<u>**Via CFTC Portal**</u>

January 12, 2017

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

> **Re: Commission Regulations 40.2(a) and 40.2(d)**
> <u>**Class Certification of Options on Interest Rate Swaps ("Swaptions")**</u>

Dear Mr. Kirkpatrick:

TW SEF LLC ("TW SEF") hereby notifies the Commodity Futures Trading Commission (the "Commission"), pursuant to Commission Regulations 40.2(a) and 40.2(d), that it is certifying a class of options to enter into US Dollar-denominated Interest Rate Swap Contract ("Swaptions") for trading on TW SEF's electronic trading system. This certification should be read in conjunction with the class certification of Interest Rate Swaps submitted by TW SEF on September 30, 2013.

TW SEF will list Swaptions no earlier than January 30, 2017.

This submission letter contains the following attachments:

- Attached as Exhibit A is a concise explanation and analysis of Swaptions;

- Attached as Exhibit B is a copy of the Swaption Rules, which will be published as contract specifications on TW SEF's website in accordance with TW SEF Rule 901.

- Attached as Exhibit C is a concise explanation and analysis of the products' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the Core Principles and the Commission's Regulations thereunder.

As required by Commission Regulation 40.2(d)(1), TW SEF hereby certifies that, with regard to Swaptions:

    (i) Each particular swap within the certified class of swaps is based upon an "excluded commodity" specified in Regulation 40.2(d)(1);

    (ii) Each particular swap within the certified class of swaps is based upon an excluded commodity with an identical pricing source, formula, procedure, and methodology for calculating reference prices and payment obligations;

    (iii) The pricing source, formula, procedure, and methodology for calculating reference prices and payment obligations in each particular swap within the certified class of swaps is identical to a pricing source, formula, procedure, and methodology for calculating reference prices and payment obligations in a product previously submitted to the Commission and certified or approved pursuant to Regulation 40.2 or Regulation 40.3; and

    (iv) Each particular swap within the certified class of swaps is based upon an excluded commodity involving an identical currency or identical currencies.

Based on the foregoing, TW SEF certifies that each Swaption complies with the CEA and Commission Regulations thereunder. TW SEF additionally certifies that it has concurrently posted a copy of this submission letter and attachments hereto on TW SEF's website at **www.tradeweb.com/Institutional/Derivatives/SEF-Center/**.

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In the event that you have questions, please contact the undersigned at (646) 430-6228 or Jeffrey.Letzler@tradeweb.com

Very truly yours,

Jeffrey T. Letzler

Jeffrey T. Letzler
Chief Compliance Officer
TW SEF LLC

Exhibit A

Below is a concise explanation and analysis of options to enter into US Dollar-denominated 3m Interest Rate Swap Contracts ("Swaptions") for trading on TW SEF's electronic trading system.

A Swaption, or a "swap option", grants the holder the right, but not the obligation, to enter into an underlying interest rate swap. Swaptions are bilateral contracts; thus, the buyer and seller must agree to the premium of the Swaption, the time until expiration of the Swaption, and the terms of the underlying swap (including the notional amount and the fixed and floating rates).

There are two types of Swaptions. A Payer Swaption gives the purchaser the right, but not the obligation, to exercise and enter into a swap contract and pay the fixed rate and receive the floating rate. A Receiver Option gives the purchaser the right, but not the obligation, to exercise and enter into a swap contract and receive the fixed rate and pay the floating rate. TW SEF will only support European style exercise, which allows the buyer to exercise only on the Swaption's expiry date (also known as a "plain vanilla" Swaption).

A "Swaption Straddle" refers to a combination of a Payer Swaption and a Receiver Option on the same underlying swap.

For more information, the contract specifications for Swaptions are attached as Exhibit B.

Exhibit B

The contract specifications for **Option–USD LIBOR Fixed-to-Floating Swap Contract ("Swaption")** are as follows

Contract Overview	An agreement granting the owner the right, but not the obligation, to enter into a Swap listed for trading on TW SEF which is exercisable only on a specific date.
Option Type	Payer, Receiver or Straddle
Underlying Swap	USD LIBOR Fixed-to-Floating Swap Contract
Index of Underlying Swap	LIBOR
Tenor of Underlying Swap	Any (1Y – 30Y)
Currency	US Dollar
Notional	Notional of the underlying swap ($1 million minimum size)
Trading Conventions	A **payer option** gives the owner of the option the right to enter into a swap where it pays the fixed leg and receives the floating leg. A **receiver option** gives the owner of the option the right to enter into a swap in which it receives the fixed leg and pays the floating leg.
Quoting Conventions	Quoted in $ Premium (basis points of notional)
Option Strike Price	Fixed rate of the underlying swap
Option Expiry Date	As agreed by the parties (1M – 10Y)
Option Settlement Type	Cash or a delivery of a cleared swap
Roll Type	Standard or IMM Roll
Exercise Method	The purchaser of the Swaption must notify the seller of the Swaption of the purchaser's intent to exercise the Swaption prior to negotiation of the manner of the exercise: cash or physical (delivery). Notice shall be in the form indication on the order ticket. If the counterparties elect the exercise by physical delivery, the counterparties must submit the underlying Swap for clearing to

	the designated Clearing House (either CME or LCH). Otherwise, cash will be exchanged.
Exercise Procedure	In the case of exercise by physical delivery, positions in the underlying swap will be established via book entry by the designated Clearing House. In case of cash settlement, the exercise shall be conducted by exchanging cash as agreed by the counterparties.
Speculative Limits	Speculative position limits or position accountability will be the same as for the underlying swap.
Clearing House for the Underlying Swap	Chicago Mercantile Exchange, Inc. or LCH.Clearnet Ltd.
Block Size	As set forth in Appendix F to Part 43of the CFTC Regulations

Exhibit C

TW SEF has determined that the Swaptions certified herein bear upon the below Core Principles. This Exhibit should be read in conjunction with the Interest Rate Swap certification submitted by TW SEF on September 30, 2013.

Core Principle 2 – Compliance with Rules

Trading in Swaptions will be subject to the TW SEF Rulebook (the "Rules"), which prohibits abusive trading practices, including: acts detrimental to TW SEF (Rule 609) or that are inconsistent with just and equitable principles of trade (Rule 602), fraudulent acts (Rule 603), fictitious transactions (Rule 604), price manipulation (Rule 606), disruptive trading practices (Rule 605), misstatements (Rule 608), wash sales (Rule 613) and pre-arranged or non-competitive trades, including money passes (Rule 614).

As with all Swaps listed for trading on the Trading System (as such terms are defined in the TW SEF Rulebook), trading activity in Swaptions will be subject to monitoring and surveillance by TW SEF's Market Regulation Team. TW SEF has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. *See* Chapter 7 of the Rules.

Core Principle 3 – Swaps Not Readily Susceptible to Manipulation

Swaptions based on standard interest rate swaps are not readily susceptible to manipulation because wide dealer and industry support provides significant liquidity in all market conditions for such products. This Exhibit should be read in conjunction with the Interest Rate Swap certification submitted by TW SEF on September 30, 2013.

Core Principle 4 – Monitoring of Trading and Trade Processing

Chapter 5 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 Market Regulation Team.

Core Principle 5 – Ability to Obtain Information

Pursuant to the Rules, TW SEF will have the ability and authority to obtain sufficient information for each Swaption to allow TW SEF 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 409 allows the Company to adopt position limits and/or accountability levels for Required Transactions. Persons with positions in excess of position accountability levels established by the Company will be required to provide, upon request by the Company, information about

their positions in excess of the relevant position accountability threshold and consent to halt any further increases in those positions.

Core Principle 7 – Financial Integrity of Transactions

These Swaptions are typically not cleared, but are bilateral transactions. Having said that, 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 1002.

Core Principle 9 – Timely Publication of Trading Information

In accordance with Part 16 of Commission Regulations, TW SEF will publish daily market volume data reports for each Swaption in terms of notional value. In addition, TW SEF will publish for each trading day, by tenor of the Swaption, the opening price and the high and low prices. TW SEF will publish a settlement price for each such Swaption.

TW SEF will submit electronic reports of all primary economic terms data for each Swaption to a registered swap data repository immediately following execution of such Swaption. 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.