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BY EMAIL & COURIER

March 28, 2016

Ontario Securities Commission
Attn: The Secretary
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8
Fax: (416) 593-2318

Dear Sirs/Mesdames:

Re: Tradition SEF, Inc. - Application for Exemption from Recognition as an Exchange

We are Canadian counsel to, and are filing this application (the "**Application**") with the Ontario Securities Commission (the "**OSC**") on behalf of, Tradition SEF, Inc. ("**TSEF**" or "**Tradition SEF**") for a decision under Section 147 of the *Securities Act* (Ontario) (the "**OSA**") exempting TSEF from the requirement to be recognized as an exchange under Subsection 21(1) of the OSA (the "**Requested Relief**").

For convenience, this application is divided into the following Parts I to IV, Part II of which describes how TSEF, which facilitates trading of swap execution facility executed derivatives, satisfies OSC Staff's criteria for exemption of a foreign exchange from recognition as an exchange:

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PART I BACKGROUND

- 1.1 TSEF is a corporation existing under the laws of Delaware in the United States (the “U.S.”) with its head office located in New York, New York, U.S.
- 1.2 TSEF is a wholly-owned subsidiary of Compagnie Financière Tradition SA, a public limited company existing under the laws of Switzerland and listed for trading on the SIX Swiss Exchange.
- 1.3 Together with its subsidiaries, Compagnie Financière Tradition SA (collectively, “CFT” or the “**Tradition Group**”) is one of the world’s largest interdealer brokers of financial products. CFT facilitates transactions between financial institutions and other professional traders in respect of money market products, bonds, interest rate, currency and credit derivatives, commodities, commodity derivatives, energy, energy derivatives, equities, equity derivatives, interest rate futures and index futures.
- 1.4 TSEF was granted temporary registration by the U.S. Commodity Futures Trading Commission (the “CFTC”) on September 25, 2013 to operate as a swap execution facility (a “SEF”) and permanent registration from the CFTC on January 22, 2016. In Ontario, TSEF is operating on the basis of the grant of an interim order of the OSC on October 1, 2013 exempting TSEF from the requirement to be recognized as an exchange under Subsection 21(1) of the OSA.
- 1.5 TSEF, operates several electronic trading, voice and hybrid intermediated platforms operating as separate order books, each of which serve the different market segments set out above (referred to individually as a “**Platform**” and collectively as “**Platforms**”). The Platforms support both

request for quote and a central limit order book. Cleared transactions are cleared through LCH.Clearnet Limited, LCH.Clearnet LLC (LCH), ICE Clear Credit LLC, and the Chicago Mercantile Exchange Inc. (CME). TSEF also supports trading in non-cleared bilateral swaps.

- 1.6 TSEF offers electronic, voice and hybrid trade facilitation and execution services for transactions in various swaps (as such term is defined in *The Dodd-Frank Wall Street Reform and Consumer Protection Act* (U.S.) (the “**Dodd-Frank Act**”), including, but not limited to, Canadian dollar interest rate swaps, U.S. dollar interest rate swaps, foreign exchange (FX) derivatives (foreign exchange options, non-deliverable forwards, foreign exchange swaps) in various currencies, equity derivatives, credit derivatives, and commodity and energy derivatives (collectively, the “**offered services**”).
- 1.7 TSEF operates a multi-asset class SEF, offering swaps and options from foreign exchange, interest rate, equity, commodity and credit asset classes. Product listings and specifications for the various products are listed on TSEF’s website at www.traditionsef.com. The product listings and specifications describe the applicable terms and references, and whether each product is required to be cleared. The swaps and options offered for trading on TSEF may be physically or financially settled, depending on product. Each product has its own specification, as described on TSEF’s website, and modes of execution, which include TSEF’s electronic/hybrid Trad-X Platform for interest rate swaps (IRS), electronic/hybrid Volbroker Platform for FX options, electronic/hybrid StreamGlobal Platform for credit swaps and support voice execution and execution portals for equities and commodities. Interest rate swaps or IRS include CFTC regulated interest rate swap products, including vanilla rate products in multiple currencies, spreads, butterflies, spread-over treasury, CME/LCH switch trades and a number of other package transactions. The credit category includes a wide variety of credit derivative swaps, equities encompass a wide variety of equity broad-based security index swaps, and commodities include a wide variety of commodity based swaps, in each case, as defined by the CFTC within the tenets of the Dodd-Frank Act.
- 1.8 TSEF is required to offer, on a non-discriminatory basis, access to, at a minimum Eligible Contract Participants (“**ECP**”) as defined under section 1a (18) of the *Commodity Exchange Act* (U.S.) (the “**CEA**”). Customers of swap dealers that meet ECP criteria have the choice of accessing TSEF as Participants, Customers of Broker Firm Participants, Customers of Swap Dealers that are Participants, or through various direct-access possibilities using the trading privileges of a Participant or Broker Firm Participant.
- 1.9 In the U.S., trading by persons on TSEF is limited to those persons who qualify as “Eligible Contract Participants” at the time at which the person enters into a contract. In Ontario, trading on TSEF is limited to a narrow

category of Ontario residents who are appropriately registered, exempt from registration or not required to be registered, as applicable, under Ontario securities laws.

TSEF's jurisdiction extends to any entity that enters orders or executes transactions on TSEF as set out in Rule 312 of the TSEF Rulebook (the "**Rulebook**," which is available at <http://www.traditionsef.com/regulatory/filter/rulebook/all/all>, and the rules under the Rulebook referred to as a "**Rule**" and collectively the "**Rules**"). Pursuant to Rule 312, a person who becomes a Participant, Customer, Authorized Trader, or Authorized Broker, or who directly or indirectly accesses TSEF or who initiates, executes or authorizes the execution of any Order or RFQ on or subject to the Rules of TSEF, or acts as Clearing Firm with respect to transactions executed on or subject to the Rules of TSEF, agrees among other things, to become subject to the jurisdiction of TSEF with respect to any and all matters arising from, related to, or in connection with, the status, actions or omissions of such person (as all such terms are defined in the Rulebook). Further, where such person's trading privileges or ability to access TSEF, are suspended, revoked or terminated, the person remains bound by TSEF's Rules and applicable law, in each case to the extent applicable to it, and subject to the jurisdiction of TSEF and the relevant clearing house with respect to any and all matters arising from, related to, or in connection with, the status, actions or omissions of such person prior to such suspension, revocation or termination.

- 1.10 As TSEF regulates the conduct of its participants, it is considered by the OSC to be an exchange, and as TSEF has participants located in Ontario, it is considered by the OSC to be carrying on business as an exchange in Ontario and is therefore required to be recognized as such or exempted from recognition pursuant to Subsection 21(1) of the OSA.
- 1.11 TSEF has no physical presence in Ontario and does not otherwise carry on business in Ontario except as described herein.

PART II APPLICATION OF APPROVAL CRITERIA

The following is a discussion of how TSEF meets the relevant criteria prescribed by OSC Staff as a foreign exchange trading SEF executed derivatives for exemption from registration as an exchange under Subsection 21(1) of the OSA.

1. Regulation of TSEF

1.1 *Regulation of TSEF – TSEF is regulated in an appropriate manner in another jurisdiction by a Foreign Regulator.*

- 1.1.1 The Dodd-Frank Act amended the CEA to establish a new regulatory framework for swaps. The Dodd-Frank Act was enacted to reduce systemic

risk, increase transparency, and promote market integrity within the financial system by, among other things: (a) providing for the registration and comprehensive regulation of swap dealers and major swap participants; (b) imposing clearing and trade execution requirements on standardized derivative products; (c) creating rigorous recordkeeping and data reporting regimes with respect to swaps, including real-time public reporting; and (d) enhancing the rulemaking and enforcement authorities of the CFTC over all registered entities, intermediaries and swap counterparties. Among other changes to the CEA, the Dodd-Frank Act established SEFs as a new regulated market category, and required that the execution of certain swaps occur on a designated contract market or SEF (unless no designated contract market or SEF makes the swap available to trade). On June 4, 2013, the CFTC adopted the final rulemaking governing SEFs (the “**SEF Rules**”).

TSEF is a SEF within the meaning of that term under the CEA, and is subject to the regulatory supervision by the CFTC, a U.S. federal regulatory agency. Accordingly, TSEF is subject to the CFTC’s regulations, guidance, and acceptable practices governing the registration and operation of SEFs. This includes operating under the SEF core principles enumerated by the Dodd-Frank Act and codified into regulation by the CFTC (each a “**Core Principal**” and collectively the “**Core Principles**”).

Summary of SEF Core Principles:

Core Principle 1 - Compliance with Core Principles

To be registered, and maintain registration, as a SEF, the SEF shall comply with the core principles in the Dodd-Frank Act; and with CFTC regulation.

Core Principle 2 - Compliance with Rules

A SEF is expected to: establish and enforce compliance with its rules, including the terms and conditions of the swaps traded or processed on or through it, and any limitation on access to it; establish and enforce trading, trade processing, and participation rules that will deter abuses and have the capacity to detect, investigate, and enforce those rules, including means to provide market participants with impartial access to the market and to capture information that may be used in establishing whether rule violations have occurred; establish rules governing the operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades; and provide by its rules that when a swap dealer or major swap participant enters into or facilitates a swap that is subject to the mandatory clearing requirement of section 2(h) of the Dodd-Frank Act, the swap dealer or major swap participant shall be responsible for compliance with the mandatory trading requirement under the Dodd-Frank Act.

Core Principle 3 – Swaps not readily susceptible to Manipulation

The swap execution facility shall permit trading only in swaps that are not readily susceptible to manipulation.

Core Principle 4 – Monitoring of Trading and Trade Processing

SEFs are expected to establish and enforce rules or terms and conditions defining, or specifications detailing:

- (1) Trading procedures to be used in entering and executing orders traded on or through the facilities of the SEF;
- (2) Procedures for trade processing of swaps on or through the facilities of the SEF; and
- (3) Monitor trading in swaps to prevent manipulation, price distortion, and disruptions of the delivery or cash settlement process through surveillance, compliance, and disciplinary practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.

Core Principle 5 – Ability to Obtain Information.

SEFs are expected to establish and enforce rules that will allow the facility to obtain any necessary information to perform any of the functions described in section 5h of the Dodd-Frank Act, provide the information to the CFTC on request, and have the capacity to carry out international information-sharing agreements.

Core Principle 6 – Position Limits or Accountability

To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, a SEF is expected to establish and enforce as is necessary and appropriate, position limitations or position limits which are set at a level no higher than the CFTC limits, and monitor positions established on or through the SEF for compliance with the limit set by the CFTC and the limit, if any, set by the SEF.

Core Principle 7 – Financial Integrity of Transactions

SEFs must establish and enforce rules and procedures for ensuring the financial integrity of swaps entered on or through the SEF, including the clearance and settlement of the swaps.

Core Principle 8 – Emergency Authority

A SEF must adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the CFTC, as is necessary and appropriate, including the authority to liquidate or transfer open positions in any swap or to suspend or curtail trading in a swap.

Core Principle 9 - Timely Publication of Trading Information

SEFs must make public timely information on price, trading volume, and other trading data on swaps to the extent prescribed by the CFTC and have the capacity to electronically capture and transmit trade information with respect to transactions executed on the facility.

Core Principle 10 - Record Keeping and Reporting

SEFs must maintain records of all activities relating to the business of the facility, including a complete audit trail, report to the CFTC such information as the CFTC determines to be necessary or appropriate for the CFTC to perform the duties of the Commission under the Act, and maintain any such records relating to swaps open to inspection and examination by the Securities and Exchange Commission.

Requirements. The CFTC shall adopt data collection and reporting requirements for SEFs that are comparable to corresponding requirements for derivatives clearing organizations and swap data repositories.

Core Principle 11 - Antitrust Considerations

Unless necessary or appropriate to achieve the purposes of the Dodd-Frank Act, SEFs shall not: Adopt any rules or take any actions that result in any unreasonable restraint of trade; or impose any material anticompetitive burden on trading or clearing.

Core Principle 12 - Conflicts of Interest

SEFs shall: Establish and enforce rules to minimize conflicts of interest in its decision-making process, and, establish a process for resolving the conflicts of interest.

Core Principle 13 - Financial Resources

SEFs are required to have adequate financial, operational, and managerial resources to discharge the responsibilities of the SEF. The financial resources of a SEF are required to exceed the total amount that would enable the SEF to cover its operating costs for a one-year period, as calculated on a rolling basis.

Core Principle 14 - System Safeguards

SEFs are required to: Establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and procedures, and automated systems, that are reliable and secure and have adequate scalable capacity, establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allow for the timely recovery and resumption of operations and the fulfillment of the responsibilities and obligations of the SEFs, and periodically conduct tests to verify that the backup resources of the swap execution facility are sufficient to ensure continued order processing and trade matching, price reporting, market surveillance and maintenance of a comprehensive and accurate audit trail.

Core Principle 15 – Designation of Chief Compliance Officer

SEFs must designate an individual to serve as a Chief Compliance Officer.

- 1.1.2 TSEF is obligated under the CEA and the SEF Rules to provide the CFTC with access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces TSEF's adherence to the CEA and the regulations thereunder on an ongoing basis, including the SEF Core Principles relating to the operation and oversight of TSEF's markets, including financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection.
- 1.1.3 The CEA, the SEF Rules and the Core Principles reflect standards set by the International Organization of Securities Commissions ("IOSCO").
- 1.2 *Authority of the Foreign Regulator – The Foreign Regulator has the appropriate authority and procedures for oversight of TSEF. This includes regular, periodic oversight reviews of TSEF by the Foreign Regulator.*
 - 1.2.1 The CFTC has been charged with administering and enforcing the CEA. Accordingly, the CFTC is the U.S. government agency that has direct regulatory and oversight responsibility over SEFs. To implement the CEA, the CFTC has promulgated regulations and guidelines (the "CFTC Regulations") that further interpret the Core Principles and govern the conduct of U.S. SEFs, such as TSEF. The CFTC monitors trading on TSEF and receives daily transaction and other reports from TSEF. The CFTC also undertakes periodic in-depth audits or "rule reviews" of TSEF's compliance with certain of the Core Principles.
 - 1.2.2 As discussed in Section 1.1.2 above, TSEF is required to demonstrate its compliance with the Core Principles which are applicable to all U.S. SEFs.

2. Governance

2.1 *Governance - The governance structure and governance arrangements of TSEF ensure:*

- (a) *effective oversight of TSEF,*
- (b) *that business and regulatory decisions are in keeping with its public interest mandate,*
- (c) *fair, meaningful and diverse representation on the board of Directors (Board) and any committees of the Board, including:*
 - (i) *appropriate representation of independent Directors, and*
 - (ii) *a proper balance among the interests of the different persons or companies using the services and facilities of TSEF.*

2.1.1 As a corporation, the business of TSEF is subject to the oversight of its Board of Directors (the “**Board**”) and is implemented on a day-to-day basis by its management team.

2.1.2 The Board sets high standards for TSEF. Implicit in this philosophy is the importance of sound corporate governance. It is the duty of the Board to serve as a prudent fiduciary for shareholders and to oversee the management of the business. TSEF’s governance structures and processes reflect its commitment to its shareholders and to the institutions and individuals who rely on TSEF to provide fair and efficient markets in some of the most widely used financial instruments in the global marketplace. TSEF’s governance approach also supports TSEF’s important role as a self-regulatory organization (an “**SRO**”), subject to oversight by the CFTC.

2.1.3 The Board has an active role, as a whole and also at the committee level, in overseeing management of TSEF’s risks. The Board has three (3) standing Board committees: (1) the Nominating Committee; (2) the Participant Committee; and (3) the Regulatory Oversight Committee (“**ROC**”). Rules 204 through 207 of TSEF’s Rulebook describe the role and composition of these committees.

2.1.4 A proper balance among the interests of the different persons or companies using the services and facilities of TSEF are achieved, in part, through the requirements relating to composition of the Board and of key committees, including requirements relating to a minimum level of representation of Public Directors and that certain committees be chaired by Public Directors. A “Public Director” is defined in the Rulebook as an individual who meets the TSEF’s director qualification requirements and who is found, by action of the Board, to have no material relationship with TSEF. Further qualifications and considerations in respect of directors of the Board (the “**Directors**”) are

set out in Section 2.1.8 below. At all times, at least 35% of the Directors on the Board shall be Public Directors. The current TSEF Board consists of three internal Directors and two Public Directors with the Public Directors comprising 40% of the Board.

- 2.1.5 The Nominating Committee is responsible for: (1) identifying individuals qualified to serve on the Board consistent with the criteria that the Board requires and any composition requirement that the CFTC promulgates; and (2) administering a process for the nomination of individuals to the Board. The Nominating Committee is comprised of three Directors, two of whom are Public Directors, and is chaired by a Public Director. At least 51% of the directors on the Nominating Committee shall be Public Directors.
- 2.1.6 The Participant Committee is responsible for: (1) determining the standards and requirements for initial and continuing eligibility of Participants (as defined below); (2) reviewing appeals of staff denials of Participant applications; and (3) approving rules that would result in different categories or classes of Participants receiving difference levels of access to TSEF. The Participant Committee is comprised of three Directors, two of whom are Public Directors. At least 35% of the directors on the Participant Committee shall be Public Directors.
- 2.1.7 The ROC is responsible for the oversight of TSEF's regulatory program on behalf of the Board. The ROC makes such recommendations to the Board that will, in its judgment, best promote the interests of TSEF. The ROC is comprised of two Public Directors and shall at all times be composed entirely of Public Directors. The ROC prepares an annual report describing the self-regulatory program, expenses, staffing, investigations and disciplinary actions and performance of the disciplinary committees, panels and the Chief Compliance Officer (the "CCO") of TSEF. The ROC has authority to:
- (a) monitor the regulatory program of TSEF for sufficiency, effectiveness, and independence; and
 - (b) oversee all facets of the regulatory program, including
 - (i) trade practice and market surveillance, audits, examinations, and other regulatory responsibilities with respect to Participants (including compliance with, if applicable, financial integrity, financial reporting, sales practice, recordkeeping, and other requirements), and the conduct of investigations,
 - (ii) review the size and allocation of the regulatory budget and resources, and the number, hiring, termination, and compensation of regulatory personnel,

- (iii) supervise the CCO,
- (iv) recommend changes that would ensure fair, vigorous, and effective regulation, and
- (v) review all regulatory proposals prior to implementation and advising the Board as to whether and how such changes may impact regulation.

2.1.8 Directors are nominated by the Nominating Committee and appointed by the TSEF's Board in accordance with TSEF's by-laws (the "By-laws"). The Nominating Committee of the Board is responsible for evaluating how to maintain the appropriate expertise, industry knowledge and skills to oversee TSEF's complex business. The Board seeks Directors from diverse professional backgrounds and expertise. The qualifications of Directors are set out in TSEF's by-laws and Rule 203 of the Rulebook. Additionally, when considering candidates for the Board, the Nominating Committee considers the entirety of each candidate's credentials. Candidates are evaluated for their expertise, experience, ethics, independence, commitment to enhancing shareholder value, understanding of TSEF's business and lack of material conflicts of interest. Directors elected to the Board have open access to senior management and, as appropriate, to TSEF's outside advisors. This access enables Directors to gather input from a diverse pool of market participants, employees, and advisors. TSEF believes its leadership structure provides a well-functioning and effective balance between management leadership and appropriate safeguards and oversight by Public Directors. To qualify as a Public Director, an individual must be found, by an action of the Board, to have no material relationship with TSEF. The Board must make such finding upon the nomination or appointment of the Director. A "material relationship" is one that could reasonably be expected to affect the independent judgement or decision making of the Director. Further, a person shall be considered to have a "material relationship" with TSEF in certain enumerated circumstances prescribed by Rule 201(e), which include a one year look-back for certain relationships with TSEF or its affiliates. Further, pursuant to the By-laws, each Director shall be of good repute and, where applicable, have sufficient expertise in financial services and risk management and shall satisfy all fitness standards and otherwise meet all the requirements to serving as a director of a SEF under the CEA and regulations of the CFTC thereunder, including that the director is not subject to a statutory disqualification under section 8a(2) or 8a(3) of the CEA and does not have a history of disciplinary offenses as defined in 17 C.F.R. §1.63(a)(6).

2.1.9 In compliance with Core Principle 15, the CCO has been appointed by the Board and been charged with the responsibility of: (a) establishing and administering the policies and procedures of TSEF to ensure compliance with the Core Principles, the CEA, the CFTC Regulations, (b) establishing

procedures for the remediation of non-compliance issues, and (c) preparation and submission of TSEF's annual report to the CFTC describing the compliance of TSEF with the CEA and the policies, procedures, code of ethics and conflict of interest policies of TSEF. The CCO reports directly to the Chief Executive Officer of TSEF (the "CEO") and meets with the ROC at least quarterly.

2.1.10 The rules, policies and activities of TSEF are designed and focused on ensuring that TSEF maintains best practices and fulfils its public interest mandate. TSEF operates on a basis consistent with applicable laws and regulations, and best practices of other SEFs.

(d) TSEF has policies and procedures to appropriately identify and manage conflicts of interest for all officers, Directors and employees, and

2.1.11 In compliance with Core Principle 12, TSEF's rules are constructed to minimize conflicts of interest in decision making. As set out in Rule 209 of the Rulebook, any person who has a "material conflict of interest" regarding their position is prohibited from participating in deliberations or votes on matters affecting their personal interest. The use and disclosure of non-public or conflicted information for personal gain by Board members, Committee members or TSEF personnel is limited by Rule 210 of the Rulebook. In addition, the ROC is made up entirely of Public Directors who, as described above, are charged with overseeing TSEF's regulatory program on behalf of the Board. The ROC assists in promoting policies and procedures aimed at minimizing actual and potential conflicts of interest.

2.1.12 Directors are required to: (a) act in the best interests of TSEF, (b) disclose any potential for the Director to receive any private benefit in connection with a matter being presented to the Board, and (c) not use their positions as Directors for their personal benefit, and (d) to preserve the confidentiality of information provided them.

2.1.13 TSEF has adopted a Compliance and Surveillance Manual and a Code of Conduct that apply to all employees and which address actual and potential conflicts of interest. All TSEF personnel are required to certify that they have read the Compliance and Surveillance Manual. Employees are also required to certify on an annual basis that they have received and agree to abide by the provisions of the Code of Conduct.

2.1.14 TSEF believes that the combination of the Rulebook, the Compliance and Surveillance Manual, and the Code of Conduct work to appropriately mitigate conflicts of interest and provides appropriate policies and processes to address potential and actual conflicts of interests.

(e) *there are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for Directors, officers and employees of TSEF.*

2.1.15 The qualifications and requirements of Directors are addressed above under Section 2.1.8.

2.1.16 Members of TSEF's management team are recruited for their particular position based upon their skills and expertise. The individual goals and performance of members of the management team are annually assessed by such member's direct manager as part of TSEF's performance management process. The qualifications applicable to Directors in Rule 203 of the Rulebook extend also to officers of TSEF. Remuneration for Public Directors is established to be commensurate with their duties and obligations as TSEF Directors and aligned with general market standards for comparable organizations. Further, under the By-laws, the compensation of Public Directors and all other non-executive directors shall not be linked to the business performance of TSEF.

2.1.17 Each Director and officer of TSEF is entitled to indemnification relating to TSEF or otherwise relating to Tradition Service Holding S.A. pursuant to Rules 201(d) and 202(d) of the Rulebook.

2.2 *Fitness - TSEF has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each Director and officer is a fit and proper person and past conduct of each officer or Director affords reasonable grounds for belief that the officer or Director will perform his or her duties with integrity.*

2.2.1 To serve as a Director or officer of TSEF, individuals need to meet the qualifications as outlined in Rule 203 of the Rulebook. Rule 203(b) of the Rulebook prohibits individuals from serving as a Director or officer if they meet certain criteria, including, if the individual has committed a disciplinary offense (within the five prior years), is currently suspended from trading on a SEF, is currently subject to an agreement with the CFTC or SRO not to apply for registration with the CFTC or for membership in the SRO, or if the individual is currently, or within the past three years, subject to a revocation or suspension of registration by the CFTC. Additionally, and as mentioned above, Directors and officers of TSEF are subject to and required to comply with the terms of the Compliance and Surveillance Manual and the Code of Conduct. Further, to qualify as a Director, consideration is given to depth of industry experience, length of time each individual has held the same office or position, the Director's other business affiliations in the derivatives and securities industry, relevant experience for any committees on which they may serve, and the Director's regulatory history, specifically in view of a description of the matters outlined in this paragraph. Other aspects of fitness are addressed in Section 2.1.8 above.

3. Regulation of Products

3.1 *Review and Approval of Products - The products traded on TSEF and any changes thereto are submitted to the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product.*

- 3.1.1 All swaps offered for trading on TSEF will be self-certified by TSEF or approved by the CFTC.

Swaps generally have consistent terms and uniform specifications, and, unlike futures contracts, can be traded on multiple venues. Under CFTC rules, a SEF must submit to the CFTC a determination that each product offered for trading is not readily susceptible to manipulation under the process of Part 40 of the CFTC Regulations and in accordance with Core Principle 3. All Swaps offered to be traded on TSEF are subject to this process and subsequently subject to CFTC approval under this process either via self-certification or following a period of “public” review as may be required by the CFTC. Additionally, certain swaps that have been ruled by the CFTC to be subject to mandatory clearing may be required to trade through the SEF transaction level requirements (i.e. through an Order Book or RFQ method), depending upon whether any SEF has filed that product with the CFTC under the “made available to trade” (“MAT”) process. With respect to MAT determinations submitted to the CFTC for approval, the CFTC makes the final determination that a swap declared to be MAT by a SEF will be deemed MAT, requiring it to trade on a SEF and be subject to the transaction level requirements of CFTC regulations.

3.2 *Product Specifications - The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products.*

- 3.2.1. The terms and conditions of all swaps offered for trading on TSEF are in conformity with the usual commercial customs and practices for the trading of such products. TSEF’s product listings are certified or approved by the CFTC. The products listed on TSEF are generally described in paragraph 1.7 above and can be found categorized by asset class, on <http://www.traditionsef.com/markets/irs/>.

TSEF will self-certify and submit trading products to the CFTC pursuant to Part 40 of the CFTC Regulations. This is required for all products TSEF intends to offer for trading as described in Section 3.1.1 above. The contract specifications for all such swaps shall be incorporated TSEF’s Rules as “Appendices” and published on the TSEF’s website. TSEF will permit trading only in swaps that are not readily susceptible to manipulation, in accordance with Core Principle 3, and will submit supporting information as set forth in

Appendix C to Part 38 of CFTC Regulations, as may be amended from time to time, when it submits its contracts for approval or certification pursuant Part 40 of CFTC Regulations.

Swaps listed on SEFs have uniform terms and conditions across all SEFs. Trading protocols for MAT swaps are uniform across all SEFs as the protocols are determined by the CFTC's transaction level requirements for MAT swaps. The CFTC has mandated trading protocols for swaps that are MAT and required to trade on SEFs. Those protocols are: Order Book, Request for Quote ("RFQ") and Work-up. Non-MAT swaps ("**Permitted Transactions**"), may be transacted through any means of interstate commerce, which includes such customary methods as negotiation through registered "Introducing Brokers" that are Participants on TSEF who use a variety of transaction formats, including auctions, order books, and OTC equivalents of open-outcry markets to negotiate transactions, or through RFQ functions. Swap counterparties are granted more latitude in trading swaps that are not MAT and thereby subject to the MAT trading protocols. TSEF offers a variety of execution methods: fully electronic order books with streamed liquidity, "Hybrid" order books combining electronic and voice negotiated liquidity, auctions, RFQ and voice interaction.

3.3 *Risks Associated with Trading Products - TSEF maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on TSEF that may include, but are not limited to, daily trading limits, price limits, position limits, and internal controls.*

3.3.1 In compliance with Core Principle 6, TSEF is required to, as applicable, establish and enforce position limitations or position limits and monitor positions established on or through TSEF for compliance with the limit set by the CFTC and the limit, if any, set by TSEF.

3.3.2 TSEF has retained the services of the National Futures Association ("NFA") to assist in monitoring trading on TSEF to prevent manipulation, price distortion, disruptions to the market and settlement process. Additionally, TSEF may enter into information-sharing agreements with other SEFs or designated contract markets (each, a "DCM") where similar contracts to those made available to trade or MAT on TSEF or with underlying cash markets for swaps available for trading on TSEF for the purpose of monitoring activity on TSEF or to coordinate position monitoring. CFTC rules require SEFs to set position limits as deemed necessary or appropriate.

TSEF monitors news releases from the regulatory authorities and index providers for any signs that manipulation of the underlying indexes is suspected or has been uncovered and will evaluate the potential impact on its product offerings and take appropriate action, which could include suspension of trading. TSEF attempts to mitigate the risk of limited deliverable supply by only offering swaps for delivery on global underlying

commodities with liquid cash and futures markets, currencies and other liquid financial instruments. The commodity swaps offered for trading on TSEF are on such liquid commodities as oil, natural gas and gold. These commodities have robust and liquid spot and futures markets. TSEF offers physically settled swaps and options that settle into an underlying commodity, currency or financial instrument that in its judgment are not readily subject to manipulation due to deep liquidity and robustness in their underlying cash markets, or have no physical limitation on available supply, such as an interest rate, or currencies, where central banks or monetary authorities manage a nation's currency. A factor that further mitigates risk of swap delivery affecting physical supply is that most swap contracts are traded with rolling expiration, settlement or maturity dates set at intervals from the swap start date, (1-month, 2-months, 1-year, 2-years, etc.). The result is that swaps mature, expire, or settle every day, unlike futures contracts, which settle on a fixed date in a cycle. For physically settled currency options and swaps, TSEF generally relies upon central banks or monetary authorities to monitor and prevent manipulation of their respective currencies, as such institutions are statutorily mandated with managing their country's currency and such management is a sovereign right of a country issuing a currency.

- 3.3.3 TSEF also specifically prohibits Participants from engaging in anti-manipulative activities as set out in SEF Rules 516 through 521 under its Compliance and Surveillance Manual and in accordance with Core Principle 3.
- 3.3.4 TSEF has adopted rules related to position limits and position accountability levels and will establish position limits and / or accountability levels as it deems appropriate. Pursuant to Rule 532 of the Rulebook, the position limits established by TSEF will not be higher than any limit set by the CFTC for such swap. The CFTC has not as of this date determined any position or accountability levels for the swaps traded on TSEF.

TSEF does not currently have position or accountability limits on contracts listed for trading. The swaps traded on TSEF are executable on multiple competing SEFs and cleared either through independent clearing houses (cleared swaps) or bilaterally settled between the counterparties to the swap, (uncleared swaps). TSEF does not have access to transaction or position data in similar swaps trading on competing SEFs, or a Participant's overall cleared, uncleared and hedge positions to assess a Participant's position in a given swap at any point during a trading day. Similar to position limits, TSEF does not have access to information that would make position accountability meaningful.

- 3.3.5 TSEF has clear procedures and guidelines for identifying emergencies and exercising authority to liquidate or suspend trading in any swap listed for trading on TSEF under Rule 208 of the Rulebook.

4. Access

4.1 *Fair Access*

- (a) *TSEF has established appropriate written standards for access to its services including requirements to ensure*
 - (i) *participants are appropriately registered as applicable under Ontario securities laws, or exempted from these requirements,*
 - (ii) *the competence, integrity and authority of systems users, and*
 - (iii) *systems users are adequately supervised.*
- (b) *The access standards and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.*
- (c) *TSEF does not unreasonably prohibit, condition or limit access by a person or company to services offered by it.*
- (d) *TSEF does not*
 - (i) *permit unreasonable discrimination among participants, or*
 - (ii) *impose any burden on competition that is not reasonably necessary and appropriate.*
- (e) *TSEF keeps records of each grant and each denial or limitation of access, including reasons for granting, denying or limiting access.*

4.1.1 The CFTC requires that SEFs offer impartial access to all eligible parties. The criteria used by TSEF to determine whether an individual is eligible for admission as a Participant is objective and non-discriminatory. TSEF does not discriminate among Participants. Pursuant to Core Principle 11, unless necessary or appropriate to achieve the purposes of the Dodd-Frank Act, SEFs may not adopt any rules or take any actions that result in any unreasonable restraint of trade or impose any material anticompetitive burden on trading or clearing.

4.1.2 Under Rule 302 of the Rulebook, in order to be eligible for admission as a Participant, an applicant must demonstrate to the satisfaction of TSEF that it is an “eligible contract participant” as defined in Section 1a(18) of the CEA and CFTC Regulation 1.3(m) and that it meets the criteria for a Participant set forth in the Rulebook and any documentation published by TSEF in respect of Platforms used for a specific swap that such applicant seeks to access, including that it satisfies any other criteria that TSEF may require from a Participant from time to time and has successfully completed the Participant application process to the satisfaction of TSEF. As Participants are limited to

“eligible contract participants,” they are well capitalized financial institutions (including banks and registered swap dealers (as defined in Section 1a(49) of the CEA and CFTC Regulation 1.3(qqqq)) or large commercial entities engaged in hedging financial exposures. Retail investors are prohibited from transacting on SEFs. In Ontario, Participants are limited to a narrow category of Ontario residents who are appropriately registered, exempt from registration or not required to be registered, as applicable, under Ontario securities laws.

- 4.1.3 To become a Participant, the applicant must follow Rule 303 of the Rulebook which outlines, in detail, the application process. TSEF may deny, condition or terminate the Participant status of any person if such person is unable to satisfactorily demonstrate its ability to satisfy the eligibility criteria, such person is unable to satisfactorily demonstrate its capacity to adhere to all applicable rules, or for such cause as TSEF may reasonably determine. The application form and representations for Ontario Users is available in the Onboarding section of the TSEF website at <http://www.traditionsef.com/onboarding/participant/>.
- 4.1.4 If TSEF decides to decline or condition an application for admission, the affected applicant will be promptly notified and given twenty (20) days to request in writing that the Participant Committee reconsider the determination. Within twenty-eight (28) calendar days of receiving the request for reconsideration, the Participant Committee shall confirm, reverse or modify the denial, conditioning or termination. The Participant Committee may, within its discretion, schedule a hearing, request additional information, or establish any other process it believes is necessary and appropriate. TSEF Rules 303 (e), (f) and (g) of the Rulebook outline the process for an applicant to request reconsideration of a decision by TSEF to decline or condition an applicant’s participation on TSEF. Pursuant to these rules, if TSEF decides to decline or condition an application for admission as a Participant, or terminate a person’s status as a Participant, TSEF is required to promptly notify such person in writing and such person has twenty (20) trading days to make a written request to the Participant Committee to reconsider the determination. Within twenty-eight (28) calendar days of receiving the request for reconsideration, the Participant Committee must either confirm, reverse or modify the denial, conditioning or termination of the person as a Participant, and is required to promptly notify them accordingly in writing. The Participant Committee may also, within its discretion, schedule a hearing (in-person or by teleconference), request additional information from the person, or establish any other process that it believes is necessary and appropriate to consider the request for reconsideration. As the criteria for eligibility as a Participant are objective and based on the principle of impartial access under Core Principle 2, the Participant Committee’s decision in respect of any reconsideration is the final action of TSEF and is not subject to appeal within TSEF. Any prospective

applicant may, however, reapply as appropriate upon addressing any deficiencies in its eligibility.

- 4.1.5 TSEF has established and impartially enforces rules governing any decision to revoke, suspend, limit, condition, restrict, qualify or permanently bar a Participant's access to TSEF. These include circumstances where such decisions are made as a result of a disciplinary action taken by TSEF or during an occurrence or circumstance which, in the reasonable opinion of the Board, requires immediate action, and which threatens, or may threaten, the fair and orderly trading in, or the settlement or integrity of, any swap.
- 4.1.6 In accordance with Rule 211 of the Rulebook, it is TSEF's policy to keep complete and accurate books and records of all activities relating to the business of TSEF, including records in respect of each grant and each denial or limitation of access. These records include information in respect of TSEF's reasons for granting, denying or limiting access to an applicant or Participant, as applicable.

5. Regulation of Participants on TSEF

5.1 *Regulation - TSEF has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.*

5.1.1 As an SRO, TSEF has a robust surveillance and compliance function to review the trading activity on the SEF and to enforce the Rulebook. The Rulebook is designed to ensure TSEF and the Participants adhere to the Core Principles and other CFTC regulations. As discussed in Section 3.3.2, TSEF has engaged the services of the NFA to assist in the performance of these duties.

5.1.2 TSEF is responsible for monitoring overall activity in each market on a real time basis and has set up a full-time market operations and surveillance function to provide for real-time and post-trade monitoring of trading activity, tracking specific members and authorized traders, monitoring pricing and volume and being alerted to market messages. TSEF also provides the NFA with a real-time, view-only market access to its Platforms. While the NFA program does not include real-time market monitoring or a live help desk to aid operational procedures of the markets, NFA real-time view only access to SEF markets provide NFA staff with a context for their T+1 reviews and also act as a second set of eyes for the SEF for any abnormalities as they occur in real-time. The NFA's Market Regulation Department is primarily responsible for performing the investigatory work in accordance with the NFA Procedures Manual relating to inquiries and

investigations resulting from trade practice, market surveillance, enforcement of audit trail requirements and financial surveillance.

The NFA reports possible breaches and infractions to TSEF, which will determine in its capacity of self-regulatory organization whether the CFTC needs to be informed of the activity in question.

TSEF offers uncleared swaps on all asset classes: Foreign Exchange, Rates, Credit, Commodities and Equities. TSEF makes initial and ongoing determinations to offer cleared and uncleared swaps based on CFTC mandatory clearing determinations, the availability of clearing for each swap and market conventions for each swap.

For required transactions, such as MAT IRS, execution methods vary from full electronic streaming into an order book, hybrid access to an order book, voice negotiation via SEF Brokers or transactions introduced to the SEF for execution by Broker Firm Participants. Non-MAT swaps can also be executed via the same combination of modes. Liquid swaps such as IRS and FX Options generally trade in electronic / hybrid platforms. Swaps that trade infrequently are generally introduced for SEF execution by Broker Firm Participants.

TSEF incorporates multiple means by which surveillance and compliance are conducted. Aside from interaction with the NFA, compliance systems include electronic monitoring of IRS trading on Trad-X platform: The Trad-X Market Operations Manager (“OM”) supervises electronic trading and monitors all orders and trades being entered onto the Platform on a real time basis. The OM identifies market and system anomalies and is authorized to take mitigating action in the event of disorderly trading and/or market disrupting events, including but not limited to, halting trading and cancelling orders. The OM reviews any potential error trades and is authorized to adjust prices and/or cancel trades in accordance with Rule 538 and Rule 511.

Electronic filters are used to alert the OM of abnormal price movements, market anomalies or system related issues. The OM is able to directly contact Participants when necessary in taking preventative and mitigating actions, or in responding to Participant inquiries/discrepancies.

Anomalies in voice trades in IRS will be picked up by the Trad-X platform for orders entered into the CLOB. Additionally, the desk manager and SEF Surveillance Officer perform real-time market monitoring roles.

The Surveillance Officer (“SO”) periodically visits the SEF Execution Specialists (“SES”) to, among other things, monitor for firmness of quotes during and for any potentially suspicious activity. During visits to the SES, the SO has access to all trading Platforms.

The SO has access to all SEF market systems and Platforms, which provides the SO with real time visibility across all asset classes and enables the SO to monitor for potential violations of TSEF's order handling policy.

The Desk Manager supervises all activity in Voice RFQ's, orders received via Voice and "Work-up" transactions and is responsible for ensuring that all SES follow TSEF's order handling, RFQ and Work-up procedures.

5.1.3 Participants are required to comply with a significant number of rules governing trading pursuant to the Rulebook. The applicable rules are located primarily in Chapter 4 (Obligations of Participants and Customers), Chapter 5 (Trading Practices and Business Conduct) and Chapter 6 (Disciplinary Rules). Some of the more significant rules governing trade on TSEF include:

- (a) Rule 403 Duties and Responsibilities of Participants the Provide Customers with Access to a Platform
- (b) Rule 405 - Inspections by TSEF
- (c) Rule 509 - Block Trades
- (d) Rule 525 - Withholding Customer Orders Prohibited
- (e) Rule 527 - Trading Against Customer Order Prohibited
- (f) Rule 528 - Disclosing Customer Orders Prohibited
- (g) Rule 529 - Prearranged, Pre-negotiated and Non-competitive Transactions Prohibited,
- (h) Rule 531 - Priority of Execution
- (i) Rule 602 - Inquiries and Investigations
- (j) Rule 606 - Notice of Charges
- (k) Rule 611 - Convening Hearings of Disciplinary Proceedings
- (l) Rule 615 - Sanctions

5.1.4 TSEF also publishes, from time to time, documentation setting forth the specific protocols and requirements for trading on a particular platform forming part of the Platform (each, a "**Platform Supplement**"). Platform Supplements are incorporated into the TSEF Rulebook by reference and are published on the SEF website at <http://www.traditionsef.com/regulatory/filter/all/all/all>. Copies of the relevant Platform Supplements (in addition to the Rulebook and user

agreements) are also provided to Participants at the time of their onboarding to TSEF or to the specific platform within TSEF, as applicable.

6. **Rulemaking**

6.1 *Purpose of Rules*

(a) *TSEF has rules, policies and other similar instruments (Rules) that are designed to appropriately govern the operations and activities of participants and do not permit unreasonable discrimination among participants or impose any burden on competition that is not reasonably necessary or appropriate.*

6.1.1 Pursuant to its obligations under the CEA and more specifically, the SEF Rules, TSEF has implemented rules, policies and other similar instruments that govern the operations and activities of its Participants. Consistent with Core Principle 2 and specifically with respect to preventing unreasonable discrimination among participants or imposing any burden on competition, these rules, policies and instruments are designed to provide market participants with impartial access to the market, and include rules designed to prevent discrimination among Participants within the same class or category. Of particular note in this regard are Chapter 4 (Obligations of Participants and Customers), Chapter 5 (Trading Practices and Business Conduct), and Chapter 6 (Disciplinary Rules) of the Rulebook. Certain elements relating to non-discrimination and not imposing any burden on competition are also discussed in Section 4 above.

- (b) *The Rules are not contrary to the public interest and are designed to*
- (i) *ensure compliance with applicable legislation,*
 - (ii) *prevent fraudulent and manipulative acts and practices,*
 - (iii) *promote just and equitable principles of trade,*
 - (iv) *foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in the products traded on TSEF,*
 - (v) *provide a framework for disciplinary and enforcement actions, and*
 - (vi) *ensure a fair and orderly market.*

6.1.2 Consistent with a number of Core Principles, TSEF's rules and procedures have been established so as to not be contrary to the public interest, including specifically: rules designed to address Core Principle 2 with respect to

establishing and enforcing trading, trade processing, and participation rules; Core Principle 7 to establish and enforce rules and procedures for ensuring the financial integrity of swaps entered on or through the SEF, including the clearance and settlement of the swaps; Core Principle 11 which restricts the rules from imposing any unreasonable restraint of trade or material anti-competitive burden; as well as a number of other rules and procedures designed to prevent or reduce susceptibility to manipulation, price distortion, and disruptions. In compliance with Core Principle 2, TSEF has established rules and procedures reasonably designed to ensure compliance with Section 5(h) of the CEA and the CFTC Regulations, including procedures to be used in entering, executing and posting orders. TSEF fulfills its compliance with CFTC and CEA requirements through the establishment of internal surveillance, market practices and trading operations procedures under the guidance of its CCO, ROC and Compliance Department, and through the retention of regulatory services of the NFA. TSEF is required to report to the CFTC certain violations of its rules that also breach applicable law. Such notification would be carried out by TSEF's CCO or Chief Counsel contacting the appropriate authority at the CFTC.

- 6.1.3 The Rulebook promotes just and equitable principles of trade. Notably, Rule 514 of the Rulebook prohibits Participants from engaging in "conduct which is inconsistent with just and equitable principles of trade". In addition, Rules 514, 516, and 519 of the Rulebook prohibit Participants from taking fraudulent and manipulative actions, including engaging in fraud, engaging in any scheme to deceive, trick or mislead, and engaging in dishonourable or dishonest conduct.
- 6.1.4 The CCO is required to act under the authority granted to him or her to identify potential conflicts of interest and eliminate those where possible and where not possible, manage. Methods for identifying conflicts the CCO has available to him or her include: formal committees, special audits, studying industry best practices, and education of personnel. Management of identified conflicts could include the establishment of internal committees to review business conduct on an ongoing basis, creation of new and/or enhanced supervisory procedures, and disclosure to its participants and potential participants. Employees are required to report conflicts of interest to the CCO. The CCO reports conflicts of interest to the ROC or Board, as appropriate for business and personnel conflicts. Conflicts involving the CCO directly are to be disclosed to the ROC or the Board, as appropriate.
- 6.1.5 TSEF also has policies for addressing and minimizing other conflicts of interest that may arise, including conflicts with applicants, of directors and officers and of the CCO. A member of the Board, who knows or suspects he has any conflict of interest may not participate in deliberations or activities related to the actual or suspected conflict of interest unless given permission pursuant to a prescribed process that includes disclosure of the conflict and

determination by other members of the Board that participation by the interested person would be consistent with the public interest. An officer or other person who knows or suspects he has any conflict of interest may not participate in deliberations or activities related to the actual or suspected conflict of interest unless given permission pursuant to a prescribed process that includes disclosure of the conflict of interest and determination by the CCO that participation by the interested person would be consistent with the public interest. The CCO is also required to actively monitor for any CCO potential conflicts of interest. If a potential CCO conflict is identified by the CCO or a TSEF employee, then a prescribed process is to be followed under the authority of the ROC, which shall determine, among other things, whether an actual conflict exists and whether the CCO must recuse him or herself from addressing a matter. If the ROC determines that the CCO is actually conflicted, then the matter shall be escalated to the Board using the same process as when dealing with a director of the Board. In the event that the CCO must recuse him or herself, internal legal counsel to TSEF shall address such matter in lieu of the CCO. If a person suspects a director, officer, or other person of a conflict of interest, they are required to report this concern to the CCO for review and or escalation to the Board.

- 6.1.6 Rule 213 of the Rulebook provides that TSEF may enter into information-sharing agreements or procedures to coordinate surveillance with other markets and provides that TSEF may: (1) provide market surveillance reports to other markets; (2) share information and documents concerning current and former Participants with other markets; (3) share information and documents concerning ongoing and completed investigations with other markets; and/or (4) require its current or former Participants to provide information and documents to TSEF at the request of other markets with which TSEF has an information-sharing agreement or other arrangements or procedures. TSEF has not entered into information sharing agreements with other markets.
- 6.1.7 Chapter 6 (Disciplinary Rules) of the Rulebook provides a framework for TSEF to take disciplinary and enforcement actions, which powers are discussed in greater detail in Section 5 (Regulation of Participants on the Exchange) and Section 7 (Due Process) in Part II of this application.
- 6.1.8 Chapter 5 (Trading Practices and Business Conduct) and Chapter 6 (Disciplinary Rules) of the Rulebook are designed to ensure that all trading is conducted in a fair and orderly fashion. Among others, Rule 525 (Withholding Customer Orders Prohibited) and Rule 531 (Priority of Execution) of the Rulebook are designed to promote fair and orderly markets.

7. Due Process

7.1 *Due Process – For any decision made by TSEF that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, TSEF ensures that:*

- (a) *parties are given an opportunity to be heard or make representations, and*
- (b) *it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.*

7.1.1 TSEF's market regulation department (the "**Market Regulation Department**") will commence an investigation of any matter within TSEF's jurisdiction upon the receipt of a request from CFTC staff or upon the discovery or receipt of information by TSEF that, in the judgement of the Market Regulation Department indicates a possible basis for finding that a violation has occurred or will occur. Records of such investigations are retained according to TSEF's usual document retention policies (as outlined in Section 12.3 below). TSEF rules allow for opportunities to appeal access and disciplinary decisions, including appeal to the Participant Committee regarding disciplinary matters, under Rule 616 of the Rulebook.

7.1.2 The Market Regulation Department maintains a log of all investigations and their disposition and prepares a written report of each investigation (each, an "**Investigative Report**"). Each Investigative Report will include the reasons for initiating the investigation (including a summary of the complaint, if any), all relevant facts and evidence gathered, Market Regulation Department staff's analysis and conclusions, the participant's disciplinary history at TSEF, and the recommendation of the Market Regulation Department. The Investigative Report is then provided to the CCO for a determination as to whether the Investigative Report is complete, following which the CCO will provide the completed Investigative Report to the Review Panel of the Disciplinary Panel. If the CCO or Review Panel authorizes disciplinary proceedings pursuant to Rule 605(a)(3)(iii) or 603(b)(1)(iii) of the Rulebook, the Market Regulation Department will prepare, and serve in accordance with Rule 608, a notice of charges to the participant in question (the "**respondent**"). The notice of charges will, among other things, advise the respondent of its right to a hearing.

7.1.3 After reasonable notice to each respondent, the Hearing Panel will promptly convene a hearing to conduct the disciplinary proceedings with respect to such respondent, with parties to such disciplinary proceeding including the applicable respondent and the Market Regulation Department. Prior to the commencement of a hearing, each respondent will be given the opportunity to review all books, records, documents, papers, transcripts of testimony and other tangible evidence in the possession or under the control of TSEF that

the Market Regulation Department will use to support the allegations and proposed sanctions in the notice of charges or which the chair of the Hearing Panel deems relevant to the disciplinary proceedings (excepting any information protected by attorney-client privilege). If a respondent has timely filed an answer to the notice of charges in accordance with Rule 607 of the Rulebook, the respondent is entitled to attend and participate in the hearing.

- 7.1.4 At a hearing conducted in connection with any disciplinary proceedings, the Hearing Panel or the Market Regulation Department and each respondent may: (a) present evidence and facts determined relevant and admissible by the chair of the Hearing Panel; (b) call and examine witnesses; and (c) cross-examine witnesses called by other parties.
- 7.1.5 TSEF will arrange for any hearing conducted in connection with disciplinary proceedings to be recorded verbatim, or substantially verbatim, in a manner capable of accurate transcription. The respondent may request a copy of all or portions of the recording of a hearing.
- 7.1.6 As promptly as reasonable following a hearing, the Hearing Panel will issue a written order rendering its decision based on the weight of the evidence contained in the record of the disciplinary proceedings. TSEF will serve a copy of the order of the disciplinary proceedings on the respondent and the Market Regulation Department. The order will include, among other things, (a) findings of fact and conclusions concerning each allegation, including a complete explanation of the evidentiary and other basis for such findings and conclusions with respect to each allegation, (b) each specific Rule of TSEF and provision of applicable law that the respondent is found to have violated, (c) the imposition of sanctions, if any, including the basis for such sanctions and the effective date of each sanction, and (d) notice of the respondent's right to appeal pursuant to Rule 616 of the Rulebook. Unless a timely notice of appeal is filed pursuant to Rule 616 of the Rulebook, the order of the disciplinary proceedings will become final upon the expiration of 20 days after the order is served on the respondent and provided to the Market Regulation Department.
- 7.1.7 A respondent found by the Hearing Panel to have violated a Rule of TSEF or a provision of applicable law or who is subject to any summary fine imposed pursuant to Rule 617 of the Rulebook or any summary action imposed pursuant to Rule 618 may appeal the decision within 20 days of receiving the order of the disciplinary proceedings or the notice of summary action, as the case may be, by filing a notice of appeal with the CCO.
- 7.1.8 On or before the 20th day after filing a notice of appeal, the appellant must file with the CCO and serve on the Market Regulation Department a brief supporting the notice of appeal and documents supporting the brief. On or before the 20th day after the date on which the appellant serves supporting

brief, the appellee must file and serve its brief in opposition with the Market Regulation Department. On or before the 10th day after the date on which the appellee serves its brief in opposition, the appellant must file and serve a brief in reply with the Market Regulation Department. Within 30 days after the last submission filed pursuant to the foregoing, the Board will appoint an Appeal Panel to consider and determine the appeal.

- 7.1.9 Within 10 days of being notified of the appointment of the Appeal Panel, an appellant may seek to disqualify any individual named to the Appeal Panel for the reasons identified in Rule 209 of the Rulebook or for any other reasonable grounds, by serving written notice on the CCO, who will decide the merits of any request for disqualification within his or her sole discretion.
- 7.1.10 The Appeal Panel will hold a hearing to allow parties to present oral arguments. The Appeal Panel will only consider on appeal the record before the Hearing Panel or, in the case of a summary action, the record considered by the CCO, the notice of appeal, the briefs filed in support and opposition of the appeal, and any oral arguments of the parties. After completing its review, the Appeal Panel may affirm, modify or reverse any order of the disciplinary proceedings or summary action under appeal, in whole or in part, including increasing, decreasing or eliminating any sanction or remedy imposed, imposing any other sanction or remedy authorized by the Rules, remanding the matter to the same or a different Hearing Panel for further disciplinary proceedings, or ordering a new hearing.
- 7.1.11 As promptly as reasonably possible following its review, the Appeal Panel will issue a written decision based on the weight of the evidence before the Appeal Panel. The decision of the Appeal Panel will include a statement of findings of fact and conclusions for each finding, sanction, remedy and cost reviewed on appeal, including each specific Rule of TSEF and provision of applicable law that the respondent is found to have violated, if any, and the imposition of sanctions, remedies and costs, if any, and the effective date of each sanction, remedy or cost.
- 7.1.12 The Appeal Panel's written order will be the final action of TSEF and is not expressly subject to appeal to the CFTC under TSEF rules.

8. Clearing and Settlement

8.1 *Clearing Arrangements - TSEF has or requires its participants to have appropriate arrangements for the clearing and settlement of transactions for which clearing is mandatory through a clearing house.*

8.1.1 In compliance with Core Principle 7, TSEF requires Participants to either have a clearing agreement with a registered CFTC designated Derivatives Clearing Organization ("DCO") (being, for TSEF, LCH. Clearnet Limited, LCH.Clearnet LLC, ICE Clear Credit LLC, and the Chicago Mercantile

Exchange Inc.) (for cleared trades) or an ISDA Master Agreement and supporting documents, or an agreement similar to and ISDA Master Agreement for bilateral trades. All Orders subject to a mandatory clearing requirement, must be “pre-trade credit checked” in accordance with CFTC Rules.

Subject to the above, TSEF monitors a Participant’s ability to participate in cleared transactions. Clearing Firms must be on-boarded and approved to offer clearing to approved clearing houses for Participants on TSEF. Trad-X, TSEF’s electronic rates platform, contains real-time functionality that monitors for access to clearing and allocated risk-based limits set by Futures Commission Merchants. Clearing Firms approved for Trad-X must allocate credit to Participants clearing through them each day. Participants who are not Self-Clearing or do not have a credit allocation from a Clearing Firm, or who have entered orders that mean their daily limit has been breached will be blocked from trading by the Platform until such time as additional credit has been allocated. TSEF monitors clearing relationships in products that are not on electronic platforms through daily interaction with the Participants and through submitting their trades to clearing. Trades will not settle unless Participants have ongoing clearing arrangements.

If a rejection notice is received from a clearing firm because the Participant or customer breached its credit limit at the clearing firm, or from a DCO because a clearing firm breached its credit limit at such DCO, then a cleared swap shall be void ab initio and TSEF shall notify the relevant Swap Data Repository (“SDR”) that the cleared swap was rejected. If a cleared swap is rejected by a DCO because of a clerical or operational error or omission resulting in a mismatch of the terms of the trade, then the swap shall be void ab initio. In such case a new cleared swap, with terms and conditions that match the terms of the original swap, other than any such error and the time of execution, may be submitted for clearing without being executed. TSEF reports the swap transaction data to the relevant SDR as soon as technologically practicable after the original swap is and the parties provide the necessary information

8.2 *Risk Management of Clearing House - TSEF has assured itself that each of these clearing houses has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.*

- 8.2.1 All cleared swaps executed on TSEF are cleared by a CFTC designated DCO, which are subject to CFTC Regulations, including core principles applicable to DCOs, and accordingly, TSEF is comfortable that these clearing houses have established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.

9. Systems and Technology

9.1 *Each of TSEF's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable TSEF to properly carry on its business. Critical systems are those that support the following functions:*

- (a) *order entry,*
- (b) *order routing,*
- (c) *execution,*
- (d) *trade reporting,*
- (e) *trade comparison,*
- (f) *data feeds,*
- (g) *market surveillance,*
- (h) *trade clearing, and*
- (i) *financial reporting.*

9.1.1 TSEF is included in the Tradition Group's international technology audit program which program is conducted by the Tradition Group head office. This program includes an internal audit of IT systems and a data reporting quality audit.

9.2 *Without limiting the generality of section 9.1, for each of its systems supporting order entry, order routing, execution, data feeds, trade reporting and trade comparison, TSEF:*

- (a) *makes reasonable current and future capacity estimates;*
- (b) *conducts capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner;*

9.2.1 TSEF has built and maintains several trading systems with robust support and resiliency. Equipment is distributed across a number of datacenters located in the Americas and Europe. IT support staff is located in New York, Stamford, CT and London. Back-up offices are available in the US and UK. TSEF's matching engines are built to be scalable. For instance, its Nebula matching engine, contained in the Trad-X Platform, can be scaled horizontally by distributing the tradable instrument universe across many

physical systems depending on capacity requirements. This architecture also supports high availability failover to ensure system resiliency and integrity.

9.2.2 Various tools and procedures are used for capacity monitoring and management across TSEF's IT operations infrastructure. These include specific procedures relating to capacity monitoring, reporting and capacity stress testing. The use of monitoring alerts at pre-determined capacity levels, options to control and manage emergencies, and monitoring of monthly and annual trends to monitor longer term capacity to proactively forecast future requirements have been deployed.

(c) *reviews the vulnerability of those systems and data centre computer operations to internal and external threats, including physical hazards and natural disasters;*

(d) *ensures that safeguards that protect a system against unauthorized access, internal failures, human errors, attacks and natural catastrophes that might cause improper disclosures, modification, destruction or denial of service are subject to an independent and ongoing audit which should include the physical environment, system capacity, operating system testing, documentation, internal controls and contingency plans;*

9.2.2 TSEF's IT operations and controls include specific policies and procedures designed to detect and manage vulnerability and implement appropriate safeguards, including physical security and environmental controls, access controls and account procedures, network monitoring and security controls and an incident management program.

9.2.3 TSEF's IT governance framework is based on standard industry practice taking appropriate inputs from COBIT 5, ISO 27001, ITIL and other established IT governance/risk methodologies. The framework is subdivided into 10 IT domains (IT Strategy & Governance, Information Security, System Development, Operations & System Administration, Incident & Problem Management, Change & Release Management, Project Management, IT Procurement and Vendor Management, Disaster Recovery and IT Business Continuity Planning) and is used to frame specific risk assessments across each operational domain. The risks and gaps identified are used to define the necessary control improvements.

9.2.4 TSEF is included in the Tradition Group's international internal audit program conducted by Tradition Group's head office. The internal audit function is outsourced to a third-party and will include a review of chosen aspect of IT governance. A third-party is appointed as the external financial auditor. The external audit includes a review of the IT systems and controls, which includes TSEF either directly or indirectly as part of the overall audit of Tradition Group.

- 9.2.5 TSEF, the regulatory services provider or other authorized representatives) have the right to inspect systems, equipment and software operated by the Participant in connection with SEF activity, wherever located which includes access the systems, equipment, software, and the premises on which the systems, equipment, and software are located, and any data stored in any of the systems or equipment. Each Participant or customer shall also provide the regulatory services provider with the same access to their books and records and offices as they are required to provide under applicable law and may be required to furnish (periodically or on a particular occasion) information concerning the Participant's SEF activity. Participants that provide connectivity to any Platform are responsible for maintaining, or causing to be maintained, an order routing/front-end audit trail ("Audit Trail") for all electronic orders, including order entry, modification, cancellation and responses to such messages, entered into the Platform through any gateway to the Platform.
- (e) *ensures that the configuration of the system has been reviewed to identify potential points of failure, lack of back-up and redundant capabilities;*
 - (f) *maintains reasonable procedures to review and keep current the development and testing methodology of those systems; and*
 - (g) *maintains reasonable back-up, contingency and business continuity plans, disaster recovery plans and internal controls.*
- 9.2.6 TSEF has developed and put in place a business continuity plan (the "BCP") to facilitate its continued operations and ability to serve the execution needs of its Participants in the event of a possible business disruption. The BCP is designed to counter disruptions to TSEF's operations ranging from temporary storm related power outages to catastrophic events resulting in TSEF's forced relocation, both temporarily and permanently. Under the BCP, TSEF has access to facilities for the temporary relocation of its staff during a disruption and has compiled a contact list containing staff phone and email information for distribution to TSEF's website, regulators, and critical business partners. Participants with open orders and work in progress will be contacted as soon as practicable following the occurrence of a business disruption. Participants' financial records are guarded against loss and are recoverable through TSEF's storage systems, those of the clearers, and swap data repositories.
- 9.2.7 Where TSEF outsources functions, it does so in accordance with the Outsourcing Policy described in Section 14.1 below to industry accepted companies.
- 9.2.8 A detailed analysis of TSEF's systems and technology management in respect of: (1) organizational structure and locations; (2) system description and

developmental activities; (3) functional capabilities; (4) physical security and environmental controls; (5) logical security; (6) risk assessment and other reviews; (7) internal controls for operations; (8) functional testing; (9) security testing; (10) capacity planning and testing; (11) business continuity and disaster recovery; (12) outsourcing; and (13) training have been filed with the CFTC.

9.3 *Information Technology Risk Management Procedures - TSEF has appropriate risk management procedures in place including those that handle trading errors, trading halts and respond to market disruptions and disorderly trading.*

9.3.1 TSEF provides extensive market integrity controls to ensure fair and efficient markets. To enforce its Rulebook, these controls include a market operations department for its electronic platforms and an in-house surveillance analyst, reporting to the CCO who has the authority to review trading activity on a live basis. TSEF's in-house surveillance efforts are also supplemented through a Regulatory Services Agreement with the NFA and guidance from outside counsel, which is described in further detail in Section 12 (Compliance, Surveillance and Enforcement) of Part II of this application.

9.3.2 An executive officer, or any other officer may take actions necessary or appropriate to respond to an emergency (as described below), including, but not limited to, the following actions: (1) suspending or curtailing trading or limiting trading to liquidation (in whole or in part) in co-ordination with the relevant DCO; (2) extending, limiting or changing the trading hours; (3) temporarily modifying or suspending any provision of the TSEF rules or obligations; (4) imposing or modifying price limits; (5) imposing or modifying position limits; in accordance with the position limits described in Rule 532; and/or (6) taking such other actions as may be required or directed by the CFTC. Processes similar to that described under Section 5.1.2 regarding the OM and the OM's supervisory authority and powers with respect to Trad-X exist across all other TSEF platform as well, as applicable.

9.3.3 Additionally, as discussed above in Section 9.2, TSEF has developed and put into place a BCP and has clear procedures and guidelines for identifying emergencies and exercising authority to liquidate positions or suspend trading in any swap listed for trading on TSEF as outlined under Rule 208 of the Rulebook. Emergencies include circumstances that, in the opinion of the Board, require immediate action and which threaten or may threaten the fair and orderly trading, settlement or integrity of any swap, including failure of the clearing system, directly applicable governmental or similar action, manipulative activity or undue concentration of positions in swaps, bankruptcy, insolvency or certain other impairments in respect of a clearing firm as well as any act or occurrence generally constating a force majeure.

10. Financial Viability

10.1 *Financial Viability - TSEF has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.*

10.1.1 TSEF has adequate financial and staff resources to carry on its activities in full compliance with its regulatory requirements and with best practices. Pursuant to Core Principle 13, TSEF is required to have adequate financial, operational and managerial resources to discharge its responsibilities as discussed in Section 5.1.1 above. The financial resources of a SEF shall be considered to be adequate if the value of the financial resources exceeds the total amount that would enable the SEF to cover the operating costs of the SEF for a one-year period, as calculated on a rolling basis, this includes unencumbered, liquid financial assets equal to at least six months' operating costs. TSEF satisfies such financial requirement. Internal financial reports are prepared monthly. Financial reports are also prepared and furnished to the relevant regulators in accordance with TSEF's regulatory obligations. Pursuant to Core Principle 13, TSEF is required to have adequate financial, operational and managerial resources to discharge its responsibilities as discussed in Section 5.1.1 above.

11. Trading Practices

11.1 *Trading Practices - Trading practices are fair and properly supervised and not contrary to the public interest.*

11.1.1 As discussed under Section 6.1, TSEF's trading practices as set out in Chapter 5 (Trading Practices and Business Conduct) of the Rulebook are fair and not contrary to the public interest.

11.1.2 TSEF has retained the services of NFA to assist in monitoring trading on TSEF to prevent manipulation, price distortion and disruptions to the market and settlement process. In order to perform trade practice surveillance for TSEF, NFA utilizes an automated surveillance system to review swap order and transaction data provided by TSEF that complies with the standards for such systems established by the CFTC. TSEF retains ultimate decision-making responsibility for any functions performed by NFA. NFA reviews TSEF's trades on a routine basis to determine whether suspicious activity relating to TSEF's trading standards exists, including, without limitation, whether any potential violations of TSEF's Rules (as set out in the Rulebook) have occurred. The trades reviewed include trades executed on TSEF's matching system and, if applicable, "Request for Quote" ("RFQ"), Work-up, block and error trades. NFA's trade practice surveillance system monitors for fraudulent trading, e.g., intentionally deceptive trading for personal financial gain, trading practices that TSEF deems to be abusive and any other manipulative or disruptive trading practices prohibited by the CEA or the CFTC Regulations, as well as the types of transactions and trade practices for

both Required and Permitted Transactions as defined by the CFTC Regulations. NFA will utilize an automated system to perform market surveillance of the activity on TSEF in order to detect manipulation, price distortions and where possible, disruptions of the delivery or cash-settlement process.

11.1.3 TSEF also maintains both a surveillance and trade practices program to monitor for market abuses, manipulations and other disruptive practices. TSEF has disciplinary procedures and penalties for violation of its rules, which are described in greater detail in Section 7 (Due Process) in Part II of this application.

11.2 *Orders - Rules pertaining to order size and limits are fair and equitable to all market participants and the system for accepting and distinguishing between and executing different types of orders is fair, equitable and transparent.*

11.2.1 Rules 504 through 506 of the Rulebook, the rules contained in the various Platform Supplements, and the price/time priority of TSEF's order book ensure that order size and limits are fair and equitable to all market participants and that the system for accepting and distinguishing between and executing different types of orders is fair, equitable and transparent. TSEF considers its order types, transaction sizes and trading protocols to be fair and equitable because they are modeled upon standard order types and transaction sizes customary to the markets for the products traded on the respective order book. TSEF considers its order books to be transparent because transaction information is displayed non-discriminatorily to all participants simultaneously.

11.3 *Transparency - TSEF has adequate arrangements to record and publish accurate and timely information as required by applicable law or the Foreign Regulator. This information is also provided to all participants on an equitable basis.*

11.3.1 In compliance with Core Principle 9, TSEF submits swap transaction and pricing data to CFTC registered swap data repositories or "SDRs" on a timely basis. Rule 411 of the Rulebook provides that TSEF will make information regarding orders (including prices bid or offered), trades and any other matters it deems appropriate available to Participants, customers and other persons at such times and in such manner as it may consider necessary or advisable from time to time and provided that such provision of information is permitted under applicable law. Additionally, TSEF publishes trading activity to its website and submits data to the following SDRs under Rule 512:

- ICE Trade Vault, LLC
- DTCC Data Repository (U.S.) LLC

- Chicago Mercantile Exchange Inc.

11.3.2 All trading activity on TSEF is posted as per CFTC rules on <http://www.traditionsef.com/market-activity/> under "Daily Activity".

12. Compliance, Surveillance and Enforcement

12.1 Jurisdiction - TSEF or the Foreign Regulator has the jurisdiction to perform member and market regulation, including the ability to set rules, conduct compliance reviews and perform surveillance and enforcement.

12.1.1 As an SRO, TSEF requires that each Participant, customer and clearing firm acknowledge that it is subject to the rules of TSEF as they pertain to each category in the Rulebook, which include the jurisdiction of TSEF to set rules, and perform member and market regulation and surveillance and enforcement with respect to compliance with its rules as appropriate for the nature of, and the manner in which, the products are traded.

12.2 Member and Market Regulation - TSEF or the Foreign Regulator maintains appropriate systems, resources and procedures for evaluating compliance with exchange and legislative requirements and for disciplining participants.

12.2.1 In compliance with its obligations as a SEF registered with the CFTC, TSEF maintains appropriate systems, resources and procedures for evaluating compliance with exchange and legislative requirements and for disciplining Participants. These include appropriate systems, resources and procedures for evaluating compliance with its obligations under its SEF registration including regulations, guidance, and acceptable practices governing the registration and operation of SEFs, and operating under the SEF Core Principles as out lined in Section 1. TSEF supplements its in-house compliance surveillance function through a Regulatory Services Agreement with the NFA and with guidance from outside counsel. TSEF has mechanisms in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory or enforcement purposes is available to the relevant regulatory authorities, including the CFTC and OSC, on a timely basis.

TSEF's surveillance vendor, the NFA, notifies TSEF of any trade execution exceptions identified through its surveillance program. Additionally, it audits TSEF's voice procedures and voice audit trail, prepares monthly reports/logs highlighting these potential exceptions segregated by category. TSEF's SO conducts periodic random reviews of transactions including audit trails across all asset classes. Should these reviews identify any exceptions not previously noted by the NFA's surveillance; the SO will notify the NFA so that an audit can be conducted by the NFA of its procedures to determine the reason(s) for the disparity. By rule, TSEF must conclude all investigations in a timely fashion not to exceed a year's duration. The SEF COO must

perform an annual compliance review documenting investigation activity, and certifying the adequacy of TSEF's compliance and disciplinary processes. This report must be filed with the CFTC.

In accordance with Core Principle 10 – *Record Keeping and Reporting*, TSEF is required to, among other things, report to the CFTC in the prescribed form and manner that the CFTC prescribes. TSEF has accordingly implemented appropriate policies and procedures for the collection and preparation of filings required to be made and information otherwise required to be made available to satisfy its regulatory obligations, including with respect to the OSC. Further, TSEF will maintain records of all activities related to its business for a period of five (5) years in accordance with CFTC regulations and its Participants are obliged to maintain all requisite books and records in accordance with CFTC regulations, as discussed in detail below.

The Compliance and Surveillance Manual also includes provisions relating to the obligations of TSEF to provide documentation regarding Canadian Participants' trading activity on a periodic basis to the OSC and the Autorité des marchés financiers (the "AMF") throughout the year.

12.3 *Availability of Information to Regulators – TSEF has mechanisms in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory or enforcement purposes is available to the relevant regulatory authorities, including the Commission, on a timely basis.*

12.3.1 In compliance with various Core Principles, TSEF provides information to the CFTC and the OSC, as discussed in greater detail below. TSEF has mechanisms in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory or enforcement purposes is available to the relevant regulatory authorities, including the OSC, on a timely basis.

13. Record Keeping

13.1 Record Keeping – TSEF has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of TSEF, audit trail information on all trades, and compliance with, and/or violations of exchange requirements. Additionally, Rule 510(b) of the Rulebook requires that Participants that provide connectivity to any Platform of TSEF are responsible for maintaining, or causing to be maintained, an order routing/front-end audit trail (an "Audit Trail") for all electronic orders, including order entry, modification, cancellation and responses to such messages, entered into the platform through any gateway to the platform.

13.1.1 As provided in Rule 211 of the Rulebook, TSEF shall keep, or cause to be kept, complete and accurate books and records of all activities relating to the

business of TSEF, including, without limitation, all books and records required to be maintained pursuant to the Dodd-Frank Act and CFTC Regulations. TSEF is also required to include the unique swap identifier for a Swap in all records and Swap data reported to a SDR with respect to the Swap throughout the life of the Swap and for five (5) years thereafter in accordance with CFTC Regulation 45.5(e). TSEF keeps, or causes to be kept, such records in electronic form, or kept, or cause to be kept, in paper form, if originally created and exclusively maintained in paper form, so long as they are retrievable, and information in them is reportable, as required by CFTC Regulation 45.2.

TSEF retains all such books and records for at least five (5) years, and with respect to records required to be retained pursuant to CFTC Regulations 45.2 and 45.5, TSEF shall (i) retain all such records for the life of the Swap and for a period of five years following the final termination of the Swap; and (ii) make such records open to inspection upon request by any representative of the CFTC, the United States Department of Justice, or the United States Securities and Exchange Commission, or by any representative of a prudential regulator as authorized by the CFTC.

13.1.2 TSEF collects a significant amount of data on a daily basis related to its regulated activity in compliance with Core Principles 4, 5, 6, 7, 8, 9 and 10. TSEF is required to maintain records of all activities relating to its business as a SEF, including data related to enforcing rules or terms and conditions defining or related to:

- (a) trading procedures to be used in entering and executing orders traded on or through the facilities of the swap execution facility;
- (b) procedures for trade processing of swaps on or through the facilities of the swap execution facility;
- (c) data necessary to monitor trading in swaps to prevent manipulation, price distortion, and disruptions of the delivery or cash settlement process through surveillance, compliance, and disciplinary practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions;
- (d) establish and enforce rules that will allow the facility to obtain any necessary information to perform any of the functions described in Section 5h of the CEA, provide such information to the CFTC on request, and have the capacity to carry out international information-sharing agreements as required;
- (e) monitor positions established on or through the SEF for compliance with the limits set by the CFTC or by TSEF;

- (f) ensure the financial integrity of swaps entered on or through TSEF, including the clearance and settlement of the swaps pursuant to Section 2(h)(1) of the CEA;
- (g) transmit and make public timely information on price, trading volume, and other trading data on swaps transactions executed on TSEF as required by CFTC Regulation;
- (h) maintain records of all activities relating to the business of the facility, including a complete audit trail, in a form and manner acceptable to the CFTC for a period of five years;
- (i) report to the CFTC, in a form and manner acceptable to the CFTC, such information as the CFTC determines to be necessary or appropriate for the CFTC to perform its duties under the CEA; and
- (j) keep any such records relating to swaps defined in Section 1a(47)(A)(v) of the CEA open to inspection and examination by the U.S. Securities and Exchange Commission.

13.1.3 As discussed above, Rule 510(b) of the Rulebook requires that certain Participants keep an Audit Trail. Such Audit Trail must contain all order receipt, order entry, order modification, and response/receipt times to the highest level of precision achievable by the operating system, in accordance with CFTC requirements for electronic orders and no more than one second for non-electronic orders. These Participants must maintain Audit Trail information as required by applicable law and must have the ability to produce this data in a standard format upon request of the Market Regulation Department.

13.1.4 Participants accessing TSEF via non-electronic means are required access TSEF in a format capable of being audited (which may include phone tapes, instant messages, emails, etc.) and must keep audit trail information as required by applicable law and must have the ability to produce this data in a standard format upon request of the Market Regulation Department.

14. Outsourcing

14.1 *Outsourcing – Where TSEF has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices.*

14.1.1 TSEF has adopted an Outsourcing Policy which specifies controls to help to reduce the risks associated with outsourcing. This policy addresses the following controls which are found in the ISO/IEC 270002:2005 and ISO/IEC 27001 standards: (1) the identification of risks related to external parties; (2)

addressing security when dealing with customers; and (3) addressing security in third party agreements. TSEF outsources certain functions to both internal affiliated companies and third-party vendors. Pursuant to TSEF's policies, companies that provide such functions to the SEF require industry standard certifications, depending on service provided. TSEF also imposes additional controls and contractual provisions based on the nature of the services outsourced. These additional controls include contractual obligations imposed on service providers with respect to matters such as risk analysis, security, capacity, disaster recovery and testing, including obligations to follow generally accepted standards and best practices with respect to such matters, and the right for TSEF to monitor and audit the service provider's compliance with its contractual obligations to TSEF or employ an independent third party auditor for this purpose.

14.1.2 The Outsourcing Policy specifies that formal contracts between TSEF and the outsourcer must be submitted to TSEF's Legal Department for approval.

14.2 TSEF has outsourced the following key services/systems:

- (a) Regulatory Services Agreement with the NFA to assist TSEF perform its regulatory and surveillance function as an SRO;
- (b) clearing agreements with LCH. Clearnet Limited, ICE Clear Credit LLC, and the Chicago Mercantile Exchange Inc.;
- (c) technology agreements regarding order books and other trading platforms with StreamingEdge LLC, TFS-ICAP LLC, and Trad-X LLC; and
- (d) expense sharing agreements with Tradition Group companies, Tradition Financial Services, Inc. and Tradition North America to provide personnel, space, accounting and other administrative functions.

15. Fees

15.1 Fees

- (a) *All fees imposed by TSEF are reasonable and equitably allocated and do not have the effect of creating an unreasonable condition or limit on access by participants to the services offered by TSEF.*

15.1.2 In accordance with CFTC Regulations, all fees imposed by TSEF are equitably allocated, are commensurate with fees charged by other SEFs, do not discriminate among similarly situated Participants and do not create unreasonable conditions or limits to access by Participants to the offered services. TSEF's fee schedule is filed with the CFTC pursuant to its

regulatory obligations with the CFTC and is subject to review by the CFTC prior to TSEF implementing any changes.

(b) The process for setting fees is fair and appropriate, and the fee model is transparent.

15.1.3 Product fee determinations occur through collaboration between SEF finance, compliance and product line management teams at TSEF. Fees are differentiated at the product level by a number of different factors, including type of access desired by the Participant and activity that the Participant wishes to conduct. All fees for all products are made available to Participants and prospective Participants.

15.1.4 Prior to implementing any TSEF fee or incentive programs, such programs require various levels of internal approval. TSEF's fee structure must be approved by its CEO and Chief Financial Officer (the "CFO"). TSEF does not currently offer any incentive programs, however should TSEF offer incentive programs, such programs would be subject to the review and have received the approval of the CEO, CCO and CFO, and will conform with CFTC Regulations and will be publicly filed with the appropriate regulatory oversight bodies. Additionally, fee revisions may also be open to comment from the Participant Committee.

16. Information Sharing and Oversight Arrangements

16.1 *Information Sharing and Regulatory Cooperation - TSEF has mechanisms in place to enable it to share information and otherwise cooperate with the Commission, self-regulatory organizations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.*

16.1.1 In compliance with Core Principle 5, TSEF requires its Participants to maintain books and records and to permit inspection by the CFTC as a condition for access to TSEF. Rule 211 (Maintenance of Books and Records by TSEF) of the Rulebook provides that TSEF will retain such books and records for at least five years and shall make the books readily accessible for inspection upon request by the CFTC and U.S. Department of Justice, or the U.S. Securities and Exchange Commission or by other prudential regulators as may be authorized by the CFTC.

16.1.2 Additionally, Rule 213 (Information- Sharing Agreements) of the Rulebook provides that TSEF may enter into information-sharing agreements or procedures to coordinate surveillance with other markets. It authorizes TSEF to, among other things, provide market surveillance reports to other markets, share information concerning current and former Participants with other markets, share information and documents concerning ongoing and completed investigations with other markets, require its current or former Participants to provide information and documents to TSEF at the request of

other markets with which TSEF has an information-sharing agreement or other arrangements, enter into any arrangement if TSEF considers such arrangement to be required under the Rules or applicable law.

16.1.3 TSEF's Compliance and Surveillance Manual also outlines the procedures related to responding to governmental requests for information including the OSC.

16.2 *Oversight Arrangements - Satisfactory information sharing and oversight agreements exist between the Commission and the Foreign Regulator.*

16.2.1 The CFTC has entered into memorandums of understanding ("MOU") arrangements for co-operative enforcements with foreign regulatory authorities in numerous jurisdictions. The MOUs typically provide for access to non-public documents and information already in the possession of the regulatory authorities, and often include undertakings to obtain documents and to take testimony of, or statements from, witnesses on behalf of a requesting regulatory authority. The CFTC and the OSC are parties to an MOU that was entered into by the parties on March 25, 2014.

17. IOSCO Principles

17.1 *IOSCO Principles - To the extent it is consistent with the laws of the foreign jurisdiction, TSEF adheres to the standards of the International Organisation of Securities Commissions (IOSCO) including those set out in the "Principles for the Regulation and Supervision of Commodity Derivatives Markets" (2011).*

17.1.1 TSEF adheres to the standards of IOSCO by virtue of the fact that they must comply with the CEA and CFTC Regulations, which reflect the IOSCO standards. TSEF is regularly examined by the CFTC and during these examinations the IOSCO standards to which they are subject are taken into account.

PART III SUBMISSIONS

1. TSEF understands that it is the OSC's position that because TSEF regulates the conduct of its participants, the OSC considers TSEF to be an exchange. TSEF further understands that it is the OSC's position that because TSEF has participants located in Ontario, the OSC considers TSEF to be carrying on business as an exchange in Ontario and accordingly, is required to be recognized as such or exempted from recognition pursuant to Section 21 of the OSA.
2. TSEF submits that it does not pose a significant risk to the Ontario capital markets and is subject to an appropriate regulatory and oversight regime in a foreign jurisdiction.

3. TSEF satisfies all the criteria for exemption of a foreign exchange trading SEF executed derivatives from recondition as an exchange set out by OSC Staff, as described under Part II of this application.
4. TSEF notes that in OSC Staff Notice 21-702 Regulatory Approach for Foreign-Based Stock Exchanges (“**Notice 21-702**”), OSC Staff acknowledge that in the case of foreign-based stock exchanges, “[f]ull regulation, similar to that applied to domestic exchanges, may be duplicative and inefficient when imposed in addition to the regulation of the home or another jurisdiction”.
5. Stringent oversight by the Foreign Regulator of TSEF as well as the sophisticated information systems, regulations and compliance functions that TSEF has adopted pursuant to the SEF Rules will ensure that Ontario residents who receive direct access to the Platform are adequately protected and allay investor protection and market integrity concerns. TSEF submits that Notice 21-702 provides that OSC Staff may recommend that a foreign-based stock exchange be granted an exemption from recognition if the stock exchange does not pose significant risk to Ontario capital markets and is subject to an appropriate regulatory and oversight regime in a foreign jurisdiction.
6. TSEF submits that the offered services will only be available to a very narrow category of Ontario residents who are appropriately registered, exempt from registration or not required to be registered, as applicable, under Ontario securities laws, further allaying concerns relating to investor protection in Canada. Ontario participants are currently anticipated to comprise primarily Canadian federally regulated financial institutions such as banks, as well as registered dealers, advisers and investment fund managers and investments funds, pension funds and other similar entities.
7. We submit that it would not be prejudicial to the public interest for the OSC to grant TSEF Relief because TSEF will be regulated in its home jurisdiction as a SEF by the Foreign Regulator under the CEA. The Requested Relief will also permit TSEF to operate in Ontario on the same basis as TSEF’s operations under the SEF Rules, negating the duplication and inefficiencies that may result from the imposition of additional regulations on TSEF by the OSC. Oversight by the Foreign Regulator and the robust nature of the SEF Rules, which will require that TSEF adopt sophisticated information systems, regulations and compliance functions, is expected to ensure that Ontario users of the Platform are adequately protected.

PART IV OTHER MATTERS

1. Enclosures

- 1.1 In support of this application, we are enclosing the following:

- (a) a verification statement from TSEF confirming our authority to prepare and file this application and confirming the truth of the facts contained herein at Appendix "A"; and
- (b) a draft form of order.

2. Consent to Publication

2.1 TSEF consents to the publication of this application for public comment.

If you have any questions or require anything further, please do not hesitate to contact us.

Yours very truly,

"Ramandeep K. Grewal"

Ramandeep K. Grewal

encl.

cc: *Scott Fitzpatrick, Tradition Group*
Eric Earnhardt, Tradition SEF, Inc.
Jeffrey Mehan, Tradition SEF, Inc.
Simon Romano, Stikeman Elliott LLP

Appendix "A"
Verification Certificate

(See attached)

APPENDIX "A"

VERIFICATION CERTIFICATE

TO: Ontario Securities Commission

RE: Application by Tradition SEF, Inc. (the "Applicant") for exemption from recognition as an exchange

The undersigned, an officer of the Applicant, hereby authorizes the making and filing of the attached application by Stikeman Elliott LLP and confirms, for and on behalf of the Applicant, and not in his personal capacity, the truth of the facts contained therein as such facts relate to the Applicant.

IN WITNESS WHEREOF the undersigned has signed this certificate this 28th day of March, 2016.

TRADITION SEF, INC.

By:


Name: Jeff Mehan

Title: Chief Administrative Officer