

June 9, 2014

**By Email: submissions@cftc.gov**

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

Re: tpSEF Inc. – Regulation 40.2 Certification of MBX Index Contract (#14-05P)

Ladies and Gentlemen:

tpSEF Inc. (“tpSEF”) hereby notifies the Commodity Futures Trading Commission (the “Commission”) of its intent to list the MBX Index Contract (the “Contract”) on tpSEF’s swap execution facility. tpSEF intends to list this Contract on June 11, 2014.

Pursuant to Commission Regulation 40.2, this submission includes:

- i. A copy of the CFTC Rules and Products Submission Cover Sheet in accordance with the instructions in Appendix D to Part 40 of the Commission’s regulations, attached as Exhibit A;
- ii. The intended listing date – June 11, 2014;
- iii. A certification by tpSEF that: (a) the Contract complies with the Commodity Exchange Act, as amended (the “Act”), and the Commission regulations thereunder; and (b) concurrent with this submission, tpSEF posted on its website: (i) a notice of pending certification of the Contract and (ii) a copy of this submission, attached as Exhibit B;
- iv. The Contract’s terms and conditions, attached as Exhibit C; and
- v. An explanation and analysis of the Contract’s compliance with applicable core principles and Commission regulations, attached as Exhibit D.

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Questions regarding this submission should be directed to Brian Donnelly, Chief Compliance Officer, at (201) 984-6954 or by email at [bddonnelly@tullettprebon.com](mailto:bddonnelly@tullettprebon.com).

Sincerely,  
  
Mark Campbell

Enclosures

cc: Division of Market Oversight (Email: [dmosubmissions@cftc.gov](mailto:dmosubmissions@cftc.gov))  
Brian Donnelly, tpSEF (Email: [bddonnelly@tullettprebon.com](mailto:bddonnelly@tullettprebon.com))

**EXHIBIT A**

**SUBMISSION COVER SHEET**

**Registered Entity Identifier Code** (optional) 14-05P

**Date:** June 9, 2014

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

**ORGANIZATION**

tpSEF Inc.

**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)

Advance Notice of SIDCO Rule Change under § 40.10 (a)

• **Products**

Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)

Swap Class Certification under § 40.2 (d)

Request for Approval under § 40.3 (a)

Novel Derivative Product Notification under § 40.12 (a)

**RULE NUMBERS**

Not applicable; the terms and condition of the “MBX Index Contract” are attached as Exhibit C.

**DESCRIPTION**

This submission contains a self-certification by tpSEF Inc. of MBX Index Contracts.

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**EXHIBIT B**

**CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE  
ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION  
REGULATION 40.2, 17 C.F.R. §40.2**

tpSEF Inc. ("tpSEF") hereby certifies that: (i) the MBX Index Contract (the "Contract") complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and Commodity Futures Trading Commission ("Commission") regulations thereunder; and (ii) concurrent with this submission, tpSEF posted on its website: (a) a notice of pending certification of the Contract with the Commission and (b) a copy of this submission.

TPSEF INC.

By:

  
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Name: Mark Campbell

Title: Chief Operating Officer

Date: June 9, 2014

**EXHIBIT C**

**Terms and Conditions**

Summary:	This covers Markit MBX Fixed for Floating Swap Transactions (the “Contracts”).
Limitations on Available Selections and Default Settings:	<p>The terms under which the Contracts may be traded are as specified in these terms and conditions.</p> <p>For amounts or rates, the relevant term cannot be less than the specified Minimum, must represent an even Increment and cannot exceed the Maximum; for a date, the date cannot be earlier than Earliest nor later than Latest.</p> <p>In many cases there are normal “vanilla” terms on which the parties will transact. These are shown as “Default ” and will apply unless the parties vary them.</p>
Incorporated Standards:	<p>This contract description incorporates by reference the following industry standard documentation and standards:</p> <p>(a) 2006 ISDA Definitions;</p> <p>(b) ISDA OTC Taxonomies; and</p> <p>(c) the Markit MBX Standard Terms Supplement (September 12, 2010 version) or any subsequent Standard Terms Supplement (the “Standard Terms”).</p>
<b>Product Type/ISDA OTC Taxonomy:</b>	
ISDA OTC Asset Class:	Credit
ISDA OTC Base Product:	Index
ISDA OTC Sub-Product:	MBX
ISDA OTC Transaction Type:	MBX
Further Limitations:	None
<b>Terms:</b>	
Effective Date:	As specified by the parties, subject to adjustment in accordance with the Standard Terms.
Scheduled Termination Date:	As agreed by the parties.
Termination Date:	Per the Standard Terms.
Notional Amount:	An amount is USD agreed by the parties.
Index:	One of the Markit MBX Index series, as specified by the parties from all then-available series (to the extent such series is not then a narrow-based index within the meaning of the CFTC’s regulations).
Annex Date:	As agreed by the parties.
Index Provider:	Per the Standard Terms.
Fixed Rate Payer:	As agreed by the parties.
Floating Rate Payer:	As agreed by the parties.

Period End Dates:	Per the Standard Terms.
Reset Dates:	Per the Standard Terms
Payment Dates:	Per the Standard Terms.
Calculation Agent:	As agreed by the parties or, if not so agreed, per the Standard Terms.
Day Count Fraction:	Per the Standard Terms.
Business Days:	For any purpose, per the Standard Terms.
Business Day Convention:	Per the Standard Terms.
<b>Initial Payment:</b>	
Initial Payment:	Per the Standard Terms.
Initial Payment Amount:	An amount in USD as specified by the parties.
Initial Payment Payer:	As specified by the parties.
Initial Payment Date:	Per the Standard Terms.
<b>Settlement Payments</b>	
Mark to Market Amount Payment:	Per the Standard Terms.
Mark to Market Amount Payer:	Per the Standard Terms.
Mark to Market Amount:	Per the Standard Terms.
Financing Payment:	Per the Standard Terms.
Financing Payment Amount:	Per the Standard Terms.
Interest Payment:	Per the Standard Terms.
Interest Payment Amount:	Per the Standard Terms.
Principal Payment:	Per the Standard Terms.
Principal Payment Amount:	Per the Standard Terms.
Net Payment:	Per the Standard Terms.
Net Payment Amount Payer:	Per the Standard Terms.
Net Payment Amount:	Per the Standard Terms.
Agency Coupon:	Per the Standard Terms.
Index LIBOR:	Per the Standard Terms.
Index Factor:	Per the Standard Terms.
Commencing Index Factor:	Per the Standard Terms.
Period End Index Factor:	Per the Standard Terms.
Index Price:	Per the Standard Terms.
Commencing Index Price:	Per the Standard Terms.
Period End Index Price:	Per the Standard Terms.
<b>Event affecting the Index:</b>	
Events and Adjustments:	All are per the Standard Terms.

## **EXHIBIT D**

### **EXPLANATION AND ANALYSIS OF THE CONTRACTS' COMPLIANCE WITH APPLICABLE CORE PRINCIPLES AND COMMISSION REGULATIONS**

As required by Commodity Futures Trading Commission ("Commission") Regulation 40.2(a), the following analysis, in narrative form, demonstrates that the MBX Index Contract (the "Contract") is 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).

#### **Appendix B to Part 37**

#### **CORE PRINCIPLE 3 OF SECTION 5H OF THE ACT—SWAPS NOT READILY SUSCEPTIBLE TO MANIPULATION; CORE PRINCIPLE 4 OF SECTION 5H OF THE ACT—MONITORING OF TRADING AND TRADE PROCESSING**

**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.**

#### ***Reference Index: MBX***

The reference index used to determine the exchange of cash flows for the Contract is Markit Group Limited's ("Markit's") "MBX Index" (All Series) (the "MBX Index"). This well-established index tracks the monthly cash-flows, both principal and interest, on certain mortgage-backed securities of a type which were exempted securities on January 11, 1983 issued or guaranteed by the Government National Mortgage Association (GNMA/Ginnie Mae) and the Federal National Mortgage Association (FNMA/Fannie Mae) and monthly changes in values of those cash-flows. The MBX Index is based on comprehensive, well-established and transparent rules that outline, among other things, the selection of

index constituents (“Reference Pools”) and the polling process used to determine the monthly change in value of the values of the Reference Pools. In effect, the MBX Index mirrors a total return swap financing of an agency PO, but where the price change and prepayments of the MBX reflects all of the thousands of Reference Pools rather than a single pool. The MBX Index is widely accepted by market participants as a reliable index.<sup>1</sup>

### *Selection of Reference Entities*

Markit constructs the list of Reference Pools for a Series in accordance with methodologies outlined in its rules (*i.e.*, the “Index Roll Process”). As part of this process, Markit polls each of its Members that elects, as provided in Markit’s General Rules, to participate in the determination of the MBX Index on a continuing basis.<sup>2</sup>

Markit’s process for generating the list of Reference Entities has several other well-defined, thoroughly-documented steps, including: (a) determining what pool origination period will be covered by a given Series via Member poll; (b) determining which potential pools should be excluded, based on a Member poll; and (c) publishing the final MBX Index.<sup>3</sup>

### *Reference Index is Not Readily Susceptible to Manipulation*

The MBX Index is not readily susceptible to manipulation. The MBX Index is a highly liquid index as it is comprised of a vast number of Reference Pools for each index.

**(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(4), respectively.**

Please see below.

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<sup>1</sup> Comprehensive descriptions of Markit’s administration of the MBX Index are found in “Markit MBX Index Rules” revised September 12, 2010 (“Markit Rules”).

<sup>2</sup>Markit Rules at 3-4.

<sup>3</sup> *Id.* at 4-5.



**Appendix C to Part 38 - Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

**(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 Terms***

The terms and conditions of the Contract match the terms of the MBX Index Contract contracts and are listed in Exhibit C.

Some terms of the Contract are fixed (*i.e.*, currency and rates), while other terms are flexible and determined by the counterparties (*i.e.*, effective date and initial payment). This combination of standard and flexible terms allows the contract to have a basic consistent form, while allowing counterparties to tailor some aspects of the Contract to their economic needs. This structure follows industry convention; the terms of the Contract match the terms of MBX swaps that are commonly offered in the market.

***Calculation of Cash Settlement Price***

The cash settlement process for the Contract includes the following payments:

- Monthly Cash Payments – These payments are calculated monthly and reflect one party receiving an amount reflecting principal and interest on the Reference Pools and any increase in value of the Reference Pools and the other party receiving financing on the MBX at one month LIBOR and any decrease in value of the Reference Pools, in each case with respect to the relevant month and calculated based on the Notional Amount agreed by the parties.
- Upfront Fee Payment – This fee represents the mark-to-market value of the Contract on the trade date, including fixed and floating leg accruals on the transaction, the change in value of the Reference Pools since the last reset date and the value of the financing.

This cash settlement method is used for MBX swaps commonly offered in the market and is therefore widely accepted by market participants.

**(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 is not readily susceptible to manipulation for a number of reasons. First, the underlying market for the Contract has considerable depth and liquidity, making manipulation very difficult to achieve. The MBX Index is used by numerous market participants, and basing MBX swaps on the MBX Index has been a longstanding, widely accepted practice. Second, as noted above, the method for calculating the cash settlement price – involving upfront fee payments and monthly cash payments– is widely used and generally accepted by market participants. Finally, tpSEF Inc. (“tpSEF”) has a robust market surveillance program that is effectively able to surveil this market, detect uncommon activity, and investigate any such activity for signs of manipulation (note that the foregoing also demonstrates compliance with Core Principle 4).

**(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.**

Please see above regarding the calculation of the cash settlement price.

**(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.**

Please see above regarding the calculation of 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 above regarding the availability, reliability and widespread acceptance of the method used to generate the 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.**

Information on the MBX Index is available on [Markit.com](http://Markit.com).

#### **(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 include the essential economic terms of the Contract. Also as noted in the attached, the counterparties will begin calculating accrued obligations from the effective date to the maturity date (*i.e.*, “last trading day”) of each contract – dates which are set by the counterparties.

**(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 note that the Contract is based on the basket of Reference Pools that comprise the MBX Index.

**(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.**

The size of the Contract is consistent with customary transactions in the 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.**

The cash settlement procedure and an explanation of how it is reliable, acceptable, publicly available, and reported in a timely manner appears above.

**(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 counterparties.

**(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 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 the 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.**

If there is no credit event, the protection buyer will pay the protection seller fixed quarterly cash payments.

**(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.

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

tpSEF 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.**

The Contract is traded twenty-three hours a day from Sunday to Friday Eastern Time. The Contract is not traded between 5:30 p.m. and 6:30 p.m. Eastern Time.