SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional): 2013-P-54 **Date: November 1, 2013**

***IMPORTANT*: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.**
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ORGANIZATION	Bloomberg SEF LLC

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)
  - ☐ Advance Notice of SIDCO Rule Change under § 40.10 (a)
- **Products**
  - ☒ Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
  - ☐ Swap Class Certification under § 40.2 (d)
  - ☐ Request for Approval under § 40.3 (a)
  - ☐ Novel Derivative Product Notification under § 40.12 (a)

RULE NUMBERS

None applicable; terms and conditions of the "CDS Index Contract – European Investment Grade 5Y (ICE) MAT" are attached as Attachment A.

DESCRIPTION

In accordance with Commodity Futures Trading Commission ("Commission") Regulation § 40.2(a), this is a submission, by Bloomberg SEF LLC ("BSEF"), for Commission review and approval of a new product for trading – the "CDS Index Contract – European Investment Grade 5Y (ICE) MAT" ("Contract").

Bloomberg SEF LLC
New Contract Submission 2013-P-54
November 1, 2013

1. The Contract's terms and conditions are attached as Attachment A.

2. The intended listing date is November 5, 2013.

3. Attached, please find a certification that: (a) the Contract complies with the Act and the Commission regulations thereunder; and (b) concurrent with this submission, BSEF posted on its website: (i) a notice of pending certification of this Contract with the Commission; and (ii) a copy of this submission.

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, in the form of narrative and explanatory charts, 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: iTraxx Indices Generally

The reference index used to determine the exchange of cash flows for the Contract is Markit Group Limited's ("Markit's") iTraxx Europe: Series 10 to Current. The iTraxx indices are owned, managed, compiled, and published by International Index Company Limited and Markit Group Limited ("Markit"). The iTraxx Europe index (Series 10 to Current), is, like the other iTraxx indices – administered based on transparent, well-documented, and comprehensive rules.[1] In all the iTraxx indices, entities are weighted equally, and the entities are included on each index based on their "Entity Rating," which is defined as the lowest of:

(a) lowest of Issuer Rating, Senior Unsecured Debt Rating, and Corporate Family Ratings for Moody's;
(b) lower of Long-term Issuer Credit Rating and Senior Unsecured Debt Rating for S&P; and
(c) lower of Issuer Default Ratings and Senior Unsecured Debt Rating for Fitch.[2]

iTraxx Europe

Specifically, the constituents on the iTraxx Europe index are selected by a process in which each market maker submits to Markit a list of European entities with the highest single name CDS trading volumes (i.e., the most liquid entities), as measured over the previous six (6) months. Through a carefully outlined process, Markit ranks the entities by trading volume, and selects the one hundred twenty-five (125) highest ranking investment grade entities in each of the following sectors:

(a) thirty (30) Autos & Industrials;
(b) thirty (30) Consumers;
(c) twenty (20) Energy;
(d) twenty (20) TMT; and
(e) twenty-five (25) Financials.[3]

The reference obligations for the reference entities are then obtained from Markit's Reference Entity Database in conjunction with input from iTraxx market makers.[4]

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[1] *See* "Markit iTraxx Europe Index Rules," *available at* http://www.markit.com/assets/en/docs/products/data/indices/credit-index-annexes/Markit%20iTraxx%20Europe%20S13%20Rulebook.pdf.
[2] *Id*. at 3.
[3] *Id*. at 4.
[4] *Id*.

Reference Index is Not Readily Susceptible to Manipulation

The iTraxx Europe index is not readily susceptible to manipulation. First, as noted above, it is a broad index – containing one hundred twenty-five (125) entities. Second, all of the entities have equal, or approximately equal weightings, so that no entity disproportionately dominates the weighting of the index.[5] Third, as noted above, the index is a highly liquid index as it is comprised of the one hundred twenty-five (125) European entities with the highest single name CDS trading volumes. And last, as noted above, the development and management of the index is rules-based, therefore making it extremely difficult for individuals or entities to change selection practices for purposes of 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.

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

(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 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 of the contract appear in Attachment A; they include:

Contract Overview	An agreement to buy or sell protection on a basket of liquid European based entities with an investment grade credit rating.
Index Name	ITRAXX.EUROPE: prior, current series
Currency	EUR
Quoting Convention and Minimum Increment	As agreed by counterparties.
Minimum Size	As agreed by counterparties.
Trading Conventions	Buy = Buy Protection, the buyer of protection pays a premium to the seller in case of a credit event occurring.

[5] *Id.* at 3.

	Sell = Sell Protection, the seller of protection receives the premium payments from the protection buyer. The seller owns the credit risk of the instrument.
Swap Conventions	European IG indices are traded on spread. Fixed coupon payments are calculated at a spread of 100 bps and exchanged on a quarterly basis.
Swap Tenor	5Y
Effective Date	The date on which parties begin calculating accrued obligations such as fixed payments (i.e., the start date of the swap).
Maturity Date	The final date on which the obligations no longer accrue and the final payment occurs.
Trade Types	The following swap types may be executed on the BSEF: • Outrights • Roll Trades
Settlement	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 – Payments are 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.
Trading Hours	00:01 -24:00 (ET), Sunday-Friday.
Clearing Venue	ICE
Block Size	As set forth in Appendix F to Part 43. of the CFTC Regulations
Speculative Limits	As set forth in Part 151 of the CFTC Regulations.
Reportable Levels	As set forth in the CFTC Regulation 15.03

As indicated above, some terms of the Contract are fixed – for instance: (a) the index is the iTraxx Europe index, Series 10 to Current; (b) the currency is the Euro; (c) the swap tenor is 5Y; (d) the clearing venue is CME; and (e) the trading hours are twenty-four hours (ET), Sunday to Friday. Several terms, however, 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

As noted above and in Attachment A, the cash settlement process for the Contract includes the following payments:

(a) Fixed Quarterly Cash Payments: These payments are reflected in basis points and paid by the protection buyer to the protection seller.

(b) Upfront Fee Payment: This fee is a portion of the payments, which is expressed in percentage points of the notional. The fee is present valued and paid immediately to the seller.

(c) Contingent Payment: If there is a credit event, payments related to the 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).

This cash settlement method 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 market for the Contract has considerable depth and liquidity, making manipulation very difficult to achieve. The iTraxx Europe is used by numerous market participants, and basing credit default swaps on the iTraxx Europe index has been a longstanding, widely accepted practice. Second, 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 robust market surveillance program that is effectively able 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 cash 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 robustness and widespread acceptance of the calculation method for the cash 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 cash 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 iTraxx Europe 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 specifically note that the Contract is based on the basket of highly liquid, investment grade European entities that comprise the iTraxx Europe, Series 10 to Current.

(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 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 cash 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.

As noted above, the quoting convention and the minimum increment are, as determined by the counterparties.

(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.

As agreed between the counterparties.

(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.

None required by Parts 150 or 151.

(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) (ET), 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 "CDS Index Contract – European Investment Grade 5Y (ICE) MAT" 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 this Contract with the Commission; and (b) a copy of this submission.

By: Gregory Dumark
Title: Chief Compliance Officer
Date: November 1, 2013

Attachment A
Terms and Conditions

[*see attached*]

Bloomberg SEF LLC

Credit Default Swaps (CDS):
CDS Index Contract – European Investment Grade

Contract Overview	An agreement to buy or sell protection on a basket of liquid European based entities with an investment grade credit rating.
Index	ITRAXX.EUROPE**:** prior, current series
Currency	EUR
Quoting Convention and Minimum Increment	As agreed by counterparties
Minimum Size	As agreed by counterparties
Trading Conventions	Buy = Buy Protection, the buyer of protection pays a premium to the seller in case of a credit event occurring. Sell = Sell Protection, the seller of protection receives the premium payments from the protection buyer. The Seller owns the credit risk of the instrument.
Swap Conventions	European IG indices are traded on spread Fixed coupon payments are calculated at a spread of 100 bps and exchanged on a quarterly basis.
Swap Tenor	5Y
Effective Date	The date on which parties begin calculating accrued obligations such as fixed payments. Also known as the start date of the swap.
Maturity Date	The final date on which the obligations no longer accrue and the final payment occurs.
Trade Types	The following swap types may be executed on the Bloomberg SEF: • Outrights • Roll Trades

Bloomberg SEF LLC

Settlement	Contingent payment - Payments related to credit event settlement will be determined pursuant to the 2009 ISDA Credit Derivatives Determination Committees and Auction Settlement Supplement, (ie 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.
Trading Hours and Venue	00:01 -24:00 Sunday-Friday; Eastern Tim
Clearing Venue	ICE
Block Size	As set forth in Appendix F to Part 43. of the CFTC Regulations
Speculative Limits	As set in Part 151 of the CFTC Regulations
Reportable Levels	As set in the CFTC Regulation 15.03