

CX Futures Exchange, L.P.

Rule 40.2 New Contract Submission—Atlantic Named Storm Landfall Swaps Contract Submission #2019-05

5/29/2019

CX Futures Exchange, L.P. (“CX” or “Exchange”) hereby certifies its listing of the following new contract: Atlantic Named Storm Landfall Swaps Contract.

This submission is being made in accordance with Section 5c(c)(1) of the Commodity Exchange Act, as amended, 7 U.S.C. §1 et seq. (“Act”) and Commodity Futures Trading Commission (“Commission”) Rule 40.2 thereunder:

1. The text of the proposed contract terms and conditions is attached.
2. The proposed listing date of the contract will be June 3, 2019.
3. Attached, please find a certification that: (1) the contract complies with the Commodity Exchange Act, and the Commission’s regulations thereunder; and (2) that CX posted on its website a notice of this pending product certification with the Commission and a copy of the submission, concurrent with the filing of this submission with the Commission.
4. A 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, appears below.
5. Confidentiality for this submission is not requested.

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 40.2(a)(3)(v), the following is a concise explanation and analysis of the product and its compliance with the Act and Commission rules.

The Exchange’s rules currently provide for trading in the Atlantic Named Storm Swaps #2 Contract (the “ANS #2 Contract”), which relates to the location of landfall (or lack thereof) of named tropical cyclones in the eastern half of the continental United States. At this time, there are no contracts listed in the ANS #2 Contract and, therefore, there is no open interest in that contract. Accordingly, the ANS #2 contract will be delisted.

The ANS #2 Contract is being replaced by a new contact, the Atlantic Named Storm Landfall Swaps Contract (the “ANSLS Contract”).

Although there are some similarities between the new ANSLS Contract and the ANS #2 Contract, such as both contracts provide that contracts will be listed for each named Atlantic

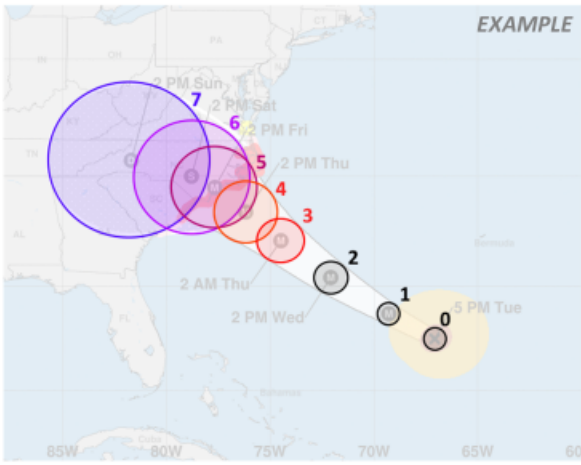
tropical storm, that market participants will choose Strike Codes based on US ZIP Code centroids, and that the 75-mile radius from a named storm landfall point is used to determine payment amounts, there are numerous differences in the new ANSLS Contract. These changes in the terms and conditions of the new contract are based upon observed trading in the ANS #2 contract and are intended to increase the liquidity and usefulness of the new contract for risk mitigation purposes. Specifically, the ANSLS contract implements the following features not present in the ANS #2 contract:

- The ANSLS contract provides for payments in cases where an Atlantic named storm makes more than one landfall. This more fairly represents the economic risks associated with a tropical storm than the “first landfall location” utilized by the ANS #2 contract.
- The ANSLS contract does not make any payments to market participants unless a landfall occurs. This provision more closely aligns the economic risks of a tropical storm with contract positions than the “No Landfall” payout provisions of the ANS #2 contract.
- Consistent with the above, if a named storm fails to make a landfall as defined in the contract, positions are automatically rolled forward into the next unnamed storm. This feature more closely approaches “seasonal coverage” sought by market participants and enables a hedger or other market participant to retain purchased coverage from one storm to another when no landfall occurred without re-entering a transaction in the market.
- The ANSLS contract utilizes 120, 96, 72, 48 and 36-hour forecasted locations provided by the National Hurricane Center to increase bid prices.

MARKETS

Hurricane Bid Pricing

Forecast Point	Radius	Price	Description
-	n/a	\$1.00	Storm has not been Named
-	n/a	\$1.25	Storm has been Named
7	198 mi	\$1.50	120 hr Forecast Zone
6	151 mi	\$1.75	96 hr Forecast Zone
5	103 mi	\$2.00	72 hr Forecast Zone
4	74 mi	\$2.25	48 hr Forecast Zone
3	56 mi	\$2.50	36 hr Forecast Zone
2	43 mi	-	24 hr Forecast Zone
1	26 mi	-	12 hr Forecast Zone
0	26 mi	-	Current Storm Location



EXAMPLE

2 PM Sun
2 PM Sat
2 PM Fri
2 PM Thu
2 AM Thu
2 PM Wed
5 PM Tue

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To implement this feature of the contract, the Exchange is utilizing a similar methodology to that used to account for information asymmetry in its rain, snow, high extreme temperature and low extreme temperature contracts. In the chart example above, forecast zones 3 through 7 will require higher bid prices for Strike Codes with landfall points underlying the corresponding areas. This feature mitigates the information asymmetry and enables the contract to continue trading as a named storm approaches the U.S. coastline. This feature replaces the single fixed bid price of \$1.00 in the ANS #2 contract.

- Consistent with the above, the ANSLS contract will not permit trading if a Strike Code has a landfall point underlying the area around the 24-hour forecast location, 12-hour forecast location or current storm position. In the chart example above, Strike Codes with landfall locations underlying forecast zones 0 through 2 would be unavailable for additional bids. This feature enables market participants to have access to other Strike Codes as a named storm approaches the coast and enables the contract to continue trading up to and beyond its first landfall point.
- The ANSLS contract permits Strike Code switching in a manner that is consistent with the methodology used in the Exchange’s rain, snow, high extreme temperature and low extreme temperature contracts. This feature is expected to increase the liquidity and information value of the contract by allowing market participants to modify their Strike Codes as new storm track information becomes available. This feature replaces the ANS #2 contract’s “Secondary Trading Period” provision.
- The ANSLS contract utilizes the “Residual Bid Interest” concept to determine the contract’s final settlement price that is also used by the Exchange’s rain, snow, high extreme temperature and low extreme temperature contracts. This feature constrains contract payments in any Strike Code to the range of \$0.01 to \$249.99 and prevents extreme payments in the circumstance that a named storm makes landfall in a low likelihood Strike Code area.

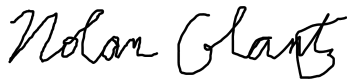
The Exchange incorporates by reference its Rule 40.2 Submission #2016-5 of June 13, 2016, which describes the operation of the ANS Contract as consistent with, and in accordance with, the Core Principles of Section 5 of the Commodity Exchange Act and the rules thereunder.

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

I hereby certify that:

(1) the Atlantic Named Storm Landfall Swaps Contract complies 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 notice of this pending product certification with the Commission and a copy of this submission, concurrent with the filing of this submission with the Commission.



By: Nolan Glantz
Title: COO
Date: 5/29/2019