



SEF Products

UNITED STATES COMMODITY FUTURES TRADING COMMISSION

Submitter Information	
Organization Name Bloomberg SEF LLC	
Organization Type SEF	Organization Acronym BSEF
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Cover Sheet	
Submission Number 2311-2711-3011-91	Submission Date 11/27/2023 11:30:11 AM ET
Submission Type 40.2(a) Product Certification	
Submission Description CDS Index Product - CDX North America HY BB Index	
<input type="checkbox"/> Request Confidential Treatment	
Registered Entity Identifier Code	
Intended Listing Date 11/30/2023	
<input type="checkbox"/> Listing Date Unknown	
Product Information	
Official Product Name CDS Index Product - CDX North America HY BB Index	
Product Type Swap	Settlement Method Cash Settlement
Product Group Financial Instrument	Product Sub Group Credit Event
<input type="checkbox"/> Novel Product Subject to Jurisdictional Determination	
Product Publication Website https://www.bloomberg.com/professional/product/sef-compliance/	
Documents	
CDS Index Product - CDX North America HY BB Index.pdf	
Request For Confidential Treatment - Detailed Written Justification	
N/A	

Bloomberg SEF LLC
New Contract Submission 2023-P-4
November 27, 2023

1. The Contract's terms and conditions are attached as Attachment A.
2. The intended listing date is November 30, 2023.
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 Commission; and (b) a copy of this submission.
4. Capitalized terms used but not defined herein have the meaning ascribed to them in the Bloomberg SEF LLC ("BSEF") Rulebook.

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).

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

Core Principle 3 of Section 5h of the Act—Swaps Not Readily Susceptible to Manipulation.
The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.

(a) Guidance.

(1) In general, a swap contract is an agreement to exchange a series of cash flows over a period of time based on some reference price, which could be a single price, such as an absolute level or a differential, or a price index calculated based on multiple observations. Moreover, such a reference price may be reported by the swap execution facility itself or by an independent third party. When listing a swap for trading, a swap execution facility shall ensure a swap's compliance with Core Principle 3, paying special attention to the reference price used to determine the cash flow exchanges. Specifically, Core Principle 3 requires that the reference price used by a swap not be readily susceptible to manipulation. As a result, when identifying a reference price, a swap execution facility should either: Calculate its own reference price using suitable and well-established acceptable methods or carefully select a reliable third-party index.

(2) The importance of the reference price’s suitability for a given swap is similar to that of the final settlement price for a cash-settled futures contract. If the final settlement price is manipulated, then the futures contract does not serve its intended price discovery and risk management functions. Similarly, inappropriate reference prices cause the cash flows between the buyer and seller to differ from the proper amounts, thus benefitting one party and disadvantaging the other. Thus, careful consideration should be given to the potential for manipulation or distortion of the reference price.

Reference Index: North American High Yield CDX (BB) Index

The reference index used to determine the exchange of payments for the Contract is a subindex of Markit’s North America High Yield CDX Index, or the CDX.NA.HY Index. This index, Markit’s North American High Yield CDX (BB) Index (the “Index”), was initially composed of 41 entities with a BB credit rating that are constituents of Markit’s North American High Yield CDX Index.

The Index is owned, managed, compiled and published by IHS Markit (the “Administrator”). IHS Markit Benchmark Administration Ltd. (“IMBA UK”) is authorised by the UK FCA as Benchmark Administrator in July 2018 and complies with the UK Benchmarks Regulation. IMBA UK is listed as authorised Benchmark Administrator on the FCA Benchmarks register. The composition of the Index is determined by the Administrator in accordance with the rules and methodologies set forth in the Index Rules.¹ If the Administrator determines that an event has had a material impact on the integrity of one or more Index-related transactions, including but not limited to trading interruptions, market instability and/or force majeure events, the Administrator, acting in an independent and reasonable manner, may determine that it is appropriate to depart from the methodologies, timelines and/or procedures set forth in the Rules to obtain a result that preserves the economic intent of such Index. As this Index is based on clear, widely-available, comprehensive and transparent rules, it is not readily susceptible to manipulation.

(3) For swaps that are settled by physical delivery or by cash settlement refer to the guidance in appendix C to part 38 of this chapter—Demonstration of Compliance That a Contract is not Readily Susceptible to Manipulation, section b(2) and section c(4), respectively.

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

(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and

¹ Please see the “Markit CDX High Yield & Markit CDX Investment Grade Index Rules” available at <https://www.markit.com/NewsInformation/NewsAnnouncementsFile?CMSID=41f7d3b3a11f4bf4ab77c604ba9d437b>.

option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index's calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).

Terms of the Contract

The terms and conditions of the Contract are in Attachment A. As described in Attachment A, some terms of the Contract are fixed (*i.e.*, currency and index), while other terms are flexible and determined by the counterparties (*i.e.*, effective date and maturity date). This combination of standard and flexible terms allows the Contract to have a basic consistent form, while allowing counterparties to tailor some aspects of the Contract to their economic needs. This structure follows industry convention; the terms of the Contract match the terms of credit default swaps that are commonly offered in the market.

Calculation of Cash Settlement Price

The contract is financially settled. The settlement process for the Contract includes the following payments:

- **Contingent payment:** Payments related to credit event settlement will be determined pursuant to the 2009 ISDA Credit Derivatives Determination Committees and Auction Settlement Supplement (*i.e.*, the Big Bang Protocol).
- **Fixed Quarterly cash payments:** Reflected in basis points and paid by the protection buyer to the protection seller.
- **Upfront fee payment:** The upfront fee is a portion of the payments, expressed in percentage points of the notional, which is present valued and paid immediately to the seller.

This settlement method for credit default swaps is often used for credit default swaps, and thus widely accepted by market participants.

2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity.

The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.

The Contract is not readily susceptible to manipulation for a number of reasons. First, the underlying asset for the Contract is an excluded commodity as defined in section 1a(19) of the Commodity Exchange Act, making manipulation very difficult to achieve. Second, the management and calculation of the reference price is based on clear and comprehensive rules. Third, as noted above, the method for calculating the cash settlement price – involving upfront fee payments, fixed quarterly cash payments, and (in the case of a credit event) a contingent payment – is widely used and generally accepted by market participants. And last, BSEF has a market surveillance program that is designed to surveil this market, detect uncommon activity, and investigate any such activity for signs of manipulation.

(3) Where an independent, private-sector third party calculates the cash settlement price series, a designated contract market should consider the need for a licensing agreement that will ensure the designated contract market's rights to the use of the price series to settle the listed contract.

(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.

Please see above regarding the calculation of the settlement price.

(ii) Where a designated contract market itself generates the cash settlement price series, the designated contract market should establish calculation procedures that safeguard against

potential attempts to artificially influence the price. For example, if the cash settlement price is derived by the designated contract market based on a survey of cash market sources, the designated contract market should maintain a list of such entities which all should be reputable sources with knowledge of the cash market. In addition, the sample of sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.

Please see above regarding the calculation of the settlement price.

(iii) The cash-settlement calculation should involve computational procedures that eliminate or reduce the impact of potentially unrepresentative data.

(iv) The cash settlement price should be an accurate and reliable indicator of prices in the underlying cash market. The cash settlement price also should be acceptable to commercial users of the commodity contract. The registered entity should fully document that the settlement price is accurate, reliable, highly regarded by industry/market agents, and fully reflects the economic and commercial conditions of the relevant designated contract market.

Please see above regarding the availability, reliability and widespread acceptance of the method used to generate the settlement price.

(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information that is appropriate for release to the public, available to the public when cash settlement is accomplished by the derivatives clearing organization. If the cash settlement price is based on cash prices that are obtained from non-public sources (e.g., cash market surveys conducted by the designated contract market or by third parties on behalf of the designated contract market), a designated contract market should make available to the public as soon as possible after a contract month's expiration the final cash settlement price as well as any other supporting information that is appropriate or feasible to make available to the public.

Information on the Index is available on markit.com.

(4) Contract terms and conditions requirements for futures contracts settled by cash settlement.

(i) An acceptable specification of the terms and conditions of a cash-settled commodity contract will also set forth the trading months, last trading day, contract size, minimum price change (tick size) and daily price limits, if any.

Also as noted in the attached, the counterparties will begin calculating accrued obligations from the effective date to the maturity date (i.e., "last trading day") of each contract – dates which

are set by the counterparties. The minimum size is determined by the counterparties, as is customary for contracts of this type.

(A) Commodity Characteristics: The terms and conditions of a commodity contract should describe the commodity underlying the contract.

The terms and conditions of the Contract note that the Contract is based on a basket of high yield North American entities with a BB credit rating.

(B) Contract Size and Trading Unit: An acceptable specification of the trading unit would be a contract size that is consistent with customary transactions in the cash market. A designated contract market may opt to set the contract size smaller than that of standard cash market transactions.

The size of the Contract, which is determined by the counterparties, is consistent with customary transactions in the market.

(C) Cash Settlement Procedure: The cash settlement price should be reliable, acceptable, publicly available, and reported in a timely manner as described in paragraphs (c)(3)(iv) and (c)(3)(v) of this appendix C.

The settlement procedure and an explanation of how it is reliable, acceptable, publicly available, and reported in a timely manner appears above.

(D) Pricing Basis and Minimum Price Fluctuation (Minimum Tick): The minimum price increment (tick) should be set a level that is equal to, or less than, the minimum price increment commonly observed in cash market transactions for the underlying commodity. Specifying a futures' minimum tick that is greater than the minimum price increment in the cash market can undermine the risk management utility of the futures contract by preventing hedgers from efficiently establishing and liquidating futures positions that are used to hedge anticipated cash market transactions or cash market positions.

The quoting convention of the Contract and minimum increment are based on the industry standard, as there is no cash market for the Index.

(E) Maximum Price Fluctuation Limits: Designated contract markets may adopt price limits to: (1) Reduce or constrain price movements in a trading day that may not be reflective of true market conditions but might be caused by traders overreacting to news; (2) Allow additional time for the collection of margins in times of large price movements; and (3) Provide a "cooling-off" period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price-limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract. For broad-based stock index futures contracts, rules should

be adopted that coordinate with New York Stock Exchange (“NYSE”) declared Circuit Breaker Trading Halts (or other market coordinated Circuit Breaker mechanism) and would recommence trading in the futures contract only after trading in the majority of the stocks underlying the index has recommenced.

See BSEF Rule 535.

(F) Last Trading Day: Specification of the last trading day for expiring contracts should be established such that it occurs before publication of the underlying third-party price index or determination of the final settlement price. If the designated contract market chooses to allow trading to occur through the determination of the final settlement price, then the designated contract market should show that futures trading would not distort the final settlement price calculation.

The last trading day is the maturity date of the contract, which is set by the counterparties.

(G) Trading Months: Trading months should be established based on the risk management needs of commercial entities as well as the availability of price and other data needed to calculate the cash settlement price in the specified months. Specification of the last trading day should take into consideration whether the volume of transactions underlying the cash settlement price would be unduly limited by occurrence of holidays or traditional holiday periods in the cash market. Moreover, a contract should not be listed past the date for which the designated contract market has access to use a proprietary price index for cash settlement.

If there is no credit event, the protection buyer will pay the protection seller fixed quarterly cash payments.

(H) Speculative Limits: Specific rules and policies for speculative position limits are set forth in part 150 and/or part 151, as applicable, of the Commission’s regulations.

BSEF will comply with Parts 150 and 151 of the Commission’s regulations.

(I) Reportable Levels: Refer to § 15.03 of the Commission’s regulations.

BSEF will adhere to the applicable reporting levels set forth in § 15.03 of the Commission’s regulations.

(J) Trading Hours: Should be set by the designated contract market to delineate each trading day.

The Contract is traded twenty-four hours a day (00:01 – 24:00) (EST), Sunday to Friday.

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

By: Daniel Glatter
Title: Chief Compliance Officer

Attachment A
Terms and Conditions

1226.A. CDS Index Contract – CDX North American High Yield (BB) Index Contract

Contract Overview	Credit Default Swap. An agreement to buy or sell protection on a basket of North American based entities with a BB credit rating based upon an agreed upon notional amount.
Ticker	CDX HYBB CDSI [series number] [tenor]
Index	CDX.NA.HY.BB: Series 33 to current series
Index Type	Corporate; Untranchd
Index Version	Current version
Index Term Value	Same as Tenor
Index Factor	Current factor
Currency	USD
Quoting Convention	Price and/or upfront payment.
Minimum Increment	CLOB: \$0.0025 Trading Protocols other than CLOB: As agreed by counterparties
Minimum Size	CLOB: \$1,000,000 Trading Protocols other than CLOB: As agreed by counterparties
Trading Conventions	Buy = Buy Protection Sell = Sell Protection
Swap Tenor	Any
Effective Date	Unadjusted date at which obligations under the swap come into effect.
Maturity Date/Expiration Date	Unadjusted date at which obligations under the swap stop being effective.
Settlement Method	Financially settled
Settlement	<ul style="list-style-type: none"> • Contingent payment: Payments related to credit event settlement will be determined pursuant to the 2009 ISDA Credit Derivatives Determination Committees and Auction Settlement Supplement (<i>i.e.</i>, the Big Bang Protocol). • Fixed Quarterly cash payments: Reflected in basis points and paid by the protection buyer to the protection seller. • Upfront fee payment: The upfront fee is a portion of the payments, expressed in percentage points of the notional, which is present valued and paid immediately to the seller.
Final Contractual Settlement Date	Same as Expiration Date, unless there is a Credit Event. If there is Credit Event, the final Contractual Settlement Date is determined by Credit Event Rules.
Settlement Currency	USD
“Made Available to Trade” Determination	None
Mandatory Clearing Determination	None
Trading Hours	00:01 -24:00 Sunday-Friday; Eastern Time
Settlement Procedure	As determined by the Clearing House or Bilateral
Clearing House	ICE Clear Credit LLC; LCH.Clearnet SA.
Block Size	As set forth in Part 43 of the CFTC Regulations
Speculative Limits	As set in Part 150 of the CFTC Regulations
Reportable Levels	As set in the CFTC Regulation 15.03