

CANTOR FUTURES EXCHANGE, L.P.

March 29, 2010

The Honorable Gary Gensler
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Cantor Futures Exchange, L.P. Response to MPAA Letter Dated March 23, 2010

Dear Chairman Gensler:

This letter is submitted on behalf of Cantor Futures Exchange, L.P. ("CFE") in response to the letter (the "MPAA Letter" or the "Letter") submitted by the Motion Picture Association of America (the "MPAA"), dated March 23, 2010, regarding the application of CFE for designation as a contract market. CFE is being established for the purpose of listing and trading futures contracts on Domestic Box Office Receipts ("DBOR"). Since the initial application of CFE was filed on November 28, 2008, we have worked diligently with the Commodity Futures Trading Commission (the "Commission") and its staff to complete the application with a view toward obtaining the Commission's approval of the application in April, 2010.

We respectfully submit that the MPAA Letter should be rejected as a factor in the Commission's consideration of CFE's application because (1) the MPAA has had knowledge of the CFE Application since at least January 2009 and yet the MPAA Letter was not submitted for more than a year after the deadline established by the Commission for comments; and, perhaps more importantly, (2) the MPAA Letter is factually incorrect in the principal objection it makes with regard to the CFE's application before the Commission. Each of these points is addressed in more detail below.

The MPAA has had knowledge of the CFE Application since Early 2009

CFE's application has been continuously available to the public since November 2008, when the principal application documents including DBOR Contract Terms and Conditions were made available via the Commission's website. On January 8, 2009, the Commission issued Release 5595-09 requesting any public comments on CFE's application by January 28, 2009. No public comments were received during this period, nor were any comments filed at any subsequent time until the MPAA submitted its Letter on March 23, 2010, some 14 months later.

The disregard the MPAA shows for a timely and transparent public process is made all the more egregious considering that, since March of 2009, the CFE has contacted the MPAA on a number of occasions in order to solicit its input on the structure of and plans for CFE and on the design of the DBOR Contract. Although MPAA acknowledged receipt of those communications, CFE received no substantive response or objection to any aspect of CFE's application to become an exchange or CFE's intent to list DBOR Contracts. We understand that the Commission's staff also reached out to the MPAA in the fall of 2009 but similarly received no response on our application.

Our initial contact at the MPAA was in March of 2009 to MPAA's then Chief Executive Officer, Daniel Glickman at the motion picture industry's ShoWest convention. CFE reached out again to Mr. Glickman as recently as January 8, 2010 and January 13, 2010, when Mr. Glickman was provided additional materials about the DBOR Contract. It must be assumed that MPAA had full knowledge and understanding of the implications of CFE's application and the designation process if only because Mr. Glickman is very knowledgeable about the futures industry; Mr. Glickman serves as a member of the Board of the CME Group and was formerly a member of the House Agriculture Committee, where he was directly involved in oversight of the Commission. Despite this, MPAA did not raise any formal or informal objections to CFE's application until the MPAA Letter.

MPAA had a second chance, albeit indirect, to provide comment regarding the CFE application and its DBOR Contract in October 2009 when the Commission published for public comment the application of a second applicant intending to trade futures based on domestic box office receipts. Again, MPAA did not choose to avail itself of the public comment period to register any objections or concerns about either CFE or the other applicant.

In January 2010, Mr. Robert Pisano was named the Interim Chief Executive Officer of MPAA. On March 10, 2010, CFE emailed Mr. Pisano and included CFE's February 23, 2010 press release announcing CFE's expected approval on April 20, 2010. Mr. Pisano did not express any objection or reservation regarding the establishment and the Commission's approval of CFE at that time.

On March 16, 2010, CFE again requested a meeting with Mr. Pisano after CFE brought to Mr. Pisano's attention the fact that a motion picture industry trade publication quoted an unnamed movie studio chairman as saying it might be necessary for studios to use their marketing budgets to manipulate the market. Again, Mr. Pisano did not elect to meet with CFE to address the issues raised by this comment's publication in the trade press, nor did he communicate any objection to or reservations regarding the establishment and the Commission's approval of CFE or DBOR Contracts.

In addition to direct communication with the MPAA throughout 2009, CFE was in direct contact with representatives of four of the six principal MPAA members or their corporate parents. Issues relating to market manipulation concerns with respect to the DBOR futures market, and various means of protecting against and monitoring for

manipulation, were discussed with these entities. Additionally, due to the interest shown by participants in the discussions, topics regarding the rights and obligations of studios participating in the CFE market and potential strategies for their participation in the market were also addressed. At no time in any of these series of discussions were the allegations set forth in the MPAA Letter raised in any way.

Given CFE's regular, cordial, and generally positive interactions with the MPAA, numerous film studios and other participants in the motion picture industry regarding the DBOR Contract and its utility for hedging purposes, CFE reasonably believed that these entities were all comfortable with the CFE market and the DBOR Contracts. Based on the stark contrast between these discussions and the MPAA Letter, and the last minute nature of the MPAA's purported objections, it is clear that the MPAA's claims are spurious and untimely. The MPAA Letter and MPAA's contentions should be rejected by the Commission on these grounds alone.

The MPAA Claims are Factually Incorrect

With respect to the factual contentions themselves, the MPAA Letter cites CFE DBOR Rule IV-12(a)¹ and asserts that film studios and other motion picture industry participants will not be able to trade DBOR Contracts on the films they generated because they will possess material non-public information and the DBOR Contract Rules will prohibit their participation. This assertion is simply false; the MPAA has selectively cited from the Rules governing DBOR Contracts and simply chooses to omit from the Letter references to the definition of Material Non-Public Information as well as DBOR Rules II-17 and II-18. These Rules more specifically address the actual prohibitions on trading DBOR Contracts and make it clear that MPAA's claim is false and intended only to undermine CFE's application.

Indeed, these Rules specifically provide for participation by movie studios and film distributors so that they may effectively hedge their exposure to film revenues, even where certain employees may have access to material non-public information, provided that appropriate protections are in place to prevent trading on such information. In particular, DBOR Contract Rule II-18 requires that such studios and distributors maintain information barriers between those hedging company positions and those that have access to material non-public information. Pursuant to DBOR Contract Rule II-18, these information barriers are required to be based on various commonly accepted approaches to precluding the flow of information, including (i) physical separation, (ii) the separation of management and reporting lines, (iii) periodic reviews of the information barrier to applicable employees, and (iv) periodic reviews and reports regarding adherence to and the effectiveness of information barrier policies. As mentioned above, the concept of utilizing information barriers has been discussed with participants in the motion picture industry and CFE has received favorable reactions to its proposed approach.

¹ CFE would like to note that the DBOR Rule IV-12(a) cited in the Letter reflects a numbering schema that was subsequently revised; although this rule number is no longer valid, the rule remains materially unchanged in the current rule numbering schema.

However, MPAA ignores the actual limitations on DBOR trading, in its attempt to characterize DBOR trading as “unbridled gambling”. Again, this assertion is simply false. DBOR Contracts, like most other futures contracts, are designed to provide hedging opportunities to entities with commercial exposure to the underlying commodity, in this case film revenues. Contrary to the allegation set forth in the MPAA Letter, film studios and other motion picture industry participants, as noted, will be eligible to trade DBOR Contracts. Necessarily, the DBOR Rules prohibit trading while in possession of material non-public information, in a manner similar to many other financial markets, but in no way do they prohibit film studios from using DBOR Contracts for hedging purposes. Maintaining and enforcing rules against participation by persons holding material non-public information, which is paramount to protecting the integrity of futures markets and which is required by law and by the Commission, will not prevent the CFE market from facilitating hedging in the motion picture industry.

Finally, CFE would like to point out that movie studios and film distributors typically hold less than 50% of the economic value represented by Domestic Box Office Receipts. For example, movie theater owners (known in the motion picture industry as “exhibitors”) generally have a 50% interest in DBOR with the remaining 50% being split between film production co-finance partners, talent, and the studios. Indeed, one expected use for DBOR Contracts is exhibitor inventory management in response to a film being over or under distributed to their particular theater outlets. If MPAA were to succeed in blocking CFE’s application, it would be denying these other segments of the motion picture industry from having access to a transparent and viable financial risk management marketplace.

CFE Will Submit DBOR Contracts for Approval by the Commission

CFE has determined to submit the template of its DBOR Contract terms and Rules for approval by the Commission pursuant to CFTC Rule 40.3, rather than self-certifying the terms and Rules following its designation as a contract market. CFE believes that this will further strengthen our application as we look forward to a final approval.

In conclusion, CFE would like to emphasize that we remain available to MPAA and its constituent members to increase their understanding of DBOR Contracts and CFE rules in general and to assist them in every regard to insure against all forms of deliberate or inadvertent trading with material non-public information.

Thank you for your consideration of our views and our application. Please let us know if we can be of further assistance in this process.

Very truly yours,

A handwritten signature in cursive script that reads "Richard Jaycobs".

Richard Jaycobs
President
Cantor Futures Exchange, L.P.

cc: Commissioner Dunn
Commissioner O'Malia
Commissioner Sommers
Commissioner Chilton