

RECEIVED
DIVISION OF
REGULATORY AFFAIRS

Dated as of: _____

**CANTOR FINANCIAL FUTURES EXCHANGE
CLEARING MEMBER GUARANTY AGREEMENT**

Name of Guaranteed Trader ("TRADER")

Name of Guaranting Clearing Member ("CLEARING MEMBER")

In consideration of the privilege granted or to be granted by the Cantor Financial Futures Exchange, Inc. ("Exchange") to the above named TRADER to execute transactions on the Exchange in accordance with the By-Laws and Rules of the Exchange Rules, the TRADER and CLEARING MEMBER agree as follows:

CLEARING MEMBER hereby unconditionally guarantees severally to the Exchange and to the other persons or entities with whom the TRADER may execute transactions on the Exchange, that the TRADER will duly and timely perform, pay and discharge all of TRADER's obligations and liabilities of whatever sort which arise out of, are connected with, or related to transactions on the Exchange or which arise under the By-Laws and Rules of the Exchange.

CLEARING MEMBER and TRADER recognize and agree that they are bound by the By-Laws and Rules of, and are subject to the jurisdiction of, the Exchange, the New York Cotton Exchange and the Board of Trade of the City of New York, Inc. Without limiting the foregoing, CLEARING MEMBER specifically recognizes and agrees that it will make payments and accept contracts approved for trading on the Exchange for clearance on behalf of the TRADER when so required by the Exchange.

The CLEARING MEMBER's most recent financial statements dated ___/___/___ are enclosed herewith (or has previously been filed with the Exchange) and CLEARING MEMBER agrees to furnish such further financial information as the Exchange may from time to time request. CLEARING MEMBER's most recent listing of its guarantee of the obligations of any person on this or any other commodity exchange dated ___/___/___ is enclosed herewith (or has been previously filed with the Exchange).

This instrument is a continuing guarantee which remains in full force and effect unless revoked by a notice signed by the undersigned CLEARING MEMBER and delivered to the Office of the Secretary of the Exchange, acknowledged in writing by the Secretary thereof, or his designee, and notice has been given by the Exchange; but such revocation shall not be effective as to any obligations or liabilities incurred by the TRADER prior to the delivery, acknowledgement, and notice of such revocation.

Signature of Guaranteed Trader

Print Guaranting Clearing Member Name

By: _____
Signature of Officer or Partner of
a member firm of the New York Cotton Exchange

APPROPRIATE FORM OF ACKNOWLEDGEMENT TO BE EXECUTED

FORM FOR CORPORATION

STATE OF)
)ss.:
COUNTY OF)

On the ___ day of _____, 199__ before me came _____, to me known, who, being by me duly sworn did depose and say that ___ he is the _____, of the Corporation described in and which executed the foregoing instrument, and that ___ he signed h___ name thereto by authority of the Board of Directors of said Corporation.

Notary Public

FORM FOR PARTNERSHIP

STATE OF)
)ss.:
COUNTY OF)

On the ___ day of _____, 199__, before me came _____, to me known, who, being by me duly sworn did depose and say that ___ he is a member of _____, the firm/partnership described in and which executed the foregoing instrument and the person who executed the foregoing instrument in the name of said firm/partnership and acknowledged that ___ he executed the foregoing instrument for and on behalf of said firm/partnership.

Notary Public

FORM FOR INDIVIDUAL

STATE OF)
)ss.:
COUNTY OF)

On the ___ day of _____, 199__ before me came _____, an individual Clearing Member, to me known and known to me to be the person described in, and who executed the foregoing instrument, and ___ he acknowledged to me that ___ he executed same.

Notary Public

Dated as of: _____

**CANTOR FINANCIAL FUTURES EXCHANGE
CLEARING MEMBER GUARANTY AGREEMENT**

Name of Guaranting Clearing Member ("CLEARING MEMBER")

In consideration of the privilege granted or to be granted by the Cantor Financial Futures Exchange, Inc. ("Exchange") to each individual trader who is listed on the reverse side of this Agreement (collectively, the "TRADERS") to execute transactions on the Exchange in accordance with the By-Laws and Rules of the Exchange, the TRADERS and CLEARING MEMBER agree as follows:

CLEARING MEMBER hereby unconditionally guarantees severally to the Exchange and the other persons or entities with whom the TRADERS may execute transactions on the Exchange, that each of the TRADERS will duly and timely perform, pay and discharge all of such TRADER'S obligations and liabilities of whatever sort which arise out of, are connected with, or related to transactions on the Exchange or which arise under the By-Laws and Rules of the Exchange.

CLEARING MEMBER and each individual TRADER listed herein recognize and agree that they are bound by the By-Laws and Rules of, and are subject to the jurisdiction of, the Exchange, the New York Cotton Exchange ("NYCE") and the Board of Trade of the City of New York, Inc. ("NYBT"). CLEARING MEMBER agrees to assume an affirmative obligation to thoroughly advise each individual TRADER prior to his or her executing transactions on the Exchange that such TRADER is bound by the By-Laws and Rules of, and subject to the jurisdiction of the Exchange, NYCE and NYBT. Upon request, CLEARING MEMBER shall provide any TRADER with a copy of the By-Laws and Rules of the Exchange. Without limiting the foregoing, CLEARING MEMBER specifically recognizes and agrees that it will:

- a) make payments and accept contracts approved for trading on the Exchange for clearance on behalf of each of the TRADERS when so required by the Exchange; and
- b) accept any and all regulatory responsibility for such TRADERS.

The CLEARING MEMBER's most recent financial statements, dated ___/___/___ are enclosed herewith (or have previously been filed with the Exchange) and CLEARING MEMBER agrees to furnish such further financial information as the Exchange may from time to time request. CLEARING MEMBER's most recent listing of its guarantee of the obligations of any person on this or any other commodity exchange dated ___/___/___ is enclosed herewith (or has been previously filed with the Exchange).

This instrument is a continuing guarantee which remains in full force and effect unless revoked by a notice signed by or on behalf of the undersigned CLEARING MEMBER and delivered to the Office of the Secretary of the Exchange, acknowledged in writing by the Secretary thereof, or his designee, and notice has been given by the Exchange; but such revocation shall not be effective as to any obligations or liabilities incurred by the TRADER prior to the delivery, acknowledgement, and notice of such revocation.

Print Guaranting Clearing Member Name

Office Address:
Phone:
Fax:
E-mail

By: - _____
Signature of Officer or Partner of a Member Firm

LIST OF AUTHORIZED TRADERS GUARANTEED BY CLEARING MEMBER

1. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

2. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

3. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

4. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

5. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

6. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

7. _____
Name of Guaranteed Trader

Home Address:

Social Security No.:

Date of Birth:

Use Additional Sheets as Necessary.

APPROPRIATE FORM OF ACKNOWLEDGEMENT TO BE EXECUTED

FORM FOR CORPORATION

STATE OF)
)ss.:
COUNTY OF)

On the ___ day of _____, 199__ before me came _____, to me known, who, being by me duly sworn did depose and say that ___ he is the _____, of the Corporation described in and which executed the foregoing instrument, and that ___ he signed h ___ name thereto by authority of the Board of Directors of said Corporation.

Notary Public

FORM FOR PARTNERSHIP

STATE OF)
)ss.:
COUNTY OF)

On the ___ day of _____, 199__, before me came _____, to me known, who, being by me duly sworn did depose and say that ___ he is a member of _____, the firm/partnership described in and which executed the foregoing instrument and the person who executed the foregoing instrument in the name of said firm/partnership and acknowledged that ___ he executed the foregoing instrument for and on behalf of said firm/partnership.

Notary Public

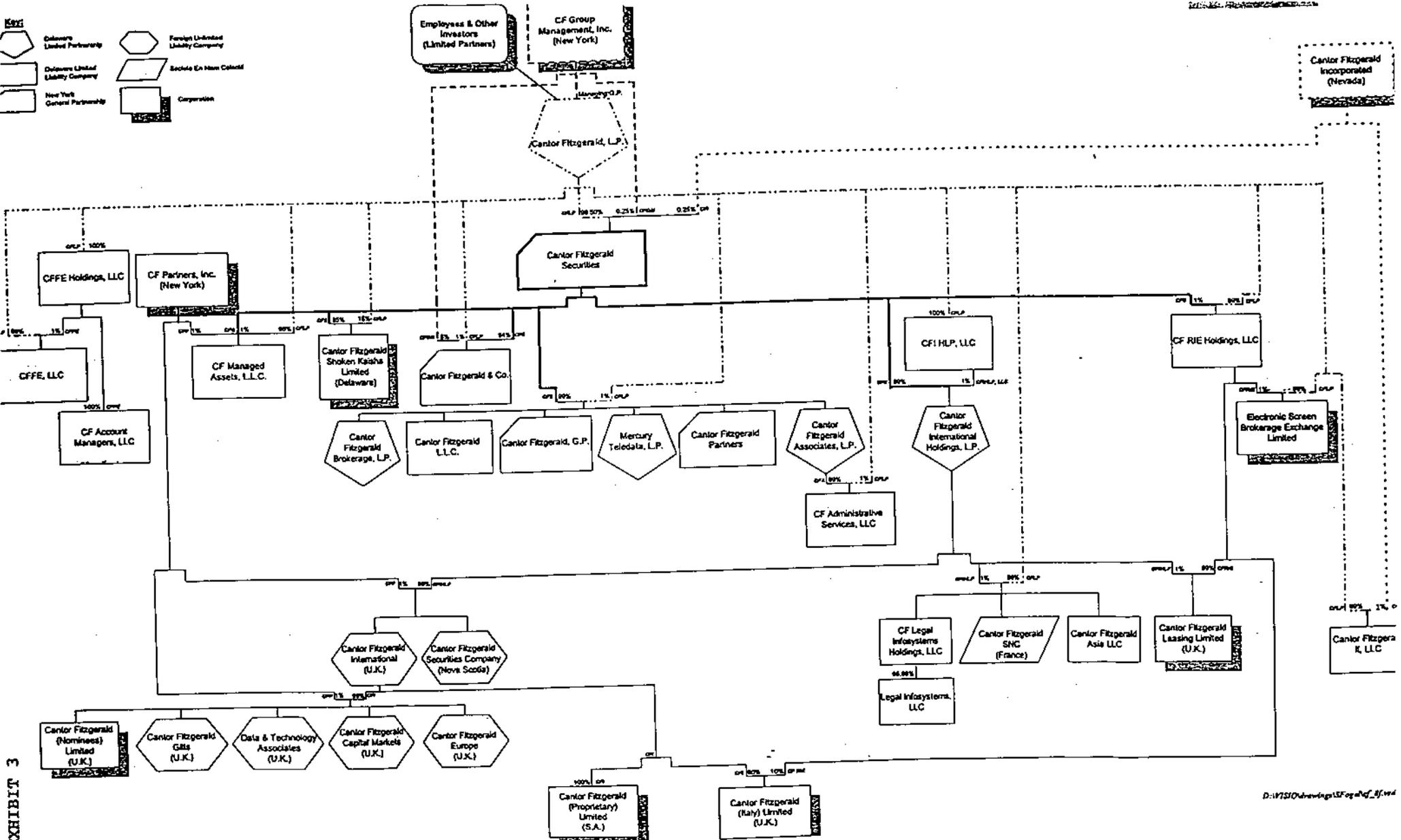
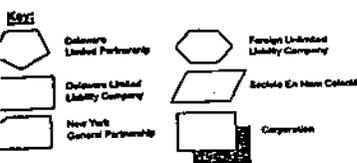


EXHIBIT 3

other than that specified in subparagraph (1) shall be at the close of business on the day on which the resolution of the board relating thereto is adopted.

(d) When a determination of members of record entitled to notice of or to vote at any meeting of members has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the board fixes a new record date under this section for the adjourned meeting.

(e) In any case in which a member is entitled to vote, he shall have no more than, nor less than, one vote; except that if a corporation has an organization as a member, the certificate of incorporation or by-laws may provide that such organization shall be entitled to votes substantially proportionate to its membership.

(Last amended by L. 1971, Ch. 1058, § 17; L. 1971, Ch. 1057, § 4.)

Voting by members—"one-man, one-vote" principal. Provision in by-law permitting issuance of more than one membership certificate to one person held invalid. Issuance was to be based on number of lots owned in subdivision by each member. Held, each member to have only one vote. *Procopio v. Fisher*, 443 N.Y.S. 2d 492 (4th Dept. 1981).

§ 612. Limitations on right to vote.—The certificate of incorporation or the by-laws may provide, either absolutely or contingently, that the members of any class shall not be entitled to vote, or it may limit or define the matters on, and the circumstances in, which a member or a class of members shall be entitled to vote, and, except as otherwise provided in this chapter, such provisions of the certificate of incorporation or the by-laws shall prevail, according to their tenor, in all elections and in all proceedings, over the provisions of this chapter which authorize any action by the members, but no such denial, limitation or definition of voting rights shall be effective unless at the time one or more classes of members, singly or in the aggregate, are entitled to full voting rights. (Last amended by L. 1971, Ch. 1057, § 5; L. 1971, Ch. 1058, § 18.)

§ 613. Vote of members.—(a) Except as otherwise required by this chapter or by the certificate of incorporation or the by-laws as permitted by this chapter, directors shall be elected by a plurality of the votes cast at a meeting of members by the members entitled to vote in the election.

(b) Whenever any corporate action, other than the election of directors, is to be taken under this chapter by vote of the members, it shall, except as otherwise required by this chapter or by the certificate of incorporation or by by-laws as permitted by this

Board of governors in corporation formed under Membership Corporation Law held to be governing body even though board of directors also existed. *Santos v. Chappell*, 318 N.Y.S. 2d 570 (Sup. Ct. Nas. Cty. 1971).

Management is vested in board acting as a body, not in directors acting individually. Even though plaintiffs constituted four-fifths of the board they did not bring suit as a board, but rather as individuals, so motion to dismiss was granted. Power of directors acting individually is strictly limited. *Spanos v. Boschen*, 402 N.Y.S. 2d 423 (2d Dept. 1978).

§ 702. Number of directors.—(a) The number of directors constituting the entire board shall be not less than three. Subject to such limitation, such number may be fixed by the by-laws or, in the case of a corporation having members, by action of the members or of the board under the specific provisions of a by-law adopted by the members. If not otherwise fixed under this paragraph, the number shall be three. As used in this article, "entire board" means the total number of directors entitled to vote which the corporation would have if there were no vacancies.

(b) The number of directors may be increased or decreased by amendment of the by-laws or, in the case of a corporation having members, by action of the members, or of the board under the specific provisions of a by-law adopted by the members, subject to the following limitations:

(1) If the board is authorized by the by-laws to change the number of directors, whether by amending the by-laws or by taking action under the specific provisions of a by-law adopted by the members, such amendment or action shall require the vote of a majority of the entire board.

(2) No decrease shall shorten the term of any incumbent director.

§ 703. Election and term of office of directors; alternates.—

(a) A corporation may provide in its certificate of incorporation or by-laws for directors to be elected or appointed at large, or by special districts or membership sections, or by virtue of their office or former office in the corporation or other entity, public or private, or by bondholders pursuant to paragraph (c) of section 506 (Bonds and security interests) voting as a class, or any combination thereof.

(b) Directors shall be elected or appointed in the manner and for the term of office provided in the certificate of incorporation or the by-laws. The term of office of directors, other than those elec-

ted or appointed by virtue of their office or former office in the corporation or other entity, public or private, shall not exceed five years; and, if the board is classified under section 704 (Classification of directors), such term shall not exceed a number of years equal to the number of classes into which the board is classified. In the absence of a provision fixing the term, it shall be one year.

(c) Each director shall hold office until the expiration of the term for which he is elected or appointed, and until his successor has been elected or appointed and qualified.

(d) If the certificate or incorporation or by-laws so provide, a special district or membership section entitled to elect or appoint one or more directors may elect or appoint an alternate for each such director. In the absence of a director from a meeting of the board, his alternate may, upon written notice to the secretary of the corporation, attend such meeting and exercise therein the rights, powers, and privileges of the absent director. When so exercising the rights, powers, and privileges of the absent director, such alternate shall be subject in all respects to the provisions of this chapter governing directors. (Last amended by L. 1972, Ch. 961, § 11.)

Continuance in office when no successor elected. Ming v. Simpkins, 300 N.Y.S.2d 805 (Sup. Ct. Que. Cty. 1968).

§ 704. Classification of directors.—(a) The certificate of incorporation or a by-law adopted by the members may provide that the directors elected or appointed at large shall be divided into either two, three, four or five classes for the purpose of staggering their terms of office and that all or some of the directors elected or appointed otherwise than at large shall be divided into the same or a different number of classes, not exceeding five, for the same purpose. All classes of each type shall be as nearly equal in number as possible and, if provision has been made for cumulative voting under section 617 (Cumulative voting), no class shall include less than three directors.

(b) The terms of office of the directors initially classified shall be as follows: that of the first class shall expire at the next annual meeting of members if there be members, or of the board if there be no members, the second class at the second succeeding annual meeting, the third class, if any, at the third succeeding annual meeting, the fourth class, if any, at the fourth succeeding annual meeting and the fifth class, if any, at the fifth succeeding annual meeting. After such initial classification, directors to replace

RECEIVED
DIVISION OF
REGULATORY AFFAIRS

EXHIBIT 5

AUG 5 1 25 PM '98

Schedule VII

Integration of CFFE into NYCE's Compliance Program

Introduction

From the inception of CFFE, both NYCE and Cantor Fitzgerald recognized the need and importance for maintaining an affirmative action program to secure compliance with the provisions of the Commodity Exchange Act, CFTC Regulations and CFFE Rules. As a result, NYCE's compliance staff and market surveillance staff have had ongoing meetings with systems personnel and have made suggestions, recommendations and demands as to what information NYCE's staff would need, how such information should be formatted and when such information should be provided to NYCE. NYCE realized that there would be areas or activities new to NYCE that would need to be monitored. These new areas would not only require additional and/or new informational data, but would require NYCE's compliance staff to modify how they have traditionally monitored trading activity.

NYCE is aggressively and ambitiously integrating CFFE into its current compliance program. Such integration requires few, if any, modifications in certain areas of the compliance program, such as the disciplinary process and procedures, while other areas of the compliance program, such as the surveillance of trading practices, require modifications to existing programs and procedures and the creation of new programs and procedures.

The compliance program must be flexible and adaptive to change. With the inception of trading, NYCE might find that additional surveillance activities must be added and/or that the activities described below need to be modified (or even abandoned).

"Floor" Surveillance

NYCE's compliance staff will conduct physical observations of the CFFE TOs on a periodic basis. It will also have access to tapes of the TOs, and will conduct spot checks of such tapes. Such spot checks will be considered part of "floor" surveillance. As a result of such physical observations and spot checks of tapes, compliance staff may initiate investigations into trading activity (including the activity of TOs and/or TO supervisors).

In addition, in the course of other types of surveillance activities (e.g., spot checks of the error account, order ticket reviews), NYCE's staff will routinely listen to tapes of

the TOs. NYCE's staff might also listen to such tapes in the investigation of potential trading abuses, customer complaints etc.

The above illustrates how NYCE will integrate "floor" surveillance into other areas of its compliance program.

It should be noted that "floor surveillance" for CFFE differs from the "traditional" coverage of pit trading. With respect to CFFE, NYCE feels that periodic coverage will suffice (as opposed to every opening, every close, and intermittent periods during the day) because NYCE will have access to the TO tapes. Such tapes represent an effective deterrent because a TO will not know when compliance staff will ask for, or be listening to, a tape. Also, NYCE surveillance staff will have screens in their offices to monitor transactions on CFFE.

Trade Practice Surveillance

NYCE will receive various logs or databases of trading data. NYCE's current computer surveillance system will utilize these databases to create reports, programs, statistics etc. These databases can be queried and "programmed" independently or related to each other and then queried and "programmed". Set forth below is a list of the databases; how they will be utilized is described in Q&A ## 97, 100, 101.

- Data Entry Transaction Log

This is a "keystroke" entry log of TOs (and the system). This database contains, but is not limited to, the following information:

trade date

time of entry - system generated, in seconds

commodity

contract (delivery) month and year

type of entry code (e.g., bid, offer, lift, hit, cancel bid etc.)

quantity

price

clearing member

account id

TO code

a "how entered" code - whether the entry originated from a TO or was system generated

- Transaction Log

This database is similar to the current transaction database that NYCE uses. It contains trades and trade information, such as:

trade date

cleared date

execution time - system generated, in seconds (will agree with the "hit"/"lift" time in the data entry transaction log)

commodity

contract (delivery) month and year

quantity

price

buy clearing member

buy account ID

buy CTI code

buy TO

sell clearing member

sell account id

sell CTI code

sell TO

transaction code (e.g., crossing session trade, straddle, error "correction" trade etc.)

transaction reference number (unique to the transaction, same for buy and sell sides)

transaction sequence number (e.g., if firm A buys a total of 20 Contracts, 10 of which are from firm B and 10 from firm C, the reference number will be identical, the sequence numbers might be "1" and "2"; the execution times might vary)

- Changes to Executed Transaction Log

This database contains any changes made to executed transactions; it will maintain the original entry and denote the changes made. (Note: neither matching criteria, e.g., price, commodity, contract year and month, nor the execution time may be changed.)

Description of Automated Trade Surveillance

As the answer to Q&A #95 indicates, NYCE will receive a wealth of information concerning trade entry and trade execution data (including any changes to executed trades).

NYCE will use these databases to create computer-generated programs and reports, including "exception" reports targeting potential types of abuses. NYCE currently utilizes such programs and reports. For CFFE, these programs and reports will be modified. For pit trading, the "focus" of many programs and reports is the floor broker. For example, NYCE looks for trading ahead by a floor broker, concentration of trading between floor brokers, etc. The focus for CFFE will vary: NYCE will focus on Clearing Members, Screen Based Traders, Authorized Traders, even specific accounts, and TOs. Under NYCE's current surveillance programs, the logic of what they are targeting, and how they isolate exceptions is in place; NYCE may need to change the focus, and perhaps the parameters. For example, NYCE will look for trading ahead by a Clearing Member; the time parameter NYCE searches may change.

NYCE's computer system is extremely flexible; as trading commences and continues, they will see what programs and reports "work", modify reports, programs, parameters, etc.

With the data entry execution log, NYCE can widen its scope to include bids and offers — not only executed trades. (For example, a particular Clearing Member house account is very often the first best bid/offer and then is "joined" by customer accounts of the Clearing Member — this may be indicative of attempts to trade ahead, requiring further investigation.) NYCE can also test the validity of the system (allocations, first best bid, etc.).

NYCE is concentrating or focusing its initial efforts on accounts, (Screen Based Traders, Clearing Members, TO). (Continuing review will hopefully show what works best.) NYCE is creating "summary" exception databases and reports showing the number of "instances" by account (SBT, CM, TO, etc.). NYCE will create daily reports, and then combine them to look at weekly reports, etc. If NYCE wants to look at the "details" for the exceptions, it can query the system to provide the information.

The following are examples of such programs and reports.

Trading Ahead

Because of the algorithm and first best bid/offer, instead of using a "time parameter" (e.g. a 3-minute window), NYCE plans to use a "transaction reference number" parameter. For each account (SBT, TM, etc.) NYCE will search the next 3 reference numbers (or transactions) within the same commodity and contract month and year and see if the account received a better fill price than other accounts; if so, it will be an "instance". NYCE will capture the target account (account ID and Clearing Member), reference number, time, "other account ID", commodity, year, month, TO.

NYCE will create various reports, such as:

Daily Summary Report - will list the Clearing Member, account ID, number of instances *greater than 1*.

Periodic Summary Report - will cover a period of time (e.g., a week); will list the Clearing Member, account ID, total number of instances, number of days traded, number of different accounts it might have traded ahead of.

TO Reports - similar to above but listing instances by TO
These reports will not only be useful in detecting possible instances of trading ahead, but also possible instances of withholding and/or disclosing orders.

Concentration of Trading

NYCE will compile daily. For each account (SBT, TM, etc.), the number of transactions and contracts traded vs. each opposite account, by commodity, with corresponding percentages. From these databases, NYCE can also get totals for all commodities combined. NYCE will then compile periodic reports covering a period of time (e.g. a week). Such databases can be queried: e.g., to show NYCE any account that traded vs. the same account on more than 3 days in a 1-week period, show any account that traded more than 25% of its Contracts with one account, etc.

These reports will be useful for targeting possible instances of prearranged trading, preferential or non-competitive trading, improper cross-trading.

Daily Profit/Loss

NYCE will calculate the daily profit/loss by account (open positions will be marked to the settlement price). NYCE can then query for various information: e.g., to show any account that day which traded more than 10 Contracts for a profit in excess of \$1,000.

Error Trades

NYCE will extract those trades denoted by the error transaction type code, including those of the Cantor error account.

Various Other Reports

Various other reports will be produced, such as a daily trade register. With the data received and the computer surveillance system, NYCE can sort, query, and present information in a variety of ways, such as:

Market Reconstruction - the system generated time for order entry & executions will enable "quick" market reconstructions; queries will enable one to look at all commodities combined, a single commodity, a contract month (or months) for a period of time or the entire day, etc. It can further focus on a CM, SBT, etc.

Trade Register by Price - for example, NYCE can view cleared trades for a particular price or prices (e.g., the high and the low); it can further focus its attention on a CM, SBT, account, etc.

RECEIVED
 DIVISION OF
 REGULATION AND MARKET

U.S. TREASURY SECURITIES FUTURES CONTRACTS PH '98

Rule 820 Scope of Chapter This chapter governs transactions in U.S. Treasury Securities Futures Contracts. The U.S. Treasury Securities Futures Contracts and all trading therein shall be subject to the Rules contained in this chapter, the general Rules of the Cantor Financial Futures Exchange ("CFFE") and the By-Laws and Rules of the Commodity Clearing Corporation (the "Clearing Corporation") ~~New York Board of Clearing, Inc.~~ U.S. Treasury Securities Futures Contracts are:

- (a) U.S. Treasury Bond Futures
- (b) U.S. Treasury Ten Year Note Futures
- (c) U.S. Treasury Five Year Note Futures
- (d) U.S. Treasury Two Year Note Futures

Rule 821 Emergencies, Acts of God, Acts of Government If the delivery or acceptance or any precondition or requirement of either, is prevented by strike, fire, accident, act of government, act of God or other emergency, the seller or buyer shall immediately notify the President. If the President determines that emergency action may be necessary, he shall call a special meeting of the Board and arrange for presentation of evidence respecting the emergency condition. If the Board determines that an emergency exists, it shall take such action under Rule 16 as it deems necessary under the circumstances and its decision shall be binding upon all parties to the U.S. Treasury Securities Futures Contract in question.

In the event the Board determines that there exists a shortage of deliverable U.S. Treasury Securities for any of the contracts covered in this chapter, it may, upon a two-thirds vote under Rule 16, take such action as may in the Board's sole discretion appear necessary to prevent, correct or alleviate the condition. Without limiting the foregoing or the authority of the Board under Rule 16, the Board may:

- (a) designate as deliverable callable U.S. Treasury Bonds or Notes otherwise meeting the specifications and requirements stated for each of the contracts in this chapter;
- (b) designate as deliverable one or more issues of U.S. Treasury Notes and/or U.S. Treasury Bonds having maturities shorter or longer than those stated in this chapter, but otherwise meeting the specifications and requirements stated for each contract of this chapter; and/or
- (c) determine a cash settlement based on the current cash value of an 8% coupon rate of a note or bond with the appropriate maturity for each contract in this chapter as determined by using the current market yield curve for U.S. Treasury Securities on the last day of trading.

Rule 822 Definitions

(a) **Book-Entry Transfer of U.S. Treasury Securities** - shall mean a transfer of book entry Treasury securities from the short Clearing Member's book entry account at a qualified bank to the long Clearing Member's book entry account at a qualified bank as defined below. Such book entry transfer has (1) the effect of a delivery in bearer form of a definitive Treasury security and (2) has the effect of taking of delivery by the long Clearing Member and (3) constitutes the long Clearing Member as holder of the Treasury Security.

(b) **Qualified Bank** - For purposes of these Rules relating to trading in U.S. Treasury Securities Futures, the word "Bank" shall mean a U.S. commercial bank (either Federal or State charter) that is a member of the Federal Reserve System and has capital (capital, surplus and undivided earnings) in excess of one hundred million dollars (\$100,000,000).

Rule 823 Units of Trading

(a) **U.S. Treasury Bond Futures**. The contract size for U.S. Treasury Bonds Futures shall be Treasury Bonds having a face value at maturity of one hundred thousand dollars (\$100,000), or multiples thereof.

(b) **U.S. Treasury Ten Year Note Futures**. The contract size for U.S. Treasury 10 Year Note Futures shall be United States Treasury Notes having a face value at maturity of one hundred thousand dollars (\$100,000), or multiples thereof.

(c) **U.S. Treasury Five Year Note Futures**. The contract size for U.S. Treasury Five Year Note Futures shall be United States Treasury Notes having a face value at maturity of one hundred thousand dollars (\$100,000), or multiples thereof.

(d) **U.S. Treasury Two Year Note Futures**. The contract size for U.S. Treasury Two Year Note Futures shall be United States Treasury Notes having a face value at maturity of two hundred thousand dollars (\$200,000), or multiples thereof.

(e) The initial first best bid or offer must be for ten (10) contracts. Other bidders or offerers may join the prevailing bid or offer for one contract or multiples thereof.

Rule 824 Months Traded Trading in U.S. Treasury Securities Futures Contracts may be conducted for delivery in March, June, September and December.

Rule 825 Price Basis

(a) **U.S. Treasury Bonds**. Minimum price fluctuations shall be in multiples of one half of one thirty second ($1/2$ of $1/32$ nd) point per 100 points (\$15.625 per contract). Par shall be on a basis of 100 points.

(b) **U.S. Treasury Ten Year Note Futures**. Minimum price fluctuations shall be in multiples of one half of one thirty second ($1/2$ of $1/32$ nd) point per 100 points (\$15.625 per contract). Par shall be on a basis of 100 points.

(c) U.S. Treasury Five Year Note Futures. Minimum price fluctuations shall be in multiples of one-quarter of one thirty second ($1/4$ of $1/32$ nd) point per 100 points (\$7.8125 per contract). Par shall be on a basis of 100 points. For the purpose of calculating daily variation margin, the value at the minimum price fluctuation shall always be rounded down to the nearest whole cent.

(d) U.S. Treasury Two Year Note Futures. Minimum price fluctuations shall be in multiples of one quarter of one thirty second ($1/4$ of $1/32$ nd) point per 100 points (\$15.625). Par shall be on the basis of 100 points. For the purpose of calculating daily variation margin, the value at the minimum price fluctuation shall always be rounded down to the nearest whole cent.

(e) Spread Transactions. Notwithstanding sections (a) through (d) of this Rule, minimum price fluctuations for spread transactions as defined in Rule 312 (a) shall be as follows:

<u>Contract</u>	<u>Minimum Price Fluctuation for Spreads</u>
U.S. Treasury Bond Futures	$1/4$ of $1/32$ nd of a point
U.S. Treasury Ten Year Note Futures	$1/4$ of $1/32$ nd of a point
U.S. Treasury Five Year Note Futures	$1/8$ of $1/32$ nd of a point
U.S. Treasury Two Year Note Futures	$1/8$ of $1/32$ nd of a point

For the purpose of calculating daily variation margin, the value at the minimum price fluctuation shall always be rounded ~~down~~ to the nearest whole cent.

Rule 826 Limits on Daily Price Changes There shall be no limit on daily contract price changes.

Rule 827 Position Accountability A person, by holding or controlling more than the following quantity of U.S. Treasury Securities Futures Contracts net long or net short in all months combined, automatically consents not to increase further those positions when so ordered by CFFE ~~the Exchange~~ acting in its own discretion.

<u>Contract</u>	<u>Quantity</u>
U.S. Treasury Bond Futures	10,000
U.S. Treasury Ten Year Note Futures	7,500
U.S. Treasury Five Year Note Futures	7,500
U.S. Treasury Two Year Note Futures	5,000

Upon request from CFFE ~~the Exchange~~, a person holding or controlling more than the quantity stated above in any U.S. Treasury Securities Futures Contracts net long or net short in all contract months combined, shall provide in a timely manner information on the nature of that person's related cash, futures and options positions, trading strategy and/or hedging strategy. Nothing in this Rule limits the authority of CFFE ~~the Exchange~~ to take action under Rule 705 or to request and collect any information regarding that person's related cash, futures and options positions.

Rule 827A Position Limits Subject to the exceptions contained in Rules 200 through 202, the maximum number of U.S. Treasury Two-Year Note Futures Contracts net long or net short in any one month or all months combined which any one person may hold or control is 5,000. Additionally, effective on the first Business Day of the spot month, the maximum gross long and/or short position that any one person may hold or control in the spot month is 5,000 Contracts.

Rule 828 Reportable Positions The following positions in each U.S. Treasury Securities Futures Contract on CFFE ~~the Exchange~~, long or short, in any one month, which are held or controlled by any person, and which are carried by any single member or member firm shall constitute a reportable position and shall be reported to CFFE ~~the Exchange~~ in the manner prescribed by CFFE ~~the Exchange~~:

<u>Contract</u>	<u>Quantity</u>
U.S. Treasury Bond Futures	500 contracts or more
U.S. Treasury Ten-Year Note Futures	500 contracts or more
U.S. Treasury Five-Year Note Futures	300 contracts or more
U.S. Treasury Two-Year Note Futures	200 contracts or more

For purposes of this Rule 828, the word "person" shall include individuals, associations, partnerships, corporations, and trusts.

Rule 829 Hours of Trading The hours of trading in U.S. Treasury Security Futures Contracts shall be 7:30 a.m. to 5:30 p.m., New York time on all CFFE Business Days ~~Exchange business days~~, except that, on the last day of trading of a contract month trading in that future shall terminate at 1:00 p.m. New York time, of that day. Trading shall be permitted thereafter in accordance with Rule 315.

For purposes of these Rules, the day begins with the commencement of trading at 3:00:01p.m. and ends with the close of trading at 3:00:00 p.m., New York time.

Rule 830 Last Day of Trading

(a) U.S. Treasury Bonds, U.S. Treasury Ten-Year Notes and U.S. Treasury Five Year Notes Futures. No trades in U.S. Treasury Bond Futures Contracts, U.S. Treasury Ten Year Notes Futures Contracts and U.S. Treasury Five Year Notes Futures Contracts deliverable in the current month shall be made during the last seven Business Days ~~business days~~ of that month. Outstanding contracts may be liquidated by the delivery of book-entry U.S. Treasury Bonds or Notes or by mutual agreement by means of a bona fide exchange of such current futures contracts for the actual U.S. Treasury Bonds or Notes or comparable instruments. Such liquidation by mutual agreement by means of bona fide exchange in any event must be made, and notice must be submitted in proper form to the Clearing Corporation ~~New York Board of Clearing, Inc.~~, no later than 2:00 p.m., New York time, on the following days only:

1. The seventh last Business Day ~~business day~~ of the delivery month;
2. The sixth last Business Day ~~business day~~ of the delivery month

(b) U.S. Treasury Two Year Note Futures. No trades in short term U.S. Treasury Two Year Note Futures Contracts deliverable in the current month shall be made following the last Business Day ~~business-day~~ of the calendar month or two Business Days ~~business-days~~ prior to issuance of Two Year Notes by the U.S. Treasury auctioned in the current month, whichever occurs first.

Outstanding contracts may be liquidated by the delivery of book-entry U.S. Treasury Notes or by mutual agreement by means of a bona fide exchange of such current futures for actual U.S. Treasury Notes or comparable instruments. Such exchange must, in any event, be made no later than 12:00 p.m., New York time, on the second Business Day ~~business-day~~ immediately preceding the last Business Day ~~business-day~~ of the month as defined in Rule 836.

Rule 831 Margin Requirements See Rule 403.

Rule 832 Exclusive Time The Exclusive Time (as such term is defined in Rule 303) applicable to each U.S. Treasury Securities Futures Contract shall be as specified from time to time by the Committee on U.S. Treasury Securities.

Rule 833 Crossing Session The time or times during each Trading Day at which a Market Crossing session will take place pursuant to Rule 303A shall be as specified from time to time by the Committee on U.S. Treasury Securities.

Rule 834 Standards for Delivery

(a) U.S. Treasury Bond Futures. The contract grade for delivery under the U.S. Treasury Bond Futures Contract shall be Treasury Bonds having a maturity of at least 15 years and a face value at maturity of \$100,000 and not being callable for at least 15 years. U.S. Treasury Bonds deliverable against futures contracts under these rules must have semi-annual coupon payments. All bonds in a delivery unit must be of the same issue.

New issues of Treasury bonds that satisfy the standards of these Rules shall be added to the deliverable grade as they are issued by the Treasury. CFFE ~~The Exchange~~ shall have the right to exclude any new issue from deliverable status or to further limit any outstanding issue from deliverable status.

(b) U.S. Treasury Ten Year Note Futures. The contract grade for delivery on U.S. Treasury Ten-Year Note made under these Rules shall be U.S. Treasury Notes that have an actual maturity of not less than six and one-half years and not more than ten years. All Notes delivered against a contract must be of the same issue.

U.S. Treasury Notes deliverable against U.S. Treasury Ten-Year Note futures contracts under these Rules must have semi-annual coupon payments. New issues of U.S. Treasury Notes that satisfy the standards in this Rule shall be added to the deliverable grade as they are issued. If during the auction of a Note that will meet the standards of this chapter the Treasury re-opens an existing issue, thus rendering the existing issue indistinguishable from the newly auctioned one, the older issue is deemed to meet the standards of this chapter and would be deliverable. CFFE ~~The Exchange~~ shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status.

(c) U.S. Treasury Five Year Note Futures. The contract grade for delivery on U.S. Treasury Five-Year Note contracts made under these Rules shall be U.S. Treasury Notes that have an original maturity of not more than five years and three months and which have a remaining maturity of not less than four years and three months as defined below. To be delivered in the current month, the Note must have been issued by the Treasury before the last day of trading in the current month. All notes delivered against a contract must be of the same issue.

New issues of U.S. Treasury Notes that satisfy the standards in this Rule shall be added to the deliverable grade as they are issued. If during the auction of a Note that will meet the standards of this subsection the Treasury re-opens an existing issue, thus rendering the existing issue indistinguishable from the newly auctioned one, the older issue is deemed to meet the standards of this chapter and would be deliverable. CFFE ~~The Exchange~~ shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status.

(d) U.S. Treasury Two-Year Note Futures. The contract grade for delivery on U.S. Treasury Two-Year Note futures contracts made under these regulations shall be U.S. Treasury Notes that have an original maturity not greater than five years and three months and a remaining maturity not less than one year and nine months and not more than two years as defined below. All Notes delivered against a contract must be of the same issue. New issues of U.S. Treasury Notes that satisfy the standards in this rule shall be added to the deliverable grade as they are issued. If during the auction of a Note that will meet the standards of this chapter the Treasury re-opens an existing issue, thus rendering the existing issue indistinguishable from the newly auctioned one, the old issue is deemed to meet the standards of this chapter and would be deliverable. CFFE ~~The Exchange~~ shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status.

(e) The following procedure will be followed in calculating the amount paid for a delivery unit:

(i) The time to maturity or time to call (if callable) of Bonds to be delivered on a U.S. Treasury Bond Futures Contract and the Notes to be delivered on a U.S. Treasury Ten Year Note Futures contract will be calculated in complete three month increments from the first day of the delivery month. For example, if a security has 15 years and 5 months remaining then the time to maturity used for settlement calculations is 15 years 1 quarter.

For settlement, the time to maturity of a given issue to be delivered on a U.S. Treasury Five Year Futures Contract or a U.S. Treasury Two Year Futures Contract will be calculated in complete one month increments (i.e., 4 years, 5 months and 14 days is taken to be 4 years and 5 months; 1 year, 10 months, 17 days is taken to be 1 year, 10 months) from the first day of the delivery month.

(ii) The price at which a Bond or Note with a maturity as defined in paragraph (i) of this Rule and with the same coupon rate as the issue to be delivered will yield 8% according to bond tables prepared by CFFE ~~the Exchange~~ shall be multiplied by the settlement price to arrive at the amount that the short invoices the long.

(iii) Accrued Interest - Interest accrued on the Bonds or Notes shall be charged to the long by the short in accordance with Department of the Treasury Circular 300, Subpart P.

Rule 835 Deliveries on Futures Contracts Deliveries against U.S. Treasury Securities Futures Contracts shall be by book-entry transfer between accounts of Clearing Members at qualified banks in accordance with Department of the Treasury Circular 300, Subpart O: Book Entry Procedure, as from time to time amended. Delivery may take place on any Business Day ~~business day~~ that is not a New York banking holiday, of the expiring contract month. Delivery must be made no later than the last Business Day ~~business day~~ of the expiring contract month as defined in Rule 836.

Rule 836 Date of Delivery Delivery of U.S. Treasury Bonds or Notes may be made by the short upon any permissible delivery day of the delivery month the short may select. A permissible delivery day is any Business Day ~~business day~~ that is not a New York banking holiday. For all U.S. Treasury Security Futures Contracts except the Two Year Note Futures Contract, delivery of U.S. Treasury Bonds or Notes must be made no later than the last Business Day ~~business day~~ of the month. For the U.S. Treasury Two Year Notes Futures Contract, the delivery month extends to and includes the third Business Day ~~business day~~ following the last trading day in the current month. Delivery of the Notes on the U.S. Treasury Two-Year Note Futures Contract must be made no later than the last Business Day ~~business day~~ of that month.

Rule 837 Seller's Invoice to Buyer Notice of Delivery shall be given to the Clearing Corporation ~~New York Board of Clearing, Inc.~~ by 9:00 p.m. on the second Business Day ~~business day~~ preceding the delivery day. Where a commission house as member of the Clearing Corporation ~~New York Board of Clearing, Inc.~~ has an interest both long and short for customers on its own books, such Clearing Member must tender such notices of intention to deliver as the it receives from its customers who are short to the Clearing Corporation ~~New York Board of Clearing, Inc.~~. All deliveries must be assigned by the Clearing Corporation ~~New York Board of Clearing, Inc.~~.

A delivery notice shall be furnished to the Clearing Corporation ~~New York Board of Clearing, Inc.~~ in computer readable form. The Clearing Corporation ~~New York Board of Clearing, Inc.~~ acting as agent for the short Clearing Member shall assign and provide the notice to the long Clearing Member.

Upon determining the long Clearing Members obligated to accept deliveries tendered by issuers of delivery notices, the Clearing Corporation ~~New York Board of Clearing, Inc.~~ shall promptly furnish to each issuer the names of the long Clearing Members obligated to accept delivery from such issuer for each U.S. Treasury Bond or Notes for which a notice was tendered and shall also inform such issuer of the number of contracts for which each buyer is obligated. Failure of the seller to object to such assignment by 8:00 a.m., New York time, on the next Business Day ~~business day~~ shall establish an irrefutable presumption that the issuance of the delivery notice as authorized by the person in whose name the notice was issued.

Thereupon, the short Clearing Member shall issue delivery invoices to the long Clearing Members that have been allocated delivery notices before 4:00 p.m., New York time, on the first CFE Business Day ~~Exchange business day~~ after delivery notices are received. The delivery invoices shall include: a full description of the securities to be delivered; the amount of money to be paid by the long Clearing Member based on the delivery prices established by the Clearing Corporation ~~New York Board of Clearing, Inc.~~ and adjusted for applicable interest payments; the delivery day; and such other information as the Clearing Corporation ~~New York Board of~~

~~Clearing, Inc.~~ may consider necessary or appropriate to effect settlement by delivery. Such invoices must be delivered to the long Clearing Member by 4:00 p.m., New York time, on the Business Day ~~business day~~ following the tender of the Notice of Delivery.

In the event the long Clearing Member does not agree with the terms of the delivery invoice received from the short Clearing Member, the long Clearing Member must notify the short Clearing Member and the dispute must be settled by 10:30 a.m., New York time. If the dispute shall not be settled by 10:30 a.m. on the delivery day, delivery shall be made in accordance with instructions of the Clearing Corporation ~~New York Board of Clearing, Inc.~~

The short Clearing Member must have contract grade U.S. Treasury Bonds or Notes in place at its bank in delivery form acceptable to its bank no later than 11:00 a.m., New York time, on the delivery day. The short Clearing Member must notify its bank to transfer contract grade U.S. Treasury Bonds or Notes by book-entry to the long Clearing Member's account at the long Clearing Member's bank on a delivery versus payment basis. That is, payment shall not be made until the bonds or notes are delivered.

The long Clearing Member must make funds available by the opening time of the Federal Reserve Wire System (New York time) and notify its bank to accept contract grade U. S. Treasury Bonds or Notes and to remit federal funds to the short Clearing Member's account at the short Clearing Member's bank in payment for delivery of the Bonds or Notes.

The amount of money to be paid in connection with any delivery against the U.S. Treasury Securities Futures Contract shall be based on the settlement price established on the day the delivery notice is received with respect to any such delivery, including any adjustments for differences between contract prices and delivery prices. Interest accrued on the Bond shall be charged to the long by the short in accordance with Department of the Treasury regulations.*

Rule 838 Method of Delivery Delivery notices must be delivered to the Clearing Corporation ~~New York Board of Clearing, Inc.~~ which shall assign the deliveries to long Clearing Members (buyers) having contracts to take delivery of the U.S. Treasury Bonds or Notes. The Clearing Corporation ~~New York Board of Clearing, Inc.~~ shall notify such Clearing Members of the deliveries that have been assigned to them and shall furnish to the issuers of delivery notices the names of the Clearing Members obligated to accept their deliveries. Clearing Members receiving delivery notices shall assign delivery to the oldest open contracts on their books at the close of business on the previous day.

Rule 839 Buyer's Banking Notification The long Clearing Member shall provide the short Clearing Member by 5:00 p.m., New York time, on the Business Day ~~business day~~ prior to delivery day, with a Banking Notification. The Banking Notification form will include the following information:

- (i) the identification number and name of the long Clearing Member;
- (ii) the delivery date;
- (iii) the notification number on the delivery assignment;
- (iv) the identification number and name of the short Clearing Member making delivery;
- (v) the quantity of contracts being delivered;
- (vii) specific Federal Wire instructions for the transfer of U.S. securities.

Rule 840 Payment Payment shall be made in federal funds. The long Clearing Member obligated to take delivery must take delivery and make payment before 2:00 p.m. New York time, on the day of delivery except on New York banking holidays when delivery must be taken and payment made before 9:30 a.m., New York time, the next banking business day. Adjustments for differences between contract prices established by the Clearing Corporation New York Board of Clearing, Inc. and the delivery price shall be made with the Clearing Corporation New York Board of Clearing, Inc. in accordance with its By-laws and Rules.

Rule 841 Wire Failure In the event that delivery cannot be accomplished because of a failure of the Federal Reserve wire or because of a failure of either the long Clearing Member's bank's or the short Clearing Member's bank's access to the Federal Reserve wire, delivery shall be made before 9:30 a.m., New York time, on the next day on which the Federal Reserve wire is operating and bank access to it is available. Interest shall accrue to the long Clearing Member and must be paid by the short Clearing Member beginning on the day on which the Treasury Securities were to be originally delivered.

In the event of any such failure, both the long and the short Clearing Member must provide documented evidence that the instructions were given to their respective banks in accordance with these rules.

Rule 842 Failure to Perform If a Clearing Member fails to perform any acts required by this chapter or fails to deliver or accept delivery as required by the rules of the Clearing Corporation New York Board of Clearing, Inc., such Clearing Member will be subject to disciplinary action by CFFE the Exchange, and CFFE the Exchange can assess such Clearing Member for the expense associated therewith.

Rule 843 Duties of Members Members shall deliver notices pursuant to the By-laws and Rules of the CFFE and in accordance with the assignment thereof to eligible buyers by the Clearing Corporation New York Board of Clearing, Inc., and shall make no other disposition thereof. A member who alters an endorsement or makes a false endorsement on a notice of assignment of delivery issued by the Clearing Corporation New York Board of Clearing, Inc. under Rule 838, for the purpose of avoiding acceptance of the delivery specified therein, shall be deemed guilty of an act detrimental to the welfare of the CFFE.

Rule 844 Office Deliveries Prohibited No office deliveries may be made by members of the Clearing Corporation New York Board of Clearing, Inc. Where a commission house as a member of the Clearing Corporation New York Board of Clearing, Inc., has an interest both long and short for customers on its own books, it must tender to the Clearing Corporation New York Board of Clearing, Inc., such notices of intention to deliver as it receives from its customers who are short.

Rule 845 Failure to Accept Delivery Where a buyer to whom a delivery has been assigned by the Clearing Corporation New York Board of Clearing, Inc. fails to take such delivery and make payment when payment is due, the seller tendering such delivery shall promptly sell the Notes or Bonds on the open market for the account of the delinquent. He shall then immediately notify the Clearing Corporation New York Board of Clearing, Inc. of the default, the contract price and the re-sale price, and the Clearing Corporation New York Board of Clearing, Inc. shall immediately serve a like notice upon the delinquent. Thereupon the delinquent shall be

obligated to pay to the seller, through the Clearing Corporation ~~New York Board of Clearing~~
~~Inc.~~, the difference between the contract price and the re-sale price.

Rule 846 Settlement Procedures See Rule 314.

RECEIVED
DIVISION OF
REGULATORY MATTERS

EXHIBIT 7

AUG 5 1 25 PM '98

AMENDMENTS TO THE CONSOLIDATED RULES OF NYCE

NEW YORK COTTON EXCHANGE

MEMBERSHIP RULES

RULE 6.00 SCOPE

Rules 6.00 - 6.22 govern matters concerning members, member firms, trade members, all holders of Membership Interests of the Exchange as listed below and from time to time amended, and other persons under Exchange jurisdiction. Additionally, the terms "transactions on the Exchange", "obligations on the Exchange", and "transactions on the floor of the Exchange", as used in this Chapter 6 of the Rules, shall be deemed to include transactions and obligations arising on all trading floors of the New York Cotton Exchange ("NYCE") as well as on the Citrus Associates of the New York Cotton Exchange, Inc. ("CITRUS") and on the Cantor System of the Cantor Financial Futures Exchange, Inc. ("CFFE").

As used in this Chapter and throughout the Exchange By-Laws and Rules, unless the context requires otherwise, the terms Member and Membership include the Membership Interests established pursuant to By-Law 2.01 (Full Membership); By-Law 2.03-B (CAM'S); By-Law 2.31 (Finex Licenses and Finex Nominees); By-Law 2.32 (Leases); By-Law 2.33 (European Permits) and all such other Membership Interests that are created by the Exchange from time to time, including Membership Interests on the Citrus Associates of the New York Cotton Exchange, Inc. ("CITRUS") and the New York Futures Exchange, Inc. ("NYFE") and those Membership Interests in CFFE over which the Exchange has regulatory jurisdiction, provided, however, that proceedings under these Rules involving only persons under NYCE jurisdiction shall be handled under these Rules; proceedings involving persons under the jurisdiction of a NYCE affiliate shall be handled under the Rules of the affiliate unless the President of NYCE determines otherwise, in which case those proceedings shall be had under these Consolidated Rules before a diverse Panel. Proceedings involving persons under the jurisdiction of CFFE shall always be handled under these Consolidated Rules before a diverse Panel.

RULE 6.04 LEASING OF MEMBERSHIP INTERESTS

(a) Definitions

For purposes of this rule, the following terms shall have the following meaning:

- (1) Member - a person who is the holder of record of one or more memberships authorized pursuant to By-Law Section 2.01.
- (2) License Holder - a person who is the holder of record of one or more licenses authorized pursuant to By-Law Section 2.31
- (3) Other Instrument Holder - a person who is the holder of record of one or more instruments created by the Exchange, which instrument:
 - (A) allows the person to apply for trading privileges on the Exchange; and
 - (B) has been determined by the Board to be an instrument for which it will allow leases.
- (4) Membership Interest - shall refer collectively to a membership, license or other instrument as set forth above.
- (5) Primary Membership Interest - shall mean the category of Membership Interest into which a Member, License Holder or other Instrument Holder is classified. A person shall always be classified into the

category that grants the broadest privileges; that is, if a person holds one or more Sec 2.01 memberships and one or more Sec 2.31 Licenses, that person's Primary Membership Interest category is Sec 2.01; if a person holds one or more Sec 2.31 Licenses but no Sec 2.01 memberships that person's Primary Member Category is Sec 2.31 and if a person holds one or more Sec. 2.33 Permits but no other Membership Interests, that person's Primary Member Category is Sec. 2.33. Categorization with respect to other Instrument Holders will be determined, when and if, such Interests are created by the Exchange.

- (6) Lessor - any person who leases his Membership Interest to another person.
 - (7) Lessee - any person who leases a Membership Interest from another person.
 - (8) Affiliated Exchange - shall mean any exchange in which all New York Cotton Exchange Section 2.01 members are entitled to be members by virtue of that affiliation.
 - (9) By-Laws and Rules-shall mean the By-Laws, Rules, Resolution, Decisions and Orders of the Exchange, as from time to time amended (hereinafter "Rules") including, but not limited to:
 - (A) Rules respecting leasing of Membership Interests. In the event of a conflict between the general Rules of the Exchange and Rules respecting leasing, the latter shall prevail.
 - (B) To the extent that a Lessee is permitted to trade on the Affiliated Exchange, Citrus Associates of the New York Cotton Exchange, Inc., ("Citrus") by virtue of the lease contemplated herein, then the Rules of Citrus.
- (b) Upon application to and approval by the Committee on Membership ("Committee"), and the Board, as applicable, a person with a Membership Interest may lease that Membership Interest to an approved lessee. An approved lessee may qualify for trading privileges in the same manner as other trading members; provided, however, the lessee may only trade those categories of contracts which are authorized under the Membership Interest being leased.
- (c) A Membership Interest may not be the subject of more than one lease at any one time and a Membership Interest through which the lessor receives trading privileges, or which constitutes the Lessor's sole Primary Membership Interest, or which is a Membership Interest in CFFE may not be leased, except for classes of Membership Interests which the Board may, from time to time, exempt from these requirements.
- (d) The following provisions with respect to net worth shall be applicable to Lessees:
- (1) A lessee must maintain net worth equal to that required of trading members in the category of Membership Interest that has been leased, as well as a clearing member's guarantee in form satisfactory to the Committee.
 - (2) All lessees must have and maintain \$25,000 of their net worth at their Clearing Member (hereinafter "Required Minimum Net Worth or "RNW"). Such RNW may be maintained in the trading member's account as working capital or in such other form as the Committee on Membership approves.
 - (3) In the event that lessee's net worth maintained at the Clearing Member falls below the RNW level at the end of any trading day, both the Clearing Member and the lessee must immediately report such fact to the Secretary of the Exchange.

- (4) In addition to any other actions that may be taken by the Exchange, a lessee's trading privileges are automatically revoked whenever that trading member fails to maintain RNW as required by this Rule.
 - (5) To the extent that a person's minimum net worth is "grandfathered" under Rule 6.03(d), the RNW amount is similarly grandfathered.
- (e)* A prospective lessee must have completed the regular application process for Cotton membership or other Membership Interest to be leased and been approved by the Committee on Membership and the Board of Managers. To the extent that the prospective lessee is a member in good standing or has been such at any time during the 60 days immediately preceding the Exchange's receipt of the lease documents described below, the Committee may waive the application process. The prospective lessee shall submit the following to the Committee on Membership, all of which shall be in a form specified by the Committee ("Lease Documents"):
- (1) an executed lease agreement; and
 - (2) a clearing member's guarantee for lessees.

In the event that the lessee presents Lease Documents in a form specified by the Committee with modifications (including, but not limited to, additions and deletions from such form) then the lessee and/or lessor must demonstrate to the satisfaction of the Committee that such additions and/or deletions will not or could not tend to jeopardize the best interests of the Exchange. In meeting this burden, the lessor and/or lessee may be required to provide the Committee with opinions of counsel, and/or such other safeguards that the Committee deems necessary to protect the best interests of the Exchange.

- (f) If a prospective lessee has completed the application process within the last 30 days, or such process is waived by the Committee, or involves a renewal, then the Chairman of the Committee, or his designee, may approve Lease Documents for the Committee.

* The following Standing Resolution was adopted by the Board in June 1991 to allow (but not require) the Committee on Membership to waive application to the Board in cases wherein a recent (60 days), former Cotton member wishes to acquire a full Cotton membership or FINEX[®] License. Similarly, a recent (60 days) FINEX[®] Licensee can have Board presentation waived for re-instatement as a FINEX[®] Licensee.

RESOLVED, that to the extent that an applicant for Exchange membership or FINEX[®] License has been an Exchange member in good standing, or an applicant for a FINEX[®] License has been a FINEX[®] Licensee in good standing, at any time during the 60 days immediately preceding application, the Committee on Membership may waive presentation of the application to the Board and may re-instate that person to membership or license status upon a favorable vote of the Committee on Membership.

- (g) The lessor retains all rights, privileges and obligations of ownership of his Membership Interest other than the ability to be granted trading privileges on the Membership Interest that has been leased; provided, however, that the guarantor of the lessee who has made substituted payment for the lessee of contract fees or fines, penalties or awards on the Exchange, or an affiliated exchange, may proceed against the lessor and his Membership Interest but only if it can be shown that the lessor aided and abetted the course of conduct by the lessee which occasioned such fees, fines, awards or penalties; provided, however, in the case of any lease by a Permitted Organization authorized by Rule 6.19(a)(4) (including the conferring of a Finex License on a Finex Nominee), the guarantor of the lessee and/or Nominee may proceed against the Lessee/Nominee, the Membership Interest leased and the Permitted Organization.

The lessee shall have all rights, privileges and obligations of the Membership Interest that is leased or conferred except that in no event shall a Lessee have the right:

- (1) to vote;
- (2) to receive insurance benefits, if any, attributable to the Membership Interest;
- (3) to serve on the Board of Managers or on the Board of any affiliated exchange unless that exchange authorizes such service;
- (4) to nominate independent Board candidates by petition or otherwise;
- (5) to become a clearing member;
- (6) to be granted trading privileges on an affiliated exchange by virtue of the leased Membership Interest, unless that exchange authorizes such privileges to Exchange lessees.
- (7) to participate in any pro-rata share of any distribution of the revenues, assets or proceeds of the Exchange whether from a liquidation, dissolution, or winding up of the affairs of the Exchange, or otherwise.
- (8) to establish or maintain a futures, options or securities account unless Lessee gives prompt written notice of such account to the Guarantor.

Additionally, from the date of application through the termination of any lease granted, lessee shall provide to the lessor and guarantor copies of all Investigative Reports and Demands for Arbitration on the Exchange, and on Citrus, in which the lessee is a named party. To the extent that the lessee fails to provide such documents, the Exchange and Citrus may provide copies of such respective documents including subsequent pleadings, to the lessor and guarantor.

Further, to the extent that a lessee executes brokerage for an account in which he has less than a one-third ownership interest, then the lessee shall pay a per contract brokerage surcharge to the Exchange in such amount as the Exchange may from time to time determine.

- (h) Dues and the assessments levied against a Membership Interest shall be billed to the lessor and the lessor shall be responsible for them until payment is made.
- (i) Any and all controversies arising out of or in connection with the lease, or its interpretation shall be arbitrated in accordance with the arbitration rules of the Exchange or Citrus as the case may be.
- (j) In the event that a lessee fails to pay contract fees when due or a fine, award, or penalty required of him by a final ruling of the Exchange, or Citrus, then the Exchange, in addition to taking other actions, including but not limited to disciplinary actions, may require the guarantor to immediately pay such amount.

- (k) Memberships which are used to convey member corporation, partnership, or trade member privileges must be held of record by principals, officers or employees of such firm and may be leased only to another principal, officer or employee of such firm.
- (l) A leased Membership Interest may not be transferred during the term of the lease.
- (m) In each case, the trading privileges of the lessee, shall cease on the effective date of such occurrence; provided, however, that the lease itself shall not expire until 10 days after notice of such occurrence has been posted by the Exchange. In the case of good cause shown, however, the Chairman of the Committee or his designee, may allow the trading privileges of the lessee to continue through the expiration date of the lease.
- (n) In the event of a lease termination occurrence, notice thereof shall be posted on the bulletin of the Exchange for a period of ten days. Member claims against a lessee and/or the lessee's Guarantor(s) filed with the Secretary of the Exchange after the expiration of the ten-day posting period shall be subordinated to member claims filed during that period.
- (o) A lessor may apply for trading privileges in contemplation of a lease termination occurrence but any grant of such privilege shall be deferred until the actual termination date or such later date as the Committee on Membership determines.
- (p) The parties to an existing approved lease may apply for renewal of such Lease for succeeding term(s) by submitting to the Committee on Membership a written request for renewal signed by lessor and lessee, along with a non-refundable fee in such amount as set from time to time by the Committee on Membership. Such renewals may be approved solely by Committee on Membership action. Application for renewal shall be submitted not less than twenty and not more than sixty days prior to the expiration date of the existing Lease or such other time as the Committee may require.
- (q) The Committee on Membership may, in the best interests of the Exchange, limit the number of lessees with trading privileges outstanding at any one time by giving written notice on the bulletin of the Exchange; in the event of such limits, it may maintain waiting lists from which renewal applicants and lease applicants may be chosen.

RULE 6.05 MEMBER RESPONSIBILITY ACTION

(a) Definitions

1. The term "member" as used in the Rules of the Exchange includes any holder of a Membership Interest in the Exchange or its affiliates and a member firm of the Exchange or its affiliates unless the context otherwise requires.
2. "Member firm employees" include persons who are employed on the New York floor of the Exchange or its affiliates by a member firm of the Exchange or its affiliates.
3. "Exchange employees" include persons who are employed in any capacity by the Exchange or its affiliates at its New York offices.

- (b) The Committee on Membership shall, at all times, have power to inquire into the financial and/or operational condition of any member.

Whenever it appears to the Committee on Membership or a Panel thereof

1. that a member fails to meet the financial requirements prescribed by the Exchange; or
2. that a member is otherwise in such financial condition that he cannot, with safety to his creditors, the Exchange, or members thereof, be permitted to engage in transactions on the Exchange, or

that the Exchange is unable to obtain from the member adequate information as to his financial condition; or

3. that the guarantor and/or Primary Clearing Member of a member fails to comply with the requirements of the Exchange applicable to Guaranteeing Members or Primary Clearing Members or that the Exchange is unable to obtain from the member adequate information as to the financial condition of his guarantor and/or Primary Clearing Member; or
4. that a member or his guarantor and/or Primary Clearing Members is the subject of an insolvency proceeding or reorganization proceeding for the relief of debtors; or
5. that a member has been suspended or expelled from membership in any securities exchange or association regulated by the Securities and Exchange Commission or any contract market or futures association regulated by the Commodity Futures Trading Commission (CFTC), or has had disciplinary action taken against it as that term is defined from time to time in Part 9 of the CFTC's regulations; or
6. that a member ceases to have the qualifications for trading on the floor of the Exchange by reason of his inability to execute trades in a proper manner; or
7. that a member is in such deficient operational condition that the business of other members on the Exchange is being unduly hindered, delayed or otherwise adversely affected or that the Exchange is unable to obtain from the member adequate information as to his operational condition; or
8. that a member has acted as a floor broker or floor trader on the Exchange, as those terms are defined in the Commodity Exchange Act, without being currently registered with the Commodity Futures Trading Commission to act in such capacity; or
9. that a member, or member's employee through negligence or otherwise, fails to make a record, report or filing required under the Membership Rules and/or by the Committee on Membership ("Membership Requirement") or fails to take a Membership Requirement action at the time required by the Exchange, or that a member or member's employee makes such a Membership Requirement record, report or filing which is inaccurate; or
10. that any person under the Exchange's jurisdiction has engaged in "Prohibited Conduct" as defined in the Exchange's Rules;

and

the Committee on Membership or a Panel thereof has a reasonable belief that immediate action is necessary to protect the best interests of the market, the Committee on Membership or a Panel thereof shall have power in its discretion forthwith to direct the guarantor and/or Primary Clearing Member to accept and to clear trades specified by the Committee, to fine such member, to order suspension of such member from all rights and privileges of membership on the Exchange or to take any other action that it deems appropriate under the circumstances including, but not limited to, in the case of a member who has trading privileges, suspension of the member as a trading member of the Exchange.

Such power may be exercised without prior notice where, in the opinion of the Committee or Panel, it is not practicable to give such notice.

- (c) The Supervisory Committee, acting through a Panel of not less than three

members of the Committee appointed by the Chairman of the Committee, shall have membership responsibility powers whenever it appears to the Supervisory Panel:

1. that a member has been convicted of a felony or misdemeanor; or
2. that a member, through negligence or otherwise, fails to make a record, report or filing or fails to take an action at the time required by the Exchange, or that a member makes such a record, report or filing which is inaccurate; or
3. that the solicitation and/or acceptance of orders or accounts by a member or members from another member, or non-member, should be curtailed or prohibited

and

the Supervisory Panel has a reasonable belief that immediate action is necessary to protect the best interests of the market, the Supervisory Panel shall have power in its discretion forthwith to fine such member, to order suspension of such member from all rights and privileges of membership on the Exchange, to order such curtailment or prohibition or to take any other action that it deems appropriate under the circumstances including, but not limited to, in the case of a member who has trading privileges, suspension of the member as a trading member of the Exchange.

Such power may be exercised without prior notice where, in the opinion of the Panel, it is not practicable to give such notice.

- (d) Whenever action is taken pursuant to subsections (b) and (c) hereof, the provisions of Rule 10.22 (Member Responsibility Action), Rule 10.23, and Rule 10.24 shall apply.
- (e) Nothing in these Rules shall preclude the Exchange from taking other or additional action, including, but not limited to, disciplinary proceedings against such person pursuant to other applicable provisions of the By-Laws or Rules.
- (f) Violations of these Rules by persons under NYCE[®] jurisdiction shall be prosecuted under these Rules; violations by persons under the jurisdiction of a NYCE[®] affiliate shall be prosecuted under the Rules of the affiliate unless the President of NYCE[®] determines otherwise, in which case prosecution shall be had under these Consolidated Rules before a diverse panel. Violations of these Rules by persons under the jurisdiction of CFFE shall always be handled under these Consolidated Rules before a diverse Panel.

RULE 6.06 APPROVAL OF TRADING MEMBERS

- (a) (1) Special Approval Required for Trading Members. The election of an applicant to a membership interest in the Exchange shall not qualify him to execute contracts on the floor of the Exchange unless he is also approved as a trading member by the Committee on Membership. The term "trading member" means a floor trader or floor broker. Upon such approval said member shall receive a symbol containing the trading member's number and initials.
- (2) No person may act as a floor broker or floor trader on the Exchange, as those terms are defined in the Commodity Exchange Act, unless such person is currently registered (or temporarily licensed) respectively with the Commodity Futures Trading Commission as a floor broker or floor trader ("Floor Registrant").
- (3) Such Floor Registrants must notify the NFA whenever any information on the Form 8-R or any supplement thereto becomes inaccurate; additionally, such Floor Registrants must review and/or file a triennial update of Form 8-R with the NFA in the manner required by CFTC regulation. To the extent that the Exchange or any of its affiliates, ~~Citrus Associates of the New York~~

~~Cotton Exchange, Inc.~~, has notified the NFA of any final disciplinary action, member responsibility action, floor committee action, or the granting or revocation of trading privileges by the Exchange or its affiliates, the Floor Registrant need not duplicate such notification.

- (4) Additionally, if any Floor Registrant wishes to withdraw from registration as a floor broker or floor trader, he may do so by filing Form 8-W in the manner required by CFTC Regulation 3.33. Notice of final disciplinary action by the Business Conduct Committee, Supervisory Committee and/or the Board of the Exchange, final Member Responsibility actions taken by the Committee on Membership, final action taken by the Floor Committee, (other than decorum and attire violations not reportable under CFTC Reg. 9.11) and the granting or revocation of trading privileges on the Exchange shall be issued by the Exchange, or its affiliates, to the National Futures Association in connection with its responsibilities concerning registration of Floor Registrants.
- (5) All Floor Registrants must attend ethics training in the manner and time set forth in CFTC Regulation 3.34 or such other ethics training as may be authorized by the Committee on Membership which equals or exceeds the standards set forth in Regulation 3.34. The Exchange will maintain evidence of attendance and/or completion of all such training of Floor Registrants under the Exchange's auspices. To the extent that a Floor Registrant or applicant wishes to apply ethics training received outside the Exchange's auspices to meet the requirements herein, such person must provide the Exchange with satisfactory evidence that such training meets the standards herein.
- (6) Nothing herein limits the ability of the Committee on Membership to require any person under the Exchange's jurisdiction, including but not limited to, all registrants set forth in Regulation 3.34, from meeting ethics training standards equal to or in excess of those set forth in that regulation.

(b) Requirements for Approval. The requirements for approval as a trading member are:

- (1) capability to act as a trading member;
- (2) financial qualifications; and
- (3) current satisfactory agreement with a Primary Clearing Member of the Exchange, as hereinafter set forth.
- (4) In each case in which a person seeks to have his status as a trading member granted or restored, that person must re-submit a membership application, together with the then current application fee and must demonstrate to the Committee on Membership that no conditions for denial as set forth in Rule 6.01(b) exist; provided, however, that the Committee on Membership for good cause shown may waive any of the requirements set forth in this subsection (4).

(c) Capability.

- (1) Applicant - A person with a Membership Interest who has:
 - (A) six or more months experience on the floor of any designated contract market and/or;
 - (B) taken and successfully completed the Exchange's floor trading training program; and
 - (C) taken the requisite ethics training program, may apply to the Committee on Membership for the grant of trading privileges.
- (2) Privileges Granted
 - (A) In the event that an applicant meets all of the requirements

of (c) (1) above, the Committee may grant probationary trading privileges to such applicant;

(B) For purposes of this Rule, the following terms shall have the following meanings;

- (1) Probationary Period - the period it takes the trader to complete the requisite active trading months; for applicants the requirement is six (6) active trading months.
- (2) Active Trading Month - any month in which the probationary trader executes at least 300 transactions in such calendar month and effects at least 5 transactions on 10 or more business days during such month in any NYCE contracts.
- (3) Floor Membership Panel - a panel of the Committee on Membership made up of at least 3 persons who are members of both the NYCE Floor Committee and NYCE Committee on Membership.

(3) Privileges Withdrawn or Conditioned

- (A) At any time during the probationary period, the Floor Membership Panel may notify the probationary trader of its view that the trader has demonstrated an inability to execute trades in a proper manner or otherwise has so interfered with efficient trading in the market place ("Sufficient Deficiency").
- (B) Additionally, to the extent that any member with full trading privileges, as opposed to probationary trading privileges ("Full Trader") is found by majority vote of a Floor Membership Panel to have demonstrated a Sufficient Deficiency, such Full Trader shall be similarly notified.
- (C) Such determinations may be made by majority vote of the Panel, provided that at least three (3) members are present and voting at the time of the action and shall be promptly followed by a MRA Hearing.

(4) Remedies

At any time after a MRA Hearing Panel finds against a Probationary Trader or Full Trader, such Panel may suspend the Trader's floor trading privileges and may set forth procedures that the former Probationary or Full Trader must fully satisfy, including, but not limited to:

- a) taking additional mock trading;
- b) taking additional broker training;
- c) taking additional ethics classes;
- d) serving an additional Probationary Period(s) of three (3) Active Trading Months; or
- e) such other remedial actions, which in the judgement of the Panel or Committee, will best serve the interests of the former Probationary or Full Trader and the best interests of the Exchange;

The above remedies are in addition to any fines or other penalties that the MRA Panel may levy under Rule 6.05. Additionally, nothing herein estops an MRA Panel or Committee from taking action prior to a hearing in appropriate cases for the reasons set forth in Rule

6.05.

(5) Appeals

Any aggrieved person may appeal the interruption of trading privileges or the sufficiency of remedial action undertaken by such person or other MRA penalty under Rule 10.22.

(6) Waiver

The Committee on Membership, at any meeting may waive and/or reduce any requirements set forth in this Rule 6.06(c) for any class of membership interest holder or individual member as it deems to be in the best interest of the Exchange for such reasons as are set forth in the minutes of such meeting.

- (d) Financial Requirements: A member shall not be approved as a trading member from and after February 3, 1995 unless such member has a net worth of not less than \$25,000 as well as a full guarantee by a clearing member of the Exchange in form satisfactory to the Committee on Membership.

Those persons who were trading members on or before February 2, 1995, may continue to follow the pre-existing financial requirements unless and until those requirements are further amended by the Exchange.*

(e) Primary Clearing Member:

- (1) For purposes of this Rule, the term "Primary Clearing Member" shall mean:
- (A) In the case of an individual trading member authorized to clear trades for his own account, such individual clearing member;
- (B) In the case of a trading member whose financial requirements are guaranteed by a clearing member firm pursuant to ((d)(2) of) this Rule, then such clearing member; and
- (3) (A) In addition to any other rights and obligations that a clearing member may have under the By-Laws and Rules of the Exchange and agreements arising thereunder, to the extent that it is a Primary Clearing Member for any trading Member:
- (i) it shall be obligated to promptly accept and clear any trades that have been matched trader-to-trader on the Exchange by any such trading member but which have not been cleared by another clearing member; and
- (ii) when directed by the Exchange, it shall also be obligated to accept any transaction effected by or for the account of any such trading member, by transfer trade or otherwise.
- (B) All questions respecting trading members, guarantors and Primary Clearing Members may be resolved by the Committee on Membership, including, but not limited to proceedings taken by the Committee pursuant to Membership Responsibility Action under Rule 6.05.

*The "grandfathered" financial requirements for such pre February 3, 1995 trading members are as follows:

- (1) Unless he has a net worth of not less than \$100,000; or in the cases of a Section 2.03(b) Cotton Associate Member ("CAM"), a Section 2.31 License ("FINEX" Licensee) or a Section 2.33 Permit ("European Permit") not less than \$125,000; or
- (2) Unless his obligations on the Exchange are guaranteed by a Clearing Member of the Exchange in form satisfactory to the Committee on Membership.

RULE 6.09 REPORTING OF DEBTS AND EXCHANGE OBLIGATIONS

Reporting of Debts

- (a) For purposes of this rule, the term Exchange shall mean the New York Cotton Exchange or its affiliates, the Citrus Associates of the New York Cotton Exchange, Inc., ("Citrus"), the Cantor Financial Futures Exchange, Inc. ("CFFE") and the New York Futures Exchange, Inc. ("NYFE[®]"). When a trading member of the Exchange becomes indebted to another member in an amount exceeding ten thousand dollars (\$10,000) for any reason, including, but not limited to positions requiring margin calls in a futures, options or securities account maintained by a member with another member, the creditor member ("Creditor Member") and trading member ("Debtor Member") must report the facts of the indebtedness, as well as steps taken, if any, to satisfy the indebtedness, in writing to the Secretary of the Exchange, provided that if the debt is less than twenty-five thousand dollars (\$25,000) and has been satisfied within five days of the incurring thereof, a report shall not be required.

For the purposes of this Rule, "indebtedness" which consists of an adjustment due to a member futures commission merchant ("FCM") as a result of a trading error by the trading member shall mean only the amount by which such adjustment exceeds commissions, brokerage fees or other such compensation then accrued from the FCM to the trading member.

- (b) In the event that any written report required by subsection (a) of this Rule is not received by the Secretary within 10 days of the indebtedness, then the member or members who failed to make such report will be deemed to have violated this Rule. In addition to any disciplinary action taken against any such member, that member, if a Creditor Member, will be deemed to have subordinated any rights it might have under the respective By-Laws and Rules of NYCE[®], NYFE[®] or CITRUS to collect that indebtedness to the claims, if any, of the Exchange, or any other member whose claims against the Debtor Member are not similarly subordinated to the extent that such claim by the Creditor Member includes such indebtedness.

Exchange Obligations

- (c) (1) For purposes of this subsection (c) of this Rule, the following terms shall have the following meanings:

(A) Member shall mean all categories of NYCE[®] membership, Citrus membership and NYFE[®] membership.

(B) Exchange Obligation shall mean any monetary obligation owed by a member.

(i) to the Exchange, or

(ii) to another member arising out of or in connection with transactions effected on or subject to the respective By-Laws or Rules.

(C) Service of Written Notice of Exchange Obligation.

Written Notice of Exchange Obligation shall be deemed received by the indebted party on either.

(i) the date actually received if delivered by hand, or

(ii) three calendar days after mailing, including regular mail, express mail or courier service. (In the event of disputes with respect to receipt dates, independent proof of mailing shall control).

- (2) All Exchange Obligations shall be paid promptly by the indebted member, but in any event, not later than 20 calendar days after service of Written Notice of Exchange Obligation, unless:

(A) modified by a written agreement to the contrary, or

- (B) a greater or lesser time period is set forth in the respective By-Laws and Rules or an Exchange invoice with respect to a particular Exchange Obligation; or
- (C) in the case of a monetary obligation owed by a member to the Exchange, on written application made prior to the date when the Exchange Obligation is first payable, the respective Executive Committee has, for good cause shown, extended the date for payment of such Exchange obligation.

A member receiving a Written Notice of Exchange Obligation, in accordance with the foregoing time schedule, shall;

- (i) satisfy the Exchange Obligation or
 - (ii) notify the Secretary of the Exchange in writing of the specific basis under the By-Law and Rules of the Exchange or applicable law why the Exchange Obligation is not then due and payable.
- (3) A member issuing such Written Notice of Exchange Obligation shall promptly report in writing all failures to receive satisfaction to the Secretary of the Exchange.
 - (4) The Exchange's interest in any Exchange Obligation is limited to its interest in compliance with its By-Laws and Rules in general and this Rule 6.09(c) in particular.
 - (5) The Secretary shall refer all potential violations of this Rule to the Compliance Department for investigation.

Violation of this Rule by persons with NYCE[®] membership interests shall be prosecuted under this Rule; violations by persons with membership interests in a NYCE[®] affiliate shall be prosecuted under the Rules of the affiliate unless the President of NYCE[®] determines otherwise, in which case prosecution shall be had under this Consolidated Rule before a diverse Panel. Violations of these Rules by persons under the jurisdiction of CFFE shall always be handled under these Consolidated Rules before a diverse Panel.

RULES GOVERNING ARBITRATIONS (8.00-8.08)

RULE 8.00 SCOPE

For purposes of Rules 8.00 - 8.08, the term Exchange shall include the New York Cotton Exchange (NYCE) and its affiliates; including the Citrus Associates of the New York Cotton Exchange, Inc. (CITRUS), the New York Futures Exchange, Inc. (NYFE), the Cantor Financial Futures Exchange, Inc. (CFFE) and the Finex and SPUD Divisions of the New York Cotton Exchange (Finex) and (SPUD), (collectively the Exchange).

Non-statutory controversies involving persons under NYCE® jurisdiction shall be determined under these Rules; non-statutory controversies involving persons under the jurisdiction of a NYCE® affiliate shall be determined under the Arbitration Rules of the affiliate unless the President of NYCE® determines otherwise, in which case determinations shall be had under these Consolidated Rules before a diverse Panel; provided, however, controversies involving CFFE, CFFE's employees and agents and persons under the jurisdiction of CFFE shall always be determined under these Consolidated Rules before a diverse Panel.

RULE 8.01

Definitions

The following terms shall, for the purpose of this Rule, have the following meanings, unless otherwise indicated:

(a) Controversy.

- (1) Any claim, grievance or dispute which arises out of any transaction on or subject to the Rules of the Exchange executed by or effected through a member of the Exchange or employee thereof.
- (2) Any claim, grievance or dispute other than a subsection (a)(1) controversy relating to the conduct at the Exchange Facility of any member (including but not limited to employees of members) or other persons subject to Exchange jurisdiction as set forth in Rule 10.12(j), or Citrus Rule 112(j) or NYFE® Rule 541(j), as from time to time amended.
- (3) Any claim, grievance or dispute other than a subsection (a)(1) or (2) controversy relating to or against CFFE or any of CFFE's employees or agents brought pursuant to CFFE Rules 308, 723 and 724 respecting alleged negligent actions committed by CFFE or any of CFFE's employees or agents controlling the functioning of the Cantor System.
- (4) Any such controversy may be heard as long as it does not require for adjudication the presence of essential witnesses or third parties over whom the Exchange does not have jurisdiction and who are not otherwise available.
- (5) The term "controversy" does not include a claim, grievance or dispute arising from cash market transactions which are not a part of, or directly connected with, any transaction for the purchase or sale of any contract effected on the Exchange.

(b) Statutory Controversy. Any Rule 8.01(a)(1) controversy between a customer and a member or employee of a member.

(c) Inter-Exchange Transaction Controversy and Procedure

- (1) Inter-Exchange Transaction shall mean a straddle or spread transaction (or order) recognized by the Exchange in which one leg of the straddle or spread transaction is executed (or is intended to be executed) on the Exchange and the other leg is simultaneously executed (or is intended to be simultaneously executed) on another futures contract market ("Other Exchange") with respect to a futures or options contract in which that Other Exchange has been designated by the Commodity Futures Trading Commission.

- (2) Controversy. Any controversy involving an Inter-Exchange Transaction.
- (3) Procedure. The procedure to be followed in Inter-Exchange Transaction Controversies shall be set forth, from time to time, by written agreement between this Exchange and such Other Exchange(s). Those agreements together with these Rules shall govern the arbitration of claims arising out of Inter-Exchange Transactions as defined herein. A listing of those agreements currently in effect, as well as the agreements themselves are available, upon request, to the Secretary's office. Parties who are involved in an Inter-Exchange Transaction Controversy should consult those agreements as well as these Rules.
- (4) Nothing set forth herein or in any agreement with Other Exchange(s) shall limit a customer's right (as claimant or respondent in arbitration) to a choice of forum under CFTC Reg. 180.1(b)
- (d) Non-Statutory Member Controversy. Any controversy between a member and another member or other persons subject to Exchange jurisdiction. For the purpose of this subparagraph a controversy:
- (1) shall include any claim, grievance or dispute relating to a transaction on the Exchange or to a transaction to be made on the Exchange or to the relations or obligations to each other of the parties to a transaction which is governed by the By-Laws or Rules of the Exchange; and
- (2) shall include any claim, grievance or dispute, other than a subsection (d)(1) controversy, relating to the conduct of a member or another person subject to Exchange jurisdiction at the Exchange Facility.
- (e) Customer. A person other than a member of the Exchange who has a subsection (a)(1) transactional controversy with a member of the Exchange or an employee thereof.
- (f) Member. A member of the Exchange or a partnership, corporation or association on which the benefits of membership have been conferred pursuant to the Rules of the Exchange or its affiliates, including former members to the extent set forth in the By-Laws and Rules of the Exchange or its affiliates.
- (g) Claimant. A person who asserts a claim under this Rule.
- (h) Respondent. A person against whom a claim is asserted under this Rule.
- (i) Panel. A three member panel appointed to hear and determine a controversy under this Rule. Except where a Mixed Panel is appointed, a Panel shall consist of a subcommittee of three members of the Arbitration Committee. In the event that the claimant or respondent is a Cotton Associate Member, and the controversy involves a transaction in an Exchange financial contract, then at least one member of the Panel shall be a person meeting the qualifications set forth in By-Law Section 2.03-B, unless that service is specifically waived, in writing, by the claimant and/or respondent who are Cotton Associate Members.

All references to Panel in these Arbitration rules shall, unless the context requires otherwise, mean:

1. The 3 person Panel provided for in Rule 8.01(i) or (j);
 2. In the case of a small claims matter assigned to a sole arbitrator, then the arbitrator;
 3. Before a Panel has been appointed by the Chairman of the Arbitration Committee, then the Chairman of the Arbitration Committee.
- (j) Mixed Panel. A Panel consisting of one member of the Arbitration Committee and two persons who are not members of any contract market or associated with any member of a contract market or employees thereof, and

who are not otherwise associated with a contract market (a "non member"). In the event the amount in dispute is a statutory controversy and a small claim as provided in (m) (1) below, the Panel shall consist solely of one person who is a non member.

- (k) Counterclaim. A claim which falls within the definition of a controversy asserted by the respondent against the claimant.
- (l) Service. The delivery of pleadings and other documents to and from the Exchange and the parties. For purposes of these Arbitration Rules, service can be accomplished by hand delivery, mail, including express mail (by private or public courier), or by facsimile transmission (fax). With respect to any such method employed, it is the responsibility of the sender to have and maintain proof of service. With respect to any time period required within these Rules, service shall be deemed to be made on the day that a pleading or document has been hand delivered, faxed or deposited with an express mail service; in the event of service by regular mail, service shall be deemed to have been made three days after deposit with the postal service.
- (m) Small Claims
1. Any claim together with any counterclaim, if any, which aggregates less than \$5,000 shall be decided by one arbitrator without a hearing, subject to 2 below.
 2. If the Chairman of the Arbitration Committee or sole arbitrator, when appointed, determines that a hearing before a three person panel would be appropriate, then the small claim shall be so heard. The Chairman (or sole arbitrator) may make such decision at the request of any party or on his own motion.
 3. In the event that a small claims procedure occurs, the sole arbitrator shall be empowered at any time before he closes the proceedings, to request documents and clarification including, but not limited to, written and/or oral testimony from the parties, and others within the jurisdiction of the Exchange, as well as publicly available records from the Exchange staff, all on written notice to each of the parties.

RULE 8.04 TIME LIMITATION

- (a) With respect to subsection (a) (1) controversies, no controversy may be arbitrated under this Rule unless a notice of intention to arbitrate such controversy shall be given pursuant to Rule 8.05(a) within two years of the date of the event which gave rise to such controversy; provided, however, that any 8.01(a) (3) claim against CFFE or any of CFFE's employees or agents for alleged negligent operation of the Cantor System must be brought within 120 days following the CFFE trading session on which the negligent action allegedly occurred. No counterclaim may be arbitrated under this Rule in connection with a non-statutory member controversy unless it is asserted by the respondent within two years of the event which gave rise to such counterclaim provided, however, that the foregoing time limitation shall not be applicable to a counterclaim which arises out of the transaction or occurrence that is the subject of claimant's claim.
- (b) (1) With respect to subsection (a) (2) controversies, no dispute, claim or controversy shall be eligible for submission to arbitration under this Rule by Notice of Intention to arbitrate where six (6) years shall have elapsed from the occurrence or event giving rise to the act or the dispute, claim or controversy. This section shall not extend applicable statutes of limitations, nor shall it apply to any case which is directed to arbitration by a court of competent jurisdiction.
- (2) Where permitted by law, the time limitation(s) which would otherwise run or accrue for the institution of legal

CHAPTER 10

DISCIPLINARY PROCEEDINGS (10.01-10.21)

SCOPE

As used throughout Rules 10.01 - 10.21, the term Exchange shall include the New York Cotton Exchange (NYCE) and its affiliates; including the Citrus Associates of the New York Cotton Exchange, Inc. (CITRUS), the Cantor Financial Futures Exchange, Inc. (CFFE) and the New York Futures Exchange, Inc. (NYFE), (collectively the Exchange).

Violations of these Rules by persons under NYCE[®] jurisdiction shall be prosecuted under these Rules; violations by persons under the jurisdiction of a NYCE[®] affiliate shall be prosecuted under the Rules of the affiliate unless the President of NYCE[®] determines otherwise, in which case prosecution shall be had under these Consolidated Rules before a diverse Panel. Violations of these Rules by persons under the jurisdiction of CFFE shall always be prosecuted under these Consolidated Rules before a diverse Panel.

RULE 10.01 MEMBER SUBJECT TO DISCIPLINARY PROCEEDINGS

A member of the Exchange (including former members to the extent set forth in the By-Laws) shall be subject to disciplinary proceedings as provided herein.

The term "member" as used in the By-Laws and Rules includes a member firm unless the context otherwise requires. The term member shall also include any person or entity which has been granted Trading Privileges on CFFE.

A member is responsible for the acts of his employees and his member firm and a member firm is responsible for the acts of its partners, officers and employees.

A member who or which is the subject of a disciplinary proceeding is referred to herein as a "Respondent."

proceedings, shall be tolled when a duly executed Notice of Intention to arbitrate for Arbitration is filed by the claimant(s). The tolling shall continue for such period as the Exchange shall retain jurisdiction upon the matter submitted.

- (3) The six (6) year time limitation upon submission to arbitration shall not apply when the parties have submitted the dispute, claim or controversy to a court of competent jurisdiction. The six (6) year time limitation shall not run for such period as the court shall retain jurisdiction upon the matter submitted.
 - (4) No counterclaim may be arbitrated under this Rule in connection with a non-statutory member controversy unless it is asserted by the respondent within six years of the event which gave rise to such counterclaim; provided, however, that the foregoing time limitation shall not be applicable to a counterclaim which arises out of the occurrence that is the subject of claimant's claim.
- (c) If there is a dispute as to whether a notice of intention to arbitrate was given or a counterclaim was asserted within the time required by this subparagraph, such dispute shall be determined by the Panel prior to the hearing on the merits.