

SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 2014-08S Date: April 24, 2014

IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.

ORGANIZATION

trueEX LLC

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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Rule 524

DESCRIPTION

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Revision to permit pre-execution communications in respect of swaps that are not subject to the execution requirement of CEA 2(h)(8). Please see attached letter for more details.



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April 24, 2014

Via E-Mail: 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 Rule Amendment Self-Certification of Certain Rules, including Updated Table of Amendments/Revisions to Rulebook (trueEX LLC submission #2014-08S)

Dear Ms. Jurgens:

Pursuant to § 5c(c)(1) of the Commodity Exchange Act, as amended, (the “Act”) and Commission Regulation § 40.6(a), trueEX LLC (the “Exchange”) hereby certifies to the U.S. Commodity Futures Trading Commission (the “Commission”) an amendment to trueEX Rule 524. Consistent with the Congressional goal of the Dodd-Frank Act,¹ the amendment will promote trading on the trueEX SEF by permitting limited pre-execution communication in respect of orders for Permitted Transactions². A discussion of the relevant regulations and analysis of compliance with those regulations and SEF Core Principle 2 follows.

a. SEF Core Principle 2 and Related Regulations

Core Principle 2 requires SEFs to, among other things, establish and enforce trading, trade processing, and participation rules that will deter abuses.³ In furtherance of Core Principle 2, the Commission promulgated regulation § 37.203(a), which requires SEFs to establish a rulebook that includes rules prohibiting certain abusive trading practices, including pre-arranged trading.⁴ Further, the Commission promulgated regulation 37.9(b) to prohibit additional disruptive trading practices⁵ on SEFs that permit intermediation.⁶ Regulation 37.9(b) was promulgated “ensure a minimum level of pre-trade price transparency for Required

¹ See SEF Final Rules, 78 Fed. Reg. 33476, 33501 (June 4, 2013)(“In keeping with the statutory instruction that the Dodd-Frank Act goal of SEFs is to both ‘promote the trading of swaps on swap execution facilities and to promote pre-trade price transparency in the swaps market’ ...”).

² As used herein, the term “Permitted Transaction” has the same meaning given to it in CFTC Regulation § 37.9(c)(2).

³ 7 U.S.C. § 7b-3(f)(2)

⁴ See supra note 1 at 33571 (June 4, 2013)(Describing the rule-writing and enforcement-related provisions under Core Principle 2).

⁵ Regulation § 37.9(b) sets forth that a SEF shall require certain intermediated orders entered into the order book of the SEF following some form of pre-arrangement or pre-negotiation to be exposed to the market for a least 15 seconds.

⁶ See supra note 4 at 33510 (Discussing the abusive trading practices involving intermediation).

Transactions on a SEF's Order Book.”⁷ Both regulations §§ 37.203(a) and 37.9(b) generally prohibit pre-arranged trading subject to certain exceptions.⁸

b. Regulatory Treatment of Pre-execution Communication

In drafting and promulgating regulations §§ 37.203(a) and 37.9(b), the Commission has taken care to distinguish between pre-arranged trading, on the one hand, and pre-execution communications, on the other. The Commission has clarified that the “prohibition on pre-arranged trading *does not* limit pre-execution communications between market participants, subject to the rules of the SEF.”⁹ As a result, SEFs that permits pre-execution communications must establish and enforce rules “regarding such communications that have been certified to or approved by the Commission.”¹⁰

c. Amendment to Rule 524

In an effort to promote trading on SEFs and comply with the Commission's requirements regarding pre-execution communications, the Exchange is amending rule 524 to permit pre-execution communications (i.e., communications regarding proposed price, proposed size, etc.) in respect of contracts executed on the SEF, subject to following conditions:

- (a) the communication must be regard a contract that forms part of a Permitted Transaction that is not a Block Trade, as that term is defined in Part 43 of CFTC regulations;
- (b) the relevant parties must intend at the time of such communication to enter a bona fide order for the relevant contract on the trueEX SEF;
- (c) both parties must intend to clear any contract that results from the order; and
- (d) the communication must precede actual SEF order entry in the form of an executable request-for-quote from one party to the communication to the other party to the communication.

Rule 524 is consistent with the SEF Core Principles and the Commission's regulations thereunder. First, the rule amendment only applies to Permitted Transactions, maintaining the required pre-trade transparency for Required Transaction codified in regulation § 37.9(b). Second, amended rule 524 is consistent with Core Principle 2 and regulation § 37.203(a) because the rule amendment memorializes the requirements of the SEF surrounding pre-execution communications. Finally, trueEX continues to monitor compliance with and enforce rules 507 and 508, which prohibit market disruption and manipulation, respectively.¹¹

⁷ *Id.* at 33504 (Discussing 15-second time delay for crossing intermediated orders).

⁸ Exceptions to the general prohibition against pre-arranged trading include Block Trades and other types of transactions certified to or approved by the Commission pursuant to the procedures under part 40 of the Commission's regulations.

⁹ See *supra* note 7 at 33510 (emphasis added).

¹⁰ See *id.* at 33503. See also, *id.* at 33510.

¹¹ trueEX notes that, consistent with Division of Market Oversight interpretive guidance dated September 26, 2013, trueEX's SEF Trading System will facilitate automated screening of orders placed pursuant to amended rule 524 against pre-execution risk limits on an order-by-order basis.

d. *Certification*

The Exchange certifies that this amendment to rule 524 complies with the Act and the Commission's regulations thereunder, including SEF Core Principle 2 and regulations §§ 37.203 and 37.9. There were no substantive opposing views to this rule amendment expressed by the Exchange's 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>. A redline of the amendment to rule 524 is attached to this letter as Exhibit A. The amendment will be effective on May 7, 2014.

If you have questions regarding this notice, please contact me at (347) 292-6078 or by email at gloria.flinn@trueex.com.

Sincerely,

/s/ Gloria Flinn

Gloria J. Flinn
Acting Chief Legal Officer

cc: dmosubmissions@cftc.gov
submissions@cftc.gov
Fran Kenck, trueEX LLC

EXHIBIT A

RULE 524. Pre-arranged, Pre-Execution Communications and Non-competitive Trades Prohibited

(a) No Person shall pre-arrange any purchase or sale, or non-competitively execute, any transaction except in accordance with Rule 524(b) ~~or~~, Rule 524(c), or Rule 524(d).

(b) The foregoing restriction shall not apply to Block Trades affected pursuant to Rule 542(a).

(c) Pre-Execution Communications. Regarding Platform Trades A person may engage in pre-execution communications with other Participants, subject to the following conditions.

(i) Transactions on the DCM Trading System. Parties may ~~engage in pre-execution communications~~ communicate, directly or indirectly, with regard to an Order for a Contract ~~transactions executed listed for trading~~ on the ~~Platform~~ DCM Trading System where one party (the first party) wishes to be assured that a contra party (the second party) will take the opposite side of the Order and

~~(i) (A)~~ subject to the following restrictions:

~~(i)~~ —

~~(i) A person may not engage in pre-execution communications with other market participants on behalf of another party unless the party for whose benefit the trade is being made has previously consented to permit such communications;~~

~~(ii) (B) p~~ Parties to, and persons involved in, a pre-execution communications shall do not:

~~(A)~~ disclose to a nonparty the details of such communications or

~~(B)~~ enter an Order to take advantage of information conveyed during such communications except in accordance with this Rule 524(c); and;

(C) ~~(iii)~~ The Order details will be are entered by one of the parties into the ~~Platform~~ DCM Trading System. The first party's Order will be and displayed in a ~~public session to give~~ in a manner that gives other Participants the opportunity to participate in the Order. The second party's Order will not be matched against the first party's Order on the DCM Trading System until a period of 5 seconds has elapsed from the time of entry of both party's Orders. After the 5 seconds have elapsed, any portion of the first party's Order that was unfilled during the public session will be matched by the second party's Order.

(ii) Permitted Transaction on the SEF Trading System. A Participant may communicate with another Participant about the proposed price, proposed size or any other proposed terms of an Contract prior to placing a bona fide Order for such Contract on the SEF Trading System in accordance with Rule 539(b)(iii) or any other execution method specified

by the Exchange, provided that (A) the Order is for a Contract that forms part of a Permitted Transaction that is not a Block Trade, (B) both parties intend to place Order for such Contract on the SEF Trading System, and (C) both parties intend to clear such Contract at a Clearing House. Each party to a Contract that is subject to this Rule 524(c) shall be responsible for ensuring that the execution of such Contract complies with Applicable Law.