

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional)

Date: 10/17/2013

**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

Certification of Freight Swap and Freight Option



October 17, 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 Regulation 40.2(a) –  
Certification of Freight Swap and Freight Option**

Dear Ms. Jurgens:

GFI Swaps Exchange LLC (“GFI”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying a freight swap and an option contract thereon (each, a “Swap,” and collectively, the “Swaps”) for trading on GFI’s electronic trading platform (the “Trading Platform”).

As provided in Commission staff letter No. 13-60, GFI will list the Swaps no earlier than the date of this certification.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a concise explanation and analysis of the Swaps.
- Attached as Exhibit B, a copy of the Swaps’ 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 Swap 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).

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Sincerely,

A handwritten signature in black ink, appearing to read "Daniel E. Glatter". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Daniel E. Glatter  
Vice President and Assistant Secretary  
GFI Swaps Exchange LLC

Enclosure

## Exhibit A

Below is a concise description for each Swap:

### Freight Swap

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Freight swaps involve the exchange of a fixed versus floating price, where the floating price is the price of the reference route or basket of routes specified by the Baltic Exchange. The Baltic Exchange collates market price data from shipbrokers on specified routes, and publishes market price assessments for these routes on a daily basis. These prices represent the cost in U.S. dollars of shipping goods by sea on each of the specified routes.

In respect of the final settlement, the floating price will be the mean of the daily Baltic Exchange price spot assessments of the applicable wet or dry route(s) for the appropriate period. Routes provided will include the following:

#### *Dry Timecharter Basket Routes*

CTC (Capesize TC Avg 4)  
PTC (Panamax TC Avg 4)  
STC (Supramax TC Avg 6)  
HTC (Handysize (TC Avg 6)

#### *Dry Voyage Routes*

C3E (Tubarao – Qingdao)  
C4E (Richards Bay – Rotterdam)  
C5E (W Australia – Qingdao)  
C7E (Bolivar – Rotterdam)

#### *Day Trip Timecharter Routes*

P1A, P1E (Transatlantic RV)  
P2A, P2E (Cont Trip Far East)  
P3A, P3E (Transpacif RV)

#### *\$ per Tonne Tanker Routes*

Baltic TC2  
Baltic TC6  
Baltic TC14  
Baltic TD3  
Baltic TD5  
Baltic TD7  
Baltic TD19

Counterparties trade a specified contract with terms that include but are not limited to period, schedule and quantity.

## Freight Options

Options on freight swaps will give one party the right, but not the obligation, to assume a long or short position in an underlying freight swap at the strike price. The floating price of the freight swaps underlying these options may be based on the spot price for any of the following Dry Timecharter Basket Routes:

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CTO (Capesize TC Avg 4 routes)  
PTO (Panamax TC Avg 4 routes)  
STO (Supramax TC Avg 6 routes)  
HTO (Handysize TC Avg 6 routes)

For more information, the Swaps' contract specifications are attached as Exhibit B.

## Exhibit B

# GFI Contract Specifications

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If the **freight swap** is accepted for clearing by a clearing organization, the terms and conditions of the freight swap incorporate by reference such terms and conditions established by the relevant clearing organization in its rules or bylaws. If the freight swap is not submitted for clearing to a clearing organization, the terms and conditions of the freight swap incorporate by reference such credit and other terms as the parties may establish through their pre-existing bilateral agreement. The freight swap has the following characteristics:

<b>Contract Overview</b>	A freight swap is an agreement to exchange a stream of cash flows by reference to the difference between a fixed rate and a floating rate based on a specified notional amount over a specified term to maturity.
<b>Trade Date</b>	As agreed by the parties.
<b>Effective Date</b>	The date on which the calculation of accrued obligations begins under the swap.
<b>Reference Routes</b>	<u>Dry Timecharter Basket Routes</u> CTC (Capesize TC Avg 4) PTC (Panamax TC Avg 4) STC (Supramax TC Avg 6) HTC (Handysize (TC Avg 6)  <u>Dry Voyage Routes</u> C3E (Tubarao – Qingdao) C4E (Richards Bay – Rotterdam) C5E (W Australia – Qingdao) C7E (Bolivar – Rotterdam)  <u>Day Trip Timecharter Routes</u> P1A, P1E (Transatlantic RV) P2A, P2E (Cont Trip Far East) P3A, P3E (Transpacif RV)  <u>\$ per Tonne Tanker Routes</u> Baltic TC2 Baltic TC6 Baltic TC14 Baltic TD3 Baltic TD5 Baltic TD7

	Baltic TD19
<b>Notional Amount</b>	As agreed by the parties for each relevant commodity.
<b>Settlement Dates</b>	As agreed by the parties.
<b>Termination Date</b>	As agreed by the parties.
<b>Fixed Price Payer</b>	Party [A/B].
<b>Fixed Price</b>	As agreed by the parties.
<b>Floating Price Payer</b>	Party [B/A].
<b>Floating Price</b>	<p><u>Dry Timecharter Basket Routes</u>  In respect of daily settlement, the floating price will be the end of day price as supplied by the Baltic Exchange.</p> <p>In respect of final settlement, the floating price will be the mean of the daily Baltic Exchange spot price assessments for every trading day in the expiry month.</p> <p><u>Dry Voyage Routes</u>  In respect of daily settlement, the floating price will be the end of day price as supplied by the Baltic Exchange.</p> <p>In respect of final settlement, the floating price will be the mean of the daily Baltic Exchange spot price assessments for every trading day in the expiry month.</p> <p><u>Day Trip Timecharter Routes</u>  In respect of daily settlement, the floating price will be the end of day price as supplied by the Baltic Exchange.</p> <p>In respect of final settlement for P1A, P2A &amp; P3A, the floating price will be the mean of the last 7 Baltic Exchange spot price assessments in the expiry month.</p> <p>In respect of final settlement for P1E, P2E &amp; P3E, the floating price will be the mean of the daily Baltic Exchange spot price assessments for every trading day in the expiry month.</p> <p><u>\$ per Tonne Tanker Routes</u>  In respect of daily settlement, the floating price will be the end of day price (in \$/t) as supplied by the Baltic Exchange.</p> <p>In respect of final settlement, the floating price will be a price in US\$ per mt calculated as the mean of the Baltic Exchange WS rate spot price assessments multiplied by the Flat Rate divided by 100 for each pricing date in the expiry month.</p>
<b>Price Source</b>	Baltic Exchange.
<b>Pricing Date(s)</b>	If applicable, as agreed by the parties.

<b>Method of Averaging</b>	If applicable, as agreed by the parties.
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If the **freight option** contract is accepted for clearing by a clearing organization, the terms and conditions of the freight option contract incorporate by reference such terms and conditions established by the relevant clearing organization in its rules or bylaws. If the freight option contract is not submitted for clearing to a clearing organization, the terms and conditions of the freight option contract incorporate by reference such credit and other terms as the parties may establish through their pre-existing bilateral agreement. The freight option contract has the following characteristics:

<b>Contract Overview</b>	A freight option contract represents an option to assume a short or long position in the underlying freight swap at the strike price.
<b>Underlying Reference Routes</b>	<u>Dry Timecharter Basket Routes</u> CTO (Capesize TC Avg 4 routes) PTO (Panamax TC Avg 4 routes) STO (Supramax TC Avg 6 routes) HTO (Handysize TC Avg 6 routes)
<b>Trade Date</b>	The date on which the parties enter into the options contract.
<b>Option Style</b>	<u>European Style</u> : A European style option allows the holder to exercise only at the expiration date, i.e. a single pre-defined point in time.  <u>American Style</u> : An American Style option allows the owner to exercise the option at any time before the expiration date.
<b>Option Premium</b>	The premium is paid at the time of purchase.
<b>Currency</b>	USD
<b>Strike Price</b>	The price at which an investor can exercise an option.
<b>Expiration Date</b>	The date on which the option contract expires.
<b>Expiration Time</b>	The time at which the option contract expires.
<b>Settlement Date</b>	The date on which the option settles.
<b>Settlement Type</b>	[Cash settlement] [Physical settlement].



## Exhibit C

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

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

Trading in Swaps 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 Swaps will be subject to monitoring and surveillance by GFI’s Compliance 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 Swap 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 Swaps set forth in Commission Regulations.

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

The value of payments made pursuant to the terms of this type of Swap is determined primarily by reference to the price of shipping goods by sea along routes or baskets of routes specified by the Baltic Exchange, which price is determined by a panel of international shipbrokers (the “Reference Price”). In each case, 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) 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.

### **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 Compliance 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 Swap 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 or Sponsored Access Firm 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 or Sponsored Access Firm 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 or Sponsored Access Firm 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**

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

**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.