

# SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional)

Date:

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

**ORGANIZATION**

**FILING AS A:**  **DCM**  **SEF**  **DCO**  **SDR**  **ECM/SPDC**

**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)
- Made Available To Trade Determination under § 40.5 or § 40.6
- Advance Notice of SIDCO Rule Change under § 40.10 (a)

• **Products**

- Certification under § 40.2 (a) or § 41.23 (a)
- Submission under § 39.5
- Swap Class Certification under § 40.2 (d)
- Request for Approval under § 40.3 (a)
- Novel Derivative Product Notification under § 40.12 (a)

**RULE NUMBERS**

**DESCRIPTION**

November 21, 2013

**BY ELECTRONIC 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: Commission Regulation 40.2(a) –  
Certification of Interest Rate Basis Swaps**

Dear Ms. Jurgens:

LatAm SEF, LLC (“LatAm”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying interest rate basis swaps (each, a “Swap,” and collectively, the “Swaps”) for trading on LatAm’s electronic trading system (the “Trading System”).

LatAm will list the Swaps no earlier than November 25, 2013.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a copy of the Swaps’ rules, which includes a concise explanation and analysis of the Swaps. The Swaps’ rules will be published as contract specifications on LatAm’s website.
- Attached as Exhibit B, a concise explanation and analysis of the Swaps’ compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder.

LatAm certifies that each Swap complies with the CEA and Commission Regulations thereunder. LatAm additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on LatAm’s website.

\* \* \*



In the event that you have questions, please contact the undersigned at (646) 344-8990 or [sdunn@latamsef.com](mailto:sdunn@latamsef.com).

Sincerely,

/s/ Stephen Dunn  
Chief Executive Officer  
LatAm SEF, LLC

Attachments

## Exhibit A

### **LatAm SEF Product Specifications: Basis Swaps**

A Basis Swap is an Interest Rate Swap which involves the exchange of two floating rate cash flows. Both legs settle in the form of periodic floating interest payments and periodic floating interest payments based on interest rate benchmarks over a term to maturity. The interest rate payments are exchanged for a specified period based on a notional amount.

A Cross Currency Basis Swap, in addition to being a floating/floating swap, is also a swap where two parties can swap one currency for another.

#### **General IRS Specifications:**

The terms of Floating vs. Floating Interest Rate Swaps are based on a number of combinations of the criteria below.

#### **Trading Conventions**

- Buyer of swap “pays” floating interest rate plus/minus a spread and “receives” floating interest rate.
- Seller of swap “receives” floating interest rate plus/minus a spread and “pays” floating interest rate.

#### **Swap Leg Conventions**

<b>Floating Leg 1</b>	
<b>Payment Frequency</b>	Monthly, Quarterly, Semi-Annually, Annually
<b>Day Count Conventions</b>	Money Market Basis (Actual/360), Actual/365, Actual/Actual, Actual/366, 360/360, 30/360, 30E/360 or AFI/365
<b>Holiday Calendar</b>	Applied in accordance for the country currency denoted for instrument
<b>Business Day Convention</b>	Modified following business day: the payment date is rolled to the next business day for the country currencies denoted for instrument, unless doing so would cause the payment to be in the next calendar month, in which case the payment date is rolled to the previous business day(s).
<b>Fixed Rate</b>	The floating interest rate yield or basis points on Trade Date.
<b>Floating Leg 2</b>	
<b>Reset Frequency</b>	28-Day Roll, Monthly, Quarterly, Semi-Annually, Annually
<b>Day Count Conventions</b>	Money Market Basis (Actual/360), Actual/365, Actual/Actual, Actual/366, 360/360, 30/360, 30E/360 or AFI/365
<b>Holiday Calendar</b>	Applied in accordance for the country currency denoted for instrument
<b>Business Day Convention</b>	Modified following business day: the payment date is rolled to the next business day for the country currencies denoted for instrument, unless doing so would cause the payment to be in the next calendar month, in which case the payment date is rolled to the previous business day(s).
<b>Interest Rate Benchmark</b>	US LIBOR (3m and 6m), TIIE 28, Colombian IBR, Chilean Camara

#### **Effective Date**

The first date from which floating interest amounts accrue, also referred to as the “Start Date” and the “Value Date.” The Effective Date of the Swap must be a business day subject to the appropriate Business Day Convention.

### **Trade Start Type**

- Spot Starting - A swap whose Effective Date is 2 business days from the Trade Date (T+2).
- Forward Starting - A swap whose Effective Date is after the Effective Date for a Spot Starting swap.
- Same Day Starting - A swap whose Effective Date is the same as the Trade Date (T+0).

### **Maturity Date**

The final date until which Floating amounts accrue. The Maturity Date may also be referred to as the Termination Date or End Date.

### **Tenor**

The duration of time from the Effective Date to the Maturity Date. The Exchange will support Tenors of any duration ranging from 0 years to 50 years.

- Listed Tenors, also referred to as On-the-Run, means whole year Spot Starting or Same Day Starting Instruments with a Tenor of 1 through 15, 20, 25, 30, 35, 40, 45 and 50 years.
- Other Tenors means any whole year Tenors other than the Listed Tenors and any partial year Tenor.

### **Roll Day Convention**

The date used for determining all fixed and floating Reset Dates. Roll Days define the beginning and end of Floating interest accrual periods.

For On-the-Run Instruments, the Roll Day is the same date of the month as the Effective Date. For Off-the-Run Instruments, it can be any date of the month, subject to the provisions of the Business Day Convention. Roll Day marks the start of a new interest accrual period, and is the date on which a Reset Rate takes effect.

Note: Subject to good business days – as with all instruments, will never roll forward to the following month.

### **Floating Reset Dates**

Dates utilized to determine the Floating Rate amounts for each interest accrual period during the Tenor of the Instrument. Except in the case of a Stub Period, the Reset Date is 2 business days (USD, EUR) or zero business days (GBP) prior to the Roll Date for that interest accrual period.

### **First Period Fixing Date**

For Spot Starting swaps, the Interest Rate for the first interest period is fixed on the Trade Date, for both Floating and Fixed Rates.

For Forward Starting swaps, the Floating Rate for the first interest period is fixed on the Trade Date, and the Floating Rate for the first interest period is fixed 2 business days prior to the Effective Date.

### **Stub Period Rate**

For swaps with partial year Tenors, an interest period that is shorter than the standard underlying Floating index interest periods may occur between the Effective Date and the first or last Roll Date (known as a Stub Period). In these cases, the Interest Rate for such Stub Period is determined using linear interpolation based on the two index rates that surround the Stub Period. This can be applied either at the start (“Front”) or end (“Back”) of that period.

## Trade Types

The Platform may support the following trade types:

- Outright - A swap where one party is the payer of the fixed rate and the receiver of the floating rate, and the other party is the receiver of the fixed rate and the payer of the floating rate.
- Switch - The simultaneous purchase and sale of two different Tenors of the yield curve (e.g. 2-year by 10-year).
- Butterflies - The simultaneous purchases and sales of three different tenors of the yield curve (e.g. 2-year by 5-year by 10-year).

## Instrument Minimum and Incremental Size

- Minimum notional size is dependent on currency and tenor.
- Block Trades minimum notional size as stated by the CFTC and increments dependent on currency and tenor.

## Quoting Convention

Outrights are quoted in interest rate yield in a minimum 1/10th of a basis point increments.

Spreads and Butterflies are quoted in interest rate yield differential in minimum 1/10th basis point increments.

- Spot Starting - Close of business on Trade Date.
- Forward Starting - Close of business three business days prior to the Effective Date of the swap.
- Block Trades must occur outside the CLOB and in a quantity that meets or exceeds CFTC thresholds.

## List of Fixed/Floating Interest Rate Swaps

### Mexican CCY TIIE/US LIBOR Swap (Float/Float)

The Mexican TIIE/US Libor swap is a cross currency basis swap involving an exchange for floating rates in both USD Libor and MXN TIIE. The quotation represents the basis points that are used as spread over Libor as equivalent to TIIE.

MXN Leg:

- Index: TIIE 28
- Coupon Payment Frequency: 28-day Roll
- Day Count Convention: ACT/360
- Holiday Calendar: Mexico City and New York combined
- Business Day Convention: Following

USD Leg:

- Index: LIBOR 1M
- Coupon Payment Frequency: 28-day Roll
- Day Count Convention: ACT/360
- Holidays Calendar: Mexico City and New York combined
- Business Day Convention: Following

### Colombian Cross-Currency Basis Swaps

The plain vanilla basis swap, 3-month US Dollar Libor versus IBR (a Colombian floating overnight lending rate) is quoted with both fixed and floating side payment frequencies of quarterly, 2-year through 30-year.

- Value: T+2
- Fixed/ Floating Rate Frequency: Quarterly (2-year to 30-year)
- Fixed/ Floating Rate Day Count: ACT/360
- Holiday Calendar: New York and Bogota combined
- Business Day Convention: When a swap matures on a holiday in New York or Bogota, payment is rolled forward to the next business day, unless month-end, in which case payment is rolled back to the previous business day.

### US Floating Libor Rate vs. Camara Floating Rate Basis Swap

This swap trades the 6 month Libor rate against the Camara Floating rate. Normal Price convention considers the basis spread over the Camara against a flat 6-month Libor.

- Value Date: T+2
- Day Count Convention: ACT/360
- Coupon Payment Frequency: Semi-annual from 6 months to 30 years.
- Holiday Calendar: New York and Santiago combined
- Business Day Convention: Modified Following

## **Exhibit B**

LatAm has determined that the Swaps certified herein bear upon the following Core Principles:

### **Core Principle 2 – Compliance with Rules**

Trading in Swaps will be subject to the LatAm Rulebook (the “Rules”), which prohibits abusive trading practices and other illicit behavior, including misuse of the Trading System (Rule 705), conduct that is inconsistent with just and equitable principles of trade (Rule 704), fraudulent acts (Rule 707), fictitious transactions (Rule 707), market manipulation (Rule 707), disruptive trading practices (Rule 707), misstatements (Rule 707), wash sales (Rule 707), pre-negotiated or non-competitive trades, including money passes (Rule 707) and improper cross-trading (Rule 707). Trading in these swaps will also be subject to Rules relating to protection of customers. See Chapter 7 of the Rules.

As with all swaps listed for trading on the Trading System, trading activity in Swaps will be subject to monitoring and surveillance by LatAm’s Market Operations and Compliance Departments. LatAm has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. See Chapter 8 of the Rules.

Pursuant to Rule 510, each Swap executed as a block trade must be for the quantity that is equal to or in excess of the applicable minimum block size for such Swap set forth in Commission Regulations.

### **Core Principle 3 – Swaps Not Readily Susceptible to Manipulation**

The value of payments made pursuant to the terms of each Swap are determined primarily by referencing the following: U.S. dollar LIBOR; MXN-TIIE-Banxico; Colombian Indicador Bancario de Referencia (“IBR”); or Indice de Cámara Promedio.

In each case, the reference price is not readily susceptible to manipulation because it has the following characteristics: (i) it is derived from a cash market that has considerable depth and liquidity resulting from the involvement of numerous institutional participants; (ii) the way in which the reference price is calculated is well documented and well understood by swap market participants; (iii) it is commonly used in the swap markets; (iv) information about the reference price is publicly and readily available; (v) the reference price is administered and published by a reputable organization; and (vi) many active participants in the relevant cash market are entities that are subject to regulation.

Below is a brief description of each index:

#### **USD LIBOR**

Currently, LIBOR is administered by BBA Libor Ltd. and the rate is calculated by Thomson Reuters, using specific guidelines. To calculate LIBOR, which is a “trimmed mean,” Thomson Reuters collects the perceived rate daily from each of the contributor banks, discards the highest and lowest contributions (the top and bottom quartiles), and then uses the middle two quartiles. Both BBA Libor Ltd. and Thomson Reuters are separately regulated by the Financial Conduct Authority (“FCA”).

Recently, concerns have been raised with respect to the reliability of LIBOR as a reference price. As a result, British regulators and BBA Libor Ltd., the current administrator of LIBOR, have taken steps to

increase the robustness of the LIBOR process and inspire greater confidence in its reliability. These steps include:

- Completion of a comprehensive review of LIBOR which resulted in a report with recommendations, entitled the “Wheatley Review of LIBOR” (“Wheatley Report”);
- Establishment of an Interim LIBOR Oversight Committee (“ILOC”) to oversee the management of LIBOR, as required by the FCA regulations and recommended by the Wheatley Report;
- Enactment of regulation which makes the administration of LIBOR a “regulated activity” under the Financial Services and Markets Act 2000;
- (Ongoing) streamlining of the number of LIBOR currencies and maturities;
- Initiation of the practice of publishing individual LIBOR submissions after three months in order to reduce the potential for submitters to attempt manipulation;
- Establishment of the Hogg Tendering Advisory Committee (“Hogg Committee”) to recommend new institutions to oversee LIBOR;
- Approval of an upcoming transfer of the administration of LIBOR to NYSE Euronext Rates Administration Limited, the bidder recommended by the Hogg Committee;
- Confirmation by the FCA of the “Interim Code of Conduct for Contributing Banks” as Industry Guidance; and
- Establishment of a Whistleblowing Policy for LIBOR, as approved by the ILOC, which outlines how any concerns about perceived irregularities in conduct related to the administration of LIBOR and/or LIBOR submissions could be raised.

As British regulators and the current LIBOR administrator make these and other changes to improve the robustness of LIBOR, LIBOR remains a widely used and relied upon benchmark.

#### MXN-TIIE-Banxico

The TIIE is a representative rate for all credit operations among banks. Banco de México calculates the TIIE for 28-day maturities on a daily basis. The TIIE is calculated based on all the rates presented by the surveyed banks. When the difference between the highest and lowest bid exceeds a certain range, the two banks that presented these positions must deposit and/or take on credit from Banco de México at its bid rate. Specifically, the commercial bank that presented a lower rate of interest has to generate a deposit at Banco de México while the bank that presented a higher rate must take on credit from Banco de México.

#### Colombian IBR

The Colombian IBR is a benchmark interest rate denominated in Colombian pesos as determined by the Banco de la Republica de Colombia and published daily. The Colombian IBR is calculated from the contributions of multiple participating banks. The rates quoted are the nominal rate at which these entities are willing to both pay and receive funds for the respective term.

### Chilean Indice de Cámara Promedio

The Indice de Cámara Promedio is an overnight index calculated on a daily basis by the Asociación de Bancos e Instituciones Financieras based on the overnight lending rate published by the Banco Central de Chile.

### **Core Principle 4 – Monitoring of Trading and Trade Processing**

Chapter 7 of the Rules prohibits traders from manipulating, distorting the price of, and disrupting the cash settlement process of the Swaps. Such Rules are enforced by the Compliance Department.

### **Core Principle 5 – Ability to Obtain Information**

Pursuant to the Rules, LatAm will have the ability and authority to obtain sufficient information for each Swap to allow LatAm to fully perform its operational, risk management, governance and regulatory functions and requirements under Part 37 of Commission Regulations.

### **Core Principle 6 – Position Limits or Accountability**

Rule 708 allows LatAm to adopt position limits or position accountability levels for swaps listed on the Trading System. Pursuant to Rule 708(3), LatAm will not set position accountability levels for the Swaps listed in this filing because the Swaps are not subject to the trade execution requirement in Section 2(h)(8) of the CEA.

### **Core Principle 7 – Financial Integrity of Transactions**

All swaps that are required to be cleared pursuant to Section 2(h) of the CEA or that are voluntarily cleared by the counterparties will be submitted for clearing through a DCO. See Rule 601.

### **Core Principle 9 – Timely Publication of Trading Information**

In accordance with Part 16 of Commission Regulations, LatAm will publish daily information on its website regarding volume, price ranges, open interest and settlement prices (based on non-cancelled bids, non-cancelled offers, and sales). LatAm will also publish on its website on a daily basis the total quantity of block trades that are included in the total volume of trading. Information on settlement prices and open interest shall be provided, as applicable, by the relevant DCO. See Rule 413.

LatAm will submit electronic reports of all required swap creation data for each swap to a registered swap data repository immediately following execution of such swap. See Rule 903. All such reports will meet the standards set out in Commission Regulation 45.3, including the requirement to produce a unique swap identifier for each transaction. LatAm will also issue confirmations of transactions pursuant to Rule 515.