

**Application for Contract Market Designation
Compliance with Designation Criteria and Core Principles¹**

DESIGNATED CONTRACT MARKET REGISTRATION REQUIREMENTS	CANTOR EXCHANGE APPLICATION
<p>Section 5(a) Applications – “A board of trade applying to the Commission for designation as a contract market shall submit an application to the Commission that includes any relevant materials and records the Commission may require consistent with the Act.”</p>	<p>Cantor Futures Exchange, L.P. (the “<u>Exchange</u>”) is submitting for review by the Commission an application to operate as a designated contract market (“<u>DCM</u>”), demonstrating the Exchange’s compliance with the DCM Core Principles. The Exchange looks forward to working with the Commission staff, following their guidance, meeting with Commission staff and responding to their comments and questions in this process. The Exchange believes that its application and the accompanying appendices meet the relevant criteria and demonstrates its compliance with the core principles.</p> <p>See the rulebook of the Exchange (the “<u>Rules of the Exchange</u>”) and other Appendices submitted with the Exchange’s application for contract market designation. References herein to a “<u>Rule</u>” mean the applicable section of the Rules of the Exchange.</p>
<p>Sec. 5(b) Designation Criteria</p> <p>Criterion 1 – In General: “To be designated as a contract market, the board of trade shall demonstrate to the Commission that the board of trade meets the criteria specified in this subsection.”</p>	<p>See the Rules of the Exchange and other Appendices submitted with the Exchange’s application for contract market designation.</p>
<p>Criterion 2 – Prevention of Market Manipulation: “The board of trade shall have the capacity to prevent market manipulation through market surveillance, compliance, and enforcement practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.”</p>	<p>The Exchange will, in conjunction with the National Futures Association (“<u>NFA</u>”), conduct real-time monitoring of trading and will be ultimately responsible for enforcing disciplinary rules designed to deter abuses. The Exchange has executed a Regulatory Services Agreement with the NFA (the “<u>Regulatory Services Agreement</u>”) to perform certain of its market surveillance, compliance and</p>

¹ Terms used but not defined herein have the meanings assigned to them in the Rules of the Exchange.

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	<p>enforcement functions as its designated regulatory service provider. A copy of the executed Regulatory Services Agreement is being submitted to the Commission as part of the Exchange's application. The NFA will provide the Exchange with market and trade practice surveillance and ongoing surveillance of the financial and operational status of Authorized Traders. The Exchange's Compliance Director will coordinate with the NFA to address market actions deemed inappropriate as a result of NFA's ongoing market surveillance activities.</p> <p>Disciplinary and enforcement rules designed to deter abuses are contained in Chapter VII of the Rules of the Exchange. The Compliance Director, Disciplinary Panel and Appeals Panel will enforce compliance with the Rules of the Exchange in conjunction with the surveillance services to be provided by NFA. Under Rule VII-4, the Compliance Director will review investigative reports (which the Exchange intends will be submitted to the Compliance Director by the NFA) and consult with the NFA on the initiation of disciplinary action. The Disciplinary Panel organized upon the recommendation of the Compliance Director will conduct disciplinary hearings and render a decision following each hearing pursuant to the procedures detailed in Chapter VII. Under Rule VII-16, the decisions of a Disciplinary Panel may be appealed before an Appeals Panel, consisting of an Independent Director sitting on the Board of Directors of the Exchange (or, if the Independent Director is ineligible, an individual meeting the requirements of an Independent Director who is appointed by the Compliance Director pursuant to Rule VII-16).</p>
<p>Criterion 3 – Fair and Equitable Trading: “The board of trade shall establish and enforce trading rules to ensure fair and equitable trading through the facilities of the contract market, and the capacity to detect, investigate, and discipline any person that violates the</p>	<p>The Exchange will establish and enforce trading rules to ensure fair and equitable trading. All Participants and their Authorized Traders (each as defined in the Rules of the Exchange) will have equal access to the Cantor Direct System, including</p>

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rules.”	<p>information regarding prices, bids and offers. Orders will be executed impartially by the Cantor Direct System in accordance with the principles set forth in Chapter IV of the Rules of the Exchange. Pre-arranged trades that are not expressly permitted by Rule VI-11(a) will be prohibited. Chapter IV and Chapter VI of the Rules of the Exchange also contain other rules to prevent trading-related abuses. The NFA, pursuant to the Regulatory Services Agreement will maintain systems and surveillance procedures to detect abuses such as wash trading, accommodation trades, trading ahead and other types of market manipulation or fraud.</p> <p>The Exchange will permit Exchange of Futures for Physical, Exchange for Swaps and Block Trade transactions on the terms set forth in Rules IV-13 and IV-14, respectively.</p> <p>For purposes of satisfying <i>Designation Criterion 3</i>, we note that “equal access,” as used herein, will not preclude the use of market makers pursuant to contractual arrangements with specified Participants.</p>
<p>Criterion 4 – Trade Execution Facility: “The board of trade shall (A) establish and enforce rules defining, or specifications detailing, the manner of operation of the trade execution facility maintained by the board of trade, including rules or specifications describing the operation of any electronic matching platform; and (B) demonstrate that the trade execution facility operates in accordance with the rules or specifications.”</p>	<p>The Exchange will utilize the Cantor Direct System, the proprietary, internet-based trade-matching system developed by Cantor Fitzgerald, L.P., as its trade execution facility. The capabilities of the Cantor Direct System with respect to quotation, Order placement, cancellation and matching are detailed in supplements to this application previously submitted to the Commission on an informal basis.</p> <p>Order entry procedures and acceptable Order types are described in Rules IV-3 and IV-4, respectively. Details regarding the trade-matching algorithm employed by the Cantor Direct System are detailed in the supplements mentioned above.</p>
<p>Criterion 5 – Financial Integrity of Transactions: “The board of trade shall establish and enforce rules and procedures for ensuring the financial integrity of transactions entered into by or through the facilities of the contract market, including the clearance and</p>	<p>Under Rule III-3, the Exchange will have only one class of Participants. Participants and their Authorized Traders are eligible to submit trades and hold either long or short positions in Contracts. In addition, Participants must: (i) satisfy all</p>

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<p>settlement of the transactions with a derivatives clearing organization.”</p>	<p>requirements generally applicable to Participants and Authorized Traders under the rules of the Exchange and any applicable Contract Rules; (ii) satisfy such financial criteria as may be prescribed by the Exchange from time to time; (iii) have sufficient technical and operational capabilities to fulfill any other obligations applicable to Participants or their Authorized Traders as may from time to time be required by the Exchange; and (iv) satisfy such other requirements or criteria as may from time to time be adopted by the Exchange.</p> <p>The Exchange shall also have the right to establish more than one class of Participants in connection with the trading of particular Contracts, subject to and in accordance with the applicable Contract Rules.</p> <p>Notwithstanding the foregoing, in considering any applicant for status as a Participant or as an Authorized Trader of a Participant, the Exchange may request additional information or employ such other means that it deems desirable or appropriate to ascertain relevant facts bearing on the applicant’s qualifications.</p> <p>The Exchange may limit trading in particular Contracts to specific classes of Participants, based on financial, regulatory or other criteria established by the Exchange. Without limitation of the foregoing, the Exchange may determine to limit trading in particular Contracts to Participants that are financial institutions.</p> <p>Under Rules V-1 and V-4, Participants and their Authorized Traders are required to comply with recordkeeping and minimum financial requirements, respectively. In addition, the Exchange will have the authority to impose additional minimum financial requirements on Participants under the rules applicable to each contract traded on the Exchange (referred to herein as “<u>Contract Rules</u>”).</p>

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	<p>All Contracts traded on the Exchange will be cleared by Cantor Clearinghouse, L.P., an affiliated entity of the Exchange (the “<u>Clearinghouse</u>”) pursuant to the Clearing Services Agreement between Exchange and the Clearinghouse (the “<u>Clearing Services Agreement</u>”), as described in greater detail in the Rules of the Exchange. A draft of the Clearing Services Agreement has previously been submitted to the Commission on an informal basis.</p> <p>Margin requirements for each Participant will be determined by the Exchange and Clearinghouse on a contract-by-contract basis in the applicable Contract Rules. Please see the rules applicable to the trading of Domestic Box Office Receipts Contracts (such Contracts, the “<u>DBOR Contracts</u>” and such rules, the “<u>DBOR Contract Rules</u>”). A copy of the DBOR Contract Rules is being submitted to the Commission as part of the Exchange's application. It is the Exchange's intention that the DBOR Contracts will be the first group of Contracts listed for trading on the Exchange and clearing by the Clearinghouse.</p> <p>The Exchange and the Clearinghouse will work with each other to coordinate the margin requirements for each Contract.</p>
<p>Criterion 6 – Disciplinary Procedures: “The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.”</p>	<p>In the case of violations of the Rules of the Exchange or any applicable Contract Rules, Participants and their Authorized Traders (who, in the case of Participants that are natural persons, will be the same person) will be subject to the Exchange's disciplinary authority, which will be exercised in accordance with the procedures set forth in Chapter VII of the Rules of the Exchange. As described in response to <i>Criterion 2</i>, the Compliance Director of the Exchange, in conjunction with the NFA and a Disciplinary Panel organized at the recommendation of the Compliance Director, will administer disciplinary proceedings. The Disciplinary Panel will conduct hearings in connection with any disciplinary proceeding and has broad authority to</p>

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	impose sanctions it deems appropriate under the circumstances. Rule VII-14 specifies that sanctions imposed by the Disciplinary Panel may include the termination or suspension of Trading Privileges, or the barring or suspension of association with a Participant. Rule III-6 authorizes the Exchange to suspend, revoke, limit, condition, restrict or qualify the Trading Privileges of any Participant or Authorized Trader if the Executive Committee finds such action to be in the best interests of the Exchange.
Criterion 7 – Public Access: “The board of trade shall provide the public with access to the rules, regulations, and contract specifications of the board of trade.”	The Rules of the Exchange, all amendments thereto and notices and policies thereunder, as well as the specifications for all Contracts from time to time traded on the Exchange, will be publicly available on the Exchange’s website.
Criterion 8 – Ability to Obtain Information: “The board of trade shall establish and enforce rules that will allow the board of trade to obtain any necessary information to perform any of the functions described in this subsection, including the capacity to carry out such international information-sharing agreements as the Commission may require.”	Pursuant to Rule V-1, Participants will be required to make their books and records available for inspection by, and deliver copies thereof to, the Exchange, NFA, CFTC, Department of Justice, and their respective authorized representatives, upon request. Rule VII-2 also provides that each Authorized Trader or other person under the Exchange’s jurisdiction is required to respond to interrogatories and furnish documentary materials and other information requested by the Exchange in connection with disciplinary investigations. Furthermore, Rule II-11 enables the Exchange to enter into such information-sharing arrangements as the Commission may require.
Section 5(d) Core Principles Core Principle 1 – In General: “To maintain the designation as a contract market, the board of trade shall comply with the core principles specified in this subsection.”	See the Appendices submitted with the Exchange’s application for contract market designation.
Core Principle 2 – Compliance with Rules: “The board of trade shall monitor and enforce compliance with the rules of the contract market, including the terms and conditions of any contracts to be traded and	Rules regarding discipline and enforcement are set forth in Chapter VII of the Rules of the Exchange. The Exchange will delegate certain of its monitoring and enforcement functions to the NFA, as its

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any limitations on access to the contract market.”	regulatory service provider, pursuant to the Regulatory Services Agreement. The NFA will have the authority to investigate any potential rule violations and to submit investigation reports to the Exchange’s Compliance Director. As described in response to <i>Designation Criteria 2</i> , a Disciplinary Panel organized at the recommendation of the Compliance Director will conduct a hearing to make findings and impose sanctions. Appeals of any decisions by the Disciplinary Panel will be held before the Appeals Panel consisting of an Independent Director, sitting on the Board of Directors of the Exchange (or if the Independent Director is ineligible, an individual meeting the requirements of an Independent Director who is appointed by the Compliance Director pursuant Rule VII-16).
<p>Core Principle 3 – Contracts Not Readily Subject to Manipulation: “The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.”</p>	<p>Trading on or through the Exchange will be limited initially to futures, although the Exchange may in the future list and trade options, forwards, swaps or other products that are not readily susceptible to manipulation.</p> <p>In addition, the rules of the Exchange and the DBOR Contract Rules will prohibit any person in possession of material non-public information from trading DBOR Contracts. For this purpose, material non-public information means information that has not yet been disseminated in a manner that makes it generally available or accessible to the public, through news media, websites or otherwise, and that relates to (i) changes in the scheduled release date of the relevant film; (ii) projections of the number of theaters in which the film will be shown; or (iii) actual box office receipt statistics once a film has been released.</p> <p>Please see the DBOR Contract Rules and the description of the DBOR Pre-Opening Auction contained therein for more information.</p>
<p>Core Principle 4 – Monitoring of Trading: “The</p>	<p>The Exchange and the NFA, as the Exchange’s</p>

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board of trade shall monitor trading to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process.”	regulatory services provider, will implement practices and procedures to monitor trading to prevent manipulation, price distortion and disruptions of the delivery or cash-settlement process. The Exchange intends to coordinate with the NFA to address market actions deemed inappropriate as a result of the NFA’s ongoing market surveillance activities.
<p>Core Principle 5 – Position Limitations or Accountability: “To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.”</p>	<p>Position limits and reportable position thresholds will be set by the Exchange (Rules IV-11 and IV-12) in accordance with the applicable Contract Rules, and will comply with the general criteria set forth in Appendix B to Part 38 of the Commission Regulations.</p> <p>Please see the DBOR Contract Rules for more information on the position limits applicable to DBOR Contracts.</p> <p>The NFA will monitor compliance with the position limits and reportable position thresholds. Violations of such Rules will be sanctioned in accordance with Rule VII-14.</p>
<p>Core Principle 6 – Emergency Authority: “The board of trade shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, where necessary and appropriate, including the authority to—(A) liquidate or transfer open positions in any contract; (B) suspend or curtail trading in any contract; and (C) require market participants in any contract to meet special margin requirements.”</p>	<p>Procedures and guidelines for the exercise of emergency authority by the Exchange are set forth in Rule IV-17. Among other things, this Rule requires the Exchange to notify the Commission of any emergency action taken, or proposed to be taken, and to document its decision-making process and reasons for using its emergency action authority. The measures available to the Exchange in the case of an emergency include each of the items listed in Appendix B to Part 38 of the Commission Regulations.</p>
<p>Core Principle 7 – Availability of General Information: “The board of trade shall make available to market authorities, market participants, and the public information concerning—(A) the terms and conditions of the contracts of the contract market; and (B) the mechanisms for executing transactions on or through the facilities of the contract market.”</p>	<p>See the response to <i>Designation Criterion 7</i> above.</p>

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<p>Core Principle 8 – Daily Publication of Trading Information: “The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.”</p>	<p>The Exchange will publish information regarding settlement prices, volume, open interest and opening and closing ranges for actively traded Contracts on a timely basis on its website and via periodic e-mail messages to Participants and Authorized Traders.</p> <p>Please see the DBOR Contract Rules for more information regarding e-mail communication between the Exchange and Participants and Authorized Traders on trading information.</p>
<p>Core Principle 9 – Execution of Transactions: “The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions.”</p>	<p>As described in response to <i>Designation Criteria 3</i> and <i>4</i> above, Orders will be entered into the Cantor Direct System in accordance with the procedures set forth in Rules IV-3 and IV-4 and executed impartially in accordance with the principles set forth, and the procedures referred to, in Rule IV-6. The block trading procedures reflected in Rule IV-14 are designed to ensure that block trading will not compromise the integrity of prices or price discovery in the relevant market.</p>
<p>Core Principle 10 – Trade Information: “The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules of the contract market.”</p>	<p>The Cantor Direct System and related systems employed by the Exchange will record full data entry and trade details and safely store audit trail data. Rule IV-3 specifies Order entry procedures. Rule IV-9 sets forth the principles to be applied in the case of error in the handling of Orders after the relevant trade is completed.</p>
<p>Core Principle 11 – Financial Integrity of Contracts: “The Board of Trade shall establish and enforce rules providing for the financial integrity of any contracts traded on the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization), and rules to ensure the financial integrity of any futures commission merchants and introducing brokers and the protection of customer funds.”</p>	<p>See the response to <i>Designation Criterion 5</i> above.</p>
<p>Core Principle 12 – Protection of Market Participants: “The board of trade shall establish and enforce rules to protect market participants from</p>	<p>The Exchange will be a direct access Exchange only, and Participants will therefore not execute or clear transactions as agent for others. Nevertheless, the</p>

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<p>abusive practices committed by any party acting as an agent for the participants.</p>	<p>Rules of the Exchange contains a broad prohibition against fraudulent acts and market manipulation (Rule VI-2 and VI-5). In addition, as described in response to <i>Designation Criterion 2</i> above, the NFA will provide surveillance practices and procedures to protect Participants and Authorized Traders.</p>
<p>Core Principle 13 – Dispute Resolution: “The board of trade shall establish and enforce rules regarding and provide facilities for alternative dispute resolution as appropriate for market participants and any market intermediaries.”</p>	<p>Chapter VIII of the Rules of the Exchange provides for the resolution of disputes involving Participants and Authorized Traders, through arbitration conducted by the NFA, in its role as the Exchange’s regulatory services provider, pursuant to the NFA’s Code of Arbitration or the NFA’s Member Arbitration Rules, as applicable. The Exchange believes that the NFA as an institution and the dispute resolution mechanisms administered by it satisfy the pertinent criteria set forth in Appendix B to Part 38 of the Commission Regulations. The NFA will provide the regulatory services, including dispute resolution, pursuant to the Regulatory Services Agreement.</p>
<p>Core Principle 14 – Governance Fitness Standards: “The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility (including any parties affiliated with any of the persons described in this paragraph).”</p>	<p>Chapter 2 of the Rules of the Exchange sets forth the eligibility criteria for persons serving as members of the Board, including the Independent Directors, the Executive Committee and any other “disciplinary committee”, “arbitration panel” or “oversight panel” (all as defined in Commission Regulation § 1.63) or the Compliance Director.</p> <p>The fitness standards applicable to members of the Board of the Exchange are set forth in the Exchange Rules of the Exchange. Prospective directors will be screened and will fill out Director Questionnaires. A draft of the Director Questionnaire has previously been submitted to the Commission on an informal basis.</p> <p>The Exchange may designate different classes of Participant in the applicable Contract Rules. Additionally, Participants will be required to fill out a Participant Qualification Questionnaire and sign a Participant Agreement. Drafts of the Participant</p>

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	Qualification Questionnaire and Participant Agreement have previously been submitted to the Commission on an informal basis.
Core Principle 15 – Conflicts of Interest: “The board of trade shall establish and enforce rules to minimize conflicts of interest in the decision making process of the contract market and establish a process for resolving such conflicts of interest.”	The Exchange’s methods to ascertain the presence of conflicts of interest and to make decisions in the event of such conflicts are described in Rule II-10. Limitations on the use or disclosure of material non-public information gained by any Person, including, without limitation, by employees or agents of the Exchange through the performance of official duties by such Persons, are contained in Rule II-9.
Core Principle 16 – Composition of Boards of Mutually Owned Contract Markets: “In case of a mutually owned contract market, the board of trade shall ensure that the composition of the governing board reflects market participants.”	Not applicable.
Core Principle 17 – Recordkeeping: “The board of trade shall maintain records of all activities related to the business of the contract market in a form and manner acceptable to the Commission for a period of 5 years.”	The Exchange will maintain records of all activities related to its business for a period of five years and in accordance with Commission Regulation § 1.31. Each Participant is obliged to maintain all requisite books and records for five years from the date such books and records were prepared (Rule V-1).
Core Principle 18 – Antitrust Considerations: “The board of trade shall endeavor to avoid—(A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or (B) imposing any material anticompetitive burden on trading on the contract market.”	<p>The Exchange believes that its Rules and business plan have been designed to avoid unreasonable restraints of trade or the imposition of any material anticompetitive burden on trading, as will the Contract Rules for each Contract approved for trading on the Exchange.</p> <p>In particular, access to the Exchange will not require the acquisition of any equity interest but will be available to a broad range and potentially unlimited number of participants, on a fair, equitable and timely basis. The Exchange will operate through precise and predetermined electronic algorithms, without discrimination among different users or user groups. Trade information will be disseminated both to Participants and to the public on a continuous basis.</p>

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	For a description of the algorithm applicable to the execution of DBOR Contracts, please see the DBOR Contract Rules.