**Questions Pending as of August 2, 2001, Regarding the
Nasdaq LIFFE, LLC Contract Market Application**

1. Is Nasdaq LIFFE requesting Commission approval of its rules at the time of designation?

2. Trading Procedures for Nasdaq LIFFE Trading Facility (effective 8/21/01 – 12/21/01) ("August-December Trading Procedures")

   a. In August-December Trading Procedure 3.2(d), what do "individuals" and "order management systems" mean? This paragraph refers to "any trade submission access granted to individuals by way of order management systems." We understand that only clearing members trading for themselves will to be able to trade during August to December, and thus no other individuals should have any access. Do "individuals" refer to the employees of the clearing member, and "order management systems" refers to the clearing member's internal computer (and not an order routing system for outsiders). Please clarify.

   b. In August-December Trading Procedure 5.2, one of the first two "that's" in the provision needs to be deleted.

   c. In August-December Trading Procedure 5.3(a), does "identification of individual" mean the ITM of the Responsible Person involved, or something else?

   d. August-December Trading Procedure 5.5, should refer to Trading Procedures 6 and 7, not 5 and 6. In a similar manner, August-December Trading Procedure 8.2 should refer to Trading Procedures 6 and August-December Trading Procedure 8.3 should refer to 7, not 5 and 6.

   e. In August-December Trading Procedure 5.6, the "(n)" minutes between negotiation of the trade and its submission to the Exchange by one of the counterparties needs to be filled in. In August-December Trading Procedures 7.1 and 7.2, the numbers should be filled in. Please fill in the minutes before publication blank for August-December Trading Procedure 11.1(a).

   f. In August-December Trading Procedure 6.1(d), what is meant by "trade allocation" (6.1(d)) and "trade reference (6.1(g))? Why would there be a need to do any sort of trade allocation in August-December Trading Procedure 6.1(d)? Similarly, why should there be any need for CTI code entry for this four-month period (see August-December Trading Procedure 6.1(h))?

   g. In August Trading Procedure 7.1(b), is "identity of individual submitting trade for authorization" the ITM of the Responsible Person involved, or something else? Is "member mnemonic" in 7.1(c) the ITM, or something else?

   h. The exchange block trading rules for both the August-December Trading Procedures and the block trading after December 21 (Rule 4.21.7), refer to front-line Exchange personnel

as checking the validity of the Security Futures Trade details submitted by the member and then either "confirm that the Block Trade is executed" (for Rule 4.21.7(e) or "authorize execution" of the trade (for the August-December Trading Procedure 8). Neither calls for the Exchange employee to determine whether the trade is inside the limits of fair value established under the Exchange's fair value formula.

(b)(5)

i. Both Rule 4.21.7(e) and August-December Trading Procedure 8 should require that the exchange employee verify that the trade is within the limits of fair value before the Exchange lets the trade be executed.

ii. The language in both Rule 4.21.7(e) and August-December Trading Procedure 8 should be clarified to spell out that when trade details are submitted by the member, the trade is not actually executed until the Exchange employee "authorizes" such trade based on both validity of details and fair value. Therefore, after only after the trade is "authorized" and "executed," is the trade confirmed.

3. August General Notice to Members.

(b)(5)

4. Status of Nasdaq LIFFE Agreements.

a.

b)(4)

b.

b)(4)

(b)(5)

i.

(b)(4)

(b)(5)

ii.

(b)(4)
(b)(5)

5. "Responses to July 25 Questions," dated July 30. The "Responses to July 25 Questions" stated in Response 1 that security futures products would be entered into the OCC clearing system via an ICC system. Please confirm that OCC, rather than ICC, will clear Nasdaq LIFFE security futures products.

6. "Responses to CFTC Staff's Questions Pending as of July 13," dated July 30.

   a.

   (b)(4)

   b.

   (b)(4)
   (b)(5)

   c.

   b)(4)

   d. The "Responses to CFTC Staff's Questions Pending as of July 13," I.5.I states that the Commission would be advised of the nature of an alert if appropriate. Under what criteria or circumstance would the Exchange consider it not appropriate to advise the Commission of an alert?

7. "Responses to CFTC Staff's Questions Dated July 20," dated July 30

   a. In question I.3.b of its questions dated July 20, the Commission requested the provision of a pro-rata algorithm rule. The "Responses to CFTC Staff's Questions Dated July 20," dated July 30, did not provide for such rule, instead noting that the Exchange does not plan to apply such algorithm to its security futures contracts. The response also noted that the Exchange would provide notice of the parameters and operation of such algorithm to members should the Exchange determine to apply such pro-rata algorithm to a contract. The Commission should also be notified of the parameters and operation of such algorithm before its application, either in a request for contract approval or as part of a certification to the Commission as to compliance of the contract to the Act and the Commission's regulations.

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b.

(b)(4)
(b)(5)

8. In 12.f. of its "Responses to CFTC Staff's Preliminary Review," dated July 13, the Exchange stated that it would require that foreign members who solicit orders from U.S. customers be registered with the Commission. Where has such a requirement been codified/memorialized?

9. As requested by the Commission, the Exchange amended Rule 4.5.1 to require consent before a Member carries out pre-negotiated trading for that customer. However, Staff understood that the Exchange would amend that rule to require "written" consent. Please clarify.

10. The existing exchanges currently provide trade data to us for input into EDS on a monthly basis. Please consider whether Nasdaq LIFFE would be willing to do so as well. (For information on EDS, please see attachment below)

11.   - (b)(5)

12. We suggest the language of Rule 2.11 be changed. Where Rule 2.11 states "affects the quality of the commodity to be received under any such Exchange contract" it should be changed to "materially changes the contract's terms and conditions." Such language is closer to the statutory language.

13.   (b)(4)

14.
                                                                                          (b)(5)

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EDS

The CFTC's Exchange Database System ("EDS") was developed in the mid-1980s to provide investigators with a mechanism to obtain reports and other relevant information for trade practice investigations and other kinds of analyses based on trade data received from the exchanges. Prior to the development of the EDS, investigations and analyses of exchange trade data were accomplished using hardcopy data printouts provided by the exchanges. In order to reorganize the data for study, it was necessary to key the data into a PC database for further manipulation. Since most investigations did require further analysis than was directly supported by the hard-copy printouts, and since the exchanges were maintaining their data in computer systems, the CFTC requested that exchanges provide their general trade register data in computer-readable format. No specific requests for data fields or data format were made by the CFTC, nor was any standardization among exchanges requested. Since each exchange had developed its system independently, they provided data in formats convenient to each, and these formats changed as the exchanges modified their respective systems.

EDS was originally developed to use the "lowest common denominator" set of data fields that were provided by all of the exchanges. CFTC staff analyzed each data format and selected the fields with which to develop matching processes and general reports. None of the fields unique to each exchange was included in the common data group. Some exchanges provided matching "buy" and "sell" data records; others provided a single data record after performing the trade data matching themselves. EDS had to accommodate receiving data in these various formats from each exchange and convert them into a standard dataset by creating two records - buy and sell - for each trade.

Subsequent re-development of the EDS in 1988 resulted in improvements to the system. First was the use not only of common data fields, but also of data fields unique to each exchange. The second major change was the use of multiple steps to match each exchange's trades, with a unique series of steps being applied to each exchange's data. The system was also expanded to include a sub-system for Time & Sales data, which is comprised of the times of price changes by the trade.

At this point, a standardized "automatic" processing system was established to submit and process Chicago and New York exchange trade data. All trading data collected from the Chicago and New York exchanges are sent on tapes to Chicago, where the data are received and loaded. Chicago staff then runs automatic processing on the Chicago data, while staff in New York runs the processing on the New York data. Data from the Minneapolis Grain Exchange and Kansas City Board of Trade are received by the Minneapolis and Kansas City regional offices daily on diskettes, and are loaded and processed by staff in each of these regional offices, respectively. Once loaded and processed, data are made available to all the users.

The existing exchanges currently furnish data for EDS monthly, primarily on magnetic tape. However, the CFTC is currently considering the possibility of receiving the data electronically. The current system is a batch-oriented application that consists of approximately two hundred COBOL programs. The data are organized into two flat-file databases:

- Trade data - which maintains terms and audit trail information for each trade, with two or more records per trade (buy and sell), including transfer trades, give-up trades, and exchanges of futures for physicals.

- Time & Sales data - which maintains changes in the prices of various commodities and the prices of derivatives thereof or, in some cases, the price of every transaction. This information is not derived from the trade data.