FMX Futures Exchange, L.P.
Rule 40.2 Contract Submission—Three-Month SOFR Futures
Submission #2024-05

September 12, 2024

FMX Futures Exchange, L.P. ("FMX" or the "Exchange") hereby certifies it will list the cash-settled three-month Secured Overnight Financing Rate ("SOFR") futures contract (the "FMX SOFR Contract" or the "Contract"). This submission is being made in accordance with Section 5c(c)(1) of the Commodity Exchange Act, 7 U.S.C. §1 et seq. ("Act") and Commodity Futures Trading Commission ("Commission") Rule 40.2:

1. The specifications for the FMX SOFR Contract, which will be an FMX Division Contract (as defined in the FMX Rules (the "Rulebook"[1])) and will be traded on the "FMX Division" (which is the division of the Exchange that provides for trade intermediation), are attached as Attachment A and the new Exchange Rules setting forth the terms and conditions are attached as Attachment B.

2. The intended listing date is September 23, 2024.

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

4. A concise explanation and analysis of the product and its compliance with the applicable provisions of the Act follows below.

[1] *See* https://www.fmxfutures.com/rules-notices/. Capitalized terms used herein that are not defined herein shall have the meanings given to such terms in the Rulebook, and references to "FMX Rules" or "Rules" refer to rules in the Rulebook.

EXPLANATION AND ANALYSIS OF THE CONTRACT'S COMPLIANCE WITH APPLICABLE CORE PRINCIPLES AND COMMISSION REGULATIONS

BACKGROUND

On January 22, 2024, the Commission issued FMX an amended Order of Designation to permit intermediated futures trading and to list futures contracts for trading on the FMX Division's trading system, which will be submitted for clearing on a Commission-registered derivatives clearing organization. At this time FMX is proposing only to list the FMX SOFR Contract.

The Exchange will list the cash-settled three-month Secured Overnight Financing Rate futures contract. The final settlement price of the Contract (the "FMX SOFR Index" or the "Index") will be 100 minus the geometric average of the daily SOFR rates (a short-term reference interest rate published daily by the Federal Reserve Bank of New York ("FRBNY")) over a three-month period. This settlement price methodology, where the quoted index rate is subtracted from 100, is conventional for futures contracts the value of which is based upon an interest rate.

SOFR interest rate futures enable market participants to hedge interest rates along the interest rate curve as far out in the future as relevant contracts are listed. The terms and conditions, trading volumes, open interest levels, and price information for the Contract will be available on the FMX website at https://www.fmxfutures.com/products-2/.

SOFR is calculated and published on a daily basis by the FRBNY, in cooperation with the U.S. Department of the Treasury's (the "Treasury") Office of Financial Research ("OFR"). It reflects the cost of borrowing cash overnight collateralized by Treasury securities, including certain repurchase agreement transactions ("repos") as discussed below. SOFR is one of three Treasury-specific repo reference rates published by the FRBNY and OFR. The other two rates are the Tri-Party General Collateral Rate ("TGCR") and the Broad General Collateral Rate ("BGCR").

Of these reference rates, SOFR is the broadest measure of the general cost of financing Treasury securities overnight. BGCR "is a measure of rates on overnight Treasury general collateral repo transactions. General collateral repo transactions are those for which the specific securities provided as collateral are not identified until after other terms of the trade are agreed."[2] The BGCR includes all trades in the TGCR "plus GCF repo transactions."[3] The TGCR "is a measure of rates on overnight, specific-counterparty tri-party general collateral repo transactions secured by Treasury securities. General collateral repo transactions are those for which the specific securities provided as collateral are not identified until after other terms of the trade are agreed."[4] On the other hand, GCF repo transactions involve eligible dealers trading "in generic CUSIP numbers throughout the day and then, after the netting process at the end of the day, allocat[ing] specific securities to [the dealers'] net settlement obligations."[5]

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[2] *See* FRBNY, Broad General Collateral Rate Data, https://www.newyorkfed.org/markets/reference-rates/bgcr (cleaned up).
[3] *Id*.
[4] FRBNY, The Tri-Party General Collateral Rate Data, https://www.newyorkfed.org/markets/reference-rates/tgcr (cleaned up).
[5] DTCC, GFC Repo, https://www.dtcc.com/clearing-services/ficc-gov/gcf-repo.

SOFR includes all trades used in the BGCR, which itself includes trades in the TGCR, plus transactions cleared through the Fixed Income Clearing Corporation's delivery versus payment ("DVP") repo service, which involve specific Treasury securities identified by the counterparties to those transactions. DVP repo transactions with rates below the 25th volume-weighted percentile rate are removed from the distribution of DVP repo data each day. The FRBNY also reviews all of the relevant data to assess whether, in its judgment, any other transactions should be excluded from the rate calculations for a given day.

SOFR is calculated as a volume-weighted median of the reported rates, as noted above. This rate is associated with transactions at the 50th percentile of transaction volume whereby the volume-weighted median rate is calculated by ordering the transactions from lowest to highest rate, taking the cumulative sum of volumes of these transactions, and identifying the rate associated with the trades at the 50th percentile of dollar volume. When published by the FRBNY, the volume-weighted median is rounded to the nearest basis point. Transaction volume is calculated as the sum of overnight transaction volume used to calculate each reference rate, rounded to the nearest $1 billion. Trades for which pricing resets daily and which are economically similar to overnight transactions are included in the calculation of the rates when possible.[6]

The following data are intended to demonstrate that SOFR has behaved as expected in measuring the overnight borrowing costs for Treasury securities. This is demonstrated by the comparisons of SOFR to the effective federal funds rate ("EFFR"), which is a commonly used rate reflecting domestic unsecured borrowings in U.S. dollars, over the 6-month and 5-year timelines shown. In addition, the data also show how the FMX SOFR Index tracks SOFR based on back-testing of its calculation methodology. Therefore, FMX believes that SOFR is both a broad and reliable rate, further supported by its widespread adoption as the rate used to replace the USD LIBOR rate.

BRIEF HISTORY OF THE SECURED OVERNIGHT FINANCING RATE

On November 17, 2014, the Federal Reserve Board and the New York Fed jointly convened the Alternative Reference Rates Committee "("ARRC") in response to Financial Stability Board ("FSB") and Financial Stability Oversight Council ("FSOC") recommendations to address U.S. Dollar London Interbank Offered Rate ("LIBOR") risks. The ARRC was tasked to identify an alternative to LIBOR after a number of instances of attempted manipulation were discovered in 2012.

The ARRC's original objectives were to identify a risk-free alternative reference rate for LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support orderly acceptance of the new rate. In June 2017, the ARRC unanimously selected SOFR as the most suitable alternative reference rate to replace LIBOR and published a "Paced Transition Plan". The ARRC considered a variety of factors before recommending SOFR as the LIBOR replacement. These factors included the depth of the underlying market and its likely robustness over time, the rate's usefulness to market participants, and whether the rate's construction and governance would be consistent with the Principles for

[6] *See, e.g.,* https://www.newyorkfed.org/markets/reference-rates/sofr and https://www.newyorkfed.org/markets/reference-rates/additional-information-about-reference-rates#tgcr_bgcr_sofr_calculation_methodology.

Financial Benchmarks (the "Principles") published by the International Organization of Securities Commissions' ("IOSCO").

In July 2017, Mr. Andrew Bailey, then-CEO of the Financial Conduct Authority ("FCA"), announced that the FCA could not guarantee LIBOR's existence after December 31, 2021, but would allow banks to continue to submit LIBOR until that date. This announcement accelerated the pace of the ARRC's Paced Transition Plan. The ARRC encouraged voluntary adoption of SOFR over the next several years with specific steps and deadlines that have been met on time or earlier:

1. The infrastructures for futures and overnight index swaps ("OIS") trading in SOFR were put in place during the first half of 2018.

2. Trading in futures that reference SOFR launched with one-month and three-month SOFR futures contracts on May 7, 2018.

3. Launch of trading in cleared OIS that reference SOFR in the current effective federal funds rate ("EFFR"), price alignment interest ("PAI") and discounting environment was completed in July 2018. LCH cleared the first interest rate swap referencing SOFR on July 18, 2018.

4. CME and LCH converted each of discounting, the PAI, and the price alignment amount from EFFR to SOFR on all outstanding cleared USD-denominated swaps on July 29, 2021.

   For CME, the conversion rate applied to all cleared USD interest rate swap products comprising fixed/float interest rate swaps, overnight index swaps, forward rate agreements, zero coupon swaps, basis swaps, and swaptions.

   For LCH, these products were USD LIBOR, USD fed funds, USD SOFR interest rate swaps, and USD CPI zero coupon inflation swaps. All new contracts after the conversion date have used SOFR for discounting and PAI for both CME and LCH-cleared contracts. Both conversions were completed on October 16, 2020.

5. A term reference rate based on SOFR derivatives markets has been developed because liquidity has developed sufficiently to produce a robust rate.

The ARRC concluded its work and ceased operations in November 2023. As noted in the ARRC's Closing Report:

> The Federal Reserve Bank of New York will launch a new sponsored group in 2024 to focus on promoting the integrity, efficiency, and resiliency in use of reference rates across financial markets. It is envisioned that this group will build on the legacy of the ARRC's work by promoting its critical best practice recommendations. It is expected to be structured similarly to other groups sponsored by the New York Fed such as the Foreign Exchange Committee and the Treasury Market Practices Group.

Chart 1. Comparison of 6-month SOFR and EFFR

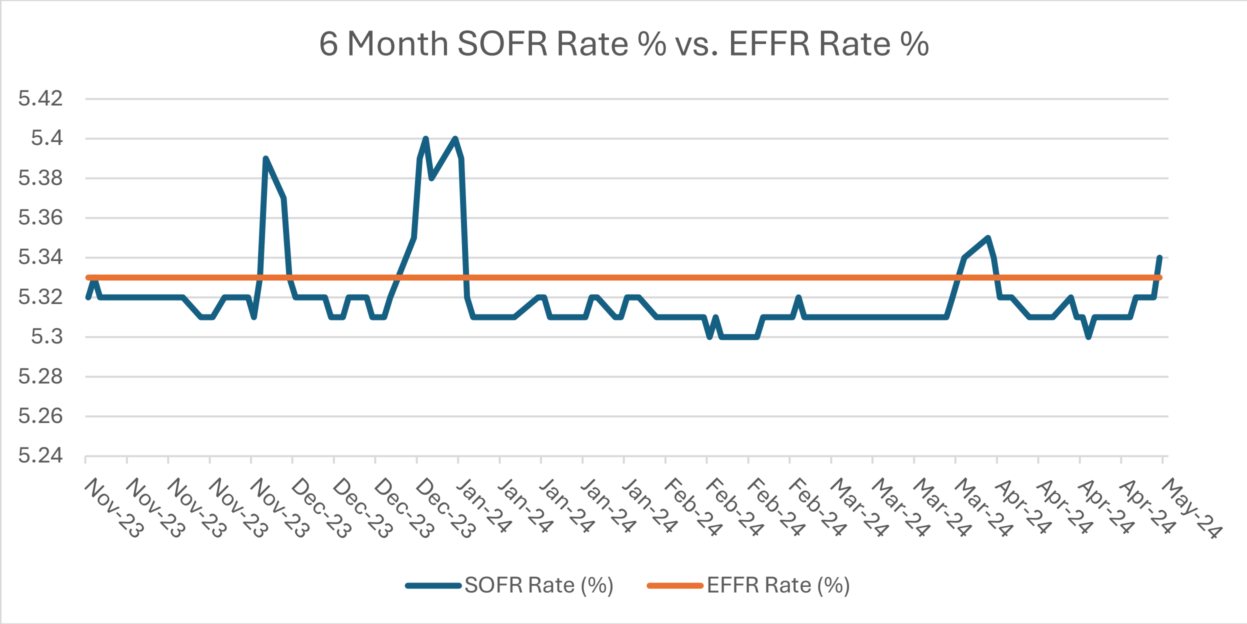


Chart 2. Comparison of 5-year SOFR and EFFR

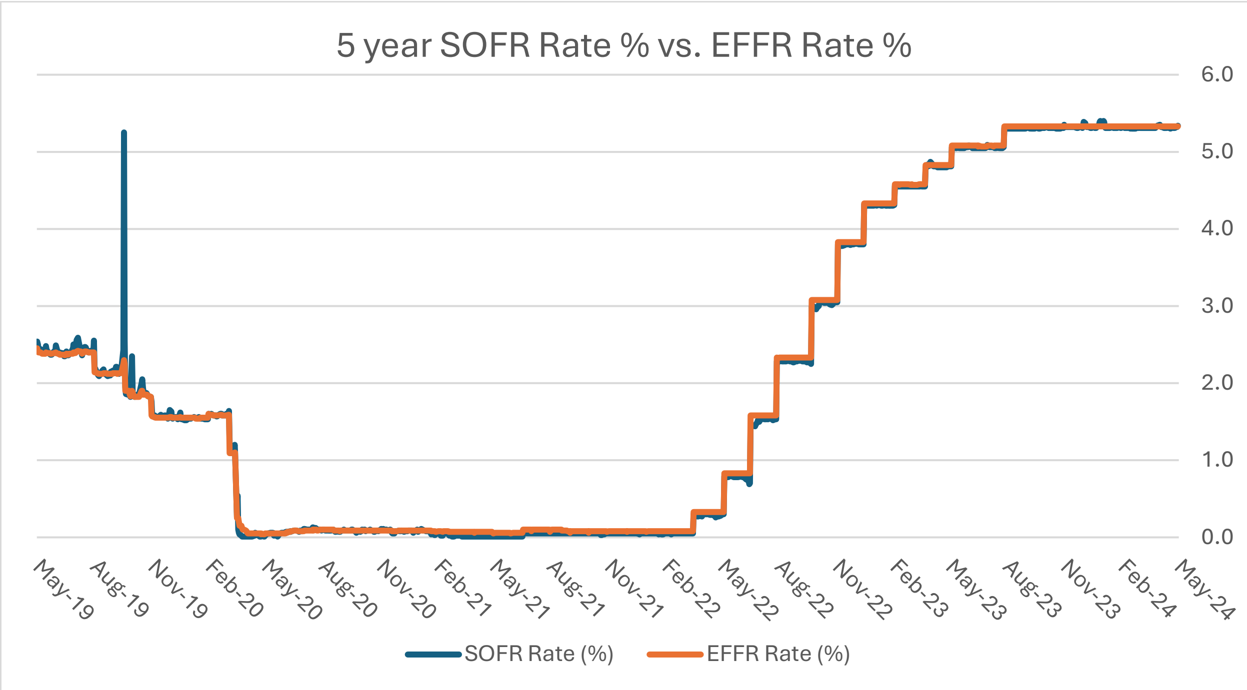
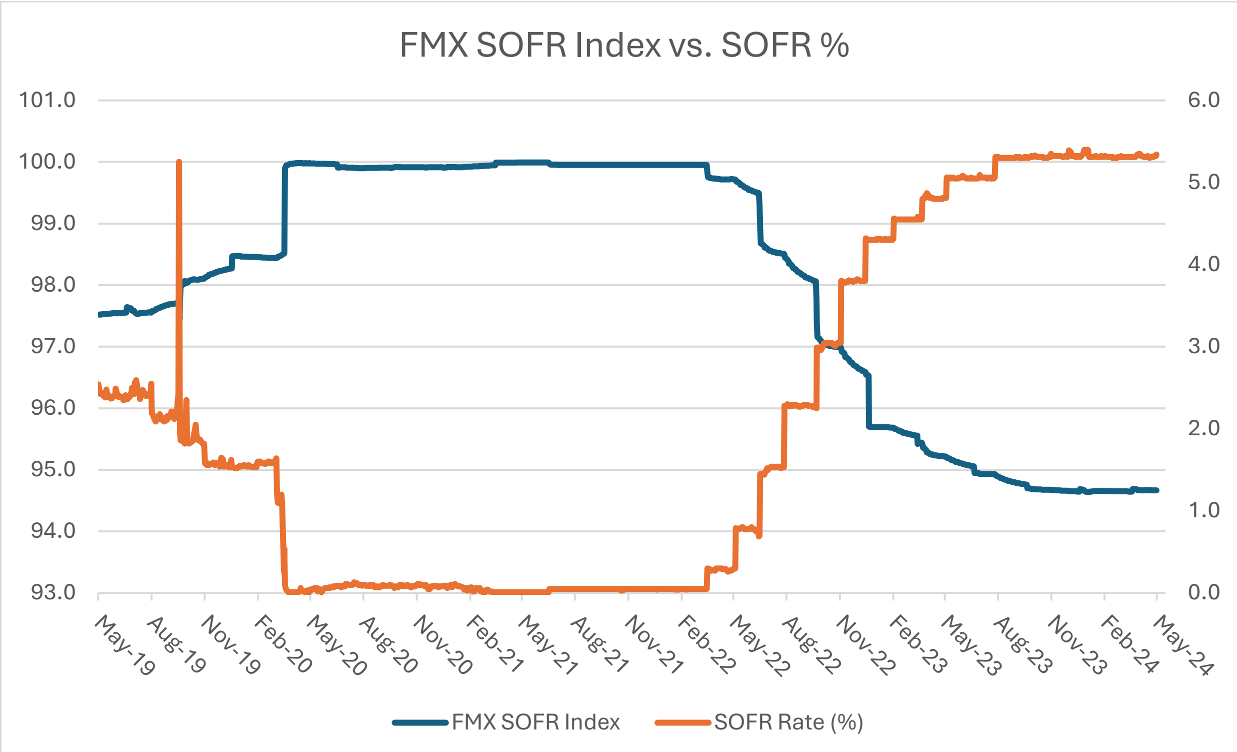


Chart 3. Back-Testing of FMX SOFR Index Calculation Methodology

FMX calculated the daily SOFR Index as described in the FMX SOFR contract rules beginning with a simulated quarterly March 2019 contract and resetting and simulating the calculation for each quarter thereafter through March 2024. Five years' worth of the results, from

May 1, 2019 through April 30, 2024, are presented in the below chart along with the daily SOFR percentage for the same period.



Please note that the upward jump of the SOFR index on February 23, 2020 was caused by the Federal Reserve System's loosening of the EFF rates at the beginning of the COVID-19 pandemic. The downward movement in the index beginning June 22, 2022 was caused by the start of the Federal Reserve System's rate tightening program.

There was an anomalous one-day spike in SOFR on September 17, 2019, which is shown on the SOFR rate graph.

ECONOMIC ANALYSIS OF SOFR

SOFR is a measure of one of the interest rates established in the overnight repo market in U.S. government securities. The interest rates implied by trading in the repo market are affected by both government fiscal policy and central bank monetary policy through, respectively, the issuance of Treasury debt securities and the Federal Reserve liquidity and funding operations, especially through its standing repo facility. Accordingly, interest rates in the collateralized overnight repo market, including SOFR levels, are tied to government monetary policy initiatives.

The U.S. government securities repo markets attract participation from private institutions across the U.S. financial industry with activity by commercial and retail banks, other depository institutions, hedge funds, insurance companies, money market mutual funds, and asset managers. Even foreign central banks are active in this largely private marketplace. However, as can be seen in Chart 4, since 2019 the SOFR level has been a barometer of general U.S. monetary policy.

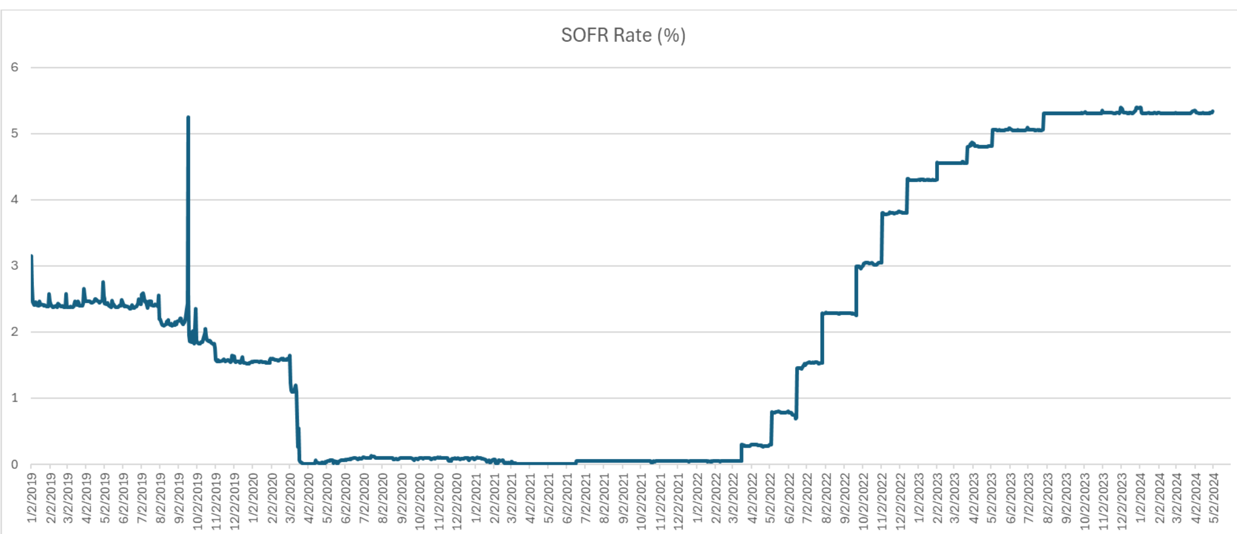
In 2019 monetary policy was oriented toward accommodating continued growth in the U.S. economy as a very long recovery continued. SOFR remained well below 3%.

Early in 2020 concerns about a potential slowdown were growing as well as the first signs of what was called the Coronavirus disease pandemic were identified. Economic activity slowed dramatically as a result, output contracted, private sector borrowing fell and monetary policy became even more accommodative. SOFR slid lower and hovered not much above 0% from mid-March to July 2020. It took almost two years – until mid-June 2022 – for SOFR to rise about 1%.

In the meantime, in late July 2021, the Federal Reserve's Federal Open Market Committee established a standing repo facility. The facility began with primary dealers as counterparties to Federal Reserve transactions and was expanded to federally and state-chartered banks. The goal of the facility was to provide liquidity in the repo market and to establish an effective ceiling on overnight rates.

In mid-2022, as interest rates, including SOFR, rose the Federal Reserve began to execute a plan to reduce its liquidity provision to the financial markets at first by limiting its use of the standby repo facility and letting the private sector take over. SOFR levels rose along with other interest rates as inflation led the Federal Reserve to pursue tighter monetary policy. As of May 2024, monetary policy remained tight, interest rates were high and SOFR was above 5%. Despite these circumstances having persisted for quite some time, the U.S. economy is characterized by continuing growth in GDP, high interest rates, and higher-than-targeted price inflation.

Chart 4



ANALYSIS OF CONTRACTS UNDER CORE PRINCIPLES

In accordance with Commission Regulation 40.2(a) and Core Principle (defined below) 1, the following analysis demonstrates how the Contract's terms and conditions comply with the following Core Principles applicable to designated contract markets (each, a "DCM") (the "Core Principles").[7]

CORE PRINCIPLE 2—COMPLIANCE WITH RULES

As relevant to the certification of futures contracts, Core Principle 2 for designated contract markets requires the DCM to establish, monitor, and enforce compliance with its own rules, including the terms and conditions of any contracts to be traded on the DCM.[8] Core Principle 2 also requires that a DCM have the capacity to detect, investigate, and apply appropriate sanctions to any person that violates any rule of the Exchange.[9]

In addition, Core Principle 2 requires a DCM to have rules that give it the authority to obtain any information necessary to perform required functions in its capacity as such.[10] This includes, as relevant here, that a DCM have the capacity to enforce its rules effectively, including resources to supervise its market, and have the capacity to analyze data to determine whether a violation has occurred, maintenance of compliance staff and resources, deployment of an automated trade surveillance system, real-time market monitoring and the authority to investigate instances of possible violations.[11]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 2 because it has adopted and implemented the Rulebook,[12] which addresses these requirements. For this purpose, FMX notes that Chapter XIII of the Rulebook contains specific provisions that have been designed and are intended to ensure compliance with Core Principle 2. Those provisions include:

- Prohibitions against fraudulent acts, fictitious transactions, market demoralization, price manipulation, misstatements, and disruptive trading practices such as front running, wash trading, and cross trades; and

- Requirements for monitoring and surveillance by FMX's Compliance Department, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

FMX employs a system of trading and market supervision that its uses to ensure the requirements in Chapter XIII of its Rulebook are monitored and enforced effectively, in accordance with Core Principle 2. FMX's trading and market supervision include both its automated systems to review trading in Contracts on the Exchange, as well as the services provided

[7] 17 C.F.R. pt. 38 App. B.
[8] *See* 7 U.S.C. § 7(d)(2), 17 C.F.R. § 38.150(a)(2).
[9] *See* 17 C.F.R. § 38.150(b).
[10] *See* 17 C.F.R. § 38.150(c).
[11] *See* 17 C.F.R. §§ 38.153, 38.155, 38.156, 38.157 and 38.158.
[12] *See* https://www.fmxfutures.com/rules-notices/.

by National Futures Association ("NFA"), FMX's regulatory services provider. In addition, FMX conducts real-time market monitoring that is supported by a licensed automated market surveillance system as well as by relevant personnel assigned to provide surveillance support.

Trading in the Contract will also be subject to monitoring and surveillance by the FMX Compliance Department, which has the authority to conduct investigations and initiate disciplinary proceedings where possible violations of rules or manipulation of a contract on the Exchange have been identified.

CORE PRINCIPLE 3—CONTRACTS NOT READILY SUSCEPTIBLE TO MANIPULATION

Core Principle 3 and Commission Rule 38.200 provide that a DCM shall not list for trading contracts that are readily susceptible to manipulation.[13] FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 3 based on its analysis of the factors included in Appendix C to Part 38 of the Commission's Regulations ("Appendix C") that specifically address cash-settled futures contracts. FMX's analysis of those factors follows.

According to Appendix C, "[a]n 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 . . . as well as how the final settlement price is calculated." Appendix C also explains that a DCM's "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)."[14]

Essential Economic Characteristics of SOFR

As detailed above, SOFR reflects the cost of borrowing cash overnight as collateralized by Treasury securities. The FMX SOFR Index is based on the SOFR value that is published daily by FRBNY in consultation with OFR. FMX believes that the Contract's terms accurately reflect its economic characteristics because of the quality, reliability, and official sourcing of FRBNY's SOFR data.

Final Settlement Price Calculation

FMX believes that the Contract's terms accurately and completely describe how its settlement price is calculated, as explained below.

The final settlement price for the FMX SOFR Index is 100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) during the Contract's underlying period (the "Underlying Period"), which is the interval from (and including) the third Wednesday of the third month prior to the Contract's settlement month, to (and not including) the third Wednesday of the Contract's settlement month. Every daily SOFR rate published during the Underlying Period is included in the final settlement price calculation.

[13] 7 U.S.C. § 7(d)(3), 17 C.F.R. § 38.200.
[14] 17 C.F.R. pt. 38 App. C. ¶ (c)(1).

This Underlying Period is named for the month in which the first observation is made; *e.g.*, the June 2025 SOFR Contract includes SOFR observations beginning in June 2025 through the three months up to September 2025, which is when the Contract settles. Additional information on final settlement pricing, including the settlement calculation, can be found in Section V-2 of this submission. In addition, the formula for the final Contract settlement price is set forth in FMX Rule V-1(a).

The FRBNY also publishes a rolling 90-day average of SOFR, which includes all SOFR values starting exactly 90 calendar days before the publication date and extends through the SOFR value published that day. The FRBNY's rolling 90-day average on a given settlement date for the Contract will be similar, but not identical, to the Contract settlement price on that date. The difference in these values arises because the starting date for the Contract is fixed to the third Wednesday of the previous month in the relevant quarterly cycle, while starting date of the FRBNY 90-day average is tied to the day exactly 90 days prior to the Contract futures settlement date.

Trading Months, Hours, Last Trading Day, Contract Size, and Tick Size

FMX believes that the Contract's terms accurately and completely describe its trading months, hours, last trading day, contract size, tick and daily price limits, as set forth below. The name of each Contracts will refer to the month when the Underlying Period begins. The June 2025 SOFR Contract, for example, includes SOFR observations beginning in June 2025 through the three months up to September 2025, which is when the Contract settles.

FMX may elect not to list one or more Contracts. The Contracts being listed will be published on the Exchange's website. The Rules allow for Contracts to be listed with settlements in the March quarterly cycle for five full years plus one Contract settlement month into the future. Usually there will be up to 21 or 22 Contract settlement months listed; however, a new Contract will be listed for trading two days prior to when a Contract expires, resulting in 22 Contract months being listed on those three days. The expiring contract is not tradable on its settlement day.

Trading in the Contract will be conducted on each "Trading Day." A Trading Day is any day on which the Exchange is open and available for trading Contracts and LCH Limited's clearinghouse is open and available for the clearing of Contracts.

The last Trading Day in a Contract is the business day immediately prior to the Contract's Settlement Day. On the Settlement Day, the settlement price is calculated by the FMX Control Desk and published by the Exchange shortly after the SOFR has been published by the FRBNY. There is no trading in the expiring Contract on its Settlement Day. The Final Settlement Price is used in lieu of the Daily Settlement Price, which is employed by LCH Limited for calculating variation margin on open positions in the expiring Contract (after which all remaining positions in that Contract will be extinguished).

The Contract size of $250,000 is the same as the size of SOFR futures offered on other contract markets. While this size arguably is small relative to transactions in the related cash market, FMX does not believe that this fact will in any way undermine the Contract's utility. Rather, traders of the Contract can hold positions in that consist of several contracts—e.g., as an effective means of hedging their associated cash market risks at the appropriate size. FMX also believes that the Contract's size has other benefits for liquidity and market depth. For instance, the Contract size allows traders to tailor their hedging positions to match their cash market risks, and it should aid in cash/futures arbitrage and intermarket spreading with other domestic and foreign contracts on short-term interest rates.

The Contract is priced in $25 points. The nearest eight Contract months may be quoted in increments of one-quarter point intervals ($6.25) and other months in one-half point intervals ($12.50).

Size and Liquidity of the Cash Market

FMX believes that the Contract is based on, and accurately reflects, the size and liquidity of the underlying cash market, consistent with the Appendix C guidance.[15]

Through early June 2024, the value of the daily transactions underlying SOFR has averaged more than $1.8 trillion. SOFR is calculated based on the relevant, readily observable transactions in this market, as well as collateral-specific DVP repos. The FRBNY, in consultation with OFR, maintains and publishes SOFR. Given the volume of underlying market data and the transparent manner in which SOFR is calculated based on that data, FMX believes that SOFR is a reliable and robust indicator of the cost of overnight cash borrowing collateralized by Treasury securities.

Consideration of Distortion and Manipulation; Public Availability of SOFR

Consistent with the factors in the Appendix C guidance,[16] FMX believes that the Contract is not susceptible to distortion and manipulation by the very nature of its terms, which are based on deep, transparent and reliable market data. Further, that data is published frequently and are freely available to the public.

Since January 2022, all data collection and reporting for SOFR have been conducted by the FRBNY in consultation with OFR.

SOFR is published daily at approximately 8:00 a.m. Eastern Time on the public FRBNY website. SOFR can be republished on the same day as the initial publication by the FRBNY if any missing data becomes available or any errors are discovered in the transaction data in the calculation process that underlies it. SOFR will only be republished if the change in the rate exceeds one basis point. The rate revision will be republished at approximately 2:30 p.m. Eastern Time.

As a government agency, the FRBNY takes appropriate precautions in respect of the security of the data and ensuring that its employees do not misuse such information for private gain. An internal FRBNY Oversight Committee periodically reviews the SOFR rate production process. The Oversight Committee consists of members from across the FRBNY's organizational structure who are not involved in the daily production of the SOFR rate. It is chaired by the FRBNY's Chief Risk Officer and includes senior staff from various control areas of the FRBNY,

[15] 17 C.F.R. pt. 38 App. C. ¶ (c)(2).
[16] 17 C.F.R. pt. 38 App. C. ¶ (c)(2).

in addition to a representative from the OFR.[17] The FRBNY's audit group has concluded that the FRBNY complies with the principles published by IOSCO in its administration of the SOFR averages and the SOFR Index.[18]

FMX also believes that the Contract's other terms and conditions are consistent with the further specific guidance included in Appendix C:[19]

- *Commodity Characteristics*. The Contract is designed to track the FMX SOFR Index, as discussed above. SOFR is calculated by the FRBNY using actual cash market transactions.

- *Cash Settlement Procedure*. The final settlement price for the Contract is calculated by the FMX Control Desk and yields the FMX SOFR Index. It is 100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) in the Underlying Period. Rule V-1A(a) contains the equation for calculating the Index.

- *Pricing Basis and Minimum Price Fluctuation*. The minimum price fluctuations are one-quarter point ($6.25) for the nearest eight Contract months and one-half point ($12.50) for all other months. FMX believes that the tick sizes are appropriate to support the risk management and price discovery purposes for which FMX anticipates market participants will use the Contract. FMX anticipates that these minimum fluctuation levels should give rise to tight bid-ask spreads that benefit all market participants, including hedgers and speculators.

- *Last Trading Day*. The Last Trading Day in an expiring Contract will be the Business Day prior to the third Wednesday of the Contract's settlement month, on which day the FRBNY reports what will be the final SOFR observation relevant to the FMX SOFR Index and the expiring contract. The Exchange will calculate and publish the final settlement price on the business day after the Last Trading Day.

- *Trading Months*. The Contract will be listed for quarterly settlements up to approximately five years in the future. The five-year horizon will provide opportunities for market participants to hedge their relevant risks over the same time horizon. Quarterly settlements will help ensure that the Contract continues to align with pricing in the cash market, thus helping to ensure the utility of the Contract over extended periods. FMX does not currently believe that supply of and demand for short-term funding (i.e., overnight borrowing that is the basis of SOFR) are likely to change

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[17] Alternative Rates Committee, *Frequently Asked Questions*, available at https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/ARRC-faq.pdf.

[18] *See* https://www.newyorkfed.org/medialibrary/media/markets/IOSCO-statement-of-compliance-jul2023.

[19] 17 C.F.R. pt. 38 App. C. ¶ (c)(4)(i)(A)-(G), (I)-(J). Subparagraph (c)(i)(4)(H) of the guidance discusses position limits, which FMX does not propose to implement for the Contract at this time. Consistent with Core Principle 5, and as discussed below, FMX is imposing accountability levels for the Contract.

materially due to seasonal factors given the pervasive nature of short-term funding across multiple sectors of the economy.

- *Reportable Level.* FMX hereby proposes that the Commission allow it to adopt a reportable level of 3,000 Contracts. In making this proposal, FMX has considered the reportable level used for other short-term interest rate futures. Among other things, FMX notes that three-month Eurodollar futures had a reportable level of 3,000 contracts at the time they ceased trading.

  Short-term interest rate futures that are similar to the Contract are characterized by low price volatility and high levels of open interest, relative to daily average trading volumes and in absolute terms. For example, open interest in three-month CME SOFR futures, whose size and contract design are substantially similar to the FMX Contracts, is the highest of any futures contract traded in the U.S. markets. Average daily reported open interest in the CME SOFR futures contracts to date in 2024 has consistently exceeded 10 million contracts.

- *Trading Hours.* The contract will be traded on each Trading Day from 9:00 p.m. New York City time on the calendar day prior to the Trading Day until 5:00 p.m. New York City time on the Trading Day.

CORE PRINCIPLE 4—PREVENTION OF MARKET DISRUPTION

Core Principle 4 requires a DCM to have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the cash-settlement process by implementing market surveillance, compliance, and enforcement practices and procedures. Those practices and procedures must include real-time monitoring of trading, as well as comprehensive and accurate trade reconstructions.[20]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 4 based on its development of appropriate systems for market surveillance, as discussed with respect to Core Principle 2. FMX maintains a program for trade practice surveillance through which it conducts real-time monitoring and maintains an automated system to reconstruct trades. FMX is assisted in its market surveillance efforts by NFA and through the use of automated surveillance tools. FMX also surveils the market activity of individual market participants for potential non-bona fide or manipulative trading.

In addition to the current market surveillance activities, FMX will share information with the Commission specific to trading in the Contract as appropriate, including relevant market commentary, large or aggressive orders relative to market conditions more routinely observed, and activity noted during periods around the Contract's settlement period.

[20] 7 U.S.C. § 7(d)(4), 17 C.F.R. § 38.250.

CORE PRINCIPLE 5—POSITION LIMITS OR POSITION ACCOUNTABILITY

Core Principle 5 provides that a DCM must adopt, as is necessary and appropriate, position limits or position accountability levels for speculative trading.[21]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 5 based on its analysis of extant SOFR futures trading on CME. In this regard, Table 1 below compares publicly available volume statistics of SOFR contract trading from July 2023 through May 2024 to reported trader counts, for the purpose of calculating the average position per trader for that period. The trader counts were sourced from the CFTC's Commitment of Traders report.[22] According to the CFTC, each trader is counted only once when determining the total number of reportable traders in the market.

Based on the average calculated from the analysis, FMX considers 3,000 net futures contract equivalents to be a reasonable threshold for establishing a reporting level position, as illustrated in the following chart:

Table 1

Month	Average volume by trader count	Average volume per month	Average Trader per month (CFTC COT report)
July-23	2230.07	1,929,010	865
August-23	2594.79	2,270,440	875
September-23	2780.14	2,429,843	874
October-23	2983.21	2,619,257	878
November-23	3821.68	3,393,648	888
December-23	3454.41	2,991,520	866
January-24	3940.27	3,514,725	892
February-24	3863.50	3,488,736	903
March-24	3396.72	3,077,426	906
April-24	3558.34	3,266,557	918
May-24	3187.77	2,919,996	916
Average	3255.54		

With respect to accountability levels, FMX proposes to set the single-month and an all-month position accountability levels at 10,000 net futures contract equivalents. This proposed figure is based on the existing accountability levels for other SOFR futures contracts trading on other designated contract markets.

CORE PRINCIPLE 7—AVAILABILITY OF GENERAL INFORMATION

Core Principle 7 requires a DCM to make available to market authorities, market participants, and the public accurate information concerning: (a) the terms and conditions of the contracts of the contract market; and (b) the rules, regulations, and mechanisms for executing transactions on or through the DCM's facilities. Core Principle 7 also requires a DCM to make

[21] 7 U.S.C. § 7(d)(5)(A), 17 C.F.R. § 38.300.
[22] *See* https://www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm.

available the rules and specifications describing the operation of its electronic matching platform or trade execution facility.[23]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 7 because the terms and conditions of the Contract will be available on the FMX website at https://www.fmxfutures.com/products-2/. FMX also makes publicly available on its website all the other information required under Core Principle 7, and notably, for present purposes, the Contract's final settlement value.

CORE PRINCIPLE 8—DAILY PUBLICATION OF TRADING INFORMATION

Core Principle 8 requires a DCM to make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on its market.[24]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 8 because it will publish trading volumes, open interest levels, and price information for the Contract daily on its website at https://www.fmxfutures.com/trading-protocols/. In particular, and as explained above with respect to Core Principle 7, FMX will make trading information for the Contract publicly available on its website.

CORE PRINCIPLE 9—EXECUTION OF TRANSACTIONS

Core Principle 9 requires a DCM to provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading in its centralized market.[25]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 9 because the Contract will be traded on its central limit order book pursuant to using accepted principles of price/time priority. FMX's order book provides for competitive and open execution of transactions.

CORE PRINCIPLE 10—TRADE INFORMATION

Core Principle 10 requires a DCM to maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables it to use the information: (a) to assist in the prevention of customer and market abuses; and (b) to provide evidence of any violations of the rules of the contract market.[26]

FMX Rule X-13 "Transaction Records" states, "All regulatory records as defined in CFTC Regulation 1.31 relating to transactions on the Exchange shall be maintained by the Exchange in accordance with the CFTC's requirements for data creation and storage. Records shall be maintained for at least five years from the time the record was created or for such longer period required by CFTC regulations and shall be sufficient to provide a complete audit trail."

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[23] 7 U.S.C. § 7(d)(7), 17 C.F.R. § 38.400.
[24] 7 U.S.C. § 7(d)(8), 17 C.F.R. § 38.450.
[25] 7 U.S.C. § 7(d)(9), 17 C.F.R. § 38.500.
[26] 7 U.S.C. § 7(d)(10), 17 C.F.R. § 38.550.

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 10 because all requisite trade information for the Contract shall be included in the audit trail and will be used by the FMX Compliance Department to monitor for market abuse.

CORE PRINCIPLE 11—FINANCIAL INTEGRITY OF TRANSACTIONS

Core Principle 11 requires a DCM to adopt rules and procedures for ensuring the financial integrity of transactions entered into on or through the DCM's contract market, including the clearance and settlement of the transactions with a derivatives clearing organization. Core Principle 11 also requires a DCM to have rules to rules to ensure the financial integrity of any intermediary (e.g., each futures commission merchant or introducing broker) and the protection of customer funds.[27]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 11 because FMX has arranged for the clearing of transactions by LCH Limited, which is registered with the Commission as a derivatives clearing organization and subject to all CFTC regulations related thereto. In addition, FMX has procedures in place to monitor the financial integrity of intermediaries through its personnel and systems processes, subject to the oversight of its Regulatory Oversight Committee.

CORE PRINCIPLE 12—PROTECTION OF MARKETS AND MARKET PARTICIPANTS

Core Principle 12 requires a DCM to establish and enforce rules: (a) to protect markets and market participants from abusive practices committed by any party, including abusive practices committed by a party acting as an agent for a participant; and (b) to promote fair and equitable trading on the contract market.[28]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 12 because it has adopted and enforces Chapter XIII of its Rulebook, which sets forth multiple provisions that preclude intermediaries from disadvantaging their customers.

CORE PRINCIPLE 13—DISCIPLINARY PROCEDURES

Core Principle 13 requires a DCM to establish and enforce disciplinary procedures that authorize it to discipline, suspend, or expel members or market participants that violate its rules, or similar methods for performing the same functions, including delegation of the functions to third parties.[29]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 13 because it has adopted and enforces Chapter XIV of its Rulebook. Chapter XIV provides for the Exchange (as defined in Chapter XIV of the Rulebook) to discipline, suspend, or expel members or market participants who violate its rules. The Exchange's Compliance

[27] 7 U.S.C. § 7(d)(11), 17 C.F.R. § 38.600.
[28] 7 U.S.C. § 7(d)(12), 17 C.F.R. § 38.650.
[29] 7 U.S.C. § 7(d)(13), 17 C.F.R. § 38.700.

Department (has the authority to exercise its powers of enforcement, in the event that rule violations in the Contract are identified.

CORE PRINCIPLE 14—DISPUTE RESOLUTION

Core Principle 13 requires a DCM to establish and enforce rules regarding, and to provide facilities for alternative dispute resolution as appropriate for, market participants and any market intermediaries.[30]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 14 because disputes involving the Contracts will be subject to the arbitration provisions set forth in FMX Rulebook Chapter XV, which provide generally for arbitration of all controversies arising in connection with business relating to the Exchange.

CORE PRINCIPLE 19—ANTITRUST CONSIDERATIONS

Core Principle 19 provides that a DCM shall not adopt any rule or take any action that results in an unreasonable restraint of trade or imposes any material anticompetitive burden on trading on the contract market, "unless necessary or appropriate to achieve the purpose of the [Commodity Exchange] Act."[31]

FMX believes that the certification, listing, and trading of the Contract is consistent with Core Principle 19 because the Contract's terms and conditions do not act as a restraint of trade or impose a competitive burden. The Contract will be available on equal terms to all market participants, and FMX must provide fair, nondiscriminatory access to market participants consistent with Core Principle 2.[32] In addition, trading in SOFR futures contracts is already occurring on other DCMs, so FMX listing the Contract will only enhance the number of choices available to the public for SOFR futures trading.

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[30] 7 U.S.C. § 7(d)(14), 17 C.F.R. § 38.750.
[31] 7 U.S.C. § 7(d)(19), 17 C.F.R. § 38.1000.
[32] *See* 17 C.F.R. § 38.151(b)(1).

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

I hereby certify that: 1) the three-month SOFR futures contract complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq*. and Commodity Futures Trading Commission's regulations thereunder; and 2) concurrent with this submission, FMX Futures Exchange, L.P. posted on its website a notice of pending certification of the Contract with the Commission and a copy of this submission.

Thomas Thompson

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By: Thomas Thompson
Title: Chief Compliance Officer
Date: September 12, 2024

ATTACHMENT A

FMX Three-Month SOFR Contract

<table>
<tr><th>Parameter</th><th colspan="3">Description</th></tr>
<tr><td>Underlying</td><td colspan="3">Three-month SOFR (Secured Overnight Financing Rate)</td></tr>
<tr><td>Type of Contract</td><td colspan="3">Cash settled with Daily Variation Margin Payment</td></tr>
<tr><td>Contract Unit</td><td colspan="3">$2,500 x FMX SOFR Index</td></tr>
<tr><td>Listed Contract Months</td><td colspan="3">Up to 21 or 22 (i.e., 5 years + 1 or 2 quarter(s)) quarterly months (March, June, September, December). A new front month contract will begin trading two (2) days prior to the expiration. During this two (2) day period, both the current and upcoming front month contracts may be listed. The number of quarterly months that are listed will be published on the Exchange’s website.</td></tr>
<tr><td>Trading Hours</td><td colspan="3">Daily 9:00 PM - 5:00 PM (ET), Sunday to Friday</td></tr>
<tr><td>Quotation Display & Value</td><td colspan="3">FMX SOFR Index = 100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) during the contract underlying period.

The Underlying Period is the interval from (and including) the third Wednesday of the third month preceding the Contract’s settlement month, to (and not including) the third Wednesday of the Contract’s settlement month.</td></tr>
<tr><td rowspan="3">Minimum Tick Size</td><td>Trade Type</td><td>Tick Size</td><td>Tick Value</td></tr>
<tr><td>Nearest 8 Quarterly contracts

(Nearest 2 years contracts)</td><td>¼ of one interest rate basis point = 0.0025</td><td>$6.25 per contract</td></tr>
<tr><td>Quarterly contracts 9-21 (Years 3 through 5)</td><td>½ of one interest rate basis point = 0.0050</td><td>$12.50 per contract</td></tr>
<tr><td>Daily Settlement Price (DSP)</td><td colspan="3">The DSP will be determined in accordance with Rule III-17 at 3:00 PM ET or otherwise as soon as practicable after the End of Trading on each Trading Day and disseminated shortly afterwards.</td></tr>
<tr><td>Accountability Level</td><td colspan="3">10,000 contracts</td></tr>
<tr><td>Last Trading Day</td><td colspan="3">One business day prior to the third Wednesday of the Contract’s settlement month. On the Last Trading Day, trading in the front month will cease at 5:00 PM ET.</td></tr>
<tr><td>Final Settlement Price (FSP)</td><td colspan="3">100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) during the contract underlying period. The FSP will be available at</td></tr>
</table>

	8:00 AM ET, or shortly thereafter, on the business day following Last Trading Day.

ATTACHMENT B
FMX FUTURES EXCHANGE, L.P.
PART A – RULES OF THE FMX DIVISION
CHAPTER V – FMX DIVISION CONTRACTS

<u>Chapter V Contract Rules</u>

General

Each FMX Division Contract shall meet such specifications, and all trading in such Contract shall be subject to such procedures and requirements, as set forth in the Rules governing such Contract.

V-1 Secured Overnight Financing Rate Futures

(a) Scope and underlying

This Rule governs the trading in three-month Secured Overnight Financing Rate ("SOFR") futures Contracts. SOFR refers to the annualized interest rate calculated and reported by the FRBNY as SOFR.

(i) The interest rate data used as the basis for calculating the FMX SOFR Index and settling any Contract month shall be the interval that ends on (and does not include) the third Wednesday of the Contract settlement month and begins on (and includes) the third Wednesday of the third calendar month preceding the Contract settlement month (its "Underlying Period").

(ii) Contracts may be named by the Exchange according to when their Underlying Periods start, the previous month in the March quarterly cycle to the Contract settlement month.

(iii) For a Contract, the unit of trading shall be 100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) during the Contract's Underlying Period, expressed as an annualized overnight interest rate for which such interest rate shall accrue on the basis of the actual number of days spanned by such contract Underlying Period, divided by a 360-day year.

(b) Trading unit

The trading unit in the Contract is $2,500 times the FMX SOFR Index where the par value is 100 Index points.

(c) Prices

Contracts are priced in terms of points. The minimum price fluctuation is one-quarter point ($6.25) for the nearest eight Contract months and one-half point ($12.50) for all other months.

(d) Contract months traded

The Exchange may list up to the first 22 Contract settlement months in the March quarterly cycle. The number of Contract settlement months being listed will be published on the Exchange's website.

(e) Hours for trading

Trading in the Contract shall be conducted on each Trading Day from 9:00 p.m. New York City time on the calendar day prior to the Trading Day until 5:00 p.m. New York City time.

(f) Block Trades

Reserved.

(g) Last Trading Day

The Last Trading Day in an expiring Contract shall be the Business Day prior to the third Wednesday of the Contract settlement month.

(h) Position Accountability

In accordance with Rule XI-3 the Position Accountability level for three-month SOFR futures is 10,000 contracts in any one month or all months combined.

(i) Settlement Price Determination Period

In accordance with Rule III-17, the Control Desk will establish the daily settlement price at 3:00 p.m. New York City time or otherwise as soon as practicable after the End of Trading on each Trading Day.

V-1A FMX SOFR Index

(a) Calculation

The FMX SOFR Index shall be one hundred minus the compound daily rate during the Underlying Period as follows:

SOFR Index = 100 - [$\Pi_{i=1 \ldots n}$ {1+(d_i /360)*($SOFR_i$ /100)} – 1] x (360/D) x 100

"n" is the number of U.S. government securities market business days ("GSM Business Days") during the Underlying Period. GSM Business Days shall mean all weekdays excluding any dates identified by the Securities Industry and Financial Markets Association in its U.S. Holiday Recommendations.

"i" is the running variable that indexes each cash business day in such Reference Quarter, such that i takes the values i = 1, 2,…, (n-1), n.

"Π_i" denotes the product of the values indexed by the counting variable, i = 1, 2 ,…, n.

"$SOFR_i$" is the SOFR value corresponding to GSM Business Day i, expressed as an interest rate per annum.

"d_i" are the number of calendar days to which $SOFR_i$ applies. For any calendar day that is not a GSM Business Day the applicable value shall be SOFR for the immediately preceding cash business day.

"D" is the number of calendar days in the Underlying Period: $D = \Sigma_{i=1 \ldots n} d_i$.

(b) Final settlement

The final settlement price for 3-Month SOFR futures, the FMX SOFR Index on the Settlement Day, is 100 minus the geometric average of the daily SOFR rates (as published by the FRBNY) during the Contract's Underlying Period, which is the interval from (and including) the third Wednesday of the third month prior to the settlement month, to (and not including) the third Wednesday of the settlement month. Every SOFR published during the Underlying Period is included in the final settlement price calculation.

The Final Settlement Price for an expiring contract shall be calculated by the Exchange on the day on which the FRBNY publishes the SOFR value for the last day of such SOFR Contract's Underlying Period, usually the third Wednesday of such SOFR Contract's settlement month.

The SOFR value for the last day of such expiring SOFR Contract's Underlying Period shall be as first published by the FRBNY.

The value of the FMX SOFR Index shall be rounded to the nearest 1/10,000th of one percent per annum, that is, the nearest 1/100th of one basis point per annum, or 0.0001 Index point. When such value ends in 0.00005, the FMX SOFR Index shall be rounded up.

(c) Cash settlement

All positions open on the final Settlement Day in an expiring Contract month shall be marked to market against the Final Settlement Price and settled through Participants' accounts with their Clearing Members in accordance with normal variation margin payments.