE
CNY	CNY01 CNY SAED
CNY	CNY02 SFEMC CNY INDICATIVE SURVEY RATE
COP	COP01 COP CO/COL03
COP	COP02 COP TRM
COP	COP03 COP INDICATIVE SURVEY RATE
EGP	EGP01 EGP FEMF
EGP	EGP02 EMTA EGP INDICATIVE SURVEY RATE
IDR	IDR01 IDR ABS
IDR	IDR02 SFEMC INDICATIVE SURVEY RATE
IDR	IDR03 IDR VWAP
INR	INR01 INR RBIB
INR	INR02 SFEMC INR INDICATIVE SURVEY RATE
KRW	KRW02 KRW KFTC18
KRW	KRW03 KRW TELERATE 45644
KRW	KRW04 SFEMC KRW INDICATIVE SURVEY RATE
KZT	KZT01 KZT KASE
KZT	KZT 02 EMTA KZT INDICATIVE SURVEY RATE
MYR	MYR01 MYR ABS
MYR	MYR02 SFEMC MYR INDICATIVE SURVEY RATE
MYR	MYR03 MYR PPKM
PEN	PEN01 PEN PDSB
PEN	PEN02 PEN PDSC
PEN	PEN03 PEN WT AVE
PEN	PEN04 EMTA PEN INDICATIVE SURVEY RATE
PEN	PEN05 PEN INTERBANK AVE
PHP	PHP01 PHPESO
PHP	PHP02 PHP TELERATE 2920
PHP	PHP03 PHP TELERATE 15439
PHP	PHP04 PHPES01
PHP	PHP05 SFEMC PHP INDICATIVE SURVEY RATE
PHP	PHP06 PHP PDSPESO
RUB	RUB01 RUB MICEXFRX
RUB	RUB02 RUB MMVB
RUB	RUB03 RUB CME-EMTA
RUB	RUB04 EMTA RUB INDICATIVE SURVEY RATE
TWD	TWD01 TWD TELERATE 6161
TWD	TWD02 TWD TFEMA
TWD	TWD03 TWD TAIFIX1
TWD	TWD04 SFEMC
VEB	VEF01 VEF FIX
VND	VND01 VND ABS
VND	VND02 VND FX
VND	VND03 SFEMC VND INDICATIVE SURVEY RATE

FX Non-Deliverable Vanilla Option Requirements and Defaults

Variable	Requirement	Default
Commencement Date	American Style ONLY	Trade Date
Latest Exercise Time	American Style ONLY	Same as Expiration Time
Automatic Exercise		Applicable
Business Days for Premium Payment Date	At least one of the specified locations must be able to settle relevant Currency	Principal Financial Center for Currency of Premium
Business Days for Settlement Dates:	The specified locations must at least be able to settle each Currency in the Currency Pair	Principal Financial Center for each Currency of the Currency Pair
Business Days for Exercise Date	Location of Seller	Location of Seller
Business Days for Expiration Dates:	If Automatic Exercise does not apply, location of Seller If Automatic Exercise does apply, trading day for each Currency of Currency Pair	Location of Seller and trading day for each Currency of Currency Pair
Business Day Convention for Premium Payment Date:	Cannot result in payment due prior to Trade Date	Following
Business Day Convention for Expiration Date:		Following
Business Day Convention for Settlement Date	Cannot result in payment due prior to Exercise Date	Following
Disruption Events:		Price Source Disruption **ONLY**
Disruption Fallbacks:	Required only if there are Disruption Events	For Price Source Disruption per the 1998 Definitions

FX Non-Deliverable Vanilla Available Option Styles

Style	Description	Default
American	Can be exercised on any Exercise Business Day from and including the Commencement Date to and including the Expiration Date	Yes
European	Can be exercised only on the Expiration Date	No

Available Business Day Conventions

ISDA Name
Following
Modified/Modified Following
Nearest
Preceding

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 Non-Deliverable Vanilla American or European Style Foreign Exchange Options (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

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.

As is typical of a non-deliverable vanilla foreign exchange ("F/X") option contracts, the owner has the right to receive the value of the in-the-money amount of the option in a liquid settlement currency. Non-deliverable options relate to vanilla deliverable options in the same way as non-deliverable forwards relate to deliverable forwards. The non-deliverable feature is a mechanism used to settle FX transactions where currency restrictions make delivery of the underlying currencies illegal or impracticable. All of the terms (e.g., strike price, currency, settlement date) are agreed upon by the parties at the start of the contract, and do not change throughout the life of the contract. The reference price is agreed by the parties at the outset from among the reference sources determined by ISDA and EMTA included in Annex A to the 1998 Definitions. These are broadly publicized and widely used rates.

(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.

<u>Appendix C to Part 38 - Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation</u>

(4) Options on Physicals Contracts.

(i) Under the Commission's regulations, the term "option on physicals" refers to option contracts that do not provide for exercise into an underlying futures contract. Upon exercise, options on physicals can be settled via physical delivery of the underlying commodity or by a cash payment. Thus, options on physicals raise many of the same issues associated with trading in futures contracts regarding adequacy of deliverable supplies or acceptability of the cash settlement price series. In this regard, an option that is cash settled based on the settlement price of a futures contract would be considered an "option on physicals" and the futures settlement price would be considered the cash price series.

(ii) In view of the above, acceptable practices for the terms and conditions of options on physicals contracts include, as appropriate, those practices set forth above for physical-delivery or cash-settled futures contracts plus the practices set forth for options on futures contracts.

As required by Appendix C, the following analysis with respect to the Contracts, which are options on physicals, sets forth those relevant sections of Appendix C that pertain to "cash settled contracts" and to "options on futures contracts."

(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 Contracts match the terms of non-deliverable vanilla F/X options that are commonly offered in the market and are listed in Exhibit C.

As indicated above, and as is common with non-deliverable vanilla F/X options, the Contracts have several flexible terms – for instance, counterparties are able to choose: (a) the trade date; (b) whether or not the option can be exercised at any time prior to the Expiration Date or only at the Expiration Date (i.e., American or European); (c) currency that will be used for the premium, notional, put/call and settlement; and (d) the strike price. The trading hours, however, are fixed for each contract – trading is available twenty-three hours a day, from Sunday to Friday.

Contract Not Readily Susceptible to Manipulation

The Contracts are not susceptible to manipulation for a number of reasons. First, all of the essential terms of the Contract are agreed upon at the start of the Contract and remain static throughout the life of the swap. Second, foreign currencies are standard and readily available, and are not to subject to variations in the patterns of production, consumption or supply. 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).

Calculation of Cash Settlement Price

The cash settlement price will be calculated as follows:
Where the settlement currency is the call currency:

$$\text{Call Currency Amount} \times \frac{\text{Settlement Rate} - \text{Strike Price}}{\text{Settlement Rate}}$$

Where the settlement currency is the put currency:

$$\text{Put Currency Amount} \times \frac{\text{Strike Price} - \text{Settlement Rate}}{\text{Settlement Rate}}$$

(in each case the strike price and settlement rate are quoted on a unit of reference currency per one unit of settlement currency).

This method of cash settlement is consistent with the customary practice of cash-settling non-deliverable vanilla F/X options in the market.

(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.

Foreign currency is an extremely liquid market. Accordingly, the Contract is not readily susceptible to manipulation.

(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.

The rates used are broadly disseminated rates which have been used for many years, many of which are published by governmental agencies rather than private actors.

(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. While there are common terms such as the trading hours, many of the terms are flexible. Nevertheless, the terms are all within commonly accepted market norms.

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

The terms and conditions of the Contract specifically list the currencies on which counterparties can choose to base the Contract.

(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 contract size is the notional amount, which, as is customary in the market, is agreed upon by the counterparties.

(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 settlement procedures for a particular Contract are determined by the counterparties. If the option is exercised, the option buyer receives the in-the-money amount of its option in the settlement currency agreed by the parties.

(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 the 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 the 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 of the Contract is the expiration date of the option, which is the last opportunity (and in the case of European options, the only opportunity) for the holder of the option to exercise it. The settlement date is set at an appropriate time to allow for the transfer of the in-the-money amount in the settlement currency if the option has been exercised.

(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.**

As noted above, an American option can be exercised any time up to and including the expiration date, while a European option can only be exercised at the expiration date of the option.

(H) Speculative Limits. Specific information regarding the establishment of 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.

(d) Options on a Futures Contract. (1) The Commission's experience with the oversight of trading in futures option contracts indicates that most of the terms and conditions associated with such trading do not raise any regulatory concerns or issues. The Commission has found that the following terms do not affect an option contract's susceptible to manipulation or its utility for risk management. Thus, the Commission believes that, in most cases, any specification of the following terms would be acceptable; the only requirement is that such terms be specified in an automatic and objective manner in the option contract's rules:

- **Exercise method;**
- **Exercise procedure (if positions in the underlying futures contract are established via book entry);**
- **Strike price listing provisions, including provisions for listing strike prices on a discretionary basis;**
- **Strike price intervals;**
- **Automatic exercise provisions;**
- **Contract size (unless not set equal to the size of the underlying futures contract); and**
- **Option minimum tick should be equal to or smaller than that of the underlying futures contract.**

Not applicable; this is not an option on a futures contract.

(2) Option Expiration & Last Trading Day. For options on futures contracts, specification of expiration dates should consider the relationship of the option expiration date to the delivery period for the underlying futures contract. In particular, an assessment should be made of liquidity in the underlying futures market to assure that any futures contracts acquired through exercise can be liquidated without adversely affecting the orderly

liquidation of futures positions or increasing the underlying futures contract's susceptibility to manipulation. When the underlying futures contract exhibits a very low trading activity during an expiring delivery month's final trading days or has a greater risk of price manipulation than other contracts, the last trading day and expiration day of the option should occur prior to the delivery period or the settlement date of the underlying future. For example, the last trading day and option expiration day might appropriately be established prior to first delivery notice day for option contracts with underlying futures contracts that have very limited deliverable supplies. Similarly, if the futures contract underlying an option contract is cash settled using cash prices from a very limited number of underlying cash market transactions, the last trading and option expiration days for the option contract might appropriately be established prior to the last trading day for the futures contract.

Not applicable; this is not an option on a futures contract.

(3) Speculative Limits. In cases where the terms of an underlying futures contract specify a spot-month speculative position limit and the option contract expires during, or at the close of, the futures contract's delivery period, the option contract should include a spot-month speculative position limit provision that requires traders to combine their futures and option position and be subject to the limit established for the futures contract. 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.

None required.