

Compliance Notice to Participants #4

Exchange For Related Position Transactions

("EFRP Transactions")

Subject	Compliance Notice to Participants on Exchange for Related Position Transactions
Rules	FMX Rule XI-6 <i>EFRP Transactions</i> and CFTC Regulation 1.35
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This Compliance Notice to Participants ("CNTP") provides guidance to Participants of the FMX Futures Exchange ("FMX Futures" or "the Exchange") to assist compliance with FMX Futures Rule XI-6 *EFRP Transactions* and Commodity Futures Trading Commission ("CFTC") Regulation 1.35 *Records of commodity interest and related cash or forward transactions*.

Guidance

1. Permitted EFRP Transaction Types and Exchange Contract Eligibility

An "Exchange for Related Position" ("EFRP") means a privately negotiated transaction that involves the execution of an Exchange Contract away from the Exchange's centralized market and, on the opposite side of the transaction, the simultaneous execution of an equivalent quantity of the cash product or related product corresponding to the asset underlying the Exchange Contract.

The following types of EFRP transactions are permitted to be executed outside of the Exchange's centralized market in accordance with the requirements of FMX Rule XI-6:

- Exchange of Futures for Physical ("EFP"): the simultaneous execution of an Exchange futures contract and a corresponding physical transaction.
- Exchange of Futures for Swap ("EFS"): the simultaneous execution of an Exchange futures contract and a corresponding OTC swap or other OTC derivative transaction.

Participants may submit EFRP Transactions to the Exchange in EFRP eligible Exchange Contracts as set forth below and in the Rules of each respective Exchange Contract:

- Secured Overnight Financing Rate (SOFR) Futures (Commodity Code: FS3)

2. Eligibility to Participate in EFP Transactions

There are no specific eligibility requirements for participation in an EFP transaction. Since the EFP transaction requires a bona fide cash market transaction, parties to an EFP must be capable of transacting in the underlying cash market.

There are specific eligibility requirements for participation in an EFS transaction. Parties to an EFS transaction must be Eligible Contract Participants (“ECPs”) as defined in Section 1a(18) of the Commodity Exchange Act and comply with any other CFTC requirements regarding eligibility to transact the OTC component of the EFS. Parties should consult with outside counsel, as appropriate, to determine whether they are eligible to transact the related position component of the EFS.

3. Parties to an EFRP Transaction

One party to the EFRP must be the buyer of the Exchange Contract and the seller of (or the holder of the short market exposure associated with) the related position; the other party to the EFRP must be the seller of the Exchange Contract and the buyer of (or the holder of the long market exposure associated with) the related position.

The Exchange Contract and the corresponding related position must be executed for accounts with the same beneficial ownership.

A broker or third party, as principal, may facilitate the related position component of an EFRP on behalf of a Customer, provided such activity is conducted in accordance with regulatory requirements and applicable Rules. The facilitating broker or third party must be able to demonstrate that the related position was passed through to the Customer who received the Exchange Contract as part of the EFRP. Both the Customer and the facilitating broker or third party are responsible for maintaining proper records that clearly demonstrate the nature and terms of the related position.

4. Account Qualifications for Opposing Accounts to an EFRP Transaction

The opposing accounts to an EFRP Transaction must be:

- (a) independently controlled accounts with different beneficial ownership;
- (b) independently controlled accounts of separate legal Entities with common beneficial ownership; or
- (c) independently controlled accounts of the same legal Entity, provided that the account controllers operate in separate business units.

“Common beneficial ownership” broadly includes both (i) accounts with the “same beneficial ownership” (i.e., accounts owned by the same Person or entity, accounts of a parent and its wholly owned subsidiaries, and accounts of subsidiaries that are wholly owned by the same parent) and (ii) accounts with common beneficial ownership that is less than 100%.

For EFRP Transactions between accounts with common beneficial ownership, the parties to the trade must be able to demonstrate the independent control of the accounts and that the Transaction had economic substance for each party to the trade.

5. Third Party Execution of EFRP Transactions

Typically, two parties are involved in an EFRP Transaction: (1) the buyer of the futures Contract and seller of (or holder of short market exposure associated with) the related position and (2) the seller of the futures Contract and the buyer of (or holder of long market exposure associated with) the related position. From the perspective of each individual party to the EFRP Transaction, the Exchange contract and corresponding related position of an EFRP must be executed for accounts with the same beneficial ownership.

However, a third party may facilitate, as principal, the related position component of an EFRP on behalf of a Customer provided that the third party can demonstrate that the related position was passed through to the Customer who received the Exchange Contract as part of the EFRP.

6. Related Position

For EFPs, the related position component must be the cash commodity underlying the Exchange Contract or a related product that has a reasonable degree of price correlation to the commodity underlying the Exchange Contract.

For EFSs, the related position component must be an OTC swap or other OTC derivative transaction that has a reasonable degree of price correlation to the commodity underlying the Exchange Contract.

The cash commodity or OTC derivative component underlying an EFRP transaction must have a reliable and demonstrable price relationship with the futures Contract. It should exhibit price movement that parallels the price movement of the futures contract (i.e., a reasonable degree of price correlation). The participants involved in an EFRP transaction must be able to demonstrate to the Exchange the correlation of the cash commodity or OTC component to the futures contract, upon request.

7. Prohibition Against Non-Bona Fide EFRP Transactions

Each EFRP Transaction requires a bona fide transfer of ownership of the underlying asset between the parties or a bona fide, legally binding Contract between the parties consistent with relevant market conventions for the particular related position component of the EFRP.

The execution of an EFRP transaction may not be contingent upon the execution of another EFRP transaction 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.

The facilitation of the execution of an EFRP Transaction by any party that knows such EFRP is non bona fide shall constitute a violation of FMX Rule XI-6.

8. Equivalent Quantities

The quantity of the related position component of the EFRP must be approximately equivalent to the quantity of the Exchange component of the EFRP. Appropriate hedge ratios between the Exchange and related position components of the EFRP may be used to establish equivalency.

9. Pricing Considerations

EFRPs may be transacted at such commercially reasonable prices as are mutually agreed upon by the parties to the Transaction.

The Exchange component of the EFRP Transaction must be priced in accordance with the applicable futures Contract price increments as set forth in the Rules governing the Exchange Contract.

Furthermore, EFRPs may not be priced in a manner to facilitate the transfer of substantial sums of cash from one party to another, to allocate gains and losses between the futures or options on futures and the cash or OTC derivative components of the EFRP, to evade taxes, to circumvent financial controls by disguising a firm's financial condition, or to accomplish some other unlawful purpose.

Please take note that EFRPs executed at off-market prices are subject to increased scrutiny and are more likely to be selected for review by FMX Compliance to determine the purpose of the EFRP transaction price.

10. Settlement and offset of OTC derivative transaction by EFS

Parties to an OTC derivative transaction may agree, at the time a transaction is negotiated, to settle such transaction by EFS. The settlement price for the OTC derivative transaction must be subject to market risk that is material in the context of the transaction. For example, a SOFR swap may be negotiated to settle via EFS on a specific date in the future at the settlement price for the SOFR Futures Contract on a specific date. Parties agreeing to settle an OTC derivative via an EFS must engage in bilateral negotiations that include agreement to the material terms of the EFS executed to settle such OTC derivative contemporaneously with the submission of such EFS.

Parties to an OTC swap transaction may agree to offset an OTC swap transaction by EFS after the swap has been agreed to provided that the OTC swap or OTC transaction stands on its own as an independent transaction, subject to material market risk.

11. Books and Records

Parties to an EFRP Transaction must maintain all records relevant to the Exchange Contract and the related position underlying EFRP Transaction, including Order tickets, records customarily generated in accordance with relevant market practices, records reflecting payments between the parties and any other records required to be kept pursuant to CFTC Regulation 1.35. Brokers and third parties who facilitate EFRP Transactions must maintain all records corresponding to their facilitation of the Transactions in accordance with Rule XII-1 and Rule III-19.

Records related to EFRP Transactions must be provided to the Exchange upon request. It shall be the responsibility of the Clearing Member to obtain and submit the requested records of their Customers to the Exchange on a timely basis.

For the purposes of complying with FMX Rule III-18, each clearing member, omnibus account and foreign broker responsible for submitting daily large trader positions in accordance with FMX Rule III-18(c) *Required Reports* must submit for each reportable account the EFRP volume bought and sold in the reportable instrument. This information must be included in the daily Large Trader report to the Exchange.

12. Procedures for Submission of EFRPs

EFRPs may be submitted to the Exchange via the FMX Block Trade/EFRP Submission Facility by submitting an EFRP ticket ("EFRP Trade Ticket") or by any other means approved by the Exchange from time to time.

In order to submit an EFRP Trade Ticket into the FMX Block Trade/EFRP Submission Facility, the party entering the EFRP must have access to the FMX Block Trade/EFRP Submission Facility and must have received permission to enter the trades for the accounts involved in the EFRP from the Clearing Members carrying those accounts.

Entry of an EFRP Trade Ticket into the FMX Block Trade/EFRP Submission Facility may be completed as follows:

1. Single sided entry (referred to in the FMX Futures Trade Ticket as a cross trade field > No): Seller/buyer submits a trade that is alleged to the buyer/seller by each of the parties to the trade. The buyer/seller must confirm the alleged EFRP within the Reporting Window.
2. Dual sided entry (referred to in the FMX Futures Trade Ticket as a cross Trade field > Yes): Seller/buyer submits and confirms for both the buy and sell side of the EFRP. The selling/buying clearing member/authorized submitter will need to be permissioned to accept trades on behalf of the buying/selling clearing member.

The party or Broker submitting an EFRP must enter complete EFRP details below:

- Product: select the contract name (e.g., SOFR Futures)
- Instrument: select the contract month and year
- Price: enter the agreed trade price
- Quantity: enter the agreed number of contracts
- Trade Type: Select EFRP type (EFP or EFS)
- Cross Trade (Entry Type): Select whether this transaction is being entered as (1) single sided (cross trade field > No) or (2) dual sided (cross trade field > Yes)
 - If single sided, enter "No" in the Cross Trade field.
 - If dual sided, select "Yes" in the Cross Trade field.

- Buyer/Seller Details:
 - If single sided (“cross trade field > No), select your role as Buyer or Seller, and select the trader, Clearing Member, Customer Type Indicator Code, and account number associated with your role, in addition to the Clearing Member of the alleged counterparty).
 - If dual sided (cross trade field > Yes), in both the Buyer and Seller sides of the transaction, enter the trader, Clearing Member, Customer Type Indicator Code, and account number)
- Execution Date and Time: Enter the date and time the trade was agreed upon off-Exchange to the nearest minute in Eastern Time (the execution time is the time at which the trade was consummated – not the time at which the trade details were entered into the Block Trade/EFRP Submission Facility)

For the EFRP to be submitted to LCH Limited for Clearing, both sides of the futures component of the trade must pass the required credit check and the relevant terms of the respective sides of the trade must match. If either side does not pass the required credit check or the terms do not match, the EFRP will remain uncleared.

13. Time Requirements for EFP Submission

EFRP transactions should be submitted to the Exchange as soon as possible following agreement to the relevant terms by the parties to the trade. The Compliance Department expects submission to occur on the same day that the EFRP is executed, absent extenuating circumstances.

14. Clearing of EFRPs

An EFRP Transaction submitted to the Exchange will be cleared in accordance with the Rules of LCH Limited.

15. Exchange Supervision of EFRPs

As part of the Exchange’s ongoing surveillance program, FMX Compliance Staff may request additional information or supporting documentation related to EFRP transactions from Clearing Members and/or from parties to EFRP transactions. Clearing Members and parties involved in EFRP transactions are expected to respond promptly and fully to all information requests. Repeated deficiencies, delays in responding to requests, or failure to provide adequate documentation may result in disciplinary action pursuant to Chapter XIV of the Rules of the Exchange.

If you have any questions about this CNTF, please contact the FMX Futures Compliance Department at: futurescompliance@fmx.com.

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