

TERA[^]EXCHANGE

TeraExchange, LLC
25 DeForest Avenue
Suite 203
Summit, NJ 07901

December 15, 2013

BY ELECTRONIC MAIL: secretary@cftc.gov

Melissa Jurgens
Secretary
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, DC 20581

Re: TeraExchange, LLC Submission 13-02: Listing of Credit Default Swap Indices by Certification Pursuant to Commission Regulation 40.2(a)

Dear Ms. Jurgens:

TeraExchange, LLC ("TeraExchange") hereby notifies the Commodity Futures Trading Commission (the "Commission" or "CFTC") that it is certifying, pursuant to Commission Regulation 40.2(a), a group of Credit Default Swap Indexes ("CDS" or "CDX") for trading on its swap execution facility. Specifically, TeraExchange is certifying CDXs in both Investment Grade and High Yield CDX Index Swaps traded in US Dollars ("USD"). The intended listing date of the CDXs is December 20, 2013.

This letter includes the following attachments:

- A certification that each contract complies with the CEA and Commission Regulations thereunder, and that TeraExchange has concurrently posted a copy of each of these submissions on the TeraExchange website;
- The submission cover sheet;
- The contract terms and conditions (Exhibit A); and
- A concise explanation and analysis of the contracts' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder (Exhibit B).

Please contact the undersigned at (908) 273-8277 or at LNuara@teraexchange.com with any questions.

Sincerely,

Leonard T. Nuara

Leonard T. Nuara
President and COO

Cc: Nancy Markowitz, DMO
M. Schlagel, DMO
Jamine Lee, DMO

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. §7
A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.2, 17 C.F.R. §40.2

I hereby certify that:

- (1) the products to be listed comply with the Commodity Exchange Act, and the Commodity Futures Trading Commission's regulations thereunder; and
- (2) concurrent with this submission, TeraExchange, LLC posted on its website: (a) a notice of pending product certification with the Commission; and (b) a copy of this submission.

Leonard T. Nuara

Leonard T. Nuara
President and COO
TeraExchange, LLC

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

Exhibit A

Terms and Conditions

(Attached)

HY**High Yield CDX Index Swaps**

Swap Structure	An agreement to buy or sell protection on a basket of liquid North America based entities with a high yield credit rating. Underlying securities are designated by MarkIT and listed under the Index Name of CDX.NA.HY.
Currencies	USD
Clearing Venue	CME
Clearing Venue Specifications	http://www.cmegroup.com/rulebook/CME/VII/802/802.pdf
Quoting Convention	High Yield CDX Index Swaps are quoted on price.
Tick Size	0.0625 basis points
Minimum Order Size	\$1,000 notional
Minimum Size Increment	\$1,000 notional
Trading Conventions	Buy = Purchase Protection. The buyer pays a premium to the seller in case of a credit event occurring. Sell = Sell Protection. The seller receives a premium to the seller in case of a credit event occurring.
Trading Hours	1:00 AM to 5:00 PM Eastern Time
Effective Date	The Effective Date is the first date for which the Parties begin accruing obligations. For CDX, this is Trade Date + 1.
Maturity Date	The Maturity Date is the final date for which the obligations accrue. This coincides with the date of final payment.
Tenor	5 Years
Upfront 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.
Series	All Series listed in the Clearing Venue Specifications.
Coupon	500 basis points
Block Size	As set forth in Appendix F to Part 43 of the CFTC Regulations.
Settlement Procedure	Per the Clearing Venue Specifications.
Position Accountability	As may be determined and published by TeraExchange under CFTC Regulation 37.600 (c)

IG

Investment Grade CDX Index Swaps

Swap Structure	An agreement to buy or sell protection on a basket of liquid North America based entities with an investment grade credit rating. Underlying securities are designated by MarkIT and listed under the Index Name of CDX.NA.IG.
Currencies	USD
Clearing Venue	CME
Clearing Venue Specifications	http://www.cmegroup.com/rulebook/CME/VII/802/802.pdf
Quoting Convention	Investment Grade CDX Index Swaps are quoted on spread, reflected in basis points.
Tick Size	0.1250 basis points
Minimum Order Size	\$1,000 notional
Minimum Size Increment	\$1,000 notional
Trading Conventions	Buy = Purchase Protection. The buyer pays a premium to the seller in case of a credit event occurring. Sell = Sell Protection. The seller receives a premium to the seller in case of a credit event occurring.
Trading Hours	1:00 AM to 5:00 PM Eastern Time
Effective Date	The Effective Date is the first date for which the Parties begin accruing obligations. For CDX, this is Trade Date + 1.
Maturity Date	The Maturity Date is the final date for which the obligations accrue. This coincides with the date of final payment.
Tenor	3, 5, 7, and 10 Years. Not all Series are available in all Tenors. See Clearing Venue Specifications for more info.
Upfront 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.
Series	All Series listed in the Clearing Venue Specifications.
Coupon	100 basis points
Block Size	As set forth in Appendix F to Part 43 of the CFTC Regulations.
Settlement Procedure	Per the Clearing Venue Specifications.
Position Accountability	As may be determined and published by TeraExchange under CFTC Regulation 37.600 (c)

Exhibit B

This exhibit includes a concise explanation and analysis of the certified CDXs' compliance with applicable provisions of the Commodity Exchange Act (the "CEA"), including the relevant Core Principles, and the Commission's Regulations thereunder.

Core Principle 2 – Compliance with Rules

As with all products listed for trading on TeraExchange, trading in CDXs will be subject to compliance with the CEA, CFTC Regulations and the TeraExchange Rulebook (the "Rules"). Chapter 5 of the Rules sets out in detail the trading practice and business conduct rules applicable to all Participants. In general, under Rule 517, Participants are prohibited from engaging in any conduct in violation of Applicable Law or the Rules. Under Rule 518, any violation of the Rules or act constituting fraud, dishonorable or dishonest conduct, or conduct inconsistent with just and equitable principles of trade is an offense. Fraudulent acts of any kind, including but not limited to front-running, money passes, trading ahead of or against customers, and accommodation trading, are all prohibited under Rule 519. Also included in Chapter 5 are specific Rules intended to deter abusive and disruptive trading practices, including prohibitions on the following: fictitious, wash or non-competitive transactions (Rule 520); market disruption, including violating bids and offers, closing period violations, and spoofing (Rule 521); market manipulation (Rule 522); misstatements (Rule 523); acts detrimental to the SEF (Rule 524); misuse of the SEF (Rule 525); withholding of orders (Rule 526); trading against or crossing orders (Rule 527); and disclosing orders (Rule 528).

TeraExchange market regulation staff, working in partnership with the staff of the National Futures Association as regulatory services provider, will conduct surveillance and initiate disciplinary proceedings as necessary to enforce compliance with the Rules, the CEA and Commission Regulations.

Core Principle 3 – Swaps not Readily Susceptible to Manipulation

CDXs are well established indices that are used by a large number of diverse participants and are generally considered as the most liquid transfer of risk within the universe of credit products. As a result, CDXs are not readily susceptible to manipulation for a number of reasons. The indices reference underlying pools of single name CDS, and the reference components change regularly to assure that the index remains the most current measure of risk for the relevant underlying.

Due to the reliability of, and the widespread acceptance of CDXs, there are generally a large number of buyers and sellers at any given time. As a result of this liquidity, the average bid/ask spread on these instruments remains fairly constant.

All CDXs traded on Tera Exchange will be cash-settled at a registered Derivatives Clearing Organization ("DCO") pursuant to detailed and standardized DCO rules. Standardized terms will aid surveillance for compliance with rules, terms and conditions by TeraExchange, the Regulatory Services Provider, and to the extent applicable, the DCO. As stated above, TeraExchange has established a comprehensive market surveillance program to detect and investigate non-compliant activity.

Core Principle 7 – Financial Integrity of Transactions

As with all transactions on TeraExchange, pursuant to CFTC Regulations and TeraExchange Rules, all orders for CDXs are subject to mandatory pre-trade credit checks to ensure that counterparties have sufficient credit limits in place to meet their financial obligations. See CFTC Regulation 1.73 and TeraExchange Rule 405. All CDXs being certified for trading herein will be submitted for clearing at a registered DCO subject to the DCO's rules and specifications. See TeraExchange Rule 601. These pre-

trade credit checks and clearing requirements are designed to enhance the financial integrity of transactions in CDXs and all other products traded on TeraExchange.

Core Principal 9 - Timely publication of trading information

TeraExchange will submit timely reports regarding CDXs to a registered swap data repository as prescribed in Parts 43 and 45 of the CFTC's Regulations. TeraExchange also will record, report and publish on its website all data required by Part 16 of the CFTC's regulations.