Tradition

Tradition SEF, Inc.

Participant Notice 15-29 – Addition of "Split the Spread" order functionality to Trad-X Platform

October 16, 2015

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

Authorized Representatives,

Functionality to support "Split the Spread" orders, will be added to the Trad-X USD production environment on Monday, October 19, 2015.

INTRODUCTION

In the USD swaps market, and on the Trad-X Platform, the standard tick size is 1/8 for outrights and 1/4 for spreads. In order to allow sub-tick trades to occur on Trad-X, functionality is being introduced to support the "Split the Spread", order type which is described in the Tradition SEF Rulebook, Platform Supplement, S1- Appendix 1, Section 3, (2)(f). "Split the Spread."

ADDITION TO FUNCTIONALITY:

Trades between counterparties currently occur at the user submitted rate (limit order price) only. The new functionality will allow users to submit orders to be matched with a pre-defined range of improvement from the original rate submitted.

A split the spread order allows Participants to execute trades that effectively meet in the middle of the bid/ask spread.

Orders need to be designated as a "split the spread" order in Trad-X to take advantage of this functionality. "Split the Spread orders" only match with split the spread improvement against an opposing order which also has been designated "split the spread." Participants need to implement support for the FIX 5.0 SP2 Protocol "Discretion" tags in order to submit these orders. Participants also need to implement support for sub trade unit size fills as they will receive sub trade unit fills on "odd" number size trades.

Split the Spread functionality will only be available on orders equal to or above order sizes below

Instrument	DS size for midpoint
2y	400

3y	300
4y	200
5y	200
6y	200
7y	150
8y	150
9y	150
10y	100
11y	100
12y	100
13y	50
14y	50
15y	50
16y	50
17y	50
18y	50
19y	50
20y	50
21y	50
22y	50
23y	50
24y	50
25y	50
26y	50
27y	50
28y	50
29y	50
30y	50

A Participant or Customer may enter a Split the Spread order by flagging a bid or offer as such in the Order Book. If the best opposing Limit bid or offer has also enabled a Split the Spread flag on the order, Trad-X functionality matches the Split the Spread orders by filling half of the matching Order size at the bid level and half the Order size at the offer level. This creates an average price for the resulting transaction in the middle of the bid-offer spread. Split the Spread functionality will only operate when a market is being quoted within a tick of the market's minimum price fluctuation.

As an example if the market is 50M bid @ 8.25 and the opposing offer is 50MM offer @ 8.5 and both have the split the spread tag enabled on those orders, the fill would be at 25MM at 8.25 and 25MM at 8.5 (so 50MM at 8.375 in aggregate). This results in the economic equivalent of a mid-point trade.

Effectively this means that for every executed split the spread trade, there will be two trades that total to the volume of the size of the Split the Spread order entered, one at the higher rate, one at the lower rate.

Split the spread matching will be available for all order types including Limit orders, IOC, FOK and Icebergs.

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SCENARIO

Full match – Both counterparties at the top of the book have split the spread enabled

- Bank A submits bid 100MM @ 7.25 (split the spread enabled)
- Bank B submits bid 25MM @ 7.25 (no split the spread flag)
- Bank C submits bid 50MM @ 7.25 (no split the spread flag)
- Bank D submits offer 100MM @ 7.5 (split the spread enabled)

Order book before:

BID 10Y Spread OTR				OFFER 10Y Spread OTR			
Rate	**Client**	**Visible Size**	**Hidden Size**	**Rate**	**Client**	**Visible Size**	**Hidden Size**
7.25	**Bank A**	**100**	**0**	**7.5**	**Bank D**	**100**	**0**
7.25	Bank B	25	0	7.75	Bank E	25	0
7.25	Bank C	50	0	7.75	Bank F	50	0

Trade occurs:

- Bank D trades 10Y Spread OTR 50MM @ 7.5 with Bank A
- Bank D trades 10Y Spread OTR 50MM @7.25 with Bank A
- **Aggregated rate – Bank D trades 10Y Spread OTR 100MM @ 7.375 with Bank A**

Order book after:

BID 10Y Spread OTR				OFFER 10Y Spread OTR			
Rate	**Client**	**Visible Size**	**Hidden Size**	**Rate**	**Client**	**Visible Size**	**Hidden Size**
7.25	Bank B	25	0	7.75	Bank E	25	0
7.25	Bank C	50	0	7.75	Bank F	50	0

Please contact Tradition SEF Trading Operations if you have any further questions.

> **Trad-X / Tradition SEF Trading Operations (Americas)**
> (212) 238-5930
> trading.operations@tradition-na.com

For Tradition SEF administrative or compliance questions please contact**:**

Tradition SEF, Inc.

Eric Earnhardt, CCO   **:** (212) 791 3497 **or** eric.earnhardt@tradition-na.com
Jeff Mehan, COO   **:** (212) 943 4567 **or** jeff.mehan@tradition.com

For Tradition SEF legal questions please contact:

Scot Halvorsen, Senior Regulatory Counsel   **:** 212 377 2337 **or** scot.halvorsen@tradition.com