
Regulatory Notice 18-02

Issue Date: October 30, 2018
Attention: Compliance and Trading Departments
Subject: Certification of Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap ("UVR-IBR") Contract
Summary: LatAm SEF, LLC is notifying Trading Privilege Holders of a CFTC Regulation 40.2(a) Filing

On Tuesday, October 30, 2018, LatAm SEF filed a 40.2(a) product certification with the Commodity Futures Trading Commission ("CFTC") related to the Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap ("UVR-IBR") Contract. This certification is scheduled to take effect November 1, 2018.

Regulatory Summary

LatAm SEF is submitting a Regulation 40.2(a) filing to the CFTC to certify the following product:

- Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap ("UVR-IBR")

Product Listing by Certification Process

Before becoming effective, a product certification must be filed with the CFTC pursuant to Section 5c of the Act. As per CFTC regulation 40.2(a), concurrent with the filing of this CFTC Regulation 40.2(a) filing with the CFTC, this filing is being posted on LatAm SEF's web site. Therefore, product certification is scheduled to take effect in accordance with CFTC regulation on November 1, 2018.

Contacts

Comments and questions regarding this Notice should be directed to:

- Joseph Skelly, Corporate Communications
Direct Line: (646) 344-3274
Email: jskelly@latamsef.com
- Michael Sabbagh, Market Surveillance
Direct Line: (646) 344-3268
Email: msabbagh@latamsef.com

October 30, 2018

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 Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap**

Dear Ms. Jurgens:

LatAm SEF, LLC (“LatAm SEF”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying Colombian UVR-COP IBR Cross-Currency Inflation Swap contract (“UVR-IBR”) for trading on LatAm SEF’s electronic trading system (the “Trading System”).

LatAm SEF will list the UVR-IBR no earlier than November 1, 2018.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a copy of the UVR-IBR rules, which includes a concise explanation and analysis of the UVR-IBR. The UVR-IBR rules will be published as contract specifications on LatAm SEF’s website concurrently with this submission.
- Attached as Exhibit B, a concise explanation and analysis of the UVR-IBR compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder.

LatAm SEF certifies that the UVR-IBR complies with the CEA and Commission Regulations thereunder. LatAm SEF additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on LatAm SEF’s website.

In the event that you have questions, please contact the undersigned at (646) 344-3267 or sarmstrong@latamsef.com.

Sincerely,



Sandra Armstrong
Chief Compliance Officer
LatAm SEF, LLC

Attachments

Exhibit A

LatAm SEF Contract Specifications: Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap

Contract Overview

A Non-Deliverable Cross-Currency Inflation Swap is an agreement between two parties to exchange principal and cash flows of payments based on a notional amount as calculated based on reference indices in two different currencies, one of which is a synthetic inflation-indexed currency. In the Non-Deliverable Cross-Currency Inflation Swap, the buyer pays a fixed rate and the seller pays a floating rate over a predetermined term until maturity, and the contract is settled in a deliverable currency.

The Colombian UVR-COP IBR Non-Deliverable Cross-Currency Inflation Swap (“UVR-IBR”) involves the exchange of principal and cash flows in the Colombian Unidad de Valor Real (“UVR”) inflation currency for cash flows in Colombian peso (“COP”) as calculated based on the Colombian Indicador Bancario de Referencia (“IBR”) interest rate reference index, with payments settled in United States dollar (“USD”) according to EMTA template terms.

Naming Convention

Format: [Product Name] - [Tenor]

Example: UVR vs. COP IBR - 3-Month

Product Type/ISDA OTC Taxonomy

- ISDA OTC Asset Class – Interest Rate (IR)
- ISDA OTC Base Product – Cross Currency (CC)
- ISDA OTC Sub-Product – Inflation (INF)

Trading Hours

Monday – Friday 7:00 AM to 4:00 PM ET, or as published on the LatAm SEF website subject to LatAm SEF Rule 502.

Trading Conventions

The terms of the UVR-IBR are as follows:

Fixed-for-Floating

Exchange of payments based on a fixed rate for payments based on a floating rate.

Counterparties

- Buyer – Pays fixed interest rate and receives floating interest rate.
- Seller – Pays floating interest rate and receives fixed interest rate.

Reporting Counterparty

- Fixed Rate Payer Rule – The Buyer of the product in the transaction bears responsibility for reporting Required Swap Continuation Data to the relevant Swap Data Repository.

Notional Currency

Currency Name	ISO Code	Business Center Code (Description)
Colombian Peso (COP)	COP	COBO (Bogotá, Colombia)
Colombian Unidad de Valor Real (UVR)	COU	COBO (Bogotá, Colombia)

Trade Unit, Size and Price Parameters

Trade Unit, Minimum Size, Minimum Size Increment and Minimum Price Increment (Minimum Tick) are listed below by Notional Currency ISO Code. Orders may be quoted in either currency, with the other notional currency amount calculated using the UVR rate for the Effective Date, or as agreed by the Counterparties.

Notional Currency ISO Code	Trade Unit	Minimum Size	Minimum Size Increment	Minimum Price Increment
COU	Thousands	0.01 Thousand	0.01 Thousand	0.01%
COP	Billions	0.01 Billion	0.01 Billion	0.01%

Notional Currency

Currency in which the contract Notional Amount is specified and quoted, as specified by the Counterparties from among the Currencies.

Notional Amount

Size of the transaction and the value on which the exchanged interest payments are based, specified in Notional Currency and Trade Unit.

Trade Unit

Denomination in which the contract notional amount is specified (e.g. millions, billions), as listed for the Notional Currency in Currencies.

Minimum Size

Smallest size in which contract can be traded, as listed for the Notional Currency in Currencies.

Minimum Size Increment

Smallest amount by which contract size can change, as listed for the Notional Currency in Currencies.

Minimum Price Increment

Smallest amount by which contract price can change, as listed for the Notional Currency in Currencies.

Tenor

The duration of time from the Effective Date to the Maturity Date. Tenors can range in duration from one month to 30 years. Standard tenors include 3-month, 6-month, 9-month, 12-month, 18-month, and 2-year through 30-year.

Start Type

Convention for determining the Effective Date relative to Trade Date, from one of those listed below. T+2 is the product default.

- T+0 – Also called “Same Day Starting,” Effective Date is the same as the Trade Date.
- T+1 – Effective Date is one business day after the Trade Date.
- T+2 – Also called “Spot Starting,” Effective Date is two business days after the Trade Date.

Effective Date

Also referred to as “Start Date,” the first date from which floating interest amounts accrue, as determined using Start Type. The Effective Date must be a business day, subject to the applicable Effective Date Business Center.

Effective Date Business Center

Business day calendar location(s) referenced to determine the Effective Date, as specified by the Counterparties from among the Available Business Centers.

Maturity Date

Also referred to as “Termination Date,” the final date until which fixed and floating payment amounts accrue, calculated as the Trade Date plus Tenor, subject to day count frequency, day count convention and Maturity Date Business Center, or as specified by the Counterparties.

Maturity Date Business Center

Business day calendar location(s) referenced to determine the Maturity Date, as specified by the Counterparties from among the Available Business Centers.

Day Count Convention

Also called Day Count Fraction, this is the convention employed to determine how interest accrues and the number of days between payments. Conventions that may apply to LatAm SEF swaps are listed below. Actual/360 is the product default.

- Actual/360 – The actual number of days in the period divided by 360.
- 30/360 – Also called “360/360”, the year fraction is calculated based on a 360 day year with 30-day months, after applying the following rules: If the first date falls on the 31st of the month, it is changed to the 30th. If the second date falls on the 31th, it is changed to the 30th, but only if the first date falls on the 30th or the 31st.
- Business/252 – Used exclusively in Brazilian Interest Rate Swaps, 252-Business-Day – Calculation Days / 252, where Calculation Days means the number of Brazil Business Days (each such Day, a “Scheduled Reset Date”) from and including the Effective Date (which is equal to the Trade Date) to but not including the Termination Date.

Business Day Convention

Method for adjusting dates to business days when unadjusted dates fall on weekends or holidays. Business day conventions apply to a variety of relevant dates, including calculation, payment, reset, fixing and maturity dates. Modified Following is the product default.

- Following – Date is rolled to the next business day for the business center(s) specified denoted for the date type.
- Modified Following – Date is rolled to the next business day for the business center(s) specified denoted for the date type, unless doing so would cause the payment to be in the next calendar month, in which case the payment date is rolled to the previous business day.
- Preceding – Date is rolled to the first preceding day that is a business day in the business center(s) specified denoted for the date type.

Payment Date

The date on which transfer of fixed rate payments and floating rate payments are conducted between the Buyer and the Seller. Payment Date is determined according to the Payment Frequency as applied to the Effective Date, subject to day count frequency, day count convention and business center(s), or as specified by the Counterparties.

Payment Frequency

As indicated for each listed product, the payment frequency is one or more of those listed below. Interest Rate derivatives may feature a zero coupon payment frequency for short-term tenors (e.g. 18 months or less) and a

periodic payment frequency for longer-term tenors. Zero Coupon is the product default for tenors 18 months or less; Quarterly is the default for tenors greater than 18 months.

- Zero Coupon – Full payment at swap termination.
- Monthly – Payments made on monthly basis.
- Quarterly – Payments made every three months.
- Semi-annual – Payments made every six months.

Payment Date Business Center

Business day calendar location(s) referenced to determine Payment Date, as specified by the Counterparties from among the Available Business Centers.

Fixed Rate Payment

Fixed Rate Payer

The Buyer of the swap. Party obligated to make payment on the payment date on the Notional Amount converted to COP, as determined by referencing the UVR index, published for the payment date.

Fixed Rate

Rate agreed by the Counterparties on the Trade Date.

Fixed Notional Amount

Notional Amount in UVR.

Fixed Coupon Payments

Subject to Settlement terms:

$$[\text{Fixed Notional Amount} \times \text{Payment Date UVR Rate}] \times \text{Fixed Rate}$$

Fixed Rate Payment Date

The date on which transfer of fixed rate payments are made by the Buyer to the Seller. Payment Date is determined according to the Payment Frequency as applied to the Effective Date, subject to day count frequency, day count convention and business center(s), or as specified by the Counterparties.

Floating Rate Payment

Floating Rate Payer

The Seller of the swap. Party obligated to make payment on the payment date on the notional accrued using the floating IBR interest rate on each Reset Date.

Floating Notional Amount

Notional Amount in COP.

Floating Coupon Payments

Subject to Settlement terms:

$$\text{Floating Notional Amount} \times \text{Payment Date IBR Rate}$$

Floating Rate Reference Index

Interest rate of the IBR as determined by the Banco de la Republica de Colombia on each Reset Date (each

Floating Rate

Interest rate of the IBR as determined by the Banco de la Republica de Colombia on each Reset Date (each Bogotá, Colombia Business Day).

Reset Date

Date used to determine the Floating Rate amounts for each interest accrual period during the Tenor of the contract. Product default is Floating Rate Payment Date minus two business days, subject to Reset Date Business Center. Except in the case of a Stub Period, the Reset Date frequency is aligned with the Payment Frequency.

Reset Date Business Center

Business day calendar location(s) referenced to determine Reset Date, as specified by the Counterparties from among the Available Business Centers.

Floating Rate Payment Date

The date on which transfer of a floating rate payment is made by the Seller to the Buyer. Payment Date is determined according to the Payment Frequency as applied to the Effective Date, subject to day count frequency, day count convention and business center(s), or as specified by the Counterparties.

Principal Exchange

Counterparties exchange principal at outset and maturity (“front and back”), subject to Settlement terms.

Settlement

Non-Deliverable, with the effect that any amounts payable hereunder shall be converted into Settlement Currency amounts on the applicable “Valuation Date” as that date is defined in the EMTA template terms referenced under Settlement Currency Pair, below. All payments shall be made in the Settlement Currency on the Settlement Date.

Settlement Price

Settlement price for the exchange of fixed and floating payments is based on the following factors:

- Fixed Rate Payer – Payment amount for the fixed rate payer is based on the notional amount and fixed rate on the Trade Date.
- Floating Rate Payer – Payment amount for the floating rate payer is based on the notional amount on the Trade Date and Interest Rate on each Calculation Date/Reset Date.

Settlement Currency

United States dollar (USD) as calculated according to the Settlement Currency Pair conventions, below.

Settlement Currency Pair

Terms for the Settlement Currency Pair are documented in EMTA Template Terms for COP/USD Non-Deliverable FX Forward Transactions, effective January 1, 2018.

Base Currency	Settlement Currency	Rate Source	Rate Source Fallback	Rate Source Code	Business Center Code
COP	USD	COP02	COP03	COP.TRM/COP02	COBO, USNY

Settlement Rate Source

COP TRM (COP02) – The Colombian Tasa de Cambio Representativa del Mercado (TRM) - or Average Representative Market Rate - is calculated based on foreign currency purchases and sales between financial intermediaries on the day of trading and is certified and published by the Financial Superintendent of Colombia the following business day. The rate is expressed as the amount of Colombian Pesos per one U.S. Dollar.

Calculation Agent

As agreed by the parties.

Settlement Date

A date on which a transfer of payment is conducted between the Buyer and the Seller.

Settlement Date Business Center

Business day calendar location(s) referenced to determine Settlement Date, as specified by the Counterparties from among the Available Business Centers.

Clearing

Not available. DCOs currently recognized by LatAm SEF (Chicago Mercantile Exchange, Inc. and LCH.Clearnet Limited) do not support the UVR-IBR.

Reference Index

Colombian UVR (Unidad de Valor Real)

The Colombian UVR (Real Value Unit) is a unit of account calculated by the Banco de la Republica de Colombia based on Colombia's consumer pricing index ("IPC"). The UVR reflects purchasing power based on the change in the consumer pricing index during the preceding month. The UVR is used to calculate and adjust financial assets such as mortgage loans and savings accounts in value according to the rate of inflation so that an interest rate at least equal to the inflation rate is charged. This approach ensures that money keeps its purchasing power by increasing proportionately with inflation.

Currency	Currency Code	Business Center Code
UVR	COU	COBO

Colombian IBR (Indicador Bancario de Referencia)

The Colombian Indicador Bancario de Referencia (IBR) is an indicative benchmark interest rate of Colombian money market liquidity denominated in Colombian pesos and published daily. The Colombian IBR is calculated by the Banco de la Republica de Colombia based on the contributions of multiple participating banks. The rates quoted by the banks are the nominal rates they are willing to both pay and receive for each of the respective terms. Each of the rates, the contributing banks, and respective rates of the contributing banks are made public on the Banco de la Republica de Colombia web site (<http://www.banrep.gov.co>).

Index Currency	Index Code	Business Center Code
COP	COP-IBR-OIS-COMPOUND	COBO

Available Business Centers

The following Business Centers may be specified by the Counterparties in determining relevant dates:

Code	Location
COBO	Bogotá, Colombia
USNY	New York, United States

Exhibit B

Compliance with CEA Provisions and CFTC Regulations

As required by Commodity Futures Trading Commission (“Commission”) Regulation 40.2(a), the following analysis, in narrative form, demonstrates that UVR-IBR contracts are consistent with the requirements of the Commodity Exchange Act, as amended (the “Act”), and the Commission regulations and guidance thereunder (in particular, Appendix B to Part 37 and Appendix C to Part 38).

Part 37 Appendix B

Core Principle 2 of Section 5h of the Act—Compliance With Rules

A swap execution facility shall:

(A) Establish and enforce compliance with any rule of the swap execution facility, including the terms and conditions of the swaps traded or processed on or through the swap execution facility and any limitation on access to the swap execution facility;

(B) Establish and enforce trading, trade processing, and participation rules that will deter abuses and have the capacity to detect, investigate, and enforce those rules, including means to provide market participants with impartial access to the market and to capture information that may be used in establishing whether rule violations have occurred;

(C) Establish rules governing the operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades; and

(D) Provide by its rules that when a swap dealer or major swap participant enters into or facilitates a swap that is subject to the mandatory clearing requirement of section 2(h) of the Act, the swap dealer or major swap participant shall be responsible for compliance with the mandatory trading requirement under section 2(h)(8) of the Act.

Trading in the UVR-IBR will be subject to the LatAm SEF Rulebook (the “Rules”), which prohibits abusive trading practices and other illicit behavior, including misuse of the Trading System (Rule 705), conduct that is inconsistent with just and equitable principles of trade (Rule 704), fraudulent acts (Rule 707), fictitious transactions (Rule 707), market manipulation (Rule 707), disruptive trading practices (Rule 707), misstatements (Rule 707), wash sales (Rule 707), pre-negotiated or non-competitive trades, including money passes (Rule 707) and improper cross-trading (Rule 707). Trading in these swaps will also be subject to Rules relating to protection of customers. See Chapter 7 of the Rules.

As with all swaps listed for trading on the Trading System, trading activity in the UVR-IBR will be subject to monitoring and surveillance by LatAm SEF’s Market Operations and Compliance Departments. LatAm SEF has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. See Chapter 8 of the Rules.

The UVR-IBR is not currently required to be cleared under section 2(h)(1)(A) of the U.S. Commodity Exchange Act, and is not voluntarily clearable by DCOs currently recognized by LatAm SEF (Chicago Mercantile Exchange, Inc. and LCH.Clearnet Limited). Should the UVR-IBR become subject to a clearing requirement, pursuant to Rule 601, all Participants and Sponsored Access Participants must clear all Swaps that are required to be cleared under Section 2(h)(1) of the CEA and CFTC Regulation § 39.5, provided that an end-user exception is not elected.

Core Principle 3 of Section 5h of the Act—Swaps Not Readily Susceptible to Manipulation

The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.

(a) Guidance.

(1) In general, a swap contract is an agreement to exchange a series of cash flows over a period of time based on some reference price, which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. Moreover, such a reference price may be reported by the swap

execution facility itself or by an independent third party. When listing a swap for trading, a swap execution facility shall ensure a swap's compliance with Core Principle 3, paying special attention to the reference price used to determine the cash flow exchanges. Specifically, Core Principle 3 requires that the reference price used by a swap not be readily susceptible to manipulation. As a result, when identifying a reference price, a swap execution facility should either: Calculate its own reference price using suitable and well-established acceptable methods or carefully select a reliable third party index.

(2) The importance of the reference price's suitability for a given swap is similar to that of the final settlement price for a cash-settled futures contract. If the final settlement price is manipulated, then the futures contract does not serve its intended price discovery and risk management functions. Similarly, inappropriate reference prices cause the cash flows between the buyer and seller to differ from the proper amounts, thus benefitting one party and disadvantaging the other. Thus, careful consideration should be given to the potential for manipulation or distortion of the reference price.

(3) For swaps that are settled by physical delivery or by cash settlement refer to the guidance in appendix C to part 38 of this chapter—*Demonstration of Compliance That a Contract is not Readily Susceptible to Manipulation, section b(2) and section c(5), respectively.*

The UVR-IBR references the Colombian Unidad de Valor Real ("UVR") index rate to convert UVR to Colombian Peso (COP). The UVR is a unit of account calculated by the Banco de la Republica de Colombia based on Colombia's consumer pricing index ("IPC").

The UVR is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a market that has considerable depth and liquidity due to the involvement of numerous market 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 and financial 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 market are entities that are subject to regulation.

The UVR-IBR references the Colombian Indicador Bancario de Referencia ("IBR") interest rate index to calculate floating rate payments. The IBR is an indicative benchmark interest rate of Colombian money market liquidity denominated in Colombian pesos and published daily. The Colombian IBR is calculated by the Banco de la Republica de Colombia based on the contributions of multiple participating banks. The rates quoted by the banks are the nominal rates they are willing to both pay and receive for each of the respective terms. Each of the rates, the contributing banks, and respective rates of the contributing banks are made public on the Banco de la Republica de Colombia web site (<http://www.banrep.gov.co>).

The IBR is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a market that has considerable depth and liquidity due to the involvement of numerous market 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.

The UVR-IBR is subject to cash settlement in USD. The non-deliverable feature is a mechanism used to settle cross-currency swap transactions where currency restrictions make delivery of the underlying currencies difficult. The FX reference price for the currency conversion of the settlement price is the Colombian Tasa de Cambio Representativa del Mercado (COP TRM (COP02)), published by the Financial Superintendent of Colombia. The COP TRM (COP02) is the same rate referenced for the Colombian NDF and is subject to standard EMTA fallbacks for COP which are widely accepted in NDF products. It is similar to a non-deliverable forward (NDF) and is used for many of the same currencies. The FX reference price for these swaps uses the standard EMTA rates and fallbacks which are widely accepted for NDF products.

The COP TRM (COP02) is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a market that has considerable depth and liquidity due to the involvement of numerous market 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.

The UVR-IBR is not settled by physical delivery.

Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation

Part 38 Appendix C(c) – Non-deliverable Contracts (Cash Settlement)

(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index's calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).

Essential Economic Characteristics of the Contract

The terms and conditions of the contract are described in Exhibit A.

Final Settlement Price

The cash settlement price is paid in USD. The COP TRM (COP02) spot rate is used to convert payment amounts from COP to USD on the Fixing Date. COP TRM (COP02) is published by Central Bank of Colombia at 10:30 AM Bogotá time on business day following the rate calculation. COP TRM (COP02) is the same rate as is used for calculating a non-deliverable forward. This method of cash settlement is consistent with the customary practice of cash-settling non-deliverable cross-currency swaps in the market.

Trading Hours

Monday – Friday 7:00 AM to 4:00 PM ET, or as published on the LatAm SEF website subject to LatAm SEF Rule 502.

(2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity. The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.

The contract operates in a very liquid market with numerous participants. Also, the cash settlement price is not easily susceptible to manipulation or distortion as the method of determining the price is based on factors that are fixed at the start of the particular contract (i.e., payment frequency, day count conventions, fixed interest rate, floating reset dates) and the applicable reference rate. Each of the available reference rates is widely accepted by market participants and data is readily accessible through numerous news outlets.

(3) Where an independent, private-sector third party calculates the cash settlement price series, a designated contract market should consider the need for a licensing agreement that will ensure the designated contract market's rights to the use of the price series to settle the listed contract.

(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.

As described above, the cash settlement price is calculated through a cash settlement method that is not easily susceptible to manipulation.

(ii) Where a designated contract market itself generates the cash settlement price series, the designated contract market should establish calculation procedures that safeguard against potential attempts to artificially influence the price. For example, if the cash settlement price is derived by the designated contract market based on a survey of cash market sources, the designated contract market should maintain a list of such entities which all should be reputable sources with knowledge of the cash market. In addition, the sample of sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.

Not applicable. LatAm SEF does not generate the cash settlement price.

(iii) The cash-settlement calculation should involve computational procedures that eliminate or reduce the impact of potentially unrepresentative data.

(iv) The cash settlement price should be an accurate and reliable indicator of prices in the underlying cash market. The cash settlement price also should be acceptable to commercial users of the commodity contract. The registered entity should fully document that the settlement price is accurate, reliable, highly regarded by industry/market agents, and fully reflects the economic and commercial conditions of the relevant designated contract market.

Please see answers to previous questions regarding calculation of cash settlement price.

(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information that is appropriate for release to the public, available to the public when cash settlement is accomplished by the derivatives clearing organization. If the cash settlement price is based on cash prices that are obtained from non-public sources (e.g., cash market surveys conducted by the designated contract market or by third parties on behalf of the designated contract market), a designated contract market should make available to the public as soon as possible after a contract month's expiration the final cash settlement price as well as any other supporting information that is appropriate or feasible to make available to the public.

The final cash settlement price is not determined by a derivatives clearing organization.

Please see answers to previous questions regarding calculation of cash settlement price.

(4) Contract terms and conditions requirements for futures contracts settled by cash settlement.

(i) An acceptable specification of the terms and conditions of a cash-settled commodity contract will also set forth the trading months, last trading day, contract size, minimum price change (tick size) and daily price limits, if any.

The terms and conditions of the contract are described in Exhibit A.

(A) Commodity Characteristics: The terms and conditions of a commodity contract should describe the commodity underlying the contract.

The terms and conditions of the contract in Exhibit A describe the indices on which the contract is based.

(B) Contract Size and Trading Unit: An acceptable specification of the trading unit would be a contract size that is consistent with customary transactions in the cash market. A designated contract market may opt to set the contract size smaller than that of standard cash market transactions.

Contract size, as described in the terms and conditions of the contract in Exhibit A, is consistent with customary transactions in the cash market.

(C) Cash Settlement Procedure: The cash settlement price should be reliable, acceptable, publicly available, and reported in a timely manner as described in paragraphs (c)(3)(iv) and (c)(3)(v) of this appendix C.

Please see answers to previous questions regarding calculation of cash settlement price, reliability and availability.

(D) Pricing Basis and Minimum Price Fluctuation (Minimum Tick): The minimum price increment (tick) should be set a level that is equal to, or less than, the minimum price increment commonly observed in cash market transactions for the underlying commodity. Specifying a futures' minimum tick that is greater than the minimum price increment in the cash market can undermine the risk management utility of the futures contract by preventing hedgers from efficiently establishing and liquidating futures positions that are used to hedge anticipated cash market transactions or cash market positions.

As agreed between the counterparties, the pricing basis is consistent with customary transactions in the market.

The minimum price fluctuation is set at 0.01%, which is less than the minimum price increment commonly observed in the market for the swap.

(E) Maximum Price Fluctuation Limits: Designated contract markets may adopt price limits to: (1) Reduce or constrain price movements in a trading day that may not be reflective of true market conditions but might be caused by traders overreacting to news; (2) Allow additional time for the collection of margins in times of large price movements; and (3) Provide a "cooling-off" period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price-limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract. For broad-based stock index futures contracts, rules should be adopted that coordinate with New York Stock Exchange ("NYSE") declared Circuit Breaker Trading Halts (or other market coordinated Circuit Breaker mechanism) and would recommence trading in the futures contract only after trading in the majority of the stocks underlying the index has recommenced.

As agreed between the Counterparties.

(F) Last Trading Day: Specification of the last trading day for expiring contracts should be established such that it occurs before publication of the underlying third-party price index or determination of the final settlement price. If the designated contract market chooses to allow trading to occur through the determination of the final settlement price, then the designated contract market should show that futures trading would not distort the final settlement price calculation.

The last trading day is the Maturity Date of each contract, which is set by the Counterparties.

(G) Trading Months: Trading months should be established based on the risk management needs of commercial entities as well as the availability of price and other data needed to calculate the cash settlement price in the specified months. Specification of the last trading day should take into consideration whether the volume of transactions underlying the cash settlement price would be unduly limited by occurrence of holidays or traditional holiday periods in the cash market. Moreover, a contract should not be listed past the date for which the designated contract market has access to use a proprietary price index for cash settlement.

Payments are settled in accordance with the Payment Frequency of the contract, which is a flexible term. Payment and other day count determinations take into consideration holidays in relevant business centers, as described in Exhibit A.

(H) Speculative Limits: Specific rules and policies for speculative position limits are set forth in part 150 and/or part 151, as applicable, of the Commission's regulations.

None required by Parts 150 or 151. LatAm SEF shall comply with Parts 150 and 151 of the Commissions regulations.

(I) Reportable Levels: Refer to § 15.03 of the Commission's regulations.

LatAm SEF will adhere to the applicable reporting levels set forth in § 15.03 of the Commission's regulations.

(J) Trading Hours: Should be set by the designated contract market to delineate each trading day.

Monday – Friday 7:00 AM to 4:00 PM ET, or as published on the LatAm SEF website subject to LatAm SEF Rule 502.