

CX Futures Exchange, L.P.
Rule Amendments Submission #2021-2
May 5, 2021

1. The text of the rule changes to the CX Futures Exchange L.P. (“Exchange” or “CX”) Rulebook is attached. Additions are underlined and deletions are stricken through. This rule has been approved by the Exchange. Capitalized terms, unless otherwise defined herein shall possess the meaning(s) ascribed in Exchange Rulebook
2. The proposed effective date is June 1, 2021.
3. Attached, please find a certification that: (1) these rules comply with the Commodity Exchange Act and the Commodity Futures Trading Commission’s (“CFTC” or “Commission”) regulations thereunder; and (2) concurrent with this submission, CX Futures Exchange, L.P. posted on its website: (i) a notice of pending certification of the rule submissions with the Commission; and (ii) a copy of this submission.
4. A concise explanation and analysis of the operation, purpose, and effect of the amended rule appears below.
5. There were no opposing views expressed regarding these amended rules.

CONCISE EXPLANATION AND ANALYSIS OF THE PRODUCT AND ITS COMPLIANCE WITH APPLICABLE PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION’S REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.6(a)(7)(vi), the following is a concise explanation and analysis of the operation, purpose, and effect of the amended rules.

CX will list the first 2021 Atlantic Named Storm Landfall Swaps (“ANSLS”) contracts on June 1, 2021. These contracts are designed to allocate a shared risk-pool among market participants such that participants purchasing contracts in locations that are not impacted by a tropical storm landfall are allocated a de minimis portion of the paid premiums and participants who have purchased contracts that are impacted by a tropical storm landfall are allocated virtually all of the premiums paid by market participants.

This contract design means that market participants have little incentive to purchase the first contracts since there are not yet funds in the extant risk pool for that contract. Therefore, the exchange has created a market maker incentive program entitled the “Automated Liquidity Provider” (“ALP”) to provide the initial market making liquidity for each ANSLS contract under Exchange Rule V-10.

In the past, CX has made payments directly to market participants that provided liquidity¹. Due to the shared-risk-pool nature of the ANSLS contracts, CX has determined that a more efficient and equitable means of providing liquidity incentives would be to contribute an amount of \$4,500 directly into the risk pool, which will then be available to any market participant who purchases contracts impacted by a tropical storm landfall.

CX determined that such a liquidity incentive program complies with the Core Principles by encouraging enhanced liquidity in the ANSLS contract in a manner designed to promote fair and equitable trading and, by being available to all participants, does not impose any restraint of trade or undue burden on competition.

Due to the shared-risk-pool nature of the ANSLS contract, CX determined that purchasing contracts directly in the market for CX's own account is the most transparent and equitable method of providing this initial liquidity to the market. Specifically, the incentive program rule requires that CX purchase 500 contracts at each of the nine landfall locations that were impacted by tropical storm landfalls in 2020.

Furthermore, this rule does not permit trading these contracts through the strike code switching mechanism permitted under the contract rules. The effect of this requirement is that CX is behaving in the same manner as would a long-term hedger with a business or other fixed assets in a given location.

These positions have the potential for both gains and losses and are exposed to market risk the same as any other position in the market. Because these positions are placed into the risk pool on an equivalent basis as all other market participants, CX intends to report these purchased contracts in the normal course of volume, open interest, and other market information.

This program will be available until the earlier of (1) the exhaustion of allocated funds or (2) the end of the 2021 tropical storm season as defined in the contract specifications. However, CX reserves the right to terminate this program with three days advance notice to Participants, provided however, that any contracts already purchased will be held, as required by ANSLS contract specifications, until contract settlement.

¹ See the Daily Liquidity Incentive Program, Rule XI-101 initially filed on November 30, 2018 with an amendment filed on July 24, 2019

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

I hereby certify that:

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

Nolan Glantz

By: Nolan Glantz
Title: Chief Operations Officer
Date:

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CHAPTER XI
INCENTIVE PROGRAMS

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XI-103. 2021 Automated Liquidity Provider (ALP) Program

- a) This incentive program provides the initial liquidity for the Atlantic Named Storm Landfall Swaps contracts for the 2021 tropical storm season.
- b) No direct payments to Participants will be made under this program.
- c) The Exchange, using its own funds, will allocate an amount not to exceed \$27,000 for this program and such funds will be placed in a Participant Clearing Account for this purpose.
- d) Using funds allocated for this program, the exchange will purchase 500 contracts at 9 different locations upon the listing of each named storm contract, provided that:
 - i. the named storm is listed on or after June 1, 2021;
 - ii. at the time of listing, the purchase price of contracts is \$1.00;
 - iii. the Participant Clearing Account has at least \$4,500 of available funds to cover such purchases.
- e) Contracts will be purchased at the zip codes closest to the 9 landfall locations of tropical storms during the 2020 tropical storm season. The locations are attached here as Schedule A.
- f) Once purchased, contracts will be retained by the Exchange in a designated Participant Account for this program. Accordingly, all such contract purchases will be reported as volume and open interest in the normal course.
- g) Contracts purchased will be held until settlement at the original strike code locations. This Participant Account will not engage in strike code switching, as permitted by contract rules.
- h) Contracts will be settled in the normal course for each named storm. Any proceeds from settlements will be returned to the Exchange's Participant Clearing Account in the normal course and, therefore, may continue to be used for the program.
- i) At the end of the 2021 tropical storm season, the Exchange will close its account(s) and withdraw any remaining funds.
- j) This program shall be in effect for the 2021 tropical storm season and may be terminated at any time by the Exchange in its absolute discretion upon three (3) days' notice to Participants.

Initial effective date: June 1, 2021

Schedule A

2020 Landfall Locations

- 39.5N 74.3W
- 26.8N 97.4W
- 33.9N 78.4W
- 29.8N 93.3W
- 29.0N 89.2W
- 30.3N 87.7W
- 28.5N 96.4W
- 29.8N 93.1W
- 29.2N 90.6W