FairX | The Future of Futures

FairX (LMX Labs, LLC)
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FairX Submission #2021-15E

October 8, 2021

Mr. Christopher J. Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

VIA CFTC Electronic Filing

Re: CFTC Regulation 40.2 Certification: Listing of Micro Crude Oil Futures

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.2, LMX Labs, LLC, operator of FairX, (the "Exchange") hereby submits for self-certification its initial listing of Micro Crude Oil Futures to be offered for trading on the Exchange on or after October 25, 2021.

Contract Description

The Micro Crude Oil Futures contract (the "Contract") will be a monthly cash-settled contract with the following specifications

Contract Name	Micro Crude Oil Futures
Contract Code	OIL
Contract Size	100 Barrels
Price Quotation	One (1) decimal place
Minimum Tick Size	0.01 Ticks ($1.00 per contract)
Listed Contracts	Initial listing of Two (2) nearest months (Dec/Jan)
Price Fluctuation Limits	10% of Hourly Calculated Reference Price

Last Trading Day	Trading terminates 1:30pm CT 4 business day prior to the 25th calendar day of the month prior to the contract month. If the 25th calendar day is not a business day, trading terminates 5 business days prior to the 25th calendar day of the month prior to the contract month **
Daily Settlement	Daily Settlement: 1:30pm CT 1. 1-min VWAP of futures contract rounded to the nearest tradable tick 2. 1-min TWAP of futures contract midpoint of the Bid/Ask rounded to the nearest tradable tick 3. Last traded price of the current trade date 4. The contract settles to the prior settlement price
Final Settlement	FairX will use the NYMEX CL Futures corresponding daily settlement price. For example December OILZ21 will reference CLZ1.
Position Limits	5,000 contracts
Large Trader Reporting	350 contracts
Trading Hours	5-4pm CT Sun-Fri, with trading halt from 4pm to 5pm CT Mon-Thurs.

Contract Description

The Micro Crude Oil Futures Contract offers participants the opportunity to trade one of the world's most liquid oil commodities in a smaller contract size and in easily understandable increments. The Micro Crude Oil futures contract is cash settled against the prevailing market price for US light sweet crude. It is a price in USD per barrel equal to the settlement price for WTI crude futures as made public by NYMEX for the month of production per 2005 ISDA Commodity Definitions.

Compliance with Core Principles

The Exchange has reviewed the designated contract market ("DCM") core principles ("Core Principles") set forth in the Commodity Exchange Act and has identified that the Contract may most directly implicate the following Core Principles:

Core Principle 2 -- Compliance with Rules

Trading in the Contract is subject to the Exchange Rulebook (the "Rulebook") including Chapter 5, which prohibits fraud, non-competitive trading, market manipulation and abusive and disruptive trade practices. Additionally, as with all contracts traded on the Exchange, trading will be subject to monitoring and surveillance by the Market Regulation Department, which has the authority to investigate and enforce Exchange rules, as described in Chapter 7.

Core Principle 3 -- Contracts Not Readily Subject to Manipulation

The Micro Crude Oil future is based on the long-established and highly liquid NYMEX WTI Futures contract (CL). The CL contract offers transparent pricing and is traded on a central limit order book. With daily trading volumes of more than 100,000 contracts and open interest of over 300,000 contracts[1], it would be difficult to manipulate the price of the underlying contract.

Core Principle 4 -- Prevention of Market Disruption

Chapter 5 of the Rulebook prohibits Participants from manipulating, distorting the price of, and disrupting the settlement process of the Contract. As with all contracts traded on the Exchange, trading in the Contract will be subject to monitoring and surveillance by the Market Regulation Department. Further, trading in the Contract shall be subject to hourly price fluctuation limits consistent with U.S. energy futures contracts.

Core Principle 5 -- Position Limits or Accountability

The Contract shall be subject to the following position limits during the expiring contract month: 5,000 contracts beginning three days prior to expiration. This limit is comparable to limits imposed on the NYMEX CL contract. By way of providing context, a 5,000 contract position would represent 50,000 barrels, or .008% of the current stocks at Cushing, OK.[2]

Core Principle 7 -- Availability of General Information

The Exchange shall publish on its website and in its Rulebook the specifications, terms and conditions of the Contract.

Core Principle 8 -- Daily Publication of Trading Information

The Exchange shall publish on its website on a daily basis the trading volumes, open interest, and price information for the Contract.

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[1] Based on data observed on the CME website September 20, 2021 for the December 2021 expiry.
[2] https://www.eia.gov/dnav/pet/pet_stoc_cu_s1_a.htm

Core Principle 9 -- Execution of Transactions

The Contract shall be listed for trading on the Exchange's trading system, which provides for efficient, competitive, and open execution of transactions.

Core Principle 10 -- Trade Information

All requisite trade information shall be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.

Core Principle 11 -- Financial Integrity of Transactions

The Contract shall be cleared by Nodal Clear, LLC, a CFTC registered derivatives clearing organization subject to the CFTC regulations related thereto.

Core Principle 12 -- Protection of Markets and Market Participants

Chapters 4 and 5 of the Rulebook require all market participants, including futures commission merchants carrying customer accounts, to observe high standards of integrity, market conduct, commercial honor, fair dealing, and just and equitable principles of trade and prohibits, among other things, fraud, non-competitive trading, market manipulation, and abusive and disruptive trade practices. As with all contracts traded on the Exchange, trading will be subject to monitoring and surveillance by the Market Regulation Department.

Core Principle 13 -- Disciplinary Procedures

Rulebook Chapter 7 sets forth the rules and procedures for the investigation, enforcement, and sanctioning of persons that violate the Exchange's Rules.

<u>Certification</u>

The Exchange is not aware of any substantive opposing views to the Contract. The Exchange certifies that the Contract and related rules certified herein comply with the Commodity Exchange Act and the rules and regulations promulgated thereunder.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at: www.fairx.com

If you have any questions or require any further information, please contact me at 773-409-4128 or aloranger@fairx.com

Sincerely,

/s/

Anne Loranger
Chief Regulatory Officer and
Legal Counsel

Attachments: Appendix A   Amendments to FairX Rulebook Chapter 11

APPENDIX A

Additions underscored; deletion are ~~struckthrough~~

CHAPTER 11: CONTRACTS

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RULE 1105. Micro Crude Oil Futures

(a) Scope. Rule 1105 is limited in application to the trading of the Micro Crude Oil futures (“OIL Contract”). In addition to Rule 1105, the OIL Contract is subject to all Rules of the Exchange as applicable. Unless otherwise stated, all times referred to herein are Central Time Zone.

(b) Trading Schedule. The OIL Contract shall be offered for monthly trading in all delivery months during such hours as the Exchange shall determine from time-to-time.

(c) Trading Unit. The trading unit is equal to 100 times the WTI Crude Oil price.

(d) Price Increments. The minimum price increment shall be 0.01 per barrel ($1.00 per contract).

(e) Position Limits, Position Accountability, and Reportable Levels. Pursuant to Rules 530 to 533 and subject to the requirements and exceptions therein, the OIL Contract is subject to the following:

> (1) Position Limit. 5,000 OIL Contracts net long or net short commencing three days prior to the end of trading in the spot month.
>
> (2) Reportable Level. 350 OIL Contracts

(f) Price Fluctuation Limits. Trading in the OIL Contract shall be subject to the following price fluctuation limits of

> (1) 10% of the Hourly Calculated Reference Price at the top of each hour.
>
> (2) Reference Price is calculated by using the settlement calculation from the last 60 seconds of each hour. A 10% up and down Price Limit will be applied to the Reference Price.
>
> (3) The market will enter a Halt state for 2 minutes if a Price Limit is reached. Orders can be submitted, canceled, and amended during this state but no matching will occur.
>
> (4) The new Reference Price will be the last Price Limit reached.
>
> (5) If Price Limits are hit on the Lead Month contract, all related instruments will be Halted.

(6) If Price Limits are hit on non-Lead Month contracts, only the specific instrument which reached the Price Limit will be Halted.

(g) Termination of Trading. Termination in expiring OIL Contracts shall terminate at 1:30 pm CT 4 business days prior to the 25th calendar day of the month prior to the contract month. If the 25th calendar day is not a business day, trading terminates 5 business days prior to the 25th calendar day of the month prior to the contract month.

(h) Settlement. The OIL Contract is cash settled

(1) Daily Settlement Price shall be determined as follows:

(i) Volume-weighted average price of all trades occurring in the sixty (60) seconds prior to 1:30 pm CT on the relevant Business Day;

(ii) If no trades occur during the sixty (60) seconds prior to 1:30 pm CT, then the Settlement Price will be the time-weighted average midpoint between the bid and ask during the sixty (60) seconds prior to 1:30 pm CT; or

(iii) If a two-sided market is not available during the sixty (60) seconds prior to 1:30 pm CT, then the Settlement Price will be determined using the latest traded price of the current trade date

(iv) If the contract has not traded on the current trade date, the contract will settle to the prior settlement price.

(2) Final Settlement Price shall be the set to the publicly available daily settlement value of the NYMEX WTI Future (CL) at the termination of trading.

(3) Final Settlement. Clearing Firms holding open positions in an expiring OIL Contract at the termination of trading shall make or receive payment in accordance with the rules of the Clearing House.

(i) Disclaimer.

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