



Submitted via *CFTC Portal*

December 9, 2016

Christopher Kirkpatrick  
Office of the Secretariat  
U.S. Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street NW  
Washington, DC 20581

**RE: Clear Markets North America, Inc. – U.S. Dollar – Fixed to Floating Interest Rate Swaps (modification)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Clear Markets North America, Inc. (“CMSEF”) hereby notifies the Commission pursuant to Commission Regulation 40.2, of this modification to the product listing of CMSEF U.S. Dollar – Fixed to Floating Interest Rate Swaps (“CMSEF IRS Products”), originally listed CMSEF beginning September 14, 2016 (the “Submission”). The modified CMSEF IRS Products will be listed beginning December 12, 2016.

The modification only adds an option to make CMSEF IRS Products a package transaction with spreads over treasury. Participants may choose to add a “spread over treasury” for certain tenors, listed below.

The Submission contains the following:

1. A summary of the terms of the CMSEF IRS Products specifications;
2. The listing date of the CMSEF IRS Products;
3. An explanation and analysis of the CMSEF 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;
4. A certification that, concurrent with the filing of the Submission, CMSEF posted on its website a notice of pending certification of the CMSEF IRS Products with the Commission.

**I. Summary of Terms of the CMSEF IRS Products**

<b>Fixed to Floating Swaps</b>	
Currency	USD
Floating Rate Indices	LIBOR
Stated Tenors	3m 6m 9m 1y 18m 2y 3y 4y 5y 6y 7y 8y 9y 10y 15y 20y 25y 30y 35y 40y
Day Count Conventions – Fixed Leg	30/360; ACT/360; ACT/365.FIXED; ACT/ACT.ISDA; 30E/360; 30E/360.ISDA
Day Count Conventions – Floating Leg	ACT/360; ACT/365.FIXED
Payment Frequency	Monthly, Quarterly, Semi-Annual, Annual

Business Day Convention	None, Following, Modified Following, Preceding
Holiday Calendar	GBLO, USNY
Trade Start Type	Spot (T+2), Forward Starting
Trade Types	Outrights
Clearinghouse	CME, LCH
Settlement	Determined by the Clearinghouse
Quantity	Determined by Participants, minimum \$10,000
Effective Date	Date on which parties begin calculating accrued obligations (fixed and floating interest rate payments)
End Date	Date on which obligations no longer accrue
Trading Hours	CMSEF trading hours are 9 A.M. – 5 P.M. New York Time (Monday – Friday) and 9 A.M. – 5 P.M. Japan Standard Time (Monday – Friday)
Block Trades	Permitted under CMSEF Rule 416A
Position Limits	Set by: Part 151 of CFTC Regulations; CMSEF Rule 413A
Position Accountability and Reporting	Set by: Part 15 of CFTC Regulations; CMSEF Rule 413B
Cross-Currency Swaps Offered	None
Optional Package Trade	Spread Over Treasury (2y, 3y, 5y, 7y, 10y, 30y)

## **II. Listing Date**

The intended listing date of the CMSEF IRS Products is December 12, 2016.

## **III. Analysis of Compliance with Core Principles**

We have reviewed the SEF Core Principles and have identified that the listing of CMSEF 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 CMSEF 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 certain CMSEF IRS Products is the London Interbank Offered Rate (“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. (“BBA”) 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 are regulated by the Financial Conduct Authority, a prudential regulator in the United Kingdom.

Because the reference rate is based on LIBOR, a rate that is derived from a third-party and is subject to an auditable process by the BBA, the CMSEF IRS Products are not readily subject to manipulation.

### **B. Conditions that Prevent the CMSEF IRS Products from Being Readily Susceptible to Manipulation**

The terms of the CMSEF IRS Products which reference LIBOR 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.

The profound depth to the interest rate swap market protects the CMSEF IRS Products from manipulation. It is well established that deep liquid markets are very difficult to manipulate.

Since all of the CMSEF 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 CMSEF IRS Products from market manipulation. In addition, should there be any attempt to manipulate the market CMSEF is confident its robust surveillance system will detect such improper trading activity.

#### LIBOR Swaps:

Furthermore, recent public scrutiny and changes to the administration of LIBOR 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.

### **C. Settlement Procedure**

CMSEF IRS Products that will be traded on the CMSEF are cash settled at the applicable Clearing House. Currently CMSEF IRS Products will be cleared by the Chicago Mercantile Exchange, Inc. ("CME") and LCH.Clearnet LLC ("LCH"). The procedures used by the CME and LCH to settle CMSEF IRS Products are stated in CME and LCH Rules, respectively (available at CME and LCH websites). These rules set forth procedures that are transparent to the market and have been approved by the Commission.

#### IV. Certification

CMSEF hereby certifies that:

The CMSEF IRS Products comply with the Commodity Exchange Act, 7 U.S.C. §1 et seq. and the regulations thereunder.

This Submission has been concurrently posted on CMSEF's website at <http://www.clear-markets.com/>.

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If you have any questions regarding the above, please contact me at [king@clear-markets.com](mailto:king@clear-markets.com) or 980-819-1170.

Respectfully submitted,



Zachary J. King  
Chief Compliance Officer  
Clear Markets North America, Inc.