

# TERA<sup>^</sup> EXCHANGE

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February 24, 2014

**BY ELECTRONIC MAIL: submissions@cftc.gov**

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

**Re: TeraExchange Submission 14-08: Listing of CAD LIBOR Fixed for Float Interest Rate Swaps by Certification Pursuant to Commission Regulation 40.2(a)**

Dear Secretary Jurgens:

TeraExchange, LLC ("TeraExchange") hereby notifies the Commodity Futures Trading Commission (the "Commission" or "CFTC"), pursuant to Commission Regulation 40.2(a), that it is certifying CAD LIBOR fixed for float interest rate swaps ("IRS") for trading on its swap execution facility.

The intended listing date of the IRS certified in this letter is February 26, 2014. This submission letter includes the following attachments:

- The submission cover sheet;
- The terms and conditions for the IRS (Exhibit A); and
- A concise explanation and analysis of the IRS's compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder (Exhibit B).

***Certifications***

I hereby certify that each IRS swap complies with the CEA and Commission Regulations thereunder. I further certify that TeraExchange has concurrently posted a copy of this submission letter and all attachments on the TeraExchange website at <http://www.teraexchange.com/regulatory.html>.

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

Sincerely,

*Leonard T. Nuara*

Leonard T. Nuara  
President and COO

Exhibit A

Terms and Conditions

(Attached)

## CAD LIBOR FIXED FOR FLOAT IRS

General	
Swap Structure	A spot starting, fixed notional, fixed for float Interest Rate Swap whose value is based upon the difference between a stream of fixed cash flows and floating interest payments that are tied to a floating reference rate, over a term to maturity.
Currencies	CAD
Clearing Venue Specifications	CME available at <a href="http://www.cmegroup.com/trading/interest-rates/cleared-otc/files/cme-otc-irs-supported-product-list.xls">http://www.cmegroup.com/trading/interest-rates/cleared-otc/files/cme-otc-irs-supported-product-list.xls</a> LCH available at <a href="http://www.lchclearnet.com/swaps/swapclear_for_clearing_members/products.asp">http://www.lchclearnet.com/swaps/swapclear_for_clearing_members/products.asp</a>
*Quoting Convention	Standard: Fixed coupon in points (00.000) Upfront: NPV per hundred million notional
*Price Increment	Standards: 0.001 points = 0.1 basis points Upfront: C\$ 20 per hundred million notional
*Minimum Notional Size	C\$ 1,000
*Minimum Notional Size Increment	C\$ 1,000
Trading Conventions	Buy = Pay Fixed Sell = Receive Fixed
Trading Hours	1:00 AM to 5:00 PM Eastern Time
Last Trade Date	Available to trade on every US business day
*Effective Date	The Effective Date is the first date for which fixed and floating payments accrue. For spot starting instruments, the Effective Date is the Trade Date, subject to adjustment based on Modified Following convention. For forward starting instruments, the Effective Date is Trade Date + Forward Starting Period, subject to adjustment based on Modified Following convention.
*Maturity Date	The Maturity Date (also referred to as the Termination Date) is the final date to which fixed and floating amounts accrue. For CAD instruments, this date is Effective Date + Tenor. This date is subject to adjustment based on Modified Following convention.
*Forward Starting Period	Spot starting instruments: None Forward starting instruments: Up to 10 years
Tenor	Up to 31 Years
*Upfront Payment	Standard: None Variable: As determined by Participant or Industry Standards
*Roll and Payment Date Holiday Calendars	Canada
Settlement Procedure	As determined by the Clearing Venue
Position Accountability	As may be determined and published by TeraExchange under CFTC Regulation 37.600 (c)
Fixed Leg	
Fixed Coupon	Standard: The fixed coupon is determined by the price of execution and remains static throughout the life of the contract. Upfront: As defined by Market Participants
*Payment Frequency	Semiannual Annual (1 year Tenor)
*Compounding	None
*Day Count Convention	ACT/365.FIXED
*Business Day Convention	Modified Following
Float Leg	
*Payment Frequency	Quarterly (1 year Tenor) Semiannual
*Reset Frequency	Quarterly
*Compounding	Flat
*Day Count Convention	ACT/365.FIXED
*Business Day Convention	Modified Following
*Reset Dates	Reset Dates define the beginning and end of accrual periods. Floating Rate Reset Dates facilitate the determination of the CDOR Fixing Dates. Each Reset Date is subject to adjustment based on Modified Following convention.
Fixing Dates	Reset Dates
*Floating Rate Index	Bank of Canada 3 Month CDOR
*Fixing Date Holiday Calendar	Canada

\*The above items represent the customary attributes of the swap agreements; those items marked with an asterisk "\*" may be customized but only in conformance with the Clearing Venue Specifications.

## Exhibit B

This exhibit includes a concise explanation and analysis of the certified IRS's 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 IRS 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 is a series of 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**

All IRS traded on Tera Exchange will be cash-settled by a registered Derivatives Clearing Organization ("DCO") pursuant to the DCO's rules. As a general matter, IRS trade in extremely deep and liquid markets that are difficult to manipulate. According to the Bank for International Settlements, more than \$400 trillion in notional principal was outstanding in the IRS market at the end of 2012 (see BIS Quarterly Review, September 2013). In addition, the reference rates for the IRS are derived from reputable third-party sources, as described below:

LIBOR is currently administered by BBA Libor Ltd., and calculated by Thompson Reuters, both of which are regulated by the Financial Conduct Authority in the U.K. LIBOR is the average rate at which contributor banks perceive that they can obtain unsecured funding in the London interbank market for a given period and in a given currency. Recently, there have been significant steps taken to address concerns about the reliability of the LIBOR polling process, including the establishment of an Interim LIBOR Oversight Committee, enactment of regulations over LIBOR under U.K. law, approval of the upcoming transfer of the LIBOR administration process to NYSE Euronext Rates Administration Limited, as recommended by the Hogg Tendering Advisory Committee.

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

As with all transactions on TeraExchange, pursuant to CFTC Regulations and TeraExchange Rules all orders for IRS 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 IRS 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 check and clearing requirements are designed to enhance the financial integrity of transactions in IRS and all other products traded on TeraExchange.