

# TERA<sup>^</sup>EXCHANGE

TeraExchange, LLC  
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December 15, 2013

**BY ELECTRONIC MAIL: [secretary@cftc.gov](mailto:secretary@cftc.gov)**

Melissa Jurgens  
Secretary  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21st Street, N.W.  
Washington, DC 20581

**Re: TeraExchange, LLC Submission 13-03: Listing of Foreign Exchange Non-deliverable Forwards by Certification Pursuant to Commission Regulation 40.2(a)**

Dear Ms. Jurgens:

TeraExchange, LLC ("TeraExchange") hereby notifies the Commodity Futures Trading Commission (the "Commission" or "CFTC") that it is certifying, pursuant to Commission Regulation 40.2(a), a group of Foreign Exchange ("FX") Non-deliverable Forwards ("NDFs") for trading on its swap execution facility. Specifically, TeraExchange is certifying NDFs in the following FX pairs: USD/BRL; USD/CLP; USD/CNY; USD/COP; USD/IDR; USD/INR; USD/KRW; USD/MYR; USD/PEN; USD/PHP; USD/RUB; and USD/TWD. The intended listing date of the NDFs is December 20, 2013.

This letter includes the following attachments:

- A certification that each contract complies with the CEA and Commission Regulations thereunder, and that TeraExchange has concurrently posted a copy of this submission on the TeraExchange website;
- The submission cover sheet;
- The contract terms and conditions (Exhibit A); and
- A concise explanation and analysis of the contracts' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder (Exhibit B).

Please contact the undersigned at (908) 273-8277 or at LNuara@teraexchange.com with any questions.

Sincerely,

*Leonard T. Nuara*

Leonard T. Nuara  
President and COO

Cc: Nancy Markowitz, DMO  
M. Schlagel, DMO  
Jamine Lee, DMO

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. §7  
A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.2, 17 C.F.R. §40.2

I hereby certify that:

(1) the products to be listed comply with the Commodity Exchange Act, and the Commodity Futures Trading Commission's regulations thereunder; and

(2) concurrent with this submission, TeraExchange, LLC posted on its website: (a) a notice of pending product certification with the Commission; and (b) a copy of this submission.

*Leonard T. Nuara*

Leonard T. Nuara  
President and COO  
TeraExchange, LLC

Exhibit A

Terms and Conditions

(Attached)

<b>NDF</b>		<b>Non-Deliverable Forwards</b>		
<b>General</b>				
Contract Structure	An outright forward agreement that is settled upon the difference between the contract price and the prevailing spot rate on a notional amount.			
Contract Currencies (vs USD)	Currency Code	Description	Tick Size	Clearing Venue Specifications <sup>1</sup>
	BRL	Brazilian Real	0.001	<a href="http://www.cmegroup.com/rulebook/CME/III/250/257H/257H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/257H/257H.pdf</a>
	CLP	Chilean Peso	0.01	<a href="http://www.cmegroup.com/rulebook/CME/III/250/274H/274H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/274H/274H.pdf</a>
	CNY	Chinese Renminbi	0.0001	<a href="http://www.cmegroup.com/rulebook/CME/III/250/270H/270H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/270H/270H.pdf</a>
	COP	Colombian Peso	0.01	<a href="http://www.cmegroup.com/rulebook/CME/III/250/273H/273H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/273H/273H.pdf</a>
	IDR	Indonesian Rupiah	1	<a href="http://www.cmegroup.com/rulebook/CME/III/250/281H/281H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/281H/281H.pdf</a>
	INR	Indian Rupee	0.01	<a href="http://www.cmegroup.com/rulebook/CME/III/250/279H/279H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/279H/279H.pdf</a>
	KRW	Korean Won	0.25	<a href="http://www.cmegroup.com/rulebook/CME/III/250/271H/271H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/271H/271H.pdf</a>
	MYR	Malaysian Ringgit	0.0001	<a href="http://www.cmegroup.com/rulebook/CME/III/250/280H/280H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/280H/280H.pdf</a>
	PEN	Peruvian Sol	0.0001	<a href="http://www.cmegroup.com/rulebook/CME/III/250/277H/277H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/277H/277H.pdf</a>
	PHP	Philippine Peso	0.01	<a href="http://www.cmegroup.com/rulebook/CME/III/250/283H/283H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/283H/283H.pdf</a>
RUB	Russian Ruble	0.0001	<a href="http://www.cmegroup.com/rulebook/CME/III/250/260H/260H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/260H/260H.pdf</a>	
TWD	Taiwanese Dollar	0.01	<a href="http://www.cmegroup.com/rulebook/CME/III/250/282H/282H.pdf">http://www.cmegroup.com/rulebook/CME/III/250/282H/282H.pdf</a>	
Settlement Currency	USD			
Quoting Convention	Currency exchange rate expressed as the amount of Contract Currency per unit of Settlement Currency.			
Minimum Order Size	\$1,000 notional			
Minimum Size Increment	\$1,000 notional			
Trading Conventions	<p>The buyer of a contract agrees to purchase a notional amount of the Contract Currency expressed in USD at an exchange rate determined by the price of execution.</p> <p>The seller of a contract agrees to sell a notional amount of the Contract Currency expressed in USD at an exchange rate determined by the price of execution.</p>			
Trading Hours	1:00 AM to 5:00 PM Eastern Time			
Effective Date	The date upon which Participants enter into contract.			
Valuation Date	<p>The date upon which the prevailing spot rate is compared to the contract price. Cash settlement occurs on the following business day. For contracts of standardized tenor, the Valuation Date is Effective Date + Tenor subject to adjustment using holiday calendars from both the Contract and Settlement currency countries using modified following convention.</p> <p>For non-standardized tenor contracts, the Valuation Date is determined by Participants.</p>			
Settlement Date	Per Clearing Venue Specifications.			
Pricing Source	Per Clearing Venue Specifications.			
Settlement Procedure	Per Clearing Venue Specifications.			
Holiday Calendar (s)	For any currency pair, the banking holiday calendars for both countries of issue are factored into consideration when determining a Valuation Date for standardized tenor contracts.			
Tenor	Up to 2 Years			
Block Size	\$100 million, or such other level as may be specified under Part 43 of the CFTC Regulations.			
Position Accountability	As may be determined and published by TeraExchange under CFTC Regulation 37.600 (c)			
<sup>1</sup> Clearing specifications, including all applicable settlement procedures, are subject to amendment by the clearing venue. References to position limits, position accountability, or reportable levels in any clearing specification apply only for clearing venue purposes.				

## Exhibit B

This exhibit includes a concise explanation and analysis of the certified NDFs' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder.

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

As with all products listed for trading on TeraExchange, trading in NDFs will be subject to compliance with the CEA, CFTC Regulations and the TeraExchange Rulebook (the "Rules"). Chapter 5 of the Rules sets out in detail the trading practice and business conduct rules applicable to all Participants. In general, under Rule 517, Participants are prohibited from engaging in any conduct in violation of Applicable Law or the Rules. Under Rule 518, any violation of the Rules or act constituting fraud, dishonorable or dishonest conduct, or conduct inconsistent with just and equitable principles of trade is an offense. Fraudulent acts of any kind, including but not limited to front-running, money passes, trading ahead of or against customers, and accommodation trading, are all prohibited under Rule 519. Also included in Chapter 5 are specific Rules intended to deter abusive and disruptive trading practices, including prohibitions on the following: fictitious, wash or non-competitive transactions (Rule 520); market disruption, including violating bids and offers, closing period violations, and spoofing (Rule 521); market manipulation (Rule 522); misstatements (Rule 523); acts detrimental to the SEF (Rule 524); misuse of the SEF (Rule 525); withholding of orders (Rule 526); trading against or crossing orders (Rule 527); and disclosing orders (Rule 528).

TeraExchange market regulation staff, working in partnership with the staff of the National Futures Association as regulatory services provider, will conduct surveillance and initiate disciplinary proceedings as necessary to enforce compliance with the Rules, the CEA and Commission Regulations.

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

In a majority of cases, NDFs will be fixed against a daily rate published by the central bank of the relevant country. As a result, NDFs are not readily susceptible to manipulation for a number of reasons. First, the reference price is generated through a transparent, rules-based process. The reliability of the reference 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 reference rates are readily available via a number of sources including websites of the various central banks.

All NDFs traded on Tera Exchange will be cash-settled at a registered Derivatives Clearing Organization ("DCO") pursuant to detailed and standardized DCO rules. Standardized terms will aid surveillance for compliance with rules, terms and conditions by TeraExchange, the Regulatory Services Provider, and to the extent applicable, the DCO. As stated above, TeraExchange has established a comprehensive market surveillance program to detect and investigate non-compliant activity.

### **Core Principle 7 – Financial Integrity of Transactions**

As with all transactions on TeraExchange, pursuant to CFTC Regulations and TeraExchange Rules, all orders for NDFs are subject to mandatory pre-trade credit checks to ensure that counterparties have sufficient credit limits in place to meet their financial obligations. See CFTC Regulation 1.73 and TeraExchange Rule 405. All NDFs being certified for trading herein will be submitted for clearing at a registered DCO subject to the DCO's rules and specifications. See TeraExchange Rule 601. These pre-trade credit checks and clearing requirements are designed to enhance the financial integrity of transactions in NDFs and all other products traded on TeraExchange.

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

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