

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 2013-09 Date: August 9, 2013

**IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**

(confidential treatment requested for Exhibit 2-1)

ORGANIZATION

ORGANIZATION

FILING AS A:

DCM

SEF

DCO

SDR

ECM/SPDC

TYPE OF FILING

TYPE OF FILING

- **Rules and Rule Amendments**

Certification under § 40.6 (a) or § 41.24 (a)

“Non-Material Agricultural Rule Change” under § 40.4 (b)(5)

Notification under § 40.6 (d)

Request for Approval under § 40.4 (a) or § 40.5 (a)

Advance Notice of SIDCO Rule Change under § 40.10 (a)

- **Products**

Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)

Swap Class Certification under § 40.2 (d)

Request for Approval under § 40.3 (a)

Novel Derivative Product Notification under § 40.12 (a)

RULE NUMBERS

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Advisory that applies to Rule 530 Position Accountability

DESCRIPTION

DESCRIPTION

See Attached Letter

trueEX

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August 9, 2013

**Via E-Mail: [submissions@cftc.gov](mailto:submissions@cftc.gov)**

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

**RE: trueEX LLC Advisory on Position Reporting and Accountability (trueEX LLC submission #2013-09)**

Dear Ms. Jurgens:

This submission replaces trueEX LLC submission #2013-08 which was withdrawn on August 9, 2013.

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended, (the "Act") and Commission Regulation 40.6(a), trueEX, LLC ("trueEX" or the "Exchange") hereby submits an Advisory regarding position reporting and accountability. The information contained this advisory relates specifically to trueEX Rule 530. This Advisory will be effective on August 23, 2013. The Advisory is attached as Exhibit 1

trueEX certifies that this rule complies with the Act and the Commission's regulations thereunder. trueEX's analysis of the operation, purpose and effect of the advisory and its compliance with the Act, core principles and Commission's regulations thereunder is in Exhibit 2. Exhibit 2-1 is a redline version. trueEX will be requesting confidential treatment of Exhibit 2-1 and asks that you take appropriate steps to keep it confidential and restrict its distribution.

There were no substantive opposing views to this advisory by the trueEX governing board or market participants. Furthermore, trueEX certifies that this certification has been concurrently posted on the Exchange's Web site at <http://www.trueex.com/rules-and-notice>

If you have questions regarding this submission, please contact me at (312) 320-8934 or by email at [fran@trueex.com](mailto:fran@trueex.com).

Sincerely,  
  
Fran Kenck  
Chief Regulatory Officer

cc: dmosubmissions@cftc.gov  
Roger Smith – Attorney Advisor, DMO

**trueEX Advisory 2013-03**

TO: All Market Participants

FROM: Fran Kenck  
Chief Regulatory Officer

DATE: August 23, 2013

RE: **Position Accountability for Interest Rate Swaps**

Pursuant to trueEX Rule 530, trueEX may establish a position accountability level for any Contract. Any Participant or its Customer(s), who owns or controls Contracts in excess of the applicable position accountability level shall provide to the Exchange Regulation Department at its request any information regarding the nature of the position, trading strategy or hedging activities, if applicable, and if ordered by the Exchange, shall not increase the size of any such position.

The purpose of this notice is to set forth the conditions under which positions must be reported to trueEX and to set the Position Accountability Level for Interest Rate Swaps. This notice pertains to Interest Rate Swaps traded pursuant to Chapter 10 of the trueEX rulebook.

**Reporting Requirement**

trueEX has established a daily transaction amount that will serve as a trigger to require daily reporting of positions. Positions must be reported to trueEX if transactions executed on trueEX in a single day equal or exceed the amounts in the table below:

Tenor Greater than	Tenor Less than or Equal to	Single Trade Volume (US \$ Notional)	Aggregate Daily Volume (US \$ Notional)
6 months	2 Years	\$2.5 billion	\$10 billion
2 Years	5 Years	\$1 billion	\$4 billion
5 Years	12 Years	\$500 million	\$2 billion
12 Years	30 Years	\$250 million	\$1 billion

For the purposes of determining if the reporting requirement has been triggered:

- Aggregate volume for the day will be gross daily volume, regardless of the direction of the transactions (for example, if a Participant (for its own account) or its Customer engages in a series of transactions in the 10 Year in a single day where it is the payer of \$200 million, \$250 million \$300 million, \$350 million and receiver of \$280 million, \$400 million, \$450 million. The aggregate gross total of these transactions is \$2.23 billion. Even though each transaction was below the Single Trade Volume threshold of \$500

million, the Aggregate Daily Volume exceeds \$2 billion and this Participant would be notified of its obligation to report positions to trueEX.

- Switches will not be double counted. For the purposes of the reporting trigger, trueEX will only count the notional value of the long leg. For example, in a 5 x 10 switch, where the notional amount of the 10 Year leg is \$100 million (note: the short leg notional value is calculated using the DV01 equivalent of the long leg), trueEX will count \$100 million in the 10 Year toward the reporting trigger.

Once any of the reporting thresholds in the table above have been triggered, the party that has reached the reporting level (“Reporting Party”) must report its position in cleared Interest Rate Swaps to trueEX on a daily basis, regardless of where executed. trueEX Rule 403(c) requires a Participant to submit information relating to the Exchange Activity of such Participant or any of its Customers to the Exchange or the Regulatory Service Provider. Such information includes the open trading positions of the Participant or any of its Customers, and Contracts to which they may be a party, as well as all trading activity in the commodity underlying any Contracts and related derivatives markets.

This report must include the DV01 equivalent of all cleared interest rate swaps where the LIBOR reset frequency is 3 months or greater<sup>1</sup> that the Reporting Party currently owns or controls<sup>2</sup>.

### **Position Accountability**

**For the purposes of position accountability in Interest Rate Swaps, trueEX has set the position accountability level at \$10 million DV01 across the curve.**

In order to effectively monitor the position accountability level, the Reporting Party will be required to report its entire portfolio of cleared interest rate swap positions and related derivatives for the purposes of this requirement.

Once the Reporting Party is subject to daily position reporting, it must report the following related derivative positions to trueEX, in addition to reporting its cleared interest rate swap positions, if the position accountability level has been reached,:

- The DV01 equivalent of positions in 3 Month Eurodollar futures and options
- The DV01 equivalent of positions in Interest Rate Swap futures
- The DV01 equivalent of Interest Rate swaptions

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<sup>1</sup> Please see the attached document titled "Large Trader Reporting of Interest Rate Swaps" for the data elements and format requirements.

<sup>2</sup> trueEX Rule 530(b) provides information regarding the inclusion of positions under the control of the reporting party.

The following interest rate swaps and related derivatives must be omitted:

- Interest rate swaps in which the floating index is 1 month LIBOR, OIS, and Fed Funds
- Cross currency swaps

trueEX reserves the right to amend the requirements at any time at its discretion. The criteria above is based on the fact that trueEX will initially offer US dollar denominated swaps based on LIBOR. This criteria will change upon the introduction of additional currencies and floating indices.

### **Reporting Procedures**

Once the reporting level is triggered, the Reporting Party will be required to report positions to trueEX until such time that trueEX notifies the Reporting Party that it is no longer required. trueEX will provide information to the Reporting Party as to the reporting format, reporting method and timing by the Exchange Regulation Department.

## Data File Layout – Large Trader Reporting

Attribute Name	Data Type	Description	Sample Values	FpML Mapping
Value Date	DATE	Date at which the swaps are valued.	MM/DD/YYYY	asOfDate
Originating USI	VARCHAR(255)	Universal Swap Identifier (USI) at time of execution		tradelId
USI	VARCHAR(255)	Post-Novated Universal Swap Identifier (USI)		tradelId
DV01	FLOAT	Dollar value of a one basis point decrease in interest rates		assetMeasureScheme
Notional	FLOAT	Notional amount of the swap.		notionalAmount
Notional Unit	FLOAT	The units in which a notional amount is denominated <sup>1</sup> .		currency
Direction	VARCHAR(1)	Direction of the trade from the perspective of the position holder	P = Payer of the Rate R = Receiver of the Rate	PayerReceiver.model
Clearing Organization ID	VARCHAR(255)	Populate with LEI of the clearing organization where the swap was cleared <sup>2</sup> .		partyID
Reporting Party ID	VARCHAR(255)	Populate with the ID of the reporting party <sup>2</sup> .		partyID
Reporting Party ID Source	VARCHAR(255)	Populate this field with the origin of the Reporting Party ID <sup>2</sup> .	LEI	partyMessageInformation
Position Holder ID	VARCHAR(255)	Populate with the ID of the Position Holder of the swap <sup>2</sup> .		partyID
Position Holder ID Source	VARCHAR(255)	Populate this field with the origin of the Position Holder ID <sup>2</sup> .	LEI	partyMessageInformation
Fixed Rate	FLOAT	The calculation period fixed rate. A per annum rate, expressed as a decimal. A fixed rate of 5% would be represented as 0.05.	.05	fixedRate
Floating Rate Index	VARCHAR(255)	Identifies specific index of the floating leg.	USD-LIBOR-BBA	floatingRateIndex
Floating Rate Tenor	VARCHAR(255)	The ISDA Designated Maturity, i.e. the tenor of the floating rate.	3M	indexTenor
Effective Date	DATE	The first day of the term of the trade.	MM/DD/YYYY	effectiveDate
Maturity Date	DATE	The end date of the calculation period.	MM/DD/YYYY	terminationDate
Currency	VARCHAR(3)	Settlement Currency <sup>1</sup> .	USD	settlementCurrency
PAI	FLOAT	The Price Alignment Interest Total Amount		assetMeasureScheme
Upfront Payment	FLOAT	Specifies a single fixed payment that is payable by the payer to the receiver on the initial payment date.		singlePayment
NPV	FLOAT	The sum of present values of all incoming cash flows and all outgoing cash flows.		assetMeasureScheme
Net Cash Flow	FLOAT	Cash flow as of the value date. This is calculated by the following: NCF = VM + PAI + Upfront Fee + Fixed Coupon + Float Coupon		
Unique Product Identifier	VARCHAR(255)	CFTC's unique ID (UPI) for every product <sup>3</sup> .		productId

<sup>1</sup> Provided in ISO Code 4217 Currency Codes.

<sup>2</sup> See <http://www.fpml.org/samples/lei.html> for more detail on Legal Entity Identifier (LEI). Use the CICI until the global LEI solution is in place.

<sup>3</sup> Usage of this field is pending CFTC clarification.

## EXHIBIT 2

In its application for designation as a Designated Contract Market (“DCM”), trueEX LLC (“trueEX” or “the Exchange”) had initially set the reporting level for interest rate swaps at \$1.7 billion notional across all tenors and the accountability level at \$20 billion notional across all tenors, with the intention that this would be for activity transacted on trueEX only. After much research and conversations with market participants, and NFA, trueEX determined that setting the levels in this manner was not appropriate for this product and through its Advisory 2013-03 is setting out a position reporting and accountability structure that makes more sense for a product that will (and does) trade on other venues, over the counter and clears through multiple clearinghouses.

trueEX has recently amended its rulebook to remove reference to those levels and made its Rule 530 more broad and decided instead to issue Advisory 2013-03 to explain the new reporting and accountability levels that will be implemented upon launch. The purpose of implementing this advisory is to ensure the trueEX’s compliance with the following core principles:

- **Core Principle 5 (Position Limits or Accountability)**  
trueEX Rule 530 specifically speaks to this core principle.
- **Core Principle 3 – Contracts Not Readily Subject to Manipulation**  
trueEX has established rules and an enforcement infrastructure to prevent the manipulation of the Contract. (see Chapter 5: Trading Practices and Business Conduct; Chapter 6). As indicated above, the Exchange has rules related to position accountability levels (Rules 530). This advisory provides the details regarding reporting triggers and the procedures for market participants to submit position information to trueEX in order to assess a trader’s exposure. Exchange staff conduct real-time market surveillance and NFA provides regulatory services to the exchange on a T+1 basis. NFA’s services include comprehensive Trade Practice and Market Surveillance Services (the scope of which can be found in the Regulatory Services Agreement between NFA and trueEX that was submitted to the Commission as part of trueEX’s DCM application.
- **Core Principle 12 – Protection of Markets and Market Participants**  
Chapter 5 of the Rulebook establishes rules to protect Participants who trade the Contract from abusive practices by parties, including those operating as agents of the Participants and promotes fair and equitable trading of the Contract. Surveillance conducted by Exchange staff and NFA will serve to identify the actions of parties and practices that may be detrimental to the market and/or market participants.
- **Core Principle 13 – Disciplinary Procedures**  
Chapter 6 of the trueEX Rulebook sets forth the rules related to the investigation and prosecution of potential rule violations. Chapter 6 also sets forth potential

sanctions for rule violations and is applicable to all Contracts traded on the Exchange.

In the publication of Final Rules for SEFs<sup>1</sup>, the Commission has stated that reasonable discretion can be used to set and enforce accountability levels, and it has also stated that market participants' activity on other venues is not required to be included when monitoring for position limits or accountability levels. trueEX believes that monitoring accountability based on transactions/positions executed only on trueEX does not give an accurate risk profile of a market participant's entire interest rate swap portfolio and would provide skewed and meaningless information. Furthermore, in working with various clearinghouses, they contend that transactions on trade date are clearly identifiable as to their source, but once a position is cleared and netting procedures are applied, it is extremely difficult to identify a position as having originated from any particular venue.

### **Accountability Level**

Because of the nature of interest rate swaps—specifically that they can trade on multiple venues and clear in multiple clearinghouses, trueEX is adopting a position based accountability level that requires the inclusion of cleared interest rate swaps, regardless of where executed. Furthermore, trueEX has deleted the accountability level of \$21 billion notional across all tenors and replaced it with an accountability level of \$10 billion DV01<sup>2</sup> across all tenors. Setting the level in terms of notional amount aggregated across all tenors assumed risk is shared equally across all points on the curve. Setting the accountability level in terms of DV01 is a more accurate measure than a single notional amount and is more in line with industry practice.

### **Reporting Level**

Again, recognizing the challenges of using positions as a trigger for large trader reporting, trueEX has determined that a trueEX based trigger would be appropriate for recognizing who may be deemed to be a large trader on trueEX. As such, we used the discretion afforded by the Commission to set a reporting standard based on transactions executed on trueEX in a single day. In order to prevent the ability to game these numbers, trueEX set the requirements based on a single transaction or the aggregate of transactions in a single day. This would ensure that individual transactions could not be structured to avoid the single transaction limit. Once one of the triggers has been reached, the reporting party would be required to report their positions in cleared interest rate swaps, regardless of where executed. Once the accountability level is reached based on this information, the Exchange (via NFA as its Regulatory Service Provider), would conduct an inquiry into the nature of their holdings, strategy, etc. and the Reporting Party would be required to provide additional position information in related derivatives (eg Eurodollar futures and options, interest rate swap futures, etc.). Should there be a determination that the Reporting Party is facing too much risk or is holding positions that could otherwise be considered detrimental to the marketplace, it is trueEX's intention to consult with the Commission, NFA and other execution venues where this party transacts in order to determine the steps that should be taken. trueEX should not and will not unilaterally decide to

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<sup>1</sup> Core Principles and Other Requirements for Swap Execution Facilities, 78 Fed. Reg. 33476, 33533-33534, 33601 (June 4, 2013)

<sup>2</sup> DV01 is a calculation of the change in value of a swap for a one basis point move in the interest rate curve. It is industry practice to normalize the value of a swap across the curve.

restrict the Party from increasing size or otherwise reduce their risk without input from the parties mentioned above. The accountability level chosen by trueEX will operate as an alert system to enlist the cooperation of the other venues on which the Reporting Party transacts to share information as to the steps necessary to mitigate risk and potential harm to the marketplace.

In this vain, trueEX is of the opinion that the accountability level for interest rate swaps should be consistent across all venues that list them for trading. Without the consistency in the reporting level and requirements (ie all positions, not just those executed on a particular venue) and sharing of information among the venues, market participants will be free to transact across all and perhaps escape detection of a potential problem developing.

**EXHIBIT 2-1**

Redline of Exhibit 2 submitted August 9, 2013  
trueEX LLC submission #2013-09

**Confidential Treatment Requested by trueEX, LLC  
Pursuant to 17 CFR 145.9**