

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 5, 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 ERCOT Ancillary Services Swaps**

Dear Ms. Jurgens:

GFI Swaps Exchange LLC (“GFI”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying an Electric Reliability Council of Texas (“ERCOT”) regulation down service (“Reg-Down”) swap, an ERCOT regulation up service (“Reg-Up”) swap, an ERCOT responsive reserve service (“RRS”) swap and an ERCOT non-spinning reserve service (“NSRS”) swap (each, a “Swap,” and collectively, the “Swaps”) for trading on GFI’s electronic trading platform (the “Trading Platform”).

GFI will list the Swaps no earlier than November 7, 2013.

This submission letter contains the following attachments:

- The submission cover sheet.
- Attached as Exhibit A, a concise explanation and analysis of the Swaps.
- Attached as Exhibit B, a copy of the Swaps’ rules, which will be published as contract specifications on GFI’s website in accordance with GFI Rule 1101.
- Attached as Exhibit C, 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.

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

* * *

In the event that you have questions, please contact the undersigned at (212) 968-2982 or daniel.glatter@gfigroup.com.

Sincerely,

/s/ Daniel E. Glatter
Vice President and Assistant Secretary
GFI Swaps Exchange LLC

Enclosure

Exhibit A

ERCOT Ancillary Services

By way of background, ERCOT requires retail electric providers to carry a specified level of operating reserves, which provides ERCOT with the ability to call up additional resources on varying levels of short notice. These operating reserves serve as "insurance" in case a generating unit goes down, load is higher than anticipated or another problem emerges. Such reserves can be self-arranged. If a retail electric provider doesn't self-arrange all its reserves, then ERCOT will purchase the necessary reserves on the retail electric provider's behalf.

Market participants with demand response capability meeting various performance requirements can be qualified to provide ancillary services as load resources ("Load Resources"). In the eligible ancillary service markets, the value of having a Load Resource available to reduce load is equal to the value of having a generator available to increase its generation at a generating plant. Each qualified market participant may arrange bilaterally for ancillary services or may have ERCOT make the arrangements through a daily auction administered by ERCOT. ERCOT holds auctions on a daily basis for each of the following ancillary services:

A. Regulation Down Service (Reg-Down)

An ancillary service that provides capacity that can respond to signals from ERCOT within three to five seconds to respond to changes in system frequency. Such capacity is the amount available below any base point but above the low sustained limit of a generation resource and may be called on to change output as necessary throughout the range of capacity available to maintain proper system frequency. A Load Resource providing Reg-Down must be able to increase and decrease load as deployed within its ancillary service schedule for Reg-Down below the Load Resource's maximum power consumption limit.

B. Regulation Up Service (Reg-Up)

An ancillary service that provides capacity that can respond to signals from ERCOT within three to five seconds to respond to changes in system frequency. Such capacity is the amount available above any base point but below the high sustainable limit of a generation resource and may be called on to change output as necessary throughout the range of capacity available to maintain proper system frequency. A Load Resource providing Reg-Up must be able to increase and decrease load as deployed within its ancillary service schedule for Reg-Up above the Load Resource's low power consumption limit.

C. Responsive Reserve Service (RRS)

An ancillary service that provides operating reserves that is intended to:

- (i) Arrest frequency decay within the first few seconds of a significant frequency deviation on the ERCOT transmission grid using primary frequency response and interruptible load;
- (ii) After the first few seconds of a significant frequency deviation, help restore frequency to its scheduled value to return the system to normal;

- (iii) Provide energy or continued load interruption during the implementation of the energy emergency alert; and
- (iv) Provide backup regulation.

D. Non-Spinning Reserve Service (NSRS)

An ancillary service that is provided through use of the part of off-line generation resources that can be synchronized and ramped to a specified output level within 30 minutes (or Load Resources that can be interrupted within 30 minutes) and that can operate (or Load Resources that can be interrupted) at a specified output level for at least one hour. NSRS may also be provided from unloaded on-line capacity that meets the 30-minute response requirements and that is reserved exclusively for use for this service.

More information is available at <http://www.ercot.com/>.

Swap Structure

Each Swap involves the exchange of a fixed price for a floating price, where the floating price references the price of one of the ancillary services listed above, as determined in an auction held by ERCOT and published on ERCOT's website.

For more information, the Swaps' contract specifications are attached as Exhibit B.

Exhibit B

GFI Contract Specifications

The terms and conditions of the Swaps incorporate by reference such credit and other terms as the parties may establish through their pre-existing bilateral agreement. The Swaps have the following characteristics:

Contract Overview	An agreement to exchange cash flows based on the difference between a fixed price agreed to by the parties and a floating rate based on an ancillary service over a specified term to maturity.
Reference Ancillary Services	<ul style="list-style-type: none">• ERCOT Regulation Down Service• ERCOT Regulation Up Service• ERCOT Responsive Reserve Service• ERCOT Non-Spinning Reserve Service
Trade Date	As determined by the parties
Effective Date	The date on which the parties begin calculating their accrued obligations under the swap
Termination Date	As determined by the parties
Buyer	Party [A/B]
Seller	Party [B/A]
Fixed Price	As determined by the parties
Floating Price	As determined by ERCOT
Determination Period	Effective Date through Termination Date
Payment Date	As determined by the parties

Exhibit C

GFI has determined that each Swap certified herein bear upon the following Core Principles:

Core Principle 2 – Compliance with Rules

Trading in Swaps will be subject to the GFI Rulebook (the “Rules”), which prohibits abusive trading practices, including: acts detrimental to GFI (Rule 522) or that are inconsistent with just and equitable principles of trade (Rule 510), fraudulent acts (Rule 511), fictitious or non-competitive transactions (Rule 512), market manipulation (Rule 515), disruptive trading practices (Rule 516), misstatements (Rule 521), wash sales (Rule 531) and pre-negotiated or non-competitive trades, including money passes (Rule 533). Trading in these Swaps will also be subject to Rules relating to protection of customers. *See* Rules 525-528.

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

Pursuant to Rule 601(a)(i), 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 Swaps 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 is determined primarily by the Reg-Down, Reg-Up, RRS or NSRS ancillary service as determined by ERCOT (the “Reference Price”). In this regard, we note that the Commission has determined that the ERCOT and other similar markets are sufficiently regulated as to permit them to be excluded from certain of the key provisions of the Dodd-Frank Act, including the requirement that they be registered as swap execution facilities. The Reference Price is not readily susceptible to manipulation because it has the following characteristics: (i) the way in which the Reference Price is calculated is well documented and well understood by swap market participants; (ii) it is commonly used in the swap markets; (iii) information about the Reference Price is publicly and readily available; (iv) the Reference Price is administered and published by a reputable organization; and (v) many active participants in the relevant cash market are entities that are subject to regulation.

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 Department.

Core Principle 5 – Ability to Obtain Information

Pursuant to the Rules, GFI will have the ability and authority to obtain sufficient information for each Swap to allow GFI 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 536 allows GFI to adopt position accountability levels for Required Transactions. Persons with positions in excess of position accountability levels established by GFI will be required to provide, upon request by GFI, information about their positions in excess of the relevant position accountability threshold and consent to halt any further increases in those positions. GFI's Rules relating to position limits, position accountability levels and aggregation standards are provided below:

535. Position Limits; Exemptions

(a) The Company may establish position limits for one or more Swaps, and grant exemptions from position limits, in accordance with CFTC Regulations. A Person seeking an exemption from position limits must apply to the Market Regulation Department in the form and manner required by the Company.

(b) A Person intending to exceed position limits, including limits established pursuant to a previously approved exemption, must file the required application and receive approval from the Company prior to exceeding such limits. Notwithstanding the foregoing, a Person who establishes an exemption-eligible position in excess of position limits and files the required application with the Company shall not be in violation of this rule provided the filing occurs within one Business Day after assuming the position. In the event the positions in excess of the limits are not deemed to be exemption eligible, the applicant will be in violation of speculative limits for the period of time in which the excess positions remained open.

(c) The Company shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Company may approve, deny, condition or limit any exemption request based on factors deemed by the Company to be relevant, including, but not limited to, the applicant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner. A Person that has received an exemption from position limits pursuant to this Rule 535 shall be deemed to have agreed:

- (i) to comply with all terms, conditions or limitations imposed by the Company with respect to the exemption;
- (ii) that the Company may modify or revoke the exemption at any time;
- (iii) to initiate and liquidate positions in an orderly manner; and
- (iv) to promptly submit a supplemental statement to the Company whenever there is a material change to the information provided in the most recent application.

(d) A Participant or Sponsored Access Firm shall not be in violation of this Rule if it carries positions for its Customers in excess of the applicable position limits for such reasonable period of time as the firm may require to discover and liquidate the excess

positions. For the purposes of this Rule, a reasonable period of time shall generally not exceed one Business Day. A Customer who exceeds the position limits as a result of maintaining positions at more than one Participant or Sponsored Access Firm shall be deemed to have waived confidentiality regarding his positions and the identity of the Clearing Firm(s) at which they are maintained. A Participant or Sponsored Access Firm carrying such positions shall not be in violation of this Rule if, upon notification by the Company, it liquidates its pro-rata share of the position in excess of the limits or otherwise ensures the Customer is in compliance with the limits within a reasonable period of time.

- (e) Nothing in this Rule 535 shall in any way limit:
 - (i) the authority of the Company to take emergency action; or
 - (ii) the authority of the Company to review at any time any position owned or controlled by any Person and to direct that such position be reduced to the applicable position limit.
- (f) A Person who has received written authorization from the Company for an exemption from position limits must annually file an updated application on or before the date that is one year following the approval date of the most recent application. Failure to file an updated application shall result in expiration of the exemption.
- (g) No Person shall exceed position limits that may be established by the Company or the CFTC, unless an exemption is granted by the Company. Any Person making a bid or offer that would, if accepted, cause such person to exceed the applicable position limits shall be in violation of this Rule.

536. Position Accountability

- (a) The Company shall establish position accountability levels for Required Transactions unless the Company has previously established position limits pursuant to Rule 535. A Person who holds or controls aggregate positions in excess of position accountability levels shall:
 - (i) provide, in a timely manner upon request by the Company, information regarding the nature of the position, trading strategy, and hedging information, if applicable;
 - (ii) be deemed to have consented, when so ordered by the Company, not to further increase the positions which exceed such position accountability levels; and
 - (iii) initiate and/or liquidate such positions in an orderly manner.
- (b) For purposes of this Rule 536, all positions in accounts for which a Person, by power of attorney or otherwise, directly or indirectly controls trading shall be included with the positions held by such Person. The provisions of this rule shall apply to positions held by two or more Persons acting pursuant to an expressed or implied

agreement or understanding, the same as if the positions were held by or the trading of the positions was controlled by a single Person.

537. Aggregation of Positions

For purposes of Rule 535 and Rule 536, positions in Swaps shall be aggregated in accordance with CFTC Regulations.

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 1002.

Core Principle 9 – Timely Publication of Trading Information

In accordance with Part 16 of Commission Regulations, GFI will publish daily market volume data reports for each Swap (or class of Swap) in terms of notional value. In addition, GFI will publish for each trading day, by tenor of the Swap, the opening price and the high and low prices. GFI will publish a settlement price for each such Swap except that, in the case of swaps listed for clearing by a DCO, the applicable settlement price will be the settlement price established by the DCO and GFI's website will contain a hyperlink to the relevant settlement information. *See* Rule 407.

GFI will submit electronic reports of all primary economic terms data for each Swap to a registered swap data repository immediately following execution of such Swap. *See* Rule 528. 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. GFI will also issue confirmations of transactions pursuant to Rule 525.