DW SEF LLC
Market Regulation Advisory Notice
Subject: Top and Drop ("TaD") Privilege
Rule References: Rule 310 and 404.A
Advisory Date: January 7, 2016
Effective Date: January 22, 2016

Overview. The following DW SEF LLC ("DW SEF") Market Regulatory Advisory Notice ("MRAN") provides clarification regarding the Top and Drop ("TaD") Privilege, as described in Section 2 of DW SEF's MRAN dated January 16, 2015, concerning *"Order Types, Order Submission and Top and Drop Privilege."* In that earlier MRAN, certain definitions were provided as follows:

a. The term "TaD Minimum Size" means, on a per-instrument basis as published by the Company from time to time by Notice to Participants pursuant to Rule 310, the minimum Displayed Order Size necessary for an Order to qualify for TaD Privilege as described below.
b. The term "TaD Minimum Time" means, on a per-instrument basis as published by the Company from time to time by Notice to Participants pursuant to Rule 310, the minimum amount of time for which an Order must maintain a TaD Minimum Size in order to qualify for TaD Privilege as described below.

Pursuant to DW SEF Rule 301, please take notice that DW SEF hereby establishes TaD Minimum Size and TaD Minimum Time for each instrument that is potentially eligible for the TaD Privilege. All terms not defined herein shall have the meaning given such terms in the DW SEF Rulebook.

TaD Minimum Size. DW SEF hereby establishes TaD Minimum Size as identified below according to the applicable instruments and tenors.

TaD Minimum Time. DW SEF hereby establishes TaD Minimum Time for all instruments identified in this MRAN to be 120 seconds.

An Outright Swap Trade (a.k.a. "Outright Rate" Trade, "Rate" Trade).

The Swap Payer A pays a fixed semi-annual rate to the Swap Receiver B on an agreed amount ("Notional") for an agreed term ("Tenor"). The Swap Receiver B pays floating-rate 3-month LIBOR to the Swap Payer A on the agreed Notional and for the agreed term.

The minimum order quantity on the DW SEF platform varies from Tenor to Tenor, and approximates USD 50,000 in "Dollar Value of an 01", commonly known as "DV01". This is a common risk measure used to reference the expected gain or loss on a swap position when interest rates move up or down by 0.01%.

DW SEF imposes the following Minimum Order Sizes for the following swap Tenors. Note that the Minimum Order Size is also the TaD Minimum Size.

Tenor	**Minimum Order Size, TaD Minimum Size**
2 Year	USD 250,000,000
3 Year	USD 150,000,000
4 Year	USD 100,000,000
5 Year	USD 100,000,000
6 Year	USD 75,000,000
7 Year	USD 75,000,000

8 Year	USD 50,000,000
9 Year	USD 50,000,000
10 Year	USD 50,000,000
12 Year	USD 50,000,000
15 Year	USD 25,000,000
20 Year	USD 25,000,000
25 Year	USD 25,000,000
30 Year	USD 25,000,000
40 Year	USD 10,000,000

A Spread Switch Trade (a.k.a. "Rate Curve" Trade, "Rate Switch" Trade)

A Spread Switch Trade is the simultaneous paying (receiving) of one outright swap and receiving (paying) of another swap. When quoting a Spread Switch, the bidder intends to pay the swap with the longer tenor and receive the swap with the shorter tenor. The offeror intends the opposite. Spread Switches are quoted in spreads, representing the trader's desired basis-point differential between the rates on longer and shorter swaps. The quoted bid or offer size represents the trader's desired size on the longer-tenor swap. The size on the on the shorter-tenor swap is DV01-equivalent to the longer-tenor swap.

The Minimum Order Size / TaD Minimum Size on a Spread Switch A vs. B is identical in all cases to the Minimum Order Size on an Outright Swap B. For example; the Minimum Order Size on a 2 YR vs. 5 YR Spread Switch is equal to the Minimum Order Size on an Outright 5-YR swap, or USD 100,000,000.

A Spreadover Trade

A Spreadover is the simultaneous paying (receiving) of one outright interest rate swap and the purchase (sale) of US Treasury notes / bonds as a hedge.

When quoting a Spreadover, the bidder intends to pay (receive) on the outright interest rate swap and buy US Treasury notes / bonds as a hedge. Spreadovers are quoted in spreads, representing the trader's desired basis-point differential between the rate on the swap and the yield on the Treasury-bond hedge. The quoted bid or offer size is the trader's desired size on the interest-rate swap. The Treasury quantity is the DV01 equivalent of the swap's size.

The Minimum Order Size / Minimum TaD Size on Spreadover A is identical in all cases to the Minimum Order Size on an Outright Swap A. For example; the Minimum Order Size on a 10 YR Spreadover is equal to the Minimum Order Size on an Outright 10-YR swap, or USD 50,000,000.

A Spreadover Switch Trade (a.k.a. "Spread Curve" Trade)

A Spreadover Switch trade is the simultaneous paying (receiving) of one Spreadover and receiving (paying) of another Spreadover. When quoting a Spreadover Switch, the bidder intends to pay the swap with the longer tenor and buy Treasury bonds as a hedge, and receive the swap with the shorter tenor and sell Treasury bonds as a hedge. The offeror intends the opposite. Spreadover Switches are quoted in spreads, representing the trader's desired basis-point differential between the spreads on the longer and shorter Spreadovers. The quoted bid or offer size represents the trader's desired size on the longer-tenor swap. The size on the on the shorter-tenor swap is DV01-equivalent to the longer-tenor swap.

The Minimum Order Size / TaD Size on a Spreadover Switch A vs. B is identical in all cases to the Minimum Order Size on an Outright Swap B. For example; the Minimum Order Size on a 10 YR vs. 30 YR Spread Switch is equal to the Minimum Order Size on an Outright 30-YR swap, or USD 25,000,000.

<u>A Rate Butterfly (a.k.a. "Fly")</u>

A Rate Butterfly is the simultaneous paying (receiving) of one Outright Swap B and the receiving (paying) of one shorter-dated Outright Swap A and one longer-dated Outright Swap C. Outright Swap B is referred to as the "Body." Swaps A and C are referred to as "Wings." Butterflies are quoted as a spread between spreads A vs. B and B vs. C. The calculation is:

> Butterfly Spread = (2*Outright Swap Rate B) – Outright Swap Rate A – Outright Swap Rate B
> The bidder of a Butterfly intends to pay the body and receive the wings. The offeror intends the opposite.

<u>The Minimum Order Size / Minimum TaD Size on Butterfly ABC is identical in all cases to the Minimum Order Size on an Outright Swap B</u>. For example, the Minimum Order Size on a 3-YR / 4-YR / 5-YR Butterfly is equal to the Minimum Order Size on an Outright 4-YR Swap, or USD 100,000,000.

Swaps A and C are each used to hedge 50% of Swap B. The quantity of A (and C) is DV01-equivalent to 50% of the quantity of Swap B.