



## SEF Products

### UNITED STATES COMMODITY FUTURES TRADING COMMISSION

| Submitter Information  |   |
|--|---|
| Organization Name<br>Bloomberg SEF LLC   |   |
| Organization Type<br>SEF   | Organization Acronym<br>BSEF                |
| Submitted By<br>jborzooyeh   | Email Address                               |
| Cover Sheet  |   |
| Submission Number<br>2210-1713-2257-01   | Submission Date<br>10/17/2022 1:22:57 PM ET |
| Submission Type<br>40.2(a) Product Certification   |   |
| Submission Description<br>Option – USD SOFR OIS Fixed-to-Floating Swap Contract  |   |
| <input type="checkbox"/> Request Confidential Treatment  |   |
| Registered Entity Identifier Code  |   |
| Intended Listing Date<br>11/3/2022   |   |
| <input type="checkbox"/> Listing Date Unknown  |   |
| Product Information  |   |
| Official Product Name<br>Option – USD SOFR OIS Fixed-to-Floating Swap Contract   |   |
| Product Type<br>Swap (Option on a Swap)  | Settlement Method<br>Book Entry Swap        |
| Product Group<br>Financial Instrument  | Product Sub Group<br>Interest Rate          |
| <input type="checkbox"/> Novel Product Subject to Jurisdictional Determination   |   |
| Product Publication Website<br><a href="https://www.bloomberg.com/professional/product/sef-compliance/">https://www.bloomberg.com/professional/product/sef-compliance/</a> |   |
| Documents  |   |
| 2022-P-04.pdf  |   |
| Request For Confidential Treatment - Detailed Written Justification  |   |
| N/A  |   |

**Bloomberg SEF LLC**  
**New Contract Submission 2022-P-04**  
**October 17, 2022**

1. The Contract's terms and conditions are provided in Attachment A.
2. The intended listing date is November 3, 2022.
3. Attached, please find a certification that, concurrent with this submission, Bloomberg SEF LLC ("BSEF") posted on its website: (a) a notice of pending certification of this Contract with the U.S. Commodity Futures Trading Commission ("Commission"); and (b) a copy of this submission.
4. Attached, please find a certification that the Contract complies with the Commodity Exchange Act (the "Act") and the Commission regulations thereunder.
5. Capitalized terms used but not defined herein have the meaning ascribed to them in the BSEF Rulebook.

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**EXPLANATION AND ANALYSIS OF THE CONTRACT'S COMPLIANCE WITH  
APPLICABLE CORE PRINCIPLES AND COMMISSION REGULATIONS**

As required by Commission Regulation § 40.2(a), the following analysis demonstrates that the Contract is consistent with the requirements of the Act and the Commission regulations and policies thereunder (in particular, Appendix B to Part 37 and Appendix C to Part 38, respectively).

The Contract certified herein is an option to enter into the following underlying Swap: USD SOFR OIS Fixed-to-Floating Swap Contract.

An option on a swap, also known as a swaption, grants its buyer the right, but not the obligation, to enter into an underlying swap on a specified future date. Swaptions come in two main types: a payer swaption and a receiver swaption. In a payer swaption, the purchaser has the right but not the obligation to enter into a swap contract where they become the fixed-rate payer and the floating-rate receiver. A receiver swaption is the opposite i.e., the purchaser has the option to enter into a swap contract where they will receive the fixed rate and pay the floating rate.

This Contract is a European option, which provides that the purchaser is permitted to exercise the option and enter into the swap only on the option's expiration date—the Option Expiry

## **Appendix B to Part 37—Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

Appendix B to Part 37 requires that a SEF demonstrate that a Swap to be certified under Commission Regulation 40.2 not be readily susceptible to manipulation. BSEF provided a demonstration in its certification with internal identifier 2018-P-5, submitted on August 9, 2018, that the swap underlying this option, BSEF listed Swap, USD SOFR OIS Fixed-to-Floating Swap Contract, is not readily susceptible to manipulation. BSEF incorporates that demonstration in this submission as if it were fully set forth herein.

## **Appendix C to Part 38 - Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

Appendix C provides with respect to options that, “The Commission's experience with the oversight of trading in futures option contracts indicates that most of the terms and conditions associated with such trading do not raise any regulatory concerns or issues.” The Commission therefore concluded that as long as the terms and conditions of an option are specified in an automatic and objective manner, any specification would be acceptable and does “not affect an option contract's susceptibility to manipulation or its utility for risk management.”

Accordingly, the terms and conditions of the option on BSEF Swap USD SOFR OIS Fixed-to-Floating Swap Contract are set forth below. As with options on futures, the terms and conditions of options on swaps do not separately affect the Contract’s susceptibility to manipulation. Accordingly, conceptually, the terms and conditions of the option should therefore be acceptable under Commission guidance as long as those terms are specified in an automatic and objective manner. As discussed below, not all of the terms and conditions applicable to options on futures will be applicable to options on swaps, or they may be applicable but in a different manner due to the difference between Swaps and futures.

Exercise method: The buyer of the option must notify the seller of the option of the owner’s intent to exercise the option during business hours on the expiration date of the option and the manner of the exercise: cash or physical (delivery). Notice shall be in the form and manner as agreed by the counterparties. If the counterparties elected the exercise by physical delivery, the counterparties must submit the Swap for clearing to the Clearing House.

Exercise procedure: In case of exercise by physical delivery, positions in the underlying swap will be established via book entry by the Clearing House. In case of cash settlement, the exercise shall be conducted as agreed by the counterparties.

Strike price listing provisions: The fixed coupon rate of the underlying Swap is the strike price. Unlike options on futures wherein the exchange lists various strike prices for trading, in options on swaps, the strike price is as agreed by the parties.

Strike price intervals: Unlike options on futures, BSEF does not specify strike price intervals

for options on swaps. The interval is as agreed between the parties.

Automatic exercise provisions:

There is no automatic exercise. The option buyer must exercise by notifying the option seller.

Contract size:

The size of the option is as the parties shall agree. Unlike options on futures, the size of the underlying is as the parties agree.

Option minimum tick:

Unlike in futures trading, there is no tick size for the Contract because the size of the Contract is determined by the counterparties.

Option Expiration & Last Trading Day:

Appendix C provides that for options on futures, “the specification of the last trading day should consider the relationship of the option expiration date to the delivery period for the underlying futures contract.” Appendix C continues by discussing the relation of option expiration to futures expiration date and delivery on the futures contract.”

These concerns do not apply to options on swaps. Unlike futures, performance on the swap only begins upon entry into the swap. Accordingly, in the case of a swap, upon exercise of the option, the parties enter into a swap that will have an extended period in which the parties will be obligated to perform. This is in contrast to futures where option exercise could be simultaneous with the futures expiration and delivery would occur simultaneously on both. This could lead to concerns regarding increases in open interest of futures at the time delivery will be required. This concern is not manifest in an option on a swap and therefore this consideration is not applicable to trading options on swaps. Accordingly, the timing of option Expiry and entry into the underlying Swap is not a consideration with respect to whether the instrument is readily subject to manipulation.

Speculative Limits:

Speculative position limits or position accountability will be the same as the underlying swap.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE  
ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION  
REGULATION 40.2, 17 C.F.R. §40.2

I hereby certify that: 1) the Contract complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and regulations thereunder; and 2) concurrent with this submission, Bloomberg SEF LLC posted on its website: (a) a notice of pending certification of the Contract with the Commission; and (b) a copy of this submission.

*Daniel Glatter*

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By: Daniel Glatter  
Title: Chief Compliance Officer

**Attachment A**  
*Terms and Conditions*

**Option – USD SOFR OIS Fixed-to-Floating Swap Contract**

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| Contract Overview                        | An agreement granting the buyer the right, but not the obligation, to enter into a Swap listed for trading on BSEF which is exercisable only on a specific date.   |
| Ticker                                   | USD SWAP vs SOFR [Underlying Tenor] [Strike] [Expiry Date]   |
| Underlying Swap                          | USD SOFR OIS Fixed-to-Floating Swap Contract   |
| Index of Underlying Swap                 | SOFR   |
| Tenor of Underlying Swap                 | Any  |
| Currency                                 | USD  |
| Quoting Convention and Minimum Increment | As agreed by counterparties  |
| Minimum Size                             | As agreed by counterparties  |
| Trading Conventions                      | <p>A <b>payer option</b> gives the buyer of the option the right to enter into a swap where they pay the fixed leg and receive the floating leg.</p> <p>A <b>receiver option</b> gives the buyer of the option the right to enter into a swap in which they will receive the fixed leg and pay the floating leg.</p>   |
| Option Strike Price                      | Fixed coupon of the underlying swap  |
| Option Expiry Date                       | As agreed by the parties   |
| Option Settlement Type                   | Cash or delivery of a cleared or non-cleared swap  |
| Exercise method                          | The buyer of the option must notify the seller of the option of the buyer's intent to exercise the option during business hours on the expiration date of the option and the manner of the exercise: cash or physical (delivery). Notice shall be in the form and manner as agreed by the counterparties. If the counterparties elected the exercise by physical delivery, the counterparties must submit the Swap for clearing to the Clearing House. |
| Trading Hours and Venue                  | 00:01 - 24:00 Sunday-Friday; Eastern Time  |
| Clearing House for the underlying Swap   | Chicago Mercantile Exchange, Inc.; LCH.Clearnet Ltd.; Eurex Clearing AG or Bilateral   |
| Block Size                               | As set forth in Appendix F to Part 43 of the CFTC Regulations  |
| Speculative Limits                       | Same as for the underlying Swap  |
| Reportable Levels                        | Same as for the underlying Swap  |