



Tradition SEF, Inc.

Participant Notice 14-07

April 22, 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

The Tradition SEF, Inc. rulebook has been updated throughout as of April 15, 2014 (to be effective on April 30, 2014) to reflect conforming changes to various defined terms and other changes that help to clarify the rules. These changes have been submitted to the CFTC under Regulation 40.6, and are pending certification with an effective date of April 30, 2014.

Copies of the redline and clean versions of the Tradition SEF Rulebook have been posted to <http://www.traditionsef.com/>.

Revisions include housekeeping revisions to correct minor grammatical errors or for purposes of consistent use of defined terms.

A description of each Rule Change and an explanation and analysis of the operation, purpose and effect of the proposed changes and its compliance with applicable Core Principles and Commission regulations is attached as Exhibit A.

The text of the amended rules and a marked version showing the amendments to the rules are copied below. All defined terms used herein have the meaning ascribed to such term in the Tradition SEF rulebook.

Rule: 101 – Definitions:

Addition of new defined terms:

“Breakage Agreement” means an agreement or any other arrangement between the parties that provides for the assessment of liability or payment of damages between the parties to a Cleared Swap in the event that the Cleared Swap is rejected from clearing.

“Direct Customer Access” means, with respect to a Customer, direct connectivity to a Tradition SEF Platform through: (i) an ISV or the Customer’s proprietary application program interface; or (ii) voice to an Order Book or RFQ System through a SEF Execution Specialist; in each case, as authorized by a Participant through the Participant’s Trading Privileges.

“Intermediated Access” means, with respect to a Customer, indirect connectivity to a Tradition SEF Platform or RFQ System through a Participant’s: (i) technology platform; or (ii) order placement infrastructure.



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Rule 506: Order Types; Submissions and Procedures: Addition of “Trade at Settlement,” order type:

Trade at Settlement (TAS) – Is an Order for a fixed volume in a contract, at a price or premium equal to the daily settlement price or index fixing price, or a specified differential above or below the daily settlement price or index fixing price, for the contract on a Trading Day. The actual TAS transaction price or premium is determined subsequent to the transaction, based upon the daily settlement price or index fixing price of the contract.

Rule 512(a) and (b) - Swap Data Reporting:

Deletion of the reference to CFTC No-Action Letter No. 13-55 (the relief in which has expired).

Redline:

(a) Tradition SEF will report Required Swap Creation Data to a Swap Data Repository for each Swap ~~other than Swaps in the equity asset class and the other commodity asset class. With respect to Swaps in the equity asset class and the other commodity asset class Tradition SEF is relying on the time-limited relief from such reporting set forth in CFTC No-Action Letter No. 13-55, and will commence reporting Required Swap Creation Data to a Swap Data Repository for each such Swap on or before January 2, 2014 in accordance with the terms of CFTC No-Action Letter No. 13-55, unless such reporting relief is extended by the CFTC~~. Tradition SEF may provide such Required Swap Creation Data to Participants no earlier than the time it transmits such information to a Swap Data Repository and in a form that does not disclose the identities, or otherwise facilitate identification, of the parties to the Swap.

(b) The Reporting Counterparty for each Swap executed pursuant to the Rules shall be established pursuant to CFTC Regulation ~~[45.8.]~~45.8, as may be amended from time to time. If both counterparties to a Swap executed pursuant to the Rules are equal in the hierarchy (for example, both are Swap Dealers), the Reporting Counterparty for such Swap shall be determined in accordance with the Dodd-Frank Act— Swap Transaction Reporting Requirements (version July 15, 2013 or such successor version as may be adopted from time to time published by ISDA), or if an ISDA framework exists, reporting will follow the ISDA framework.

Clean:

RULE 512 Swap Data Reporting

(a) Tradition SEF will report Required Swap Creation Data to a Swap Data Repository for each Swap. Tradition SEF may provide such Required Swap Creation Data to Participants no earlier than the time it transmits such information to a Swap Data Repository and in a form that does not disclose the identities, or otherwise facilitate identification, of the parties to the Swap.

(b) The Reporting Counterparty for each Swap executed pursuant to the Rules shall be established pursuant to CFTC Regulation 45.8, as may be amended from time to time. If both counterparties to a Swap executed pursuant to the Rules are equal in the hierarchy (for example, both are Swap Dealers), the Reporting Counterparty for such Swap shall be determined in accordance with the Dodd-Frank Act— Swap Transaction Reporting Requirements (version July 15, 2013 or such successor version as may be adopted from time to time published by ISDA), or if an ISDA framework exists, reporting will follow the ISDA framework.



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Rule 513: Correction or Cancellation of Swap Data

Redline:

RULE 513 Correction or Cancellation of Swap Data

Participants and Customers that become aware of an error or omission in Required Swap Creation Data for a Swap shall promptly submit corrected data to Tradition SEF and, if the error or omission relates to a Block Trade, the counterparty to such Block Trade.

If Tradition SEF becomes aware of an error or omission in the Swap transaction or pricing data reported with respect to such Swap, or receives notification from the Reporting Counterparty, Tradition SEF shall promptly submit corrected data to the same registered SDR. For Cleared Swaps, if Tradition SEF becomes aware of, or receives notification from the Reporting Counterparty about, any error or omission in the Cleared Swap's transaction or pricing data reported with respect to such Cleared Swap, then Tradition SEF promptly notify the applicable Clearing Firm and the procedures under Rule 703 may be applied under the circumstances addressed in that Rule.

Clean:

RULE 513 Correction or Cancellation of Swap Data

Participants and Customers that become aware of an error or omission in Required Swap Creation Data for a Swap shall promptly submit corrected data to Tradition SEF and, if the error or omission relates to a Block Trade, the counterparty to such Block Trade.

If Tradition SEF becomes aware of an error or omission in the Swap transaction or pricing data reported with respect to such Swap, or receives notification from the Reporting Counterparty, Tradition SEF shall promptly submit corrected data to the same registered SDR. For Cleared Swaps, if Tradition SEF becomes aware of, or receives notification from the Reporting Counterparty about, any error or omission in the Cleared Swap's transaction or pricing data reported with respect to such Cleared Swap, then Tradition SEF shall promptly notify the applicable Clearing Firm and the procedures under Rule 703 may be applied under the circumstances addressed in that Rule.

Rule 517: Fictitious, Wash, Accommodation or Non-Competitive Transactions Prohibited

Addition of new requirements for trades between Affiliates:

Redline:

RULE 517 Fictitious, Wash, Accommodation or Non-Competitive Transactions Prohibited

(a) No Participant, Customer, Authorized Trader, Authorized Broker or Supervised Person shall create fictitious transactions, wash transactions, accommodation transactions, or non-competitive transactions (except as otherwise authorized by the Rules), or execute any such Order with knowledge of its nature as a fictitious transaction, wash transaction, accommodation transaction or non-competitive transaction.

(b) The following requirements shall apply to all Swap transactions, including Block Trades, between Affiliates:

(1) The trade price must be based on a competitive market price, and each Affiliate trade must reflect: (a) the size of the trade; (b) the prices and sizes of other transactions in the same contract at the relevant time; (c) the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash market or related swaps markets, at the relevant time; and (d) the circumstances of the markets or the Participants to the trade;



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(2) Each party must have a separate and independent legal bona fide business purpose for engaging in the trade; and

(3) Each party's decision to enter into the trade must be made by a separate and independent decision maker.

Clean:

RULE 517 Fictitious, Wash, Accommodation or Non-Competitive Transactions Prohibited

(a) No Participant, Customer, Authorized Trader, Authorized Broker or Supervised Person shall create fictitious transactions, wash transactions, accommodation transactions, or non-competitive transactions (except as otherwise authorized by the Rules), or execute any such Order with knowledge of its nature as a fictitious transaction, wash transaction, accommodation transaction or non-competitive transaction.

(b) The following requirements shall apply to all Swap transactions, including Block Trades, between Affiliates:

(1) The trade price must be based on a competitive market price, and each Affiliate trade must reflect: (a) the size of the trade; (b) the prices and sizes of other transactions in the same contract at the relevant time; (c) the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash market or related swaps markets, at the relevant time; and (d) the circumstances of the markets or the Participants to the trade;

(2) Each party must have a separate and independent legal bona fide business purpose for engaging in the trade; and

(3) Each party's decision to enter into the trade must be made by a separate and independent decision maker.

Rule 538: Error Trade Policy for Tradition SEF Errors:

Addition of express prohibition on Participants or Customers requiring a Breakage Agreement from any other Participant or Customer as a condition of trading.

Redline:

RULE 538 Error Trade Policy for Tradition SEF Errors

Subject to the terms of any error trade policies set forth in any applicable Platform Supplement, and subject to the requirements of Rule 703(b) if applicable, any Participant or Customer who mishandles any Order or RFQ or who executes an Order or RFQ in error is responsible for all remedial actions and all potential losses incurred with respect to such Order or RFQ. If a Participant or Customer believes that an error has occurred with respect to the handling or execution of an Order or RFQ arising out of the negligence, failure, malfunction, delay, omission, or inaccuracy of a Tradition SEF Execution Specialist or any Tradition SEF Platform, service, equipment or facility, then such Participant or Customer may file an error claim by email to: trading.operations@tradition-na.com with a copy to trading.operations@tradition.com with the subject line of such email as "POSSIBLE TRADE ERROR NOTIFICATION". Such error claim must be filed within thirty (30) minutes from the time such trade was executed. Tradition SEF reserves the right, in its sole discretion, to reject any error claim that is not filed within such thirty (30) minute time period and such decision shall be final. The Participant or Customer will be responsible for establishing the loss and mitigating damages by taking market action, where appropriate. If the Participant or Customer fails to promptly mitigate damages after filing its error claim with Tradition SEF, any additional losses from that point forward related to the error claim shall be for the account and risk of the Participant or Customer. Tradition SEF



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shall investigate the error claim and shall make a determination of fault, which determination shall be final and non-appealable.

Upon receipt of a request for review of a potential error, Tradition SEF will review its records (including but not limited to, instant message communications and other forms of messaging, voice communications and order transmission to Tradition SEF) to determine if an error is the fault of Tradition SEF. If the error is not the fault of Tradition SEF, then Tradition SEF shall have no liability to the Participant or Customer for the error claim. If Tradition SEF is determined to be at fault, then any liability will be subject to the limitations of liability set forth in Rule 537.

Clean:

RULE 538 Error Trade Policy for Tradition SEF Errors

Subject to the terms of any error trade policies set forth in any applicable Platform Supplement, and subject to the requirements of Rule 703(b) if applicable, any Participant or Customer who mishandles any Order or RFQ or who executes an Order or RFQ in error is responsible for all remedial actions and all potential losses incurred with respect to such Order or RFQ. If a Participant or Customer believes that an error has occurred with respect to the handling or execution of an Order or RFQ arising out of the negligence, failure, malfunction, delay, omission, or inaccuracy of a Tradition SEF Execution Specialist or any Tradition SEF Platform, service, equipment or facility, then such Participant or Customer may file an error claim by email to: trading.operations@tradition-na.com with a copy to trading.operations@tradition.com with the subject line of such email as "POSSIBLE TRADE ERROR NOTIFICATION".

Such error claim must be filed within thirty (30) minutes from the time such trade was executed. Tradition SEF reserves the right, in its sole discretion, to reject any error claim that is not filed within such thirty (30) minute time period and such decision shall be final. The Participant or Customer will be responsible for establishing the loss and mitigating damages by taking market action, where appropriate. If the Participant or Customer fails to promptly mitigate damages after filing its error claim with Tradition SEF, any additional losses from that point forward related to the error claim shall be for the account and risk of the Participant or Customer. Tradition SEF shall investigate the error claim and shall make a determination of fault, which determination shall be final and non-appealable.

Upon receipt of a request for review of a potential error, Tradition SEF will review its records (including but not limited to, instant message communications and other forms of messaging, voice communications and order transmission to Tradition SEF) to determine if an error is the fault of Tradition SEF. If the error is not the fault of Tradition SEF, then Tradition SEF shall have no liability to the Participant or Customer for the error claim. If Tradition SEF is determined to

Rule 701: Cleared Swaps

Addition of express prohibition on Participants or Customers requiring a Breakage Agreement from any other Participant or Customer as a condition of trading.

Redline:

RULE 701 Cleared Swaps

Subject to Rule 703, a Participant or Customer shall be eligible to trade Cleared Swaps on the SEF only if the Participant or Customer (or their respective Affiliate) is a Clearing Firm of the appropriate Derivatives Clearing Organization where the Cleared Swap is designated for clearing or has a clearing account with a Clearing Firm who has undertaken to provide a guarantee to the Derivatives Clearing Organization to clear such Cleared Swap at the Derivatives Clearing Organization, following the Clearing Firm's



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acceptance of such Cleared Swap for clearing, within the limits set by the Clearing Firm, in each case executed on a Platform or pursuant to the Rules. A Clearing Firm may not refuse to accept a Cleared Swap for clearing that does not violate the limits set by the Clearing Firm. [Participants and Customers are prohibited from requiring a Breakage Agreement from any other Participant or Customer as a condition of trading with that other Participant or Customer.](#)

Clean:

RULE 701 Cleared Swaps

Subject to Rule 703, a Participant or Customer shall be eligible to trade Cleared Swaps on the SEF only if the Participant or Customer (or their respective Affiliate) is a Clearing Firm of the appropriate Derivatives Clearing Organization where the Cleared Swap is designated for clearing or has a clearing account with a Clearing Firm who has undertaken to provide a guarantee to the Derivatives Clearing Organization to clear such Cleared Swap at the Derivatives Clearing Organization, following the Clearing Firm's acceptance of such Cleared Swap for clearing, within the limits set by the Clearing Firm, in each case executed on a Platform or pursuant to the Rules. A Clearing Firm may not refuse to accept a Cleared Swap for clearing that does not violate the limits set by the Clearing Firm. Participants and Customers are prohibited from requiring a Breakage Agreement from any other Participant or Customer as a condition of trading with that other Participant or Customer.

Rule 703(a): Cleared Swaps Not Accepted for Clearing

Minor changes have been made to this rule to make clear that once Tradition SEF receives a rejection notice with respect to a Cleared Swap, Tradition SEF shall notify the relevant SDR.

Redline:

RULE 703 Cleared Swaps Not Accepted for Clearing

(a) If [~~a Cleared Swap is submitted to, but~~] Tradition SEF [~~, a Clearing Firm, or a Participant~~] receives a rejection notice from [~~:(1) a Clearing Firm because the Participant or Customer breached its credit limit at the Clearing Firm, or; (2) a~~] a Derivatives Clearing Organization because a Clearing Firm breached its credit limit at such Derivatives Clearing Organization, then [~~it~~] the Cleared Swap shall be void ab initio and Tradition SEF shall notify the relevant Swap Data Repository that the Cleared Swap was [~~rejected by the Clearing Firm or Derivatives Clearing Organization, as applicable~~] canceled.

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.

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.