



**CORRECTED SUBMISSION**

September 26, 2013

**VIA Electronic Submission**

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

To Whom It May Concern,

Javelin SEF, LLC (“Javelin SEF”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2, of its listing of Javelin SEF interest rate swap products (“IRS Products”) on Javelin SEF’s trading platform beginning September 30, 2013 (the “Submission”).

The Submission contains the following:

1. A summary of the terms of the IRS Products specifications
2. An explanation and analysis of the IRS Products’ compliance with the relevant Core Principles for Swap Execution Facilities (“SEF Core Principles”) as set forth by section 5h of the Commodity Exchange Act;
3. A certification that, concurrent with the filing of the Submission, Javelin SEF posted on its website a notice of pending certification of the IRS Products with the Commission.

1. Summary of Terms of the IRS Products

**Contract Overview** An agreement to exchange a stream of cash flows by applying a fixed and floating interest rate to a specified notional over a term to maturity.

**Currency Units** US Dollar, British Pounds, Euros

**Floating Rate Index** USD LIBOR, Sterling LIBOR, EURIBOR

**Contract Size** Increments of 1 million currency units

**Minimum Size** 1 million currency units notional

**Trading Conventions** Buy = Pay Fixed, Receive Float  
Sell = Receive Fixed, Pay Float

**Swap Conventions**

*Fixed Leg*

- Payment Frequency: Monthly, Quarterly, Semi-Annual, Annual
- Day Count Convention: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT
- Holiday Calendars: London, New York, TARGET<sup>1</sup>
- Business Day Conventions: Following, Modified Following with adjustment for period end dates & Unadjusted for period end dates

*Floating Leg*

- Payment/Resets : Monthly, Quarterly, Semi-Annual
- Day Count Conventions: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT,
- Holiday Calendars: London, New York, TARGET
- Business Day Conventions: Following, Modified Following with adjustment for period end dates & Unadjusted for period end dates

**Swap Tenor or Swap Term** The duration of time from the effective date to the maturity date. A contract can have a Swap Tenor from 1 month to 51 years.

**Effective Date** The date on which parties begin calculating accrued obligations such as fixed and floating interest rate payments. Also known as the start date of the swap.

**Maturity Date** The final date on which the obligations no longer accrue and the final payment occurs.

**Periodic Settlement Payment and Resets**

Fixed Leg: The payment amount of the Fixed Leg is based on the following: Notional, Fixed Interest Rate, Payment Frequency, Number of days in the interest accrual period and Day Count Convention.

Floating Leg: The payment amount of the Floating Leg is based on the following: Notional, Floating Interest Rate Index, Payment Frequency, Number of days in the interest accrual period and Day Count Convention.

Payments are settled in accordance with the payment frequency of the swap.

---

<sup>1</sup> TARGET shall mean any day on which TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) is open.

- Floating Fixing Date**
- USD: The LIBOR Fixing Date is 2 London business days prior to the floating effective date.
  - GBP: The LIBOR Fixing Date is 2 London business days prior to the floating effective date.
  - EUR: The EURIBOR Fixing Date is 2 TARGET London business days prior to the floating effective date.

- Trade Start Types**
- Next Day:*
- A new swap where the Effective Date is T+1 from the trade date.
- Spot:*
- A new swap where the Effective Date is T+2 from the trade date.
- Forward:*
- A new swap with an effective date on any day after the spot start date, before the maturity date, and no longer than 50 years and 11 months.

- Trade Types**
- “Rate Trades”; interest rate swaps
  - “Spreads”; combination of interest rate swaps and US Treasury Bond purchases or sales
  - IMM<sup>2</sup>; interest rate swaps where Effective Date, Accrual Dates and Maturity Date are IMM Dates.
  - “MAC” Swaps; Market Agreed Coupon

- Notional Types**
- “Bullet”; Notional remains constant over term of swap.  
“Variable Notional Swaps”: Notional changes over term of swap.

**Settlement Procedure** As determined by the Clearing Venue

**Trading Hours** Javelin SEF, LLC trading hours are Monday to Friday 7:15 am to 5:00 pm

**Clearing Venue** CME

**Block Trades** Block Trades may be submitted pursuant to Javelin SEF Rule 515

**Position Limits** As provided by Part 151 of the Commission’s Regulations.

---

2 IMM shall mean the four quarterly dates of each year which are the third Wednesday of March, June, September, and December in accordance with the International Monetary Market calendar a division of the CME Group.

**Reporting Levels** As provided by Commission Regulation 15.03.

## 2. Explanation and Analysis of IRS Products' Compliance with SEF Core Principles

We have reviewed the SEF Core Principles and have identified that the listing of IRS Products may have bearing on SEF Core Principle 3: Swaps Not Readily Susceptible to Manipulation. For the reasons stated below we believe that the listing of IRS Products complies with the Commodity Exchange Act and SEF Core Principle 3.

### a. The Reference Price is not Readily Susceptible to Manipulation

The reference price for the floating leg of IRS Products is the London Interbank Offered Rate for USD LIBOR, Sterling LIBOR, and EURIBOR ("LIBOR"). LIBOR is the lowest perceived rate at which banks can borrow unsecured funds from other banks in the London interbank market for a specified time period in a particular currency. LIBOR is calculated each day by the BBA Libor Ltd. in conjunction with Thomson Reuters. Each day major banks submit their cost of borrowing unsecured funds for 15 periods of time in 10 currencies. Thomson Reuters audits the data submitted by panel banks and creates the rates using the definitions provided by BBA's FX & MM Committee, under the supervision of BBA. The LIBOR rate produced by Thomson Reuters is calculated by using a trimmed arithmetic mean. Once Thomson Reuters receives each bank's submissions Thomson Reuters ranks them in descending order and then drops the top and bottom quartiles – this is known as "trimming". The middle two quartiles, reflecting 50% of the quotes, are then averaged to create the LIBOR quote. The BBA drops the bottom and top quartiles in the calculation in order to increase the accuracy of the LIBOR quotes. Dropping the outliers is done because an outlier does not reflect the market rate and doing so limits the ability of any one bank to influence the calculation and affect the LIBOR quote. More information on the specifics on how LIBOR is calculated is available at [www.bbalibor.com](http://www.bbalibor.com). Thomson Reuters and BBA Libor are regulated by the Financial Conduct Authority.

Because the reference rate is based on LIBOR, a rate that is derived from a third-party (not the Javelin SEF's Participants) and is subject to an auditable process by the BBA, the Contract is not readily subject to manipulation.

Recently, concerns have been raised regarding the reliability LIBOR as reference price. To address these concerns the British Government established an independent committee to recommend a new administrator for LIBOR known as the Hogg Tendering Advisory Committee for LIBOR ("Hogg Committee"). On July 9, 2013 the Hogg Committee announced that the British Bankers' Association accepted its recommendation that NYSE Euronext Rate Administration, Ltd become the new LIBOR administrator. It is anticipated that the transfer of the administration of LIBOR to that NYSE Euronext Rate Administration, Ltd will be completed in early 2014.

### b. Conditions that Prevent IRS Products from Being Readily Susceptible to Manipulation

The terms of the IRS Product follow the current conventions of the over the counter market in interest rate swaps by providing both standard fixed terms and variable terms. (See description of product terms above). The interest rate swap market is the largest derivative asset class in the world, with an estimated \$441 trillion in notional principal outstanding in the OTC market as of December 2012 according to the Bank for International Settlements. See BIS Quarterly Review, September 2013 Page A10 Table 4 [http://www.bis.org/publ/qtrpdf/r\\_qs1309.pdf](http://www.bis.org/publ/qtrpdf/r_qs1309.pdf).

The profound depth to the interest rate swap market protects the IRS Products from manipulation. It is well established that deep liquid markets are very difficult to manipulate. All of the recent public scrutiny and changes to the administration of LIBOR, it make it difficult for an attempt by a single market participants or group or markets participants to manipulate the LIBOR reference price to go undetected. Since all of the IRS Products are cash settled there is no deliverable supply that can be manipulated by market participants. Cash settlement is a further barrier that protects the IRS Products from market manipulation. In addition, should there be any attempt to manipulate the market Javelin SEF is confident its robust surveillance system will detect such improper trading activity.

c. Settlement Procedure

IRS Products that will be traded on the Javelin SEF are cash settled at the applicable Clearing House. Currently IRS Products will be cleared by the Chicago Mercantile Exchange "CME". The procedures used by the CME to settle IRS Products is stated in CME Rules (CME Rules are available at [www.cmegroup.com](http://www.cmegroup.com)). These rules set forth procedures that are transparent to the market and have been approved by the Commission.

**3. Certification**

Javelin SEF certifies that the IRS Products comply with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and the regulations thereunder. Javelin SEF further certifies that this Submission has been concurrently posted on Javelin SEF's website at <http://www.theJavelin.com>.

In the event that you have questions, please contact me at (646) 307-5931 or [suellen.galish@thejavelin.com](mailto:suellen.galish@thejavelin.com).

Sincerely,



Suellen M. Galish  
General Counsel and Chief Compliance Officer



**CORRECTED SUBMISSION (REDLINE)**

September 26, 2013

**VIA Electronic Submission**

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

To Whom It May Concern,

Javelin SEF, LLC ("Javelin SEF") hereby notifies the Commodity Futures Trading Commission (the "Commission"), pursuant to Commission Regulation 40.2, of its listing of Javelin SEF interest rate swap products ("IRS Products") on Javelin SEF's trading platform beginning September 30, 2013 (the "Submission").

The Submission contains the following:

1. A summary of the terms of the IRS Products specifications
2. An explanation and analysis of the IRS Products' compliance with the relevant Core Principles for Swap Execution Facilities ("SEF Core Principles") as set forth by section 5h of the Commodity Exchange Act;
3. A certification that, concurrent with the filing of the Submission, Javelin SEF posted on its website a notice of pending certification of the IRS Products with the Commission.

1. Summary of Terms of the IRS Products

**Contract Overview** An agreement to exchange a stream of cash flows by applying a fixed and floating interest rate to a specified notional over a term to maturity.

**Currency Units** US Dollar, British Pounds, Euros

**Floating Rate Index** USD LIBOR, Sterling LIBOR, EURIBOR

**Contract Size** Increments of 1 million currency units

**Minimum Size** 1 million currency units notional

**Trading Conventions** Buy = Pay Fixed, Receive Float  
Sell = Receive Fixed, Pay Float

**Swap Conventions** *Fixed Leg*

- Payment Frequency: Monthly, Quarterly, Semi-Annual, Annual
- Day Count Convention: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT
- Holiday Calendars: London, New York, TARGET<sup>1</sup>
- Business Day Conventions: Following, Modified Following with adjustment ~~to~~for period end dates & ~~Modified Following without adjustment~~ ~~to~~Unadjusted for period end dates

*Floating Leg*

- Payment/Resets : Monthly, Quarterly, Semi-Annual, ~~Annual~~
- Day Count Conventions: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT,
- Holiday Calendars: London, New York, TARGET
- Business Day Conventions: Following, Modified Following with adjustment ~~to~~for period end dates & ~~Modified Following without adjustment~~ ~~to~~Unadjusted for period end dates

**Swap Tenor or Swap Term** The duration of time from the effective date to the maturity date. A contract can have a Swap Tenor from 1 month to 51 years.

**Effective Date** The date on which parties begin calculating accrued obligations such as fixed and floating interest rate payments. Also known as the start date of the swap.

**Maturity Date** The final date on which the obligations no longer accrue and the final payment occurs.

**Periodic Settlement Payment and Resets** Fixed Leg: The payment amount of the Fixed Leg is based on the following: Notional, Fixed Interest Rate, Payment Frequency, Number of days in the interest accrual period and Day Count Convention.

Floating Leg: The payment amount of the Floating Leg is based on the following: Notional, Floating Interest Rate Index, Payment Frequency, Number of days in the interest accrual period and Day Count Convention, ~~and Floating Reset Dates.~~

Payments are settled in accordance with the payment frequency of the swap.

---

1 TARGET shall mean any day on which TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) is open.

- Floating Fixing Date**
- USD: The LIBOR Fixing Date is 2 London business days prior to the floating effective date.
  - GBP: The LIBOR Fixing Date is 2 London business days prior to the floating effective date.
  - EUR: The EURIBOR Fixing Date is 2 TARGET London business days prior to the floating effective date.

- Trade Start Types**
- Next Day:*
- A new swap where the Effective Date is T+1 from the trade date.
- Spot:*
- A new swap where the Effective Date is T+2 from the trade date.
- Forward:*
- A new swap with an effective date on any day after the spot start date, before the maturity date, and no longer than 50 years and 11 months.

- Trade Types**
- “Rate Trades”; interest rate swaps
  - “Spreads”; combination of interest rate swaps and with US Treasury Bond purchases or sales
  - IMM<sup>2</sup>; interest rate swaps where Effective Date, Accrual Dates and Maturity Date are IMM Dates.
  - “MAC” Swaps; Market Agreed Coupon

- Notional Types**
- “Bullet”; Notional remains constant over term of swap.  
“Variable Notional Swaps”: Notional changes over term of swap.  
“Amortizing”: Notional declines over term of swap.  
“Accreting”: Notional increases over term of swap.

**Settlement Procedure** As determined by the Clearing Venue

**Trading Hours** Javelin SEF, LLC trading hours are Monday to Friday 7:15 am to 5:00 pm

**Clearing Venue** CME

**Block Trades** Block Trades may be submitted pursuant to Javelin SEF Rule 515

---

2 IMM shall mean the four quarterly dates of each year which are the third Wednesday of March, June, September, and December in accordance with the International Monetary Market calendar a division of the CME Group.



**Position Limits** As provided by Part 151 of the Commission's Regulations.

**Reporting Levels** As provided by Commission Regulation 15.03.

## 2. Explanation and Analysis of IRS Products' Compliance with SEF Core Principles

We have reviewed the SEF Core Principles and have identified that the listing of IRS Products may have bearing on SEF Core Principle 3: Swaps Not Readily Susceptible to Manipulation. For the reasons stated below we believe that the listing of IRS Products complies with the Commodity Exchange Act and SEF Core Principle 3.

### a. The Reference Price is not Readily Susceptible to Manipulation

The reference price for the floating leg of IRS Products is the London Interbank Offered Rate for USD LIBOR, Sterling LIBOR, and EURIBOR ("LIBOR"). LIBOR is the lowest perceived rate at which banks can borrow unsecured funds from other banks in the London interbank market for a specified time period in a particular currency. LIBOR is calculated each day by the BBA Libor Ltd. in conjunction with Thomson Reuters. Each day major banks submit their cost of borrowing unsecured funds for 15 periods of time in 10 currencies. Thomson Reuters audits the data submitted by panel banks and creates the rates using the definitions provided by BBA's FX & MM Committee, under the supervision of BBA. The LIBOR rate produced by Thomson Reuters is calculated by using a trimmed arithmetic mean. Once Thomson Reuters receives each bank's submissions Thomson Reuters ranks them in descending order and then drops the top and bottom quartiles – this is known as "trimming". The middle two quartiles, reflecting 50% of the quotes, are then averaged to create the LIBOR quote. The BBA drops the bottom and top quartiles in the calculation in order to increase the accuracy of the LIBOR quotes. Dropping the outliers is done because an outlier does not reflect the market rate and doing so limits the ability of any one bank to influence the calculation and affect the LIBOR quote. More information on the specifics on how LIBOR is calculated is available at [www.bbalibor.com](http://www.bbalibor.com). Thomson Reuters and BBA Libor are regulated by the Financial Conduct Authority.

Because the reference rate is based on LIBOR, a rate that is derived from a third-party (not the Javelin SEF's Participants) and is subject to an auditable process by the BBA, the Contract is not readily subject to manipulation.

Recently, concerns have been raised regarding the reliability LIBOR as reference price. To address these concerns the British Government established an independent committee to recommend a new administrator for LIBOR known as the Hogg Tendering Advisory Committee for LIBOR ("Hogg Committee"). On July 9, 2013 the Hogg Committee announced that the British Bankers' Association accepted its recommendation that NYSE Euronext Rate Administration, Ltd become the new LIBOR administrator. It is anticipated that the transfer of the administration of LIBOR to that NYSE Euronext Rate Administration, Ltd will be completed in early 2014.

b. Conditions that Prevent IRS Products from Being Readily Susceptible to Manipulation

The terms of the IRS Product follow the current conventions of the over the counter market in interest rate swaps by providing both standard fixed terms and variable terms. (See description of product terms above). The interest rate swap market is the largest derivative asset class in the world, with an estimated \$441 trillion in notional principal outstanding in the OTC market as of December 2012 according to the Bank for International Settlements. See BIS Quarterly Review, September 2013 Page A10 Table 4 [http://www.bis.org/publ/qtrpdf/r\\_qs1309.pdf](http://www.bis.org/publ/qtrpdf/r_qs1309.pdf).

The profound depth to the interest rate swap market protects the IRS Products from manipulation. It is well established that deep liquid markets are very difficult to manipulate. All of the recent public scrutiny and changes to the administration of LIBOR, it make it difficult for an attempt by a single market participants or group or markets participants to manipulate the LIBOR reference price to go undetected. Since all of the IRS Products are cash settled there is no deliverable supply that can be manipulated by market participants. Cash settlement is a further barrier that protects the IRS Products from market manipulation. In addition, should there be any attempt to manipulate the market Javelin SEF is confident its robust surveillance system will detect such improper trading activity.

c. Settlement Procedure

IRS Products that will be traded on the Javelin SEF are cash settled at the applicable Clearing House. Currently IRS Products will be cleared by the Chicago Mercantile Exchange "CME"). The procedures used by the CME to settle IRS Products is stated in CME Rules (CME Rules are available at [www.cmegroup.com](http://www.cmegroup.com)). These rules set forth procedures that are transparent to the market and have been approved by the Commission.

### 3. Certification

Javelin SEF certifies that the IRS Products comply with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and the regulations thereunder. Javelin SEF further certifies that this Submission has been concurrently posted on Javelin SEF's website at <http://www.theJavelin.com>.

In the event that you have questions, please contact me at (646) 307-5931 or [suellen.galish@thejavelin.com](mailto:suellen.galish@thejavelin.com).

Sincerely,

Suellen M. Galish  
General Counsel and Chief Compliance Officer