Tradition SEF, Inc. Participant Notice 13-01 – Amendments to Rules 703 and 704

October 10, 2013

Effective October 13, 2010, the Tradition SEF Rulebook has been amended as described below:

1.   Pursuant to CFTC Staff Guidance issued on September 26, 2013, Rule 703 (Cleared Swaps Not Accepted for Clearing) is amended to provide that if a Cleared Swap is submitted for clearing, but is not accepted for clearing by a Derivatives Clearing Organization (DCO) within the time frames set forth in the rules of the relevant DCO, the Cleared Swap shall be void *ab initio*. Notwithstanding that the Cleared Swap that was rejected for clearing and is void, such transaction and the parties to such transaction remain subject to the jurisdiction of Tradition SEF as provided in the Rules.

The text of amended Rule 703 and a marked version showing the amendments to Rule 703 are attached hereto.

2.   Pursuant to CFTC Staff Guidance issued on September 26, 2013 and CFTC Letter No. 13-62, Rule 704 (Credit) is amended to provide that prior to entering any Order for a Cleared Swap, each Participant that is acting for its own account shall ensure that it has sufficient credit with the Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives Clearing Organization. In the event that there is insufficient credit, the Participant may not enter such Order.

Likewise, prior to entering or permitting the entry of any Order for a Customer for a Cleared Swap, each Participant or Broker Firm shall ensure that its Customer has sufficient credit with the Customer's Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives Clearing Organization. In the event that there is insufficient credit, the Participant or Broker Firm may not enter or permit the entry of such Order.

Additionally, Tradition-SEF will take steps to facilitate pre-execution credit checks by Clearing Firms and will issue notices to Clearing Firms, Participants and Broker Firms relating thereto. Consistent with and to the extent required by CFTC Regulations, each Clearing Firm that is a Participant will need to establish risk-based limits for its proprietary and Customer accounts and use automated means to screen Orders for such accounts.

The text of amended Rule 704 and a marked version showing the amendments to Rule 704 are attached hereto. All defined terms used herein have the meaning ascribed to such term in the Tradition SEF Rulebook available at: **http://www.traditionsef.com/news/**

For more information please contact: **Eric Earnhardt, CCO 212 791 3497 or eric.earnhardt@tradition-na.com. Jeff Mehan, CAO, 212 943 4567 or jeff.mehan@tradition.com.**

Text of amended Rule 703:

RULE 703 Cleared Swaps Not Accepted for Clearing

If a Cleared Swap is submitted to, but not accepted for clearing by, a Derivatives Clearing Organization within the time set forth in the rules of such Derivatives Clearing Organization, then it shall be void *ab initio* and Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was not accepted for clearing. For the avoidance of doubt, a Cleared Swap that is not accepted for clearing pursuant to this Rule will nonetheless be within the meaning of SEF Activity for purposes of the Rules.

Text of amended Rule 704:

RULE 704 Credit Checks - Pre-Execution Credit Check

(a)   Prior to entering any Order for a Cleared Swap, each Participant that is acting for its own account shall ensure that it has sufficient credit with the Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives Clearing Organization. In the event that there is insufficient credit, the Participant may not enter such Order.

(b)   Prior to entering or permitting the entry of any Order for a Customer for a Cleared Swap, each Participant or Broker Firm shall ensure that its Customer has sufficient credit with the Customer's Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives Clearing Organization. In the event that there is insufficient credit, the Participant or Broker Firm may not enter or permit the entry of such Order.

(c)   Tradition-SEF will take steps to facilitate pre-execution credit checks by Clearing Firms and will issue notices to Clearing Firms, Participants and Broker Firms relating thereto. Consistent with and to the extent required by CFTC Regulations, each Clearing Firm that is a Participant shall establish risk-based limits for its proprietary account. Each Clearing Firm, whether or not a Participant, shall establish risk-based limits for each Customer account. Except to the extent otherwise permitted by CFTC Regulations:

    (1)   such risk-based limits shall be based on position size, order size, margin requirements, or similar factors;

    (2)   a Clearing Firm shall use automated means to screen Orders that it has authorized a Participant or Broker Firm to execute electronically; and

    (3)   a Clearing Firm shall establish and maintain systems of risk controls reasonably designed to ensure compliance with such risk-based limits for all other Orders.

Marked version of Rules 703 and 704:

RULE 703 Cleared Swaps Not Accepted for Clearing

[(a)]If a Cleared Swap is submitted to, but not accepted for clearing by, a **Derivatives** Clearing [House]**Organization** within the time set forth in the rules of such **Derivatives** Clearing [House, then:]**Organization, then it shall be void *ab initio* and Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was not accepted for clearing. For the avoidance of doubt, a Cleared Swap that is not accepted for clearing pursuant to this Rule will nonetheless be within the meaning of SEF Activity for purposes of the Rules.**

[(1) if the parties to such Cleared Swap have in effect an Execution Agreement applicable to such Cleared Swap, the rights and obligations of the parties shall be determined by the terms of such Execution Agreement and Tradition SEF shall have no further responsibility with respect to such Cleared Swap.]

[(2) if the parties to such Cleared Swap do not have in effect an Execution Agreement applicable to such Cleared Swap, the Swap shall be void and as such, neither of the counterparties to the Swap or Tradition SEF shall have any further responsibility relating to the Swap.]

[(b) Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was not accepted for clearing.]

[RULE 704 Credit]**RULE 704 Credit Checks - Pre-Execution Credit Check**

[Tradition SEF will not perform a pre-trade credit check on any Swap on the basis that, as set forth in Rule 701, Participants and Customers that are Non-Clearing Firms shall have a Clearing Firm guarantee their obligations with respect to each Order and Swap effected on a Platform. Participants on the Tradition SEF Platform(s) have the right to pre-trade block inter alia any counterparty with which they do not have an Execution Agreement in place.]

(a)]Prior to entering any Order for a Cleared Swap, each Participant that is acting for its own account shall ensure that it has sufficient credit with the Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives

Clearing Organization. In the event that there is insufficient credit, the Participant may not enter such Order.

(b) Prior to entering or permitting the entry of any Order for a Customer for a Cleared Swap, each Participant or Broker Firm shall ensure that its Customer has sufficient credit with the Customer's Clearing Firm to which any resulting Swap will be submitted for clearing at the relevant Derivatives Clearing Organization. In the event that there is insufficient credit, the Participant or Broker Firm may not enter or permit the entry of such Order.

(c) Tradition-SEF will take steps to facilitate pre-execution credit checks by Clearing Firms and will issue notices to Clearing Firms, Participants and Broker Firms relating thereto. Consistent with and to the extent required by CFTC Regulations, each Clearing Firm that is a Participant shall establish risk-based limits for its proprietary account. Each Clearing Firm, whether or not a Participant, shall establish risk-based limits for each Customer account. Except to the extent otherwise permitted by CFTC Regulations:

(1) such risk-based limits shall be based on position size, order size, margin requirements, or similar factors;

(2) a Clearing Firm shall use automated means to screen Orders that it has authorized a Participant or Broker Firm to execute electronically; and

(3) a Clearing Firm shall establish and maintain systems of risk controls reasonably designed to ensure compliance with such risk-based limits for all other Orders.