

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional)

Date: 09/29/2013

**IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**

## ORGANIZATION

GFI Swaps Exchange LLC

## FILING AS A:

DCM

SEF

DCO

SDR

ECM/SPDC

## TYPE OF FILING

### • Rules and Rule Amendments

- Certification under § 40.6 (a) or § 41.24 (a)
- "Non-Material Agricultural Rule Change" under § 40.4 (b)(5)
- Notification under § 40.6 (d)
- Request for Approval under § 40.4 (a) or § 40.5 (a)
- Made Available To Trade Determination under § 40.5 or § 40.6
- Advance Notice of SIDCO Rule Change under § 40.10 (a)

### • Products

- Certification under § 40.2 (a) or § 41.23 (a)
- Submission under § 39.5
- Swap Class Certification under § 40.2 (d)
- Request for Approval under § 40.3 (a)
- Novel Derivative Product Notification under § 40.12 (a)

## RULE NUMBERS

N/A

## DESCRIPTION

Self-Certification of Dividend Swaps Based On S&P/Toronto Stock Exchange Index



September 29, 2013

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

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

**Re: Commission Regulations 40.2(a) –  
Certification of Dividend Swaps Based On S&P/Toronto Stock Exchange Index**

Dear Ms. Jurgens:

GFI Swaps Exchange LLC (“GFI”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulations 40.2(a), that it is certifying dividend swaps (“TSX”) based on the S&P/Toronto Stock Exchange Index for trading on GFI’s electronic trading platform (the “Trading Platform”).

GFI will list the TSX no earlier than October 2, 2013.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a concise explanation and analysis of TSX.
- Attached as Exhibit B, a copy of the TSX Rules, which will be published as contract specifications on GFI’s website in accordance with GFI Rule 1101.
- Attached as Exhibit C, a concise explanation and analysis of the products’ compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder.

GFI certifies that each TSX complies with the CEA and Commission Regulations thereunder. GFI additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on GFI’s website.

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In the event that you have questions, please contact the undersigned at (212) 968-2982 or [daniel.glatter@gfigroup.com](mailto:daniel.glatter@gfigroup.com).

Sincerely,

A handwritten signature in black ink, appearing to read 'D.E. Glatter', written over a horizontal line.

Daniel E. Glatter



## Exhibit A

Below is a concise explanation and analysis of TSX:

Dividend swaps are derivatives that enable investors to purchase or sell the dividends paid by an underlying index or stock. They are based on the actual dividends paid irrespective of the underlying index or stock's price.

A dividend swap involves two counterparties exchanging a stream of future cash flows at set dates in the future over a specific term. The fixed leg of the swap is based on the payment of predefined fixed amounts at sequential intervals in return for the payment by the floating leg of future dividend flows on a share of stock or a basket of stocks (stock index). The payments are multiplied by a notional number of the underlying shares. Like a standard swap, the dividend swap is arranged so that its economic value at initiation is zero. That is, the value of the fixed payments is equal to the value of the floating payments over the term of the swap.

The underlying index, the S&P/Toronto Stock Exchange Index, is comprised of the equity securities of the largest Canadian companies listed on the Toronto Stock Exchange, based on market capitalization, domicile and liquidity. The S&P/Toronto Stock Exchange includes approximately 95% of Canadian public equities.

For more information, the contract specifications for the TSX are attached as Exhibit B.

Exhibit B

# GFI Contract Specifications

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## Swap Specifications Pursuant to Rule 1101

(i) Swaps that are not subject to mandatory clearing but which are accepted by a Clearing Organization and which are offered for trading on the SEF as Permitted Transactions may be submitted voluntarily by the parties for clearing.

(ii) Swaps not accepted by a Clearing Organization for clearing may be listed for trading on or subject to the Rules of the SEF as Permitted Transactions.

(iii) The terms and conditions of the Swaps offered for trading as Permitted Transactions on the SEF incorporate by reference such credit and other terms as the parties may establish through their pre-existing bi-lateral agreement.

(iv) The dividend swaps listed for trading by the SEF have the following specifications:

<b>General Terms:</b>	
Trade Date	As agreed by the counterparties.
Termination Date	As agreed by the counterparties.
Index	As agreed by the counterparties.
Number of Baskets	As agreed by the counterparties.
Exchange	As agreed by the counterparties.
Related Exchange	As agreed by the counterparties.
Business Days	As agreed by the counterparties.
<b>Fixed Amounts:</b>	
Fixed Amount Payer	As agreed by the counterparties.
Fixed Amount	An amount in the Settlement Currency for each Dividend Period equal to the product of the Number of Baskets and the Fixed Strike relating to such Dividend Period.
Fixed Amount Payment Date(s)	Each Dividend Amount Payment Date.
Fixed Strike	As agreed by the counterparties.
<b>Dividend Amount:</b>	
Start Date	As agreed by the counterparties.
End Date	As agreed by the counterparties.
Dividend Amount Payment Date(s)	As agreed by the counterparties.
Dividend Period	The period from, but excluding the Start Date relating to a Dividend Period to, and including, the End Date relating to such Dividend Period.
Dividend Amount	An amount in the Settlement Currency to be paid by the Dividend Amount Payer, determined by the Calculation Agent for each Dividend

	Period.
Ex-Dividend Date	In respect of a relevant dividend the date that a relevant share is scheduled to commence trading ex-dividend on the primary exchange or quotation system for such share, as determined by the calculation agent.
Settlement Currency	As agreed by the counterparties.

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## Exhibit C

GFI has determined that the TSX certified herein bear upon the following Core Principles:

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

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Trading in TSX will be subject to the GFI Rulebook (the “Rules”), which prohibits abusive trading practices, including: acts detrimental to GFI (Rule 522) or that are inconsistent with just and equitable principles of trade (Rule 510), fraudulent acts (Rule 511), fictitious or non-competitive transactions (Rule 512), market manipulation (Rule 515), disruptive trading practices (Rule 516), misstatements (Rule 521), wash sales (Rule 531) and pre-negotiated or non-competitive trades, including money passes (Rule 533). Trading in these Swaps will also be subject to Rules relating to protection of customers. *See* Rules 525-528.

As with all Swaps listed for trading on the Trading Platform (as such terms are defined in the GFI Rulebook), trading activity in TSX will be subject to monitoring and surveillance by GFI’s Market Regulation Department. GFI has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. *See* Chapter 7 of the Rules.

Pursuant to Rule 601(a)(i), each TSX executed as a block trade must be for the quantity that is equal to or in excess of the applicable minimum block size for such TSX set forth in Commission Regulations.

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

With respect to a TSX, the value of payments made pursuant to the terms of this type of swap is determined primarily by reference to the S&P/Toronto Stock Exchange Index (the “Reference Price”). The Reference Price is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a cash market that has considerable depth and liquidity resulting from the involvement of numerous institutional 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) if the Reference Price is based on an index, the index is administered and published by a reputable organization; and (vi) the most active participants in the relevant cash market are entities that are subject to regulation.

### **Core Principle 4 – Monitoring of Trading and Trade Processing**

Chapter 5 of the Rules prohibits traders from manipulating, distorting the price of, and disrupting the cash settlement process of the Swaps. Such Rules are enforced by the Market Regulation Department.

### **Core Principle 5 – Ability to Obtain Information**

Pursuant to the Rules, GFI will have the ability and authority to obtain sufficient information for each TSX to allow GFI to fully perform its operational, risk management, governance and regulatory functions and requirements under Part 37 of Commission Regulations.

## Core Principle 6 – Position Limits or Accountability

Rule 536 allows GFI to adopt position accountability levels for Required Transactions. Persons with positions in excess of position accountability levels established by GFI will be required to provide, upon request by GFI, information about their positions in excess of the relevant position accountability threshold and consent to halt any further increases in those positions. GFI's Rules relating to position limits, position accountability levels and aggregation standards are provided below:

### 535. Position Limits; Exemptions

- (a) The Company may establish position limits for one or more Swaps, and grant exemptions from position limits, in accordance with CFTC Regulations. A Person seeking an exemption from position limits must apply to the Market Regulation Department in the form and manner required by the Company.
- (b) A Person intending to exceed position limits, including limits established pursuant to a previously approved exemption, must file the required application and receive approval from the Company prior to exceeding such limits. Notwithstanding the foregoing, a Person who establishes an exemption-eligible position in excess of position limits and files the required application with the Company shall not be in violation of this rule provided the filing occurs within one Business Day after assuming the position. In the event the positions in excess of the limits are not deemed to be exemption eligible, the applicant will be in violation of speculative limits for the period of time in which the excess positions remained open.
- (c) The Company shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Company may approve, deny, condition or limit any exemption request based on factors deemed by the Company to be relevant, including, but not limited to, the applicant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner. A Person that has received an exemption from position limits pursuant to this Rule 535 shall be deemed to have agreed:
- (i) to comply with all terms, conditions or limitations imposed by the Company with respect to the exemption;
  - (ii) that the Company may modify or revoke the exemption at any time;
  - (iii) to initiate and liquidate positions in an orderly manner; and
  - (iv) to promptly submit a supplemental statement to the Company whenever there is a material change to the information provided in the most recent application.
- (d) A Participant shall not be in violation of this Rule if it carries positions for its Customers in excess of the applicable position limits for such reasonable period of time as the firm may require to discover and liquidate the excess positions. For the purposes



of this Rule, a reasonable period of time shall generally not exceed one Business Day. A Customer who exceeds the position limits as a result of maintaining positions at more than one Participant shall be deemed to have waived confidentiality regarding his positions and the identity of the Clearing Firm(s) at which they are maintained. A Participant carrying such positions shall not be in violation of this Rule if, upon notification by the Company, it liquidates its pro-rata share of the position in excess of the limits or otherwise ensures the Customer is in compliance with the limits within a reasonable period of time.

- (e) Nothing in this Rule 535 shall in any way limit:
  - (i) the authority of the Company to take emergency action; or
  - (ii) the authority of the Company to review at any time any position owned or controlled by any Person and to direct that such position be reduced to the applicable position limit.
- (f) A Person who has received written authorization from the Company for an exemption from position limits must annually file an updated application on or before the date that is one year following the approval date of the most recent application. Failure to file an updated application shall result in expiration of the exemption.
- (g) No Person shall exceed position limits that may be established by the Company or the CFTC, unless an exemption is granted by the Company. Any Person making a bid or offer that would, if accepted, cause such person to exceed the applicable position limits shall be in violation of this Rule.

#### **536. Position Accountability**

- (a) The Company shall establish position accountability levels for Required Transactions unless the Company has previously established position limits pursuant to Rule 535. A Person who holds or controls aggregate positions in excess of position accountability levels shall:
  - (i) provide, in a timely manner upon request by the Company, information regarding the nature of the position, trading strategy, and hedging information, if applicable;
  - (ii) be deemed to have consented, when so ordered by the Company, not to further increase the positions which exceed such position accountability levels; and
  - (iii) initiate and/or liquidate such positions in an orderly manner.
- (b) For purposes of this Rule 536, all positions in accounts for which a Person, by power of attorney or otherwise, directly or indirectly controls trading shall be included with the positions held by such Person. The provisions of this rule shall apply to positions held by two or more Persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by or the trading of the positions was controlled by a single Person.

### **537. Aggregation of Positions**

For purposes of Rule 535 and Rule 536, positions in Swaps shall be aggregated in accordance with CFTC Regulations.

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

All Swaps that are required to be cleared pursuant to Section 2(h) of the CEA or that are voluntarily cleared by the counterparties will be submitted for clearing through a DCO. *See* Rule 1002.

### **Core Principle 9 – Timely Publication of Trading Information**

In accordance with Part 16 of Commission Regulations, GFI will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. In addition, GFI will publish for each trading day, by tenor of the Swap, the opening price and the high and low prices. GFI will publish a settlement price for each such Swap except that, in the case of swaps listed for clearing by a DCO, the applicable settlement price will be the settlement price established by the DCO and GFI's website will contain a hyperlink to the relevant settlement information. *See* Rule 407.

GFI will submit electronic reports of all primary economic terms data for each Swap to a registered swap data repository immediately following execution of such Swap. *See* Rule 528. All such reports will meet the standards set out in Commission Regulation 45.3, including the requirement to produce a unique swap identifier for each transaction. GFI will also issue confirmations of transactions pursuant to Rule 525.