

# SUBMISSION COVER SHEET

Confidential Treatment has not been requested

Organization Name: Javelin SEF, LLC

Organization Type: SEF

Registered Entity Identifier: 14-11

Submission Number: 1407-2416-1712-60

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Submission Type: Product - 40.2(a) Product Certification

Submission Description:



July 24, 2014

**VIA Electronic Submission**

Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

Re: Javelin SEF, LLC Submission No. 14-11

To Whom It May Concern,

Javelin SEF, LLC (“Javelin SEF”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2, of its revised product listing of Javelin SEF interest rate swap products (“CME IRS Products”) on Javelin SEF beginning July 28, 2014 (the “Submission”). Specifically, Javelin SEF is amending its CME IRS Products to include Package Trades as a new Trade Type<sup>1</sup>.

The Submission contains the following:

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

1. Summary of Terms of the CME IRS Products

**Contract Overview** An agreement to exchange one stream of cash flows for another where one stream is based on a floating rate, for a given notional amount over a specified term, and the other stream is based upon either another floating interest rate or a fixed interest rate for the same notional and a given term.

**Currency Units** US Dollar, British Pounds, Euros

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<sup>1</sup> Pursuant to Javelin SEF’s rulebook a “Package Trade” is a transaction involving two or more instruments: (1) that is executed between two or more counterparties; (2) that is priced or quoted as one economic transaction with simultaneous or near simultaneous execution of all components; and (3) where the execution of each component is contingent upon the execution of all other components.

<b>Floating Rate Index</b>	USD LIBOR, Sterling LIBOR, EURIBOR
<b>Contract Size</b>	Increments of 1 million currency units
<b>Minimum Size</b>	1 million currency units notional
<b>Trading Conventions</b>	Buy = Pay Fixed, Receive Float -or- Pay Float +/- Spread, Receive Float Sell = Receive Fixed, Pay Float -or- Receive Float +/- Spread, Pay Float
<b>Swap Conventions</b>	<p><i>Fixed Leg:</i></p> <ul style="list-style-type: none"><li>• Payment Frequency: Monthly, Quarterly, Semi-Annual, Annual</li><li>• Day Count Convention: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT</li><li>• Holiday Calendars: London, New York, TARGET<sup>2</sup></li><li>• Business Day Conventions: Following, Modified Following with adjustment to period end dates &amp; Modified Following without adjustment for period end dates</li></ul> <p><i>Floating Leg:</i></p> <ul style="list-style-type: none"><li>• Payment/Resets : Monthly, Quarterly, Semi-Annual, Annual</li><li>• Day Count Conventions: ACT/360, ACT/365</li><li>• Holiday Calendars: London, New York, TARGET</li><li>• Business Day Conventions: Following, Modified Following with adjustment to period end dates &amp; Modified Following without adjustment to period end dates</li></ul>
<b>Swap Tenor or Swap Term</b>	The duration of time from the effective date to the maturity date. A contract can have a Swap Tenor from 1 day to 31 years.
<b>Effective Date</b>	The date on which parties begin calculating accrued obligations such as fixed and floating interest rate payments. Also known as the start date of the swap.
<b>Maturity Date</b>	The final date on which the obligations no longer accrue and the final payment occurs.

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<sup>2</sup> TARGET shall mean any day on which TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) is open.

**Periodic  
Settlement  
Payment and  
Resets**

*Fixed Leg:*

The payment amount of the Fixed Leg is based on the following: Notional, Fixed Interest Rate, Payment Frequency, Number of days in the interest accrual period, and Day Count Convention.

*Floating Leg:*

The payment amount of the Floating Leg is based on the following: Notional, Floating Interest Rate Index, Payment Frequency, Number of days in the interest accrual period, and Day Count Convention.

Payments are settled in accordance with the payment frequency of the swap.

**Floating Fixing  
Date**

- USD: The LIBOR Fixing Date is 2 London business days prior to the floating effective date.
- GBP: The LIBOR Fixing Date is the same day as the floating effective date.
- EUR: The EURIBOR Fixing Date is 2 TARGET London business days prior to the floating effective date.

**Trade Start  
Types**

*Same Day:*

- A new swap where the Effective Date is the same day as the trade date.

*Next Day:*

- A new swap where the Effective Date is T+1 from the trade date.

*Spot:*

- A new swap where the Effective Date is T+2 from the trade date.

*Forward:*

- A new swap with an effective date on any day after the spot start date, before the maturity date, and no longer than 13 months.

**Trade Types**

- "Rate Trades"; interest rate swaps
- "Spreads"; Package Trade consisting of interest rate swaps with US Treasury Bond
- IMM<sup>3</sup>; interest rate swaps where Effective Date, Accrual Dates and Maturity Date are IMM Dates.

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<sup>3</sup> IMM shall mean the four quarterly dates of each year which are the third Wednesday of March, June, September, and December in accordance with the International Monetary Market calendar a division of the CME Group.

- “MAC” Swaps; Market Agreed Coupon
- “Basis” Swaps; Exchange of two floating rate indexes
- “Package Trades”; transaction involving two or more instruments: (1) that is executed between two or more counterparties; (2) that is priced or quoted as one economic transaction with simultaneous or near simultaneous execution of all components; and (3) where the execution of each component is contingent upon the execution of all other components.

**Notional Types** “Bullet”; Notional remains constant over term of swap.

**Settlement Procedure** As determined by the Clearing Venue

**Trading Hours** Javelin SEF, LLC trading hours are Monday to Friday 7:30 am to 5:00 pm

**Clearing Venue** CME

**Block Trades** Block Trades may be submitted pursuant to Javelin SEF Rule 515

**Position Limits** As provided by Part 151 of the Commission’s Regulations.

**Reporting Levels** As provided by Commission Regulation 15.03.

## 2. Explanation and Analysis of CME IRS Products’ Compliance with SEF Core Principles

We have reviewed the SEF Core Principles and have identified that the listing of CME 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 CME 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 CME IRS Products is the London Interbank Offered Rate for USD LIBOR, Sterling LIBOR, and EURIBOR (“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. Historically, LIBOR was calculated each day by the BBA Libor Ltd. in conjunction with Thomson Reuters. In response to concerns raised regarding the reliability of LIBOR as reference price, the British Government established an independent committee to recommend a new administrator for LIBOR known as the Hogg Tendering Advisory Committee for LIBOR (“Hogg Committee”). ICE Benchmark Administration, Limited (“IBA”) was selected (through a competitive process) by the Hogg Committee to replace BBA Libor Ltd. The Financial Conduct Authority approved the transition to IBA on February 1, 2014. The LIBOR pricing provided by IBA is known as ICE LIBOR.

ICE LIBOR is a “polled” rate, issued at approximately 11:45 am (London time) each day the banks are open. It is determined based upon “trimmed arithmetic mean” of the price information submitted by contributing banks. The “trimmed arithmetic mean” is calculated by discarding the highest and lowest 25% of prices and averaging the balance of the prices. More information on the specifics on how LIBOR is calculated and how IBA oversees the determination of ICE LIBOR is available at [www.theice.com/iba](http://www.theice.com/iba).

Because the reference rate is based on LIBOR, a rate that is derived from a third-party (not the Javelin SEF’s Participants) and is subject to an auditable process by the IBA, the Contract is not readily subject to manipulation.

b. Conditions that Prevent CME IRS Products from Being Readily Susceptible to Manipulation

The terms of the IRS Product 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. See BIS Quarterly Review, September 2013 Page A10 Table 4 [http://www.bis.org/publ/qtrpdf/r\\_qs1309.pdf](http://www.bis.org/publ/qtrpdf/r_qs1309.pdf).

The profound depth to the interest rate swap market protects the CME IRS Products from manipulation. It is well established that deep liquid markets are very difficult to manipulate. All of the recent public scrutiny and changes to the administration of LIBOR, it makes it difficult for an attempt by a single market participant or group of market participants to manipulate the LIBOR reference price to go undetected. Since all of the CME 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 CME IRS Products from market manipulation. In addition, should there be any attempt to manipulate the market, Javelin SEF is confident its robust surveillance system will detect such improper trading activity.

c. Settlement Procedure

CME IRS Products that will be traded on the Javelin SEF are cash settled at the applicable Clearing House. Currently CME IRS Products will be cleared by the Chicago Mercantile Exchange "CME". The procedures used by the CME to settle CME IRS Products is stated in CME Rules (CME Rules are available at [www.cmegroup.com](http://www.cmegroup.com)). These rules set forth procedures that are transparent to the market and have been approved by the Commission.

**3. Certification**

Javelin SEF certifies that the CME IRS Products comply with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and the regulations thereunder. Javelin SEF further certifies that this Submission has been concurrently posted on Javelin SEF's website at <http://www.theJavelin.com>.

In the event that you have questions, please contact me at (646) 307-5931 or [suellen.galish@thejavelin.com](mailto:suellen.galish@thejavelin.com).

Sincerely,

/s/Suellen M. Galish  
General Counsel and Chief Compliance Officer