



TRADITION SEF, Inc.

Scot J. Halvorsen
Secretary and Senior Regulatory Counsel
Legal Department

September 22, 2015

VIA E-MAIL (submissions@cftc.gov)

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

**RE: CFTC Regulation 40.6(a) Rule Certification. Notification of Amendments to Tradition SEF, Inc. Rulebook.
Tradition SEF Submission No. 2015-13**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act, as amended (the "Act"), and Commodity Futures Trading Commission ("CFTC" or the "Commission") Regulation 40.6(a), Tradition SEF, Inc. ("Tradition SEF") hereby notifies the Commission of amendments to the Tradition SEF Rulebook (the "Rulebook"), to be effective and implemented by Tradition SEF as of October 6, 2015, which is the first business day after the Commission's ten (10) business day review period. Attached as Exhibit B is a redlined version of the Rulebook reflecting the amendments described in this submission.

We have identified in Exhibit A the modified Rules and compliance with the SEF core principles ("Core Principles") as set forth in Section 5h of the Act and Part 37 of the Commission's regulations promulgated thereunder.

Tradition SEF continues to comply with the Core Principles. In particular, Tradition SEF has determined that it is in compliance with Core Principle 1 (Compliance with Core Principles), Core Principle 2 (Compliance with Rules), Core Principle 5 (Ability to Obtain Information), Core Principle 8 (Emergency Authority) and Core Principle 12 (Conflicts of Interest), as further described in the compliance chart provided in Exhibit A.

Tradition SEF hereby certifies that the rule amendments comply with the Act and the Commission's regulations promulgated thereunder. No substantive opposing views were expressed that were not incorporated into the rule amendments. Tradition SEF hereby certifies that it has posted a notice of pending certification with the Commission and a copy of the submission on its website (*see*, <http://www.traditionsef.com/news/>), concurrent with the filing of this submission with the Commission.

Should you require additional information related to this submission, please contact the undersigned at 212-377-2337 or scot.halvorsen@tradition.com. Please reference Tradition SEF Submission No. 2015-13 in any related correspondence.

Sincerely,



Scot J. Halvorsen
Secretary and Senior Regulatory Counsel

Attachments: Exhibit A – Compliance with Core Principles table
Exhibit B – Tradition SEF Rulebook (redline format)

EXHIBIT A
Compliance with Core Principles

Rule	Rule Change	Explanation and Analysis of the operation, purpose, and effect of the proposed rule or rule amendment and its compliance with applicable provisions of the Act, including core principles, and the Commission's regulations thereunder.
Rule 207(f)(2)(iii)	Tradition SEF has amended Rule 207(f)(2)(iii) to provide that the Tradition SEF Regulatory Oversight Committee shall continually monitor for potential conflicts of interest in its oversight of the Chief Compliance Officer.	In compliance with Core Principle 12 (Conflicts of Interest) and CFTC Regulation 37.1200, Tradition SEF's revised rule establishes a process for identifying and resolving conflicts of interest.
Rule 208(a)	Tradition SEF has amended Rule 208(a) to provide that it has the authority to taking such other actions as may be required or directed by the CFTC, including, but not limited to: imposing or modifying intraday market restrictions; ordering the liquidation or transferring of open positions in any contract; ordering the fixing of a settlement price; transferring customer contracts and the margin; altering any contract's settlement terms or conditions; or extending or shortening expiration dates.	In compliance with Core Principle 8 (Emergency Authority) and CFTC Regulation 37.801, Tradition SEF is revising Rule 208(a) by adopting rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, as is necessary and appropriate under the circumstance.
Rule 211(c)	Tradition SEF has amended Rule 211 to provide that "Tradition SEF shall: (i) establish and enforce rules that allow it to obtain any necessary information to perform any of the functions described in Section 5(h) of the Act; (ii) provide such information to the Commission upon request; and (iii) have the capacity to carry out such international information-sharing agreements as the Commission may require, from time-to-time."	In compliance with Core Principle 5 (Ability to obtain information) and CFTC Regulation 37.500, Tradition SEF is revising Rule 211 to clarify that the SEF will obtain from participants, subject to its jurisdiction, any information necessary to perform any of the functions described in Section 5h of the Commodity Exchange Act.
Rule 214(b)	Tradition SEF has amended Rule 214(b) to provide that "Tradition SEF shall document any instances where its actions differ from those recommended by its Regulatory Service Provider, including the reasons for the course of action recommended by the Regulatory Service Provider and the reasons why Tradition SEF chose a different course of action."	In compliance with Core Principle 2 (Compliance with Core Principles) and CFTC Regulation 37.204(c), Tradition SEF's revised rule clarifies that it will document any instances where its actions differ from those recommended by its regulatory service provider, including the reasons for the course of action recommended by the regulatory service provider and the reasons why it chose a different course of action.

<p>Rule 412(b)</p>	<p>Tradition SEF has amended Rule 412(b) to provide that “[c]ounterparties shall maintain all records of such previously-negotiated freestanding agreements in accordance with CFTC No-Action Letter 15-25.”</p>	<p>In compliance with Core Principle 2 (Compliance with Core Principles) and CFTC Regulation 37.204(c), Tradition SEF’s revised rule clarifies that counterparties to an uncleared swap transaction shall maintain all records of previously-negotiated freestanding agreements in accordance with CFTC No-Action Letter 15-25.</p>
<p>Rule 503</p>	<p>Tradition SEF has amended Rule 503 to provide that “[t]he Trading Hours for each Platform shall be as set forth in the applicable Platform Supplement. Unless specified otherwise in a Platform Supplement or as provided in Rule 212 with respect to Emergencies, Tradition SEF, Inc. will operate Business Days as follows:</p> <p>Pre-arranged off-facility or Block trades: 24 hours.</p> <p>Tradition SEF will operate on days which are Business Days in Hong Kong, Singapore, Tokyo, London and New York. For purposes of determining if a day is a New York Business Day, the New York Stock Exchange must be open and such day may not be a SIFMA-recommended full day holiday. Days subject to early close in any jurisdiction will constitute Business Days regardless.</p> <p>Days are calculated by reference to Eastern Prevailing Time in the United States on any day on which Tradition SEF is operating. Tradition SEF reserves the right to close on different days or times if requested or required to do so by the CFTC, or where there is a force majeure event, such as hurricanes, flooding, terrorist attacks or otherwise, affecting the above-mentioned location generally, any relevant market infrastructure (such as DCOs, payment and clearing systems or SDRs) or Tradition SEF’s facilities in particular.”</p> <p>The definitions of “Trading Day” and “Trading Hours” were also amended to reference Rule 503.</p>	<p>In compliance with Core Principle 2 (Compliance with Core Principles) and CFTC Regulation 37.201, Tradition SEF’s revised rule clarifies the operation of the SEF, including, specifying trading procedures to be followed by market participants when entering and executing orders traded or posted on the SEF.</p>

<p>Rule 509(e) and (f)</p>	<p>Tradition SEF has added Rules 509(e) and (f) to provide the following:</p> <p>(e) Except as otherwise provided in Rule 509(f) below, the aggregation of orders for different accounts in order to satisfy the minimum Block Trade size or the cap size requirement is prohibited.</p> <p>(f) Aggregation of orders for different accounts in which the entire order may be considered a Block Trade is permissible if done by a person who:</p> <ol style="list-style-type: none"> (1) Is a commodity trading advisor registered pursuant to section 4n of the CEA, or exempt from registration under the CEA, or a principal thereof, who has discretionary trading authority or direct client accounts, (2) Is an investment advisor who has discretionary trading authority or direct client accounts and satisfies the criteria of § 4.7(a)(2)(v) of the Commission’s regulations, or (3) Is a foreign person who performs a similar role or functions as the persons described in 43.6(h)(6)(i)(A) or (B) of this section and is subject as such to foreign regulation; and, (4) Has more than \$25,000,000 in total assets under management. 	<p>In compliance with CFTC Regulation 43.6(g)(6), Tradition SEF has added Rules 509(e) and (f) to clarify that the aggregation of orders for different accounts in order to satisfy the minimum Block Trade size or the cap size requirement is prohibited.</p>
<p>Rule 512(e)</p>	<p>Tradition SEF has added Rule 512(e) to provide that should a registered SDR incur an operational problem and Tradition SEF receive notice that the SDR was unable to receive and hold in queue swap transaction and pricing data, Tradition SEF shall hold in cue and report the data to the registered SDR upon receiving notice that the SDR has resumed normal operations.</p>	<p>In compliance with CFTC Regulation 43.3(g)(2), Tradition SEF added Rule 512(e) to clarify that if a registered SDR incurs an operational issue and Tradition SEF receives notice that the SDR was unable to receive and hold in queue swap transaction and pricing data, Tradition SEF will hold in cue and report the data to the registered SDR upon receiving notice that the SDR has resumed normal operations.</p>
<p>Rule 532(a)</p>	<p>Tradition SEF has added to Rule 532(a) a provision that provides “[t]o reduce the potential threat of market manipulation or congestion, Tradition SEF shall adopt for each of the contracts of the facility, as is deemed necessary and appropriate by Tradition SEF,</p>	<p>In compliance with Core Principle 6 (Position Limits or Accountability) and CFTC Regulation 37.600(a), Tradition SEF add a provision that permits Tradition SEF to adopt for each of the contracts of the facility, position limitations or position accountability levels for speculators.</p>

position limitations or position accountability levels for speculators.”

For the reasons listed below, which are consistent with industry wide studies, Tradition SEF believes that there are inherent limitations on SEF’s ability to monitor participant positions because of the uniqueness of the SEF market structure.

Position limits or accountability levels apply market-wide to an entity’s/trader’s overall position in a given swap, commodity or instrument subject to limits, and ownership and control provisions. To monitor an entity’s/trader’s positions and take action to enforce such a market-wide requirement, a SEF must have access to information about an entity’s/trader’s overall positions in the swap and underlying instrument or commodity, which it does not have.

There are fundamental differences between futures and options on futures trading relative to swaps trading that seriously undermine the ability of SEFs to monitor and enforce position limits or accountability levels in a meaningful way:

- A SEF only has information about swap transactions that take place on its execution venue and has no way of knowing whether a particular trade on its facility adds to an existing position or whether it offsets all or part of an existing position in that swap. Trades do not equate to positions.
- A SEF does not know the size of the entity’s/trader’s overall position in that swap after the trade is executed and thus cannot ascertain whether the trader’s position is large relative to any position limit.
- There is no exclusivity of trading of swaps on SEFs. Unlike futures contracts, swaps can be fungible. A swap that is listed on one SEF can be (and currently is) listed and traded on other SEFs and DCMs. Such swaps also may be (and currently are) traded bilaterally off-facility between

		<p>counterparties away from any SEF or DCM. As a result, SEFs and DCMs listing swaps do not possess complete information about a trader's position in any given swap.</p> <ul style="list-style-type: none"> • Position information would need to be supplied by non-SEF sources; market participants, SDRs, clearing houses and/or clearing firms. • The position data delivery and collection process would be burdensome and costly as the aforementioned sources would be required to provide position information to multiple SEFs simultaneously to avoid information discrepancy, incurring a cost to produce the information, risk of incorrect management of "industry wide limits" and risking disclosure of confidential proprietary information. • Certain market participants trade on multiple SEFs. As such, without a centralized reporting system, they would be overly burdened by requests from numerous SEFs (assuming consistent application of the Core Principle) for the same positions. Enforcement between the SEFs would prove difficult. • The CFTC has not yet determined any position limits or accountability levels for swaps. Absent such guidance from the CFTC, a SEF's limited access to overall market activity and entity positions, as described above, leaves it unable to perform the necessary analysis to set meaningful position limits or accountability levels.
<p>Rule 708</p>	<p>Tradition SEF has added Rule 708, which is as follows:</p> <p>(a) Tradition SEF shall report to the SDR the required counterparty election of the end-user exception to the clearing requirement or the inter-affiliate</p>	<p>In compliance with CFTC Regulations 50.50(b)(1) (Exceptions to the clearing requirement) and 50.52(c) (Exemption for swaps between affiliates) Tradition SEF added Rule 708 to provide the requirements for Participants and Customers to elect to use the end-user exception to the clearing requirement or the inter-affiliate</p>

	<p>exemption, as applicable, under section 2(h)(7)(A) of the Act.</p> <ol style="list-style-type: none">1. Participants and Customers shall provide Tradition SEF with the information required for Tradition SEF to report on the Participant's or Customer's behalf, or cause to be provided, to a SDR the information as set forth in CFTC Regulation 50.50(b)(1)-(3) regarding electing the end-user exception from clearing.2. Participants and Customers shall provide Tradition SEF with the information required for Tradition SEF to report on the Participant's or Customer's behalf, or cause to be provided, to a SDR the information as set forth in CFTC Regulation 50.52(c)(1)-(3) regarding electing the inter-affiliate exemption. <p>(b) Tradition SEF shall provide or cause to be provided to a SDR the required counterparty election of the end-user exception or inter-affiliate exemption, as applicable, and the information as set forth in the applicable CFTC Regulations.</p>	<p>exemption, as applicable.</p>
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EXHIBIT B
Redlined Rulebook

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