



September 29, 2013

BY ELECTRONIC MAIL: submissions@cftc.gov

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

**Re: Commission Regulation 40.2(a) –
Certification of Exotic F/X Options Contract**

Dear Ms. Jurgens:

GFI Swaps Exchange LLC (“GFI”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying an exotic foreign-exchange options contract (“F/X Option”) for trading on GFI’s electronic trading platform (the “Trading Platform”).

GFI will list the F/X Option no earlier than October 2, 2013.

This submission letter contains the following attachments:

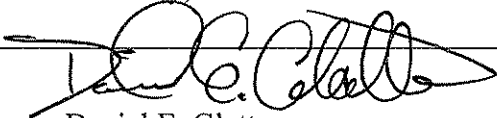
- The submission cover sheet.
- Attached as Exhibit A, a concise explanation and analysis of F/X Options.
- Attached as Exhibit B, a copy of the vanilla F/X Option rules, which will be published as contract specifications on GFI’s website in accordance with GFI Rule 1101.
- Attached as Exhibit C, a concise explanation and analysis of the products’ compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder.

GFI certifies that each F/X Option complies with the CEA and Commission Regulations thereunder. GFI additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on GFI’s website.

* * *

In the event that you have questions, please contact the undersigned at (212) 968-2982 or daniel.glatter@gfigroup.com.

Sincerely,

A handwritten signature in black ink, appearing to read "D. E. Glatter", written over a horizontal line.

Daniel E. Glatter

Exhibit A

Below is a concise explanation and analysis of exotic F/X Options:

An F/X Option is a derivative financial instrument that gives one party the right, but not the obligation, to buy or sell a specific quantity of one currency in exchange for another currency at a pre-arranged exchange rate on a specified date. What makes an exotic F/X option different from a vanilla F/X option is the variety of additional features the options contract may contain. For example, exotic F/X options may feature complex or exotic ways to determine price, exercisability, termination or value that may be based on any number of factors, averages, indices or time periods.

For more information, the contract specifications for the F/X Options are attached as Exhibit B.

Exhibit B

GFI Contract Specifications

The terms and conditions of the F/X Options incorporate by reference such credit and other terms as the parties may establish through their pre-existing bilateral agreement. The F/X Options have the following characteristics:

| | |
|--|---|
| <i>Contract Overview</i> | An exotic foreign-exchange option (or F/X option) is a derivative financial instrument that gives one party the right, but not the obligation, to buy or sell a specific quantity of one currency in exchange for another currency at a pre-arranged exchange rate on a specified date, with additional features to determine price, exercisability, termination or value that may be based on any number of factors, averages, indices or time periods. A listing of major exotic F/X options appears below. |
| <i>Trade Date</i> | The date on which the parties enter into the options contract. |
| <i>Option Style</i> | <u>European Style</u> : A European style option allows the holder to exercise only at the expiration date, i.e. a single pre-defined point in time. <u>American Style</u> : An American Style option allows the owner to exercise the option at any time before the expiration date. |
| <i>Call Currency</i> | Currency for call option. |
| <i>Put Currency</i> | Currency for put option. |
| <i>Strike Price</i> | The price at which an investor can exercise an option. |
| <i>Rebate</i> | A feature of some exotic options where the premium of the option is refunded if at the time the option expires it has no value. |
| <i>Expiration Date</i> | The date on which the option contract expires. |
| <i>Expiration Time</i> | The time at which the option contract expires. |
| <i>Settlement Date</i> | The date on which the option settles. |
| <i>Premium</i> | Premium amount expressed in the premium currency. |
| <i>Premium Currency</i> | Currency in which the option premium is expressed (list of available currencies is set forth in Attachment A). |
| <i>Premium Date</i> | The date on which the premium amount is due. |
| <i>Quoting Convention and Minimum Increment</i> | Notional amount, agreed by the counterparties. |
| <i>Minimum Size</i> | Notional amount, agreed by the counterparties. |
| <i>Notional Currency</i> | Currency in which the contract size is expressed. |

Binary Options.

A Binary (or Digital) Option is an option that has a fixed payment at expiration if the option is in the money or nothing at all if the option expires out of the money. Binary options are usually European Style options. Below is a list of the Binary Option styles that may be listed for trading on GFI's Trading System:

- **One Touch.** A one touch option is a type of option that gives the holder a payout one the price of the underlying reaches a certain price level, similar to the Barrier Option below. However, with the One Touch Binary Option, once the barrier is reached or surpassed a predetermined fixed payout is achieved. Whereas, with the Barrier Option, it is the optionality that is triggered by the barrier being reached.
- **Double One Touch.** A double one touch is similar to the one touch option, however in this case two predetermined price levels are set which can be above and below the current price of the underlying, giving a type of straddle position. The option pays out the fixed payment if one of the predetermined price levels are reached or surpassed.
- **No Touch/Double No Touch.** The no touch and double no touch options are similar to a one touch and double one touch. With these, the payment is achieved if the underlying does not reach either a single predetermined price level or if the underlying stays within a range that is set by two price points for the underlying (the double no touch).

Bermuda Options.

Bermuda Options are a hybrid between an American and European style option. Unlike American style options, which can be exercised anytime and European style options, which can be exercised only upon expiration, Bermuda Options can be exercised prior to maturity, but only on certain dates.

Barrier Options.

Barrier Options are options that are either activated or deactivated when the price of the underlying passes through some predefined value referred to as the barrier. Below is a list of Barrier Options styles that may be listed for trading on GFI's Trading System. Any of these styles may be put or call options and may be combined to contain additional features.

- **Knock Out.** A knock out option has an additional price barrier for the underlying that, if reached, causes the option to expire with no value. This sets a limit or cap on the potential profit for the option buyer and sets a limit on the potential loss for the option writer.
- **Double Knock Out.** A double knock out option is similar to a knock out option, however with the double knock out two price barriers are set on the underlying. If either barrier is reached, the option is terminated with no value.
- **Knock In.** A knock in option is an option contract that is latent until a certain price level for the underlying is reached. The price level, or barrier, can only be reached if the option is moving out of the money. Until that price level is reached, the option is not exercisable.
- **Double Knock In.** Similar to a knock in, where two price levels for the underlying are set. If either of these price levels or barriers are reached, the option becomes exercisable.

- **Reverse Knock In.** A reverse knock in option is a European style option that becomes exercisable once a predetermined price barrier of the underlying is reached. The barrier can only be reached if the option is moving into the money (gaining value). If the price level or barrier is hit the payout is based on the underlying vanilla option.
- **Revers Knock Out.** Similar to the reverse knock in except in this case if the price barrier is hit the option is knocked out and there is no payout. If the price barrier is not reached, the option value is based on the underlying vanilla option.
- **Knock in Knock out.** With this type of option the predetermined price barrier of the underlying must be hit to activate the underlying option. One that first barrier is hit and the option is activated, there is a second price barrier that can cause the option to be knocked out or terminated prior to expiration. If this second barrier is hit before expiration, the option is extinguished. An additional form of this type of option may be written that is based on which price barrier is hit first. If the knock in barrier is hit, the option value is based on the underlying vanilla option and the knock out barrier is no longer valid. If the knock out barrier is hit first, the option is extinguished.
- **Spot Knock Out.** A spot knock out option is one where the barrier price for the underlying is the spot price. If the barrier is hit before expiration, the option is knocked out.
- **European Knock out/Knock In.** Similar to the knock out and knock in except the barrier set on this option is only applicable at expiration. If the barrier is hit at expiration the option is either knocked out or becomes exercisable.

Exhibit C

GFI has determined that the F/X Option certified herein bear upon the following Core Principles:

Core Principle 2 – Compliance with Rules

Trading in F/X Options will be subject to the GFI Rulebook (the “Rules”), which prohibits abusive trading practices, including: acts detrimental to GFI (Rule 522) or that are inconsistent with just and equitable principles of trade (Rule 510), fraudulent acts (Rule 511), fictitious or non-competitive transactions (Rule 512), market manipulation (Rule 515), disruptive trading practices (Rule 516), misstatements (Rule 521), wash sales (Rule 531) and pre-negotiated or non-competitive trades, including money passes (Rule 533). Trading in these Swaps will also be subject to Rules relating to protection of customers. *See* Rules 525-528.

As with all Swaps listed for trading on the Trading Platform (as such terms are defined in the GFI Rulebook), trading activity in F/X Options will be subject to monitoring and surveillance by GFI’s Market Regulation Department. GFI has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. *See* Chapter 7 of the Rules.

Pursuant to Rule 601(a)(i), each F/X Option executed as a block trade must be for the quantity that is equal to or in excess of the applicable minimum block size for such F/X Options set forth in Commission Regulations.

Core Principle 3 – Swaps Not Readily Susceptible to Manipulation

An F/X Option is a derivative financial instrument that gives one party the right, but not the obligation, to buy or sell a specific quantity of one currency in exchange for another currency at a pre-arranged exchange rate on a specified date. The exchange rate for some currencies are fixed against a daily rate published by the relevant central bank of that country, while other rates are fixed based on rates that are an average of interbank prices displayed on Reuters. Reuters polls a panel of banks on their estimate of the exchange rate for each currency every day at a particular local time. The top and bottom quarter of estimates are taken out, and the fixing is the average of the remaining estimates.

In each case, the reference price is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a cash market that has considerable depth and liquidity resulting from the involvement of numerous institutional participants; (ii) the way in which the reference price is calculated is well documented and well understood by swap market participants; (iii) it is commonly used in the swap markets; (iv) information about the reference price is publicly and readily available; (v) the reference price is administered and published by a reputable organization; and (vi) many active participants in the relevant cash market are entities that are subject to regulation.

Core Principle 4 – Monitoring of Trading and Trade Processing

Chapter 5 of the Rules prohibits traders from manipulating, distorting the price of, and disrupting the cash settlement process of the Swaps. Such Rules are enforced by the Market Regulation Department.

Core Principle 5 – Ability to Obtain Information

Pursuant to the Rules, GFI will have the ability and authority to obtain sufficient information for each F/X Option to allow GFI to fully perform its operational, risk management, governance and regulatory functions and requirements under Part 37 of Commission Regulations.

Core Principle 6 – Position Limits or Accountability

Rule 536 allows GFI to adopt position accountability levels for Required Transactions. Persons with positions in excess of position accountability levels established by GFI will be required to provide, upon request by GFI, information about their positions in excess of the relevant position accountability threshold and consent to halt any further increases in those positions. GFI's Rules relating to position limits, position accountability levels and aggregation standards are provided below:

535. Position Limits; Exemptions

(a) The Company may establish position limits for one or more Swaps, and grant exemptions from position limits, in accordance with CFTC Regulations. A Person seeking an exemption from position limits must apply to the Market Regulation Department in the form and manner required by the Company.

(b) A Person intending to exceed position limits, including limits established pursuant to a previously approved exemption, must file the required application and receive approval from the Company prior to exceeding such limits. Notwithstanding the foregoing, a Person who establishes an exemption-eligible position in excess of position limits and files the required application with the Company shall not be in violation of this rule provided the filing occurs within one Business Day after assuming the position. In the event the positions in excess of the limits are not deemed to be exemption eligible, the applicant will be in violation of speculative limits for the period of time in which the excess positions remained open.

(c) The Company shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Company may approve, deny, condition or limit any exemption request based on factors deemed by the Company to be relevant, including, but not limited to, the applicant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner. A Person that has received an exemption from position limits pursuant to this Rule 535 shall be deemed to have agreed:

- (i) to comply with all terms, conditions or limitations imposed by the Company with respect to the exemption;
- (ii) that the Company may modify or revoke the exemption at any time;
- (iii) to initiate and liquidate positions in an orderly manner; and

(iv) to promptly submit a supplemental statement to the Company whenever there is a material change to the information provided in the most recent application.

(d) A Participant shall not be in violation of this Rule if it carries positions for its Customers in excess of the applicable position limits for such reasonable period of time as the firm may require to discover and liquidate the excess positions. For the purposes of this Rule, a reasonable period of time shall generally not exceed one Business Day. A Customer who exceeds the position limits as a result of maintaining positions at more than one Participant shall be deemed to have waived confidentiality regarding his positions and the identity of the Clearing Firm(s) at which they are maintained. A Participant carrying such positions shall not be in violation of this Rule if, upon notification by the Company, it liquidates its pro-rata share of the position in excess of the limits or otherwise ensures the Customer is in compliance with the limits within a reasonable period of time.

(e) Nothing in this Rule 535 shall in any way limit:

(i) the authority of the Company to take emergency action; or

(ii) the authority of the Company to review at any time any position owned or controlled by any Person and to direct that such position be reduced to the applicable position limit.

(f) A Person who has received written authorization from the Company for an exemption from position limits must annually file an updated application on or before the date that is one year following the approval date of the most recent application. Failure to file an updated application shall result in expiration of the exemption.

(g) No Person shall exceed position limits that may be established by the Company or the CFTC, unless an exemption is granted by the Company. Any Person making a bid or offer that would, if accepted, cause such person to exceed the applicable position limits shall be in violation of this Rule.

536. Position Accountability

(a) The Company shall establish position accountability levels for Required Transactions unless the Company has previously established position limits pursuant to Rule 535. A Person who holds or controls aggregate positions in excess of position accountability levels shall:

(i) provide, in a timely manner upon request by the Company, information regarding the nature of the position, trading strategy, and hedging information, if applicable;

(ii) be deemed to have consented, when so ordered by the Company, not to further increase the positions which exceed such position accountability levels; and

(iii) initiate and/or liquidate such positions in an orderly manner.

(b) For purposes of this Rule 536, all positions in accounts for which a Person, by power of attorney or otherwise, directly or indirectly controls trading shall be included with the positions held by such Person. The provisions of this rule shall apply to positions held by two or more Persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by or the trading of the positions was controlled by a single Person.

537. Aggregation of Positions

For purposes of Rule 535 and Rule 536, positions in Swaps shall be aggregated in accordance with CFTC Regulations.

Core Principle 7 – Financial Integrity of Transactions

All Swaps that are required to be cleared pursuant to Section 2(h) of the CEA or that are voluntarily cleared by the counterparties will be submitted for clearing through a DCO. *See* Rule 1002.

Core Principle 9 – Timely Publication of Trading Information

In accordance with Part 16 of Commission Regulations, GFI will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. In addition, GFI will publish for each trading day, by tenor of the Swap, the opening price and the high and low prices. GFI will publish a settlement price for each such Swap except that, in the case of swaps listed for clearing by a DCO, the applicable settlement price will be the settlement price established by the DCO and GFI's website will contain a hyperlink to the relevant settlement information. *See* Rule 407.

GFI will submit electronic reports of all primary economic terms data for each Swap to a registered swap data repository immediately following execution of such Swap. *See* Rule 528. All such reports will meet the standards set out in Commission Regulation 45.3, including the requirement to produce a unique swap identifier for each transaction. GFI will also issue confirmations of transactions pursuant to Rule 525.