



## Tradition SEF, Inc.

### Participant Notice 14-13

June 25, 2014

To: Tradition SEF Authorized Representatives  
From: Tradition SEF Operations and Compliance

#### **Notice of Pending Certification Under CFTC Regulation 40.6(a) – Amendments to Tradition SEF, Inc. Rulebook**

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”) amended its Rulebook, to be effective and implemented by Tradition SEF as of July 11, 2014, which is the day after the Commission’s ten-business day review period.

Tradition SEF has amended the Rules to reflect the deletion of the “new trade, old terms” procedures in Rule 703, applicable to Cleared Swaps. On October 25, 2013, the Commission issued no-action relief that permitted a SEF to provide such procedures in its rulebook. The relief expires on June 30, 2014. Tradition SEF is submitting the amendment as a self-certification under CFTC Regulation 40.6(a) to prevent uncertainty to market participants. Similar relief, however, will continue to apply to Cleared Swaps that are components of Package transactions. Accordingly, Tradition SEF has amended the Rules to provide a definition for the term “Package” and to reflect that Cleared Swaps that are components of Package transactions that are rejected from clearing may be resubmitted for clearing pursuant to the conditions set forth in Rule 703.

The text of the amended rules and a marked version reflecting the amendments to the Rulebook are attached hereto. All defined terms used herein, but not defined herein have the meaning ascribed to such term in the Tradition SEF Rulebook, which is available at: <http://www.traditionsef.com/news/>.

#### **Rule 101 – Definitions:**

#### **Addition of new defined terms:**

**“Package”** means 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; (3) that has at least one component that is a Swap that is made available to trade; and (4) where the execution of each component is contingent upon the execution of all other components.



## Tradition SEF, Inc.

**Rule 703 deletion of the “new trade, old terms” procedures pursuant to the expiration of CFTC No-Action Letter No. 13-66.**

**Redline:**

**Rule 703 - Cleared Swaps Not Accepted for Clearing**

- (a) If Tradition SEF receives a rejection notice from a Derivatives Clearing Organization because a Clearing Firm breached its credit limit at such Derivatives Clearing Organization, then the Cleared Swap shall be void ab initio and Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was canceled.
- (b) [If a]Additionally, and only with respect to a Cleared Swap that is a component of a Package transaction, if such Cleared Swap is rejected by a Derivatives Clearing Organization because of [a clerical or operational error or omission resulting in a mismatch of the terms of the trade, then the Swap]the sequencing of submissions to the Derivatives Clearing Organization of the components of the Package, then the rejected Cleared Swap component of the Package shall be void ab initio. In such case a new Cleared Swap component of the Package, with terms and conditions that match the terms of the original Cleared Swap, other than[any such error and] the time of execution, may be submitted for clearing without being executed in the Order Book, by RFQ or as a Block Trade provided:
  - (1) this procedure may not be used for Cleared Swaps rejected pursuant to clause (a) above;
  - (2) both Clearing Firms agree to submit the new Cleared Swap;
  - (3) each Clearing Firm obtains the consent of its Customer, if any, to submit the new Cleared Swap, and such consent must be sought on a case-by-case basis after the rejection of the original Cleared Swap;
  - (4) neither Clearing Firm may require a Customer to agree in advance to consent to the submission of a new Cleared Swap;
  - (5) The new Cleared Swap must be submitted for clearing as quickly as technologically practicable after receipt by Tradition SEF or the Clearing Firm of a notice of rejection from clearing, but in any event, no later than [30]60 minutes from the issuance of the notice of rejection by the Derivatives Clearing Organization to the Clearing Firms or Tradition SEF;
  - (6) Both the original Swap and the new Cleared Swap are subject to pre-execution credit checks that comply with CFTC Regulation 1.73 and/or CFTC Regulation 23.609 and the CFTC Staff Guidance on Swaps Straight-Through Processing issued on September 26, 2013 (the “CFTC Staff Guidance”);



## Tradition SEF, Inc.

- (7) both the original swap and the new Cleared Swap are processed in accordance with the time frames set forth in CFTC Regulations 1.74, 23.610, 39.12(b)(7) and the CFTC Staff Guidance;
  - (8) Tradition SEF reports the Cleared Swap transaction data to the relevant SDR as soon as technologically practicable after the original Cleared Swap is rejected by the Derivatives Clearing Organization, and the parties to the Cleared Swap provide Tradition SEF with all of the information necessary for it to report the new Cleared Swap data and the cancellation of the original Cleared Swap; and
  - (9) If the new Swap is also rejected for clearing, it is void ab initio and the parties may not submit another new Cleared Swap again without executing such Cleared Swap in the Order Book, by RFQ or as a Block Trade.
- (c) For the avoidance of doubt, a Cleared Swap that is submitted for clearing and is the subject of a rejection notice from the applicable Derivatives Clearing Organization or Clearing Firm pursuant to this Rule will nonetheless otherwise be within the meaning of SEF Activity for purposes of the Rules.
- (d) If one or more Cleared Swap components of a Package transaction is rejected for clearing pursuant to clauses (a) or (b) above and is void ab initio, then the non-Swap component(s) of such Package shall also be deemed void ab initio.

### Clean:

#### Rule 703 - Cleared Swaps Not Accepted for Clearing

- (a) If Tradition SEF receives a rejection notice from a Derivatives Clearing Organization because a Clearing Firm breached its credit limit at such Derivatives Clearing Organization, then the Cleared Swap shall be void ab initio and Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was canceled.
- (b) Additionally, and only with respect to a Cleared Swap that is a component of a Package transaction, if such Cleared Swap is rejected by a Derivatives Clearing Organization because of the sequencing of submissions to the Derivatives Clearing Organization of the components of the Package, then the rejected Cleared Swap component of the Package shall be void ab initio. In such case a new Cleared Swap component of the Package, with terms and conditions that match the terms of the original Cleared Swap, other than the



## Tradition SEF, Inc.

time of execution, may be submitted for clearing without being executed in the Order Book, by RFQ or as a Block Trade provided:

- (1) this procedure may not be used for Cleared Swaps rejected pursuant to clause (a) above;
  - (2) both Clearing Firms agree to submit the new Cleared Swap;
  - (3) each Clearing Firm obtains the consent of its Customer, if any, to submit the new Cleared Swap, and such consent must be sought on a case-by-case basis after the rejection of the original Cleared Swap;
  - (4) neither Clearing Firm may require a Customer to agree in advance to consent to the submission of a new Cleared Swap;
  - (5) The new Cleared Swap must be submitted for clearing as quickly as technologically practicable after receipt by Tradition SEF or the Clearing Firm of a notice of rejection from clearing, but in any event, no later than 60 minutes from the issuance of the notice of rejection by the Derivatives Clearing Organization to the Clearing Firms or Tradition SEF;
  - (6) Both the original Swap and the new Cleared Swap are subject to pre-execution credit checks that comply with CFTC Regulation 1.73 and/or CFTC Regulation 23.609 and the CFTC Staff Guidance on Swaps Straight-Through Processing issued on September 26, 2013 (the “CFTC Staff Guidance”);
  - (7) both the original swap and the new Cleared Swap are processed in accordance with the time frames set forth in CFTC Regulations 1.74, 23.610, 39.12(b)(7) and the CFTC Staff Guidance;
  - (8) Tradition SEF reports the Cleared Swap transaction data to the relevant SDR as soon as technologically practicable after the original Cleared Swap is rejected by the Derivatives Clearing Organization, and the parties to the Cleared Swap provide Tradition SEF with all of the information necessary for it to report the new Cleared Swap data and the cancellation of the original Cleared Swap; and
  - (9) If the new Swap is also rejected for clearing, it is void ab initio and the parties may not submit another new Cleared Swap again without executing such Cleared Swap in the Order Book, by RFQ or as a Block Trade.
- (c) For the avoidance of doubt, a Cleared Swap that is submitted for clearing and is the subject of a rejection notice from the applicable Derivatives Clearing Organization or Clearing Firm pursuant to this Rule will nonetheless otherwise be within the meaning of SEF Activity for purposes of the Rules.



## Tradition SEF, Inc.

- (d) If one or more Cleared Swap components of a Package transaction is rejected for clearing pursuant to clauses (a) or (b) above and is void ab initio, then the non-Swap component(s) of such Package shall also be deemed void ab initio.

For SEF administrative or compliance questions please contact:

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