

**NOTICE**

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**Summary of Content:**

Exchange amends Rule 4.06 and issues FAQ guidance on EFRPs.

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**Amendment to Exchange Rule 4.06 - Exchange for Related Position (“EFRP”) transactions and issuance of EFRP Advisory**

Effective September 5, 2014, the Exchange is implementing amendments to Rule 4.06 and issuing an advisory in the form of frequently asked questions (the “FAQ”) regarding Exchange for Related Position (“EFRP”) transactions.

The amendments to Rule 4.06 include new subparagraphs which codify two of the essential elements of a bona fide EFRP. Specifically, that (1) a transfer of ownership of the cash commodity between the parties or a legally binding contract between the parties consistent with relevant market conventions for the particular related product transaction exists, and (2) the execution of an EFRP may not be contingent upon the execution of another EFRP or related position transaction that results in the offset of the related position without the incurrence of market risk that is material in the context of the related position transaction. The FAQ contains other details on the basic elements of an EFRP, identifies the products in which the Exchange permits such transactions, describes the instruments which qualify as the cash or OTC derivative component of an EFRP, and sets forth information regarding pricing, submission for clearing and recordkeeping requirements.

The amendments and FAQ also confirm that an immediately offsetting EFP is permitted in foreign currency (but no other product) and eliminate the use of the term “transitory” to describe such transactions. Guidance regarding the role of third party account controllers and related documentation requirements for such transactions are set forth in the amendments and FAQ, recognizing the unique role of CTAs and other account controllers in the context of immediately offsetting EFPs in foreign currency. Such account controllers should also note that the duty to furnish documentation to the Exchange which demonstrates that the customer bears the risk of loss on the cash/OTC component of the transaction –as more fully spelled out in Question 9 of the FAQ—has been deferred to October 1, 2014.

The amendments also address the circumstances in which affiliated accounts may execute EFRPs with each other, and eliminate the provision under which the execution of EFRPs between commonly controlled accounts of separate legal entities that had different beneficial owners previously had been permitted.

The text of the amended Rule follows below. If you would like a copy of the Rule showing language additions and/or deletions, please contact the Corporate Secretary’s Office at (212) 748-4082. The FAQ may be accessed at the following link:

[https://www.theice.com/publicdocs/futures\\_us/EFRP\\_FAQ.pdf](https://www.theice.com/publicdocs/futures_us/EFRP_FAQ.pdf)

#### **Rule 4.06. Exchange for Related Position**

(a) The following transactions shall be permitted by arrangement between the parties in accordance with the requirements of this Rule, each type of transaction being referred to as an Exchange for Related Position (“EFRP”):

(i) AA or EFP Transaction: A privately negotiated and simultaneous exchange of an Exchange futures position for a corresponding related cash position;

(ii)EFS or Exchange for Risk (“EFR”): A privately negotiated and simultaneous exchange of an Exchange futures position for a corresponding related OTC swap or other OTC instrument;

(iii)Exchange of Options for options (“EOO”): A privately negotiated and simultaneous exchange of an Exchange Option position for a corresponding related OTC option position or other OTC instrument with similar characteristics.

#### **(b) EFRP Transaction Requirements**

(i) An EFRP Transaction shall consist of two discrete but related simultaneous transactions in which one party must be the buyer of (or the holder of the long market exposure associated with) the related position and seller of the corresponding Exchange contract, and the other party to the EFRP Transaction must be the seller of (or the holder of the short market exposure associated with) the related position and the buyer of the corresponding Exchange contract. The related position must involve the commodity underlying the Exchange Futures Contract or Option (or any by-product or related product) in a quantity that is approximately equivalent to the quantity covered by the Exchange Futures Contract or Option.

(ii) Each EFRP requires a bona fide transfer of ownership of the Cash Commodity between the parties or a bona fide, legally binding contract between the parties consistent with relevant market conventions for the particular related product transaction.

(iii) The execution of an EFRP transaction may not be contingent upon the execution of another EFRP or related position transaction between the parties where the transactions result in the offset of the related position without the incurrence of market risk that is material in the context of the related position transactions.

(iv) The accounts involved in the execution of an EFRP Transaction must be (A) independently controlled with different beneficial ownership; or (B) independently controlled accounts of separate legal entities with the same beneficial ownership; or (C) independently controlled accounts within the same legal entity, provided that the account controllers operate in separate business units.

(v) The parties to an EFRP Transaction shall maintain all documents relevant to the Exchange contract and the related position including all documents customarily generated in accordance with the relevant market practices, including, as applicable, copies of the documents evidencing title to, or the contract or contracts to buy or sell, the Cash Commodity (or the by-product or related product) involved in such Transaction, and

master swap agreements and any supplements thereto. Any such documents and information shall be furnished to the Exchange upon request. The carrying Clearing Member shall be responsible to provide such requested documents and information on a timely basis.

(vi) EFRP Transactions executed on the Last Trading Day for any delivery month in any Sugar No. 11 or Sugar No. 16 Futures Contract must be executed and reported before the final five (5) minutes of trading.

(vii) EFPs wherein the parties immediately offset the cash transaction are permitted only in foreign currency futures. For such transactions, the Exchange would expect to see confirmation statements issued by the bank/foreign exchange dealer party to the Transaction. These confirmation statements should be the type normally produced by the bank/foreign exchange dealer for confirmation of currency deals and must indicate, by name or account number, the identity of the counter party principal to the Transaction. However, in circumstances where the EFP Transaction is between a bank/foreign exchange dealer and a CTA, account controller, or other Person ("Account Controller") facilitating, as principal, the cash/OTC component of the transaction, the confirmation statement issued by the bank/foreign exchange dealer or a written allocation instruction issued by the Account Controller as soon as practicable after the entire transaction is complete, must identify, at minimum, the name of the Account Controller, the name of the Carrying Clearing Member and the account number (or other account specific designation), but need not identify the customer of the Account Controller by name.

(viii) A Person providing inventory financing may enter into an AA/EFP Transaction in which there is a purchase of the storable agricultural, energy or metals commodity and the sale of an equivalent quantity of Exchange Futures Contracts and simultaneously grant to the same counterparty the nontransferable right, but not the obligation, to effectuate a second AA/EFP Transaction during a specified time period in the future which will have the effect of reversing the original AA/EFP Transaction.

(ix) Exchange Traded Funds ("ETFs") are an acceptable cash or physical component of an EFP for Stock Indexes.

#### (c) Reporting Requirements

The parties to an EFRP Transaction shall cause the Transaction to be identified and reported to the Exchange in accordance with such procedures as are determined by the Exchange from time to time.

(d) All Commodity Contracts effected as part of EFRP Transactions shall be cleared in the usual manner. Clearing Members are responsible for exercising due diligence as to the bona fide nature of EFRPs submitted on behalf of their Customers.