

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 13-01

Date: September 30, 2013

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

## ORGANIZATION

Thomson Reuters (SEF) LLC

## 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)

Made Available To Trade Determination under § 40.5 or § 40.6

Advance Notice of SIDCO Rule Change under § 40.10 (a)

### • Products

Certification under § 40.2 (a) or § 41.23 (a)

Submission under § 39.5

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.

## DESCRIPTION

In accordance with Commodity Futures Trading Commission Regulation § 40.2(a), attached is a submission from Thomson Reuters (SEF) LLC for certification of a new product for trading – the "Non-Deliverable Forward contract."



THOMSON REUTERS

Thomson Reuters (SEF) LLC  
909 3rd Avenue, 10th Floor  
New York, NY 10022

September 30, 2013

**VIA EMAIL SUBMISSION: [submissions@cftc.gov](mailto:submissions@cftc.gov)**

Ms. Melissa Jurgens  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

Re: New Contract Submission 13-01: Rule 40.2(a) Certification of Thomson Reuters (SEF) LLC Non-Deliverable Forwards

Dear Ms. Jurgens:

Thomson Reuters (SEF) LLC (“TR SEF”) hereby notifies the Commodity Futures Trading Commission (“CFTC”) of its intent to list a Non-Deliverable Forward contract (the “Contract”) on TR SEF’s swap execution facility platform. TR SEF’s intended listing date is October 2, 2013.

Pursuant to CFTC Regulation 40.2, this submission includes:

- (i) A copy of the submission cover sheet;
- (ii) A copy of the Contract’s rules;
- (iii) The intended listing date (October 2, 2013);
- (iv) A certification that the Contract complies with the Commodity Exchange Act (“CEA”) and CFTC regulations thereunder (*see* Schedule 1);
- (v) A concise explanation and analysis of the Contract and its compliance with applicable provisions of the CEA, including Core Principles, and the CFTC’s regulations thereunder (*see* Schedule 2); and
- (vi) A certification that TR SEF posted a notice of pending certification with the CFTC and a copy of this submission on TR SEF’s website concurrent with this submission (*see* Schedule 1).

Please contact Wayne Pestone or Peter Y. Malyshev using the information below if you have any questions regarding this submission.

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Peter Y. Malyshev  
Latham & Watkins LLP  
555 11th Street, NW  
Washington, DC 20004  
Phone: (202) 637-1087  
Email: [peter.malyshev@lw.com](mailto:peter.malyshev@lw.com)

Sincerely,



Wayne Pestone  
Chief Compliance Officer

cc: Nancy Markowitz, Deputy Director, Division of Market Oversight, Exchange and Data  
Repository Branch  
(Commodity Futures Trading Commission)

Peter Y. Malyshev  
Jonathan T. Ammons  
(Latham & Watkins LLP)

**SCHEDULE 1**  
**Certifications**

I hereby certify that: (1) the Non-Deliverable Forward contract complies with the Commodity Exchange Act, 7 U.S.C. § 1 *et seq.* and the Commodity Futures Trading Commission's regulations promulgated thereunder; and (2) concurrent with this submission, Thomson Reuters (SEF) LLC has posted on its website: (a) a notice of pending certification of this Non-Deliverable Forward contract; and (b) a copy of this submission.



By: Wayne Pestone  
Title: Chief Compliance Officer  
Date: September 30, 2013

## **SCHEDULE 2**

### **Explanation and Analysis**

*All capitalized terms not otherwise defined in this Schedule 2 shall have the meanings ascribed to them in Appendix 1 (Contract Terms).*

#### **I. Contract Description**

The Non-Deliverable Forward contract (the “Contract”) is a typical non-deliverable forward (“NDF”) contract. NDFs are cash settled foreign exchange forwards between two counterparties, typically used to either hedge or speculate against currencies where exchange controls in a particular country make it difficult for market participants to trade in the spot market directly. NDFs may also be based on two currencies that are not subject to exchange controls, however.

Counterparties to the Contract will not exchange the underlying currencies. Instead, the entire deal is settled in U.S. dollars. Settlement for the Contract will be arranged by calculating the difference between the Forward Rate, which is agreed upon between the counterparties at the start of the contract, and the prevailing Spot FX Rate, on the Fixing Date. The difference is then multiplied by the notional amount, which is also determined at the start of the contract, to arrive at the settlement amount. Cash settlement of the settlement amount will be due on the Settlement Date.

#### **II. Compliance with Applicable Provisions of the CEA and CFTC Regulations**

Thomson Reuters (SEF) LLC (“TR SEF”) has determined that the Core Principles identified below apply to the Contract. As required by CFTC Regulation § 40.2, the following analysis therefore demonstrates that the Contract is compliant with applicable provisions of the CEA and CFTC regulations and policies thereunder.

##### **Core Principle 2 – Compliance with Rules**

- TR SEF is proposing that the Contract be listed on its swap execution facility (“SEF”) platform. All of TR SEF’s rules in the TR SEF rulebook would apply to the Contract if it is listed.
- Chapter 9 of the TR SEF rulebook prohibits abusive trading practices in any contract approved for trading on the TR SEF platform. The TR SEF rulebook is enforced by TR SEF’s Market Regulation Department (which includes TR SEF compliance employees as well as the National Futures Association (“NFA”). Chapter 10 of the TR SEF rulebook sets forth the rules governing both the investigations and prosecutions of rule violations.
- Under TR SEF Rule 311, any person accessing the SEF platform, entering orders into the platform or submitting any contracts into the platform agree to, among other things: (i) be bound by and comply with the TR SEF rulebook and (ii) become subject to TR SEF’s jurisdiction.

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

- As noted above, the Contract is a typical NDF contract where the counterparties arrange settlement by calculating the difference between the Forward Rate and the prevailing

Spot FX Rate on the Fixing Date. As such, the reference price is the prevailing Spot FX Rate on the date and time in which the parties agree that the comparison will be made (*i.e.*, the Fixing Date). The source for the Spot FX Rate on the Fixing Date will be bilaterally agreed and, in a majority of cases, fixed against a daily rate published by the central bank of the relevant country. Other rates are an average of interbank prices generated by the WM Company and Reuters. The underlying rates used are those deemed to be most appropriate for foreign investment transactions, and a number of quality control checks are applied by WM.

- The Contract is therefore not readily susceptible to manipulation for a number of reasons. First, as described above, the Spot FX Rate (*i.e.*, the reference price) is generated through a transparent, rules-based process. The reliability of the Spot FX Rate data is evident in its general acceptance in the marketplace as a reliable, unbiased source for foreign exchange rate data. Second, the foreign exchange market is an extremely liquid market with massive volume, making manipulation very difficult to achieve. Third, the Spot FX Rates are readily available via a number of sources including websites of the various central banks. Finally, and as described below, TR SEF has developed a market surveillance program that is able to effectively surveil this market, detect uncommon activity, and investigate such activity for signs of manipulation.
- TR SEF has established rules and an enforcement infrastructure to prevent manipulation of the Contract. TR SEF has, with the assistance of the NFA, implemented a compliance program which conducts market surveillance and trade practice monitoring on a real-time and T+1 basis. For real-time trade monitoring, TR SEF has an automated system in place to detect market anomalies and potentially manipulative behavior. In addition, TR SEF will coordinate with the NFA to ensure that such real-time monitoring is integrated with the NFA's T+1 surveillance of manipulative trade practice (*e.g.*, front-running, wash trading, pre-arranged trading, fraudulent trading, money passes). TR SEF's Market Regulation Department will supervise the effectiveness of the services provided by the NFA.

#### **Core Principal 6 - Position limits or accountability**

- TR SEF does not currently plan to impose position limits on the Contract due to the fact that the Contract does not have a deliverable supply and is not subject to minimum position limits under statute or CFTC regulations. Instead, the Contract is cash settled and such settlement does not depend on the supply of physical commodities or related securities. At this time, TR SEF has determined that position accountability limits will allow it to monitor the market and enforce the TR SEF rules.
- Position accountability is address in TR SEF Rule 926.

#### **Core Principal 7 - Financial integrity of transactions**

- TR SEF Rule 504(b) and Chapter 8 of the TR SEF rulebook require all transactions executed on or through the platform to be cleared unless the mandatory clearing requirement under Section 2(h)(1) of the CEA does not apply, or the Transaction is exempted from clearing under Section 2(h)(7) of the CEA.

**Core Principal 9 - Timely publication of trading information**

- TR SEF will submit timely reports regarding the Contract to a registered swap data repository as prescribed in Parts 43 and 45 of the CFTC's Regulations.
- TR SEF will record, report and publish on its website all data required by Part 16 of the CFTC's regulations.

**APPENDIX 1**  
**Contract Terms**

<b>NDF Contract Terms</b>																																											
Contract Overview	A non-deliverable forward (NDF) is an outright forward contract in which counterparties settle the difference between the contracted NDF price or rate and the prevailing spot price or rate on an agreed notional amount																																										
Reference Currency	<table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Non Deliverable Currencies</th> <th style="text-align: left;">Fixing Reference (Reuters Page)</th> </tr> </thead> <tbody> <tr><td>ARS Argentine Peso</td><td>ARSMCMEEMTA=</td></tr> <tr><td>BRL Brazilian Real</td><td>BRFR</td></tr> <tr><td>CLP Chilean Peso</td><td>CLPOB=</td></tr> <tr><td>CNY Chinese Renminbi</td><td>SAEC</td></tr> <tr><td>COP Colombian Peso</td><td>COTCRM=RR</td></tr> <tr><td>EGP Egyptian pound</td><td>FEMF</td></tr> <tr><td>GTQ Guatemalan Quetzal</td><td>GTQFIX=</td></tr> <tr><td>IDR Indonesian Rupiah</td><td>ABSIRFIX01</td></tr> <tr><td>INR Indian Rupee</td><td>RBIB</td></tr> <tr><td>KRW South Korean Won</td><td>KFTC18</td></tr> <tr><td>KZT Kazakh Tenge</td><td>AFINEX01</td></tr> <tr><td>MYR Malaysian Ringgit</td><td>ABSIRFIX01</td></tr> <tr><td>PEN Peruvian Nuevo Sol</td><td>PDSC</td></tr> <tr><td>PHP Philippine Peso</td><td>PDSPESO</td></tr> <tr><td>RUB Russian ruble</td><td>EMTA</td></tr> <tr><td>TWD Taiwan Dollar</td><td>TAIFX1</td></tr> <tr><td>UAH Ukrainian Hryvnia</td><td>EMTAUAHFIX</td></tr> <tr><td>UYU Uruguayan Peso</td><td>UYUFIX=</td></tr> <tr><td>VEF Venezuelan Bolívar</td><td>VEFFIX=</td></tr> <tr><td>VND Vietnamese Dong</td><td>ABSIRFIX01</td></tr> </tbody> </table>	Non Deliverable Currencies	Fixing Reference (Reuters Page)	ARS Argentine Peso	ARSMCMEEMTA=	BRL Brazilian Real	BRFR	CLP Chilean Peso	CLPOB=	CNY Chinese Renminbi	SAEC	COP Colombian Peso	COTCRM=RR	EGP Egyptian pound	FEMF	GTQ Guatemalan Quetzal	GTQFIX=	IDR Indonesian Rupiah	ABSIRFIX01	INR Indian Rupee	RBIB	KRW South Korean Won	KFTC18	KZT Kazakh Tenge	AFINEX01	MYR Malaysian Ringgit	ABSIRFIX01	PEN Peruvian Nuevo Sol	PDSC	PHP Philippine Peso	PDSPESO	RUB Russian ruble	EMTA	TWD Taiwan Dollar	TAIFX1	UAH Ukrainian Hryvnia	EMTAUAHFIX	UYU Uruguayan Peso	UYUFIX=	VEF Venezuelan Bolívar	VEFFIX=	VND Vietnamese Dong	ABSIRFIX01
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	NZD New Zealand Dollar	NZDUSDFIX=WM
	PLN Poland Zloty	USDPLNFIX=WM
	RON Romania New Leu	USDRONFIX=WM
	SEK Sweden Krona	USDSEKFIX=WM
	SGD Singapore Dollar	USDSGDFIX=WM
	TRY Turkey Lira	USDTRYFIX=WM
	ZAR South Africa Rand	USDZARFIX=WM
Settlement Currency	Non-deliverable forwards (NDFs) settle in USD	
Quoting Convention and Minimum Increment	Notional amount, as agreed by the counterparties	
Minimum Size	Notional amount, as agreed by the counterparties	
Notional Currency	Currency in which the contract size is expressed in	
Trading Conventions	Buy or Sell which refers to the contract size expressed in notional currency	
Forward Rate	Currency exchange rate expressed as the amount of reference currency per unit of non-reference currency	
Trade Date	The date on which parties enter into the contract	
Settlement Date	Specified settlement or payment date	
Fixing Date	The date at which the difference between the prevailing market exchange rate and the agreed upon exchange rate is calculated	
Settlement Procedure	Bilateral settlement performed in the settlement currency	
Trading Hours	13:00 Sunday - 17:00 Friday Eastern Time	
Clearing Venue	Bilateral	
Block Size	As set forth in Appendix F to Part 43 of the CFTC Regulations	
Speculative Limits	As set forth in CFTC 17 CFR Part 151	
Reportable Levels	As set forth in CFTC Regulation 15.03	