



**UPCOMING MARKET DEVELOPMENTS  
RELATED TO THE DODD-FRANK ACT  
AND THE CONVERSION OF SWAPS TO FUTURES**

**FREQUENTLY ASKED QUESTIONS**

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## **Anticipated Status of the Energy Markets on October 15, 2012 – In General**

**ICE has announced that all cleared swaps in energy products will be converted to regulated futures contracts on October 15, 2012, claiming that trading those products as futures will present significant advantages to customers seeking to avoid the impact of the Dodd-Frank Act. CME has announced that certain contracts that are already listed as futures on CME ClearPort will be made available for trading on CME Globex on October 12, 2012, with more to be added in the future.**

**These actions will apply to all cleared options as well as the underlying swaps. In the following discussion, all references to futures should be read to include options.**

- 1. Will GFI and Amerex be able to continue brokering energy products, particularly those that are traded as futures, following those events?**

**Yes.** Both GFI and Amerex are fully prepared to broker all the products that we have customarily brokered prior to October 12, 2012 without regard to whether those products are now traded as futures. Our brokers will handle futures through their association with GFI Securities LLC, our NFA-registered Introducing Broker. Our proprietary hybrid electronic trading system, EnergyMatch®, is registered as an ECM and will list all ICE and CME futures for trading as block futures as well as swaps that may be converted to futures through EFRP (Exchange of Futures for Related Position) transactions.

- 2. Will there be significant changes in the manner in which we deal through GFI/Amerex as a consequence of changes on the part of ICE and CME?**

**Generally not.** Although we anticipate that there may need to be additional communication regarding the type of trade that a customer may wish to effect, we intend to minimize the changes in the way we handle customer orders. We anticipate that we will be able to conduct business as usual without substantial modification of trading protocols. However, we will now have the ability to route and/or cross standard lot-size futures orders to the exchange on behalf of our customers (although this may require a



give-up agreement for certain types of trades). Please see question 5 below for more information.

**3. Will there be significant changes in how we can transact on EnergyMatch?**

Beginning October 15<sup>th</sup>, EnergyMatch will offer trading in blocked-sized futures alongside swaps that can be submitted to ICE or CME as EFRP's.

**4. Will customers of GFI/Amerex be disadvantaged in any way by using GFI to execute our trades?**

**No.** To the contrary, we will continue to provide our customers with the advantages that have always been associated with their use of our services – superior market intelligence, a variety of deep liquidity sources, greater market coverage and better execution than that which is available from our competitors.

**5. Are there any steps that a customer must take prior to October 15, 2012, in order to continue to do business with GFI/Amerex?**

**Possibly, but probably not.** We had been led to believe that it would be necessary to enter into Give-Up Agreements in order to provide GFI/Amerex with the means to conduct futures business on ICE and CME. Consequently, we initiated an effort to put Give-Up Agreements in place with all customers. Currently, we understand that Give-Up Agreements may only be required in limited circumstances, as follows:

Exchange	Trade Method	Give-Up Required?
ICE	Block futures	No
ICE	Cross trade	No
ICE	Direct entry on WebICE by GFI/Amerex	Yes
CME	Block futures	No
CME	Cross trade	Yes
CME	Direct entry on CME Globex by GFI/Amerex	Yes

Based on the proposed minimum block sizes and the above information, we do not believe that it is necessary to enter into Give-Up Agreements by October 15, 2012, but we believe that we should execute Give-Up Agreements with our customers as soon as reasonably convenient.

On a related note, ICE has advised us that it will port all customer FCM permissions such that no new permissions will be required in order for us to enter trades in customer FCM accounts on ICE Futures. Since the legal entity through which our employees conduct futures brokerage activities will be GFI Securities LLC (not GFI Brokers LLC or Amerex



Brokers LLC), we are working with ICE personnel to ensure that all such permissions remain available to our brokers. If we require customer assistance to accomplish this goal, we will contact you.

Similarly, we anticipate that all permissions currently in place on CME ClearPort will continue to function such that our brokers may enter futures trades into customer FCM accounts.

## **Futures versus Swaps – Cleared Products**

### **6. In terms of swaps and futures, what are the types of cleared products that will be traded after October 12, 2012?**

All ICE cleared products will be listed by ICE as regulated futures. ICE will no longer list these contracts as swaps or as over-the-counter products, but will offer the ability to trade them OTC via the EFRP (Exchange of Futures for Related Position) mechanism (see below).

All CME cleared products are currently listed by CME as regulated futures. Some of those futures may be traded on CME Globex.

All cleared products, including those listed by ICE and CME as futures, may be traded off-exchange as OTC swaps and converted to futures through the EFRP mechanism. This is the same process that we have been using to broker and submit cleared swap trades to CME ClearPort for over 9 years. Currently this process is employed only by CME, but it will be employed by ICE after October 12<sup>th</sup>.

### **7. What about products that are cleared with clearinghouses other than CME and ICE, such as NASDAQ OMX and LCH?**

None of the products that are cleared with clearinghouses other than CME and ICE are listed as futures on a regulated exchange. All such cleared products may continue to be traded only as OTC swaps as under current practices.

## **Futures versus Swaps – Uncleared Products**

### **8. In terms of swaps and futures, what types of uncleared products will be traded after October 12, 2012?**

All uncleared products will continue to be traded as OTC swaps and forwards just as they are today.



## **Consequences of Trading Swaps after October 12, 2012**

- 9. Will swaps that are brokered by GFI/Amerex be subject to new trading requirements under the Dodd-Frank Act, such as the requirement that they be traded on a swap execution facility or the limitations and requirements concerning the manner in which a swap may be executed (i.e. via voice broker, CLOB, RFQ, the 15-second rule etc.)?**

**Not yet.** The CFTC has not yet published final regulations addressing swaps trading under Dodd-Frank.

- 10. Will swaps traded on or after October 12, 2012 be counted towards the de minimis threshold applicable in the determination of whether a party is a swap dealer or a major swap participant?**

**No, according to CME.** In its September 24, 2012 open letter to customers and market participants, CME points out that under the Effective Date Order issued by the CFTC (published in the Federal Register on July 13, 2012), compliance obligations associated with swaps will not take effect until December 31, 2012. Consequently, CME concludes that swaps traded prior to December 31, 2012 will not count towards the \$8 billion de minimis threshold. Note that CME cautions that this discussion is provided for informational purposes only and that it does not represent formal legal advice.

## **Means of Executing Transactions in Cleared Products**

- 11. Assuming a customer wishes to initiate a position in a product that is cleared by ICE, what are the alternative means of executing that transaction?**

There are a variety of means by which GFI may obtain the desired result.

- If a trade meets ICE's futures block minimum size requirement, GFI can execute it as a block trade and block it into ICE Futures as a block futures transaction.
- Alternatively, GFI can arrange a cross trade in which counterparties are matched by GFI prior to submission of the trade to ICE Futures. One side of the cross trade must be exposed to the market for 5 seconds (10 seconds in the case of options) before the trade may be finalized.
- GFI may enter the bid or offer on WebICE as the agent of the customer, provided we have a Give-Up Agreement in place.



- GFI may execute an OTC swap and submit the swap to the exchange where it will novate to a cleared future via an EFRP.

**12. Assuming a customer wishes to initiate a position in a product that is cleared by CME, what are the alternative means of executing that transaction?**

There are a variety of means by which GFI may obtain the desired result, all but one of which are identical to the alternatives available on ICE.

- If a trade meets CME's futures block minimum size requirement, GFI can execute it as a block trade and block it into CME as a block futures transaction.
- Alternatively, GFI can arrange a cross trade in which counterparties are matched by GFI prior to submission of the trade to CME, provided we have a Give-Up Agreement in place. One side of the cross trade must be exposed to the market for 5 seconds (10 seconds in the case of options) before the trade may be finalized.
- GFI may enter the bid or offer on CME Globex as the agent of the customer, provided we have a Give-Up Agreement in place.
- GFI may execute an OTC swap with respect to the product in question and arrange to obtain the cleared future through an EFRP.
- Assuming CME obtains approval of its new rule and the product in question is covered by the new rule, GFI may arrange a "9(B)(iii) Trade" off exchange and submit it to CME as an executed future, similar to a block, but without regard to the size of the transaction.

**13. Assuming a customer wishes to initiate a position in a product that is cleared by a clearinghouse other than ICE or CME, what are the alternative means of executing that transaction?**

This would be no different from today's process, subject to the eventual publication and effectiveness of the final SEF rules. All such transactions will be executed OTC.

## **Means of Executing Transactions in Uncleared Products**

**14. With respect to transactions in products that are not cleared, what are the alternative means of executing those transactions?**



This, too, would be no different from today's processes, subject to the eventual publication and effectiveness of the final SEF rules. All such transactions will be executed OTC.

## **Preparation for the Full Implementation of all Dodd-Frank Rules**

**15. Based on the current regulations and CFTC timetable, it is expected that all Dodd-Frank rules will be published and become effective during early 2013. What preparations has GFI undertaken in anticipation of those rules?**

GFI has been making preparations for compliance with all Dodd-Frank requirements for some time now. We expect to register as a SEF or DCM at the first opportunity, and we are reviewing and revising our systems, including EnergyMatch, as necessary to comply with those requirements.

**16. Will GFI be doing anything to assist customers in meeting their compliance obligations?**

**Yes.** We are identifying and incorporating features into EnergyMatch that will assist our customers in meeting their compliance obligations. For example, we are adding functions in EnergyMatch that will permit an administrator to maintain controls over certain aspects of the trading behavior of his traders, that will also permit documentation to be appended to a trading record explaining the reason for certain trading activity, and to provide the administrator with alerts or reports describing each trader's activities in the market.

**17. What if I have additional questions?**

If you have any additional questions, please feel free to contact us as follows:

### **EnergyMatch:**

EnergyMatch Help Desk at **866-846-2042**, which will ensure that you immediately reach a live person who can either answer your question or direct your inquiry to the appropriate GFI or Amerex personnel.

### **GFI:**

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You are also welcome to direct inquiries to any of your primary contacts at GFI or Amerex, each of whom is prepared to assist you with regard to these matters by calling upon the appropriate resources.