



## U.S. COMMODITY FUTURES TRADING COMMISSION

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April 16, 2010

Kathryn M. Trkla  
Foley & Lardner LLP  
321 North Clark  
Chicago, IL 60610

Re: Application of Media Derivative, Inc. for Designation as a Contract Market and Request for approval of the Media Derivatives Rules submitted as part of Media Derivatives application for designation as a contract market.

Dear Ms. Trkla:

By submissions dated September 25, 2009 through April 15, 2010 (collectively the "DCM application"), and Part 38 of the Commission's regulations, Media Derivatives, Inc., ("MDEX") has applied to the Commodity Futures Trading Commission ("Commission"), pursuant to Section 5 of the Commodity Exchange Act ("Act"), 7 U.S.C. § 7(b), for designation as a contract market. The Commission has reviewed the materials submitted and has determined to designate MDEX as a contract market, pursuant to Sections 5 and 6(a) of the Act, 7 U.S.C. §§ 7 and 8(a), subject to the terms and conditions of the accompanying order.

Concurrent with designation, the Commission approved, pursuant to Section 5c(c) of the Act, 7 U.S.C. § 7a-2(c), the following documents submitted as part of the DCM application:

- MDEX Rules 101-102, 201-212, 301-311, 401-428, 501-514, 601-608, 701-704, 801-802, and 901-907.
- Amended and Restated Certificate of Incorporation of Media Derivatives, Inc.

The Commission's designation is based upon, among other things, written submissions, explanations, demonstrations and representations provided by MDEX describing the manner in which it will operate. The Commission's designation is also based upon written submissions, explanations, demonstrations, and representations provided by:

- (1) MDEX and Veriana Networks, the parent company of MDEX;
- (2) MDEX and Minneapolis Grain Exchange ("MGEX"), a derivatives clearing organization that will perform clearing and settlement services for box office receipt contracts;
- (3) MDEX and the National Futures Association ("NFA"), a registered futures association that will provide trade practice and market surveillance, other compliance

services and arbitrations for member/customer disputes and member/member disputes;  
and

(4) MDEX and Rentrak Corporation that will provide the reported box office revenue data on which final settlement of the futures upon expiration and exercise value of the options will be determined.

In approving MDEX's application, the Commission is not approving the agreements covering services between MDEX and third parties, including but not limited to agreements between MDEX and MGEX, MDEX and NFA, MDEX and Rentrak Corporation. Furthermore, in issuing the order of designation and approving the submitted MDEX rules, the Commission notes that it is not approving any form of box office revenue contracts and has not determined whether the contract terms and conditions of any such box office revenue contracts are consistent with the Act and the Commission's regulations.

The Commission observes that MDEX's application did not include any proposed contracts to be traded on the exchange. Accordingly, the Commission, in assessing MDEX's compliance with the Act and the regulations, evaluated MDEX's proposed operations generally and did not evaluate them in the context of a particular contract. The Commission notes that MDEX's general method of compliance with the Act and the regulations may not be appropriate for all types of contracts. For instance, certain contracts may warrant the institution of special surveillance or compliance measures, or special rule provisions. MDEX, as part of its continuing obligation to comply with the Act and the regulation, will be expected to ensure the appropriateness of its self-regulatory procedures for each contract that it lists. Likewise, the Commission in evaluating MDEX contracts will include the appropriateness of the exchange's self-regulatory measures as part of that evaluation. The Commission notes that the Opening Weekend Box Office Revenue binary options and collared futures contracts are here separately for Commission review and approval pursuant to Regulation 40.3.

Moreover, it is important to note that MDEX itself shall remain directly responsible for ensuring the performance of all self-regulatory functions required of it as a designated contract market under the Act and the Commission's regulations, including enforcement of all MDEX rules. The Commission points out that MDEX's responsibility for compliance with all designation criteria and core principles, as required by the Act and its Order of Designation, includes those for which relevant functions have been contracted out. The Commission notes this responsibility includes the responsibility to make available directly to Commission staff, upon request, for all third party entities that provide such regulatory services to MDEX: (i) information and records concerning their role in performing services for MDEX; and (ii) direct contact and access to offices, both as the Commission staff deems necessary and appropriate in the conduct of its regulatory oversight responsibilities relating to MDEX.

The Commission notes that the following items are considered "rule" under Part 40 of the Commission's regulations and that, accordingly, changes thereto should be submitted to the Commission for review pursuant to 5c(c) of the Act, 7 U.S.C. § 7a-2(c), and Part 40 of the Commission's regulations: (1) the exchange trading system; (2) any policies and procedures; (3) both the identity of and self-regulatory services provided to the exchange by third-party

providers; (4) the no-bust range for error trades and adjustments to the trade matching algorithm, including changes to any market maker programs; and (5) the minimum contract size thresholds and reporting time for block trades. In addition, the Commission reminds the Exchange that Position Limits or Position Accountability procedures must be specified for futures contracts listed by the Exchange. All Position Limits or Position Accountability procedures should be submitted to the Commission in connection with the listing of each futures contract submitted under the Commission's certification or approval procedures.

The Commission further notes that MDEX must inform the Commission of any material modification to the operation of the Exchange, including the clearing and settlement arrangements provided by MGEX, the regulatory services provided by the NFA or MDEX self-regulatory program. The Commission also reminds MDEX that any change in the identity or regulatory service providers or the regulatory services they provide to the Exchange, or any modification to its trading system constitutes a rule change that must be submitted to the Commission pursuant to 5c(c) of the Act, 7 U.S.C. § 7a-2(c) and Part 40 of the Commission's regulations.

Sincerely,



David A. Stawick  
Secretary of the Commission