

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 13-02

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 "Foreign Exchange Option Swap 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 13-02: Rule 40.2(a) Certification of Thomson Reuters (SEF) LLC Foreign Exchange Option

Dear Ms. Jurgens:

Thomson Reuters (SEF) LLC (“TR SEF”) hereby notifies the Commodity Futures Trading Commission (“CFTC”) of its intent to list a Foreign Exchange Option Swap 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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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 Foreign Exchange Option Swap 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 Foreign Exchange Option Swap 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 Foreign Exchange Option contract (the “Contract”) is a cash settled foreign exchange option between two counterparties, where the owner has the right, but not the obligation, to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. The Contract is a European option, meaning that the option-holder may only exercise his or her right at the expiration date of the option. The Contract contains two types of options: (1) a call option, which is the right to purchase a currency pair at a given exchange rate in the future, and (2) a put option, which is the right to sell a currency pair at a given exchange rate at in the future.

The Contract does not have a reference price; instead, all of the terms (*e.g.*, strike price, currency, and 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 Contract may be used to either hedge or speculate against the exchange rate between currencies. There is no exchange of the underlying currency. Instead, the entire deal is settled in a widely traded currency, usually U.S. dollars.

#### **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 foreign exchange option contract where the owner has the right, but not the obligation, to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. The Contract does not have a reference price; instead, one party may exercise its right to exchange the currencies at any time prior to expiration regardless of what the spot foreign exchange rate is.
- The Contract is not readily susceptible to manipulation for the following reasons. First, the foreign exchange market is an extremely liquid market with massive volume, making manipulation very difficult to achieve. Second, the spot foreign exchange rates are readily available via a number of sources including websites of the various central banks. Third, 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>FX Option Contract Terms</b>	
Contract Overview	A Foreign Exchange Option (FX option) is a derivative financial instrument that gives the buyer the right, but not the obligation, to buy or sell a specific quantity of one foreign currency in exchange for another currency at a pre arranged fixed price on a specific date.
Trade Date	The date on which the parties enter into the contract
Option Style	European – a European option may only be exercised at the expiration date of the option.
Option Type	Call option – the right to purchase a currency pair at a given exchange rate in the future.  Put option – the right to sell a currency pair at a given exchange rate at in the future.
Call Currency	Currency for a call option
Put currency	Currency for a put option
Expiration Date	Date at which the option contract expires
Expiration Time	Time at which the option contract expires
Settlement Date	Settlement date of the option contract
Premium	Amount expressed in premium currency
Premium Date	Date on which the premium is due
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
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