

BGC Derivative Markets, L.P
Rule Implementation Submission 2015-05
May 27, 2015

1. The text of the proposed amendments to Rule 602 is appended as Attachment A.
2. The date of intended implementation of the proposed amendments is ten business days following the filing of this submission.
3. Attached, please find a certification that: (1) these rules comply with the Commodity Exchange Act (“Act”), and the Commission’s regulations thereunder; and (2) concurrent with this submission, BGC Derivative Markets, L.P. (“BGC”) posted on its website: (i) a notice of pending certification of the rule submissions with the Commission; and (ii) a copy of this submission
4. A concise explanation and analysis of the operation, purpose, and effect of the amended rule appears below.
5. There were no opposing views expressed regarding these amended rules.
6. Confidential treatment is requested.

CONCISE EXPLANATION AND ANALYSIS OF THE OPERATION, PURPOSE, AND
EFFECT OF THE CERTIFIED RULE AND ITS COMPLIANCE WITH APPLICABLE
PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE
COMMISSION’S REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.6(a)(7)(vi), the following is a concise explanation and analysis of the operation, purpose, and effect of amendments to BGC Derivative Markets, L.P. (“BGC”) Rule 602. These amendments are intended to provide greater certainty to market participants regarding the process by which BGC determines the Volume Match and Volume Match prices.

BGC previously amended Rule 602 to reference the inputs that the Execution Specialist may use in determining the Volume Match Price. Rule 602 provided that the Execution Specialist could, in his or her discretion, consider prices from the Electronic Trading System, prices derived from the Electronic Trading System or views of market participants. The current BGC rule further made clear that in seeking the views of market participants, the Execution Specialist in the first instance could not attempt to coerce the market participant to provide his or her view, or to alter his or her opinion once expressed. In addition, BGC included in its Compliance Manual a more granular description and requirements relating to the determination of the Volume Match price by the Execution Specialist.

BGC is proposing to amend Rule 602 by including in the rule greater detail regarding the process through which the Facility determines the Volume Match price. This greater granularity should provide market participants with additional insight into the methodology by which the price is determined. In addition, the amended rule, by inclusion of such detail, should guide the Facility's exercise of discretion with regard to determining the Volume Match and Volume Match Plus price. By incorporating in its Rulebook this greater level of granularity with respect to the procedures to be followed, BGC is demonstrating its deep commitment to ensuring the integrity of the Volume Match and Volume Match Plus price methodology.

The amendments to Rule 602 are based, in part, on the procedures of Commission Letter No. 13-81 (December 23, 2013). These proposed rule amendments make clear that the proposed Volume Match price is required to be determined by market-based price information. As detailed under the rule as proposed to be amended, the Volume Match price is always discovered by reference to recent or historical trades, current prices in a CLOB, or in comparison with prices in closely related instruments. As is also clear from the rules, the Volume Match trading facility operates in supplementation to the regular Electronic Trading Session and is not a replacement for it.

The amended rules make clear that in determining the Volume Match price, the Facility may take into account a number of factors. The amended rule, by substituting "Facility" for "Execution Specialist," makes clear that the Facility, where appropriate and feasible, may rely on a methodology that does not make use of the Execution Specialist in determining the proposed Volume Match Price. The rule does not establish a priority or hierarchy for consideration of these factors. However, in practice, where prices on the Facility are robust and bid/ask spreads are tight, such prices typically are relied upon the most heavily, if not exclusively. Nevertheless, the additional factors that are included are necessary to derive a Volume Match price where available price information, including executable or indicative bid/offer information is unavailable from the Facility, or is less reliable due to illiquidity.

The amended rules also guide the exercise of the Facility's discretion in taking into account the views of market participants. The amended rules make it clear that the Facility must act fairly in considering the views of market participants. Moreover, the fairness of the price determination is protected by prohibiting the Facility from attempting to coerce a market participant to give an opinion, or to alter an opinion once stated, or to knowingly ask for or receive a market view solely intended to favor a particular market participant's position. The Facility is prohibited from divulging any position information of a market participant to others without the consent of the Participant.

Finally, the Facility, acting in good faith, will use its best efforts to disregard any prices that are outliers from the consensus of prices expressed by market participants. This is an important safeguard against an individual giving a price indication that is not reflective of actual market value but rather is intended to be unrepresentative of the true market price.

The rule, as amended, makes clear that all requests for the views of market participants are to be made through BGC communications media where such communications are captured and maintained in accordance with Commission Rule 1.31.

Attached, please find a certification that: (1) these rules comply with the Commodity Exchange Act (“Act”), and the Commission’s regulations thereunder; and (2) concurrent with this submission, BGC Derivative Markets, L.P. (“BGC”) posted on its website: (i) a notice of pending certification of the rule submissions with the Commission; and (ii) a copy of this submission.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.6, 17 C.F.R. §40.6

I hereby certify that:

- (1) the amended Rule complies with the Commodity Exchange Act, and the Commodity Futures Trading Commission's regulations thereunder; and
- (2) concurrent with this submission, BGC Derivative Markets, L.P. posted on its website:
 - (a) a notice of pending certification of the above Rules with the Commission; and
 - (b) a copy of this submission



By: JAMES CAWLEY

Title: CEO

Date: 5/27/15

Attachment 1—Rule Amendment

(Additions are underscored, deletions are struck through)

PART 6. TRADING VIA ELECTRONIC ORDER BOOK.

601. Scope.

* * *

602. Trade Execution via Electronic Order Book.

Transactions executed via the Electronic Order Book may be matched on the Trading System through any of Trading Sessions provided under paragraphs (a), (b), (c), or (d) of this Rule.

(a) * * *

(b) * * *

(c) *Volume Match Trading Facility.* The Volume Match Trading Facility is an auction Trading Session separate and distinct from the Electronic Order Book Trading Session and is held periodically during the Business Day. All trades during the Volume Match Trading Session matched subsequent to the Opening Period will be executed at a single price and in time order of priority. The Facility shall announce a Volume Match Trading Session not less than five minutes before it commences. A Volume Match Trading Session may be held once or more during the day at set times or as announced in response to market demand and these timings may vary by particular Swap contract.

(i) *Opening Period.* The Volume Match Trading Session begins by the Facility gathering indications of interest from potential market participants with respect to volume, Bids or Offers (the “Opening Period”). The Facility will announce the length of the Opening Period at its commencement.

- (A) During the Opening Period, Participants may enter Executable and Indicative Orders into the Electronic Order Book. Executable orders in the Electronic Order Book may immediately match in full or in part during the opening period.
 - (B) The Facility will announce to the market the end of the Opening Period at least two minutes prior to its ending.
- (ii) *Matching Session.* Upon the close of the Opening Period, the Facility will announce the price that it determines in its discretion to be the proposed market clearing price (the “Volume Match Price”). The Volume Match Price is determined by the Facility acting in its discretion, the functions of which may, but are not required to, be carried out by an Execution Specialist in his or her discretion, acting for the Facility.
- (iii) In determining the Volume Match Price, the Facility ~~Execution Specialist shall adhere to the following procedures may consider:~~
- (A) ~~The Facility begins the process of determining the Volume Match proposed price, as provided in paragraph (c)(i)(A) by sending one or more of Voice, electronic or any other form of notice to all market participants active on the Facility at that time, including natural persons active on the Facility or their automated order entry systems, and issuing a system alert announcing the beginning of a Volume Match or Volume Match Plus trading session. The notice or notices shall indicate the Swap product which will be traded during the session and specify the time until the trading session commences. When announcing by Voice, the Facility shall ensure that the announcement is made to all participants active on the Facility through Voice at that time.~~
 - (B) ~~Determination of the proposed market-clearing price shall include any one or a combination of a number of inputs, in the discretion of the Facility. The particular inputs to be used are in the discretion of the Facility. They include prices of transactions, executable or indicative bids or offers or historical prices on the Facility or any other registered SEF or designated contract market; prices derived from transactions, executable or indicative bids or offers or historical prices on the Facility or any other registered SEF or designated contract market; and views of active market participants.~~
 - (1) ~~**Prices of the Subject Swap.** Prices from the Facility or from any registered SEF or designated contract market for the Swap that is the subject of the Volume~~

Match will include, where available, the last price of a transaction, executable or indicative bids and offers or historical prices on the Facility or from any other registered SEF or designated contract market for the Swap.

(2) **Derived Prices.** Where such prices and/or executable or indicative bids or offers are unavailable for the Swap that is the subject of the Volume Match, the Facility shall apply analytical analysis to prices, executable or indicative bids or offers, or historical price information for a similar Swap traded on the Facility or any other registered SEF or designated contract market to determine the proposed Volume Match Price.

a.) The Facility may also apply analytics where bids or offers are available from the Facility or any other registered SEF or designated contract market but because of the width of the bid/offer spread or other factors, the mid-market price may be ambiguous and the application of such analytics would provide additional clarity. Such analytical analysis may include, for example, but is not limited to, empirical cash flow valuations using Libor, Euribor and Overnight Interest Rate bootstrapped Discount Factor curves and forward forecasting curves, credit adjustment and valuation models and options modelling using, but not limited to, industry standard Black Scholes, adjusted Black Scholes (Garman Kohlhagen) and Stochastic Options models on specific option structures.

(3) **Market Participant Views.** The Facility may also request the views of active market participants and consider such views in determining the proposed Volume Match Price. In requesting the views of active market participants, the Facility:

a.) must act fairly in determining which active market participants to survey;

b.) must weigh the views of market participants based on market conditions and not on factors unrelated to the participant's assessment of market conditions, and shall not knowingly ask for or receive a market

view intended solely to favor the market participant's position:

e.) shall not attempt to coerce or pressure an active market participant to respond to the request for their views or to alter a view once it has been expressed; and

d.) shall not divulge any information regarding the positions or intentions of any other Participant without the consent of such Participant.

e.) In using responses from active market participants as an input in the determination of the proposed Volume Match price, the Facility shall use its best efforts, acting in good faith, to disregard any prices that are outliers from the consensus view expressed.

f.) All contacts with active market participants shall be made only via BGC communications media and the Facility will record all oral information requests and responses thereto and retain a record of all oral or written information requests and responses thereto in accordance with Commission Rule 1.31.

a.) ~~derived from the Electronic Order Book for the same or economically similar Swap;~~

a. ~~application of standard analytics; or~~

b. ~~views of market participants;~~

b.) ~~Prices from the Electronic Trading System which the Execution Specialist may consider include the last price of a transaction and executable bids and offers in the Electronic Order Book;~~

a. ~~Where appropriate and useful, the Execution Specialist may apply standard analytical analysis to determine the proposed Volume Match Price.~~

b. ~~In determining the Volume Match Price, the Execution Specialist may also consider the views of market participants of the price prevailing in the market for the Swap that is~~

~~the subject of the Volume Match Session. In considering the views of market participants, the Execution Specialist may not:~~

~~i. attempt to coerce or pressure a market participant to respond to a request to provide its view or alter a genuinely held view; or~~

~~ii. seek or knowingly receive a view intended to favor a particular participant or participants;~~

~~iii. The Facility will record all oral survey requests and responses thereto and retain a record of all oral or written responses in accordance with Commission Rule 4.34.~~

(iii) *Conclusion of Matching Session.* With the announcement of the proposed Volume Match Price the auction will commence (the “Matching Session”). Participants may then submit the notional amount of Swaps they want to buy or sell at the Volume Match Price. Participants may withdraw any pending, unexecuted Orders during the Matching Session. All transactions effected during the Matching Session are executed at the Volume Match Price and are matched via a pre-determined non-discretionary automated trade matching system using time priority. Trades are matched in sequence of Order entry (except for “all-or-none” Orders which may be matched at a later priority in order to fulfill their size requirement) until all Orders are filled or market supply exhausted at the Volume Match price. Any unfilled Orders are cancelled, unless expressly requested by the Participant to be transferred to the Electronic Order Book Trading Session as a new Order.

(d) *Volume Match Plus (“VM Plus”) Trading Facility. * * **

(i) *Opening Period. * * **

(ii) *Matching Session.* Upon the close of the Opening Period, the Facility will announce the price that it determines in its discretion to be the market-clearing price (the “Volume Match Price”) using the procedure provided in subsection (c)(~~ii~~)(iii) of this Rule 602 and will commence the auction (the “Matching Session”). Participants may then submit the notional amount of Swaps they want to buy or sell at the Volume Match Price. Participants may withdraw any pending, unexecuted Orders during the Matching Session. All

transactions effected during the Matching Session are executed at the Volume Match Price and are matched using time priority. Trades are matched in sequence of Order entry (except for “all-or-none” Orders which may be matched at a later priority in order to fulfill their size requirement) until all Orders are filled or market supply is exhausted at the Volume Match price.

(iii) * * * * *