

Nasdaq LIFFE, LLC Contract Market Application Status as of July 20, 2001

Receipt Pending

1. Nasdaq LIFFE/NASD Dispute Resolution Agreement
2. Exhibits to the Nasdaq LIFFE/NASDR Regulatory Services Agreement and the Statement of Work
3. Response to questions/comments provided to the Exchange on July 13, 2001. I assume that the answers to those questions are pending and have tried to avoid repeating such questions/comments here.
4. Rules that set forth the standards and procedures that will apply to principle-to-principle trading between August 21 and December 21, 2001.

Documents Received In Draft Form

1. Nasdaq LIFFE Regulatory Services Agreement, including its exhibit: Statement of Work (Agreement received 6/25/01; SOW received 6/14/01) - Material changes still possible
2. Compliance/Surveillance Procedures (received 6/25/01)
3. Nasdaq LIFFE/OCC Security Futures Clearing and Settlement Services Agreement (received 07/02/01) - Material changes still possible
4. NASDR Market Regulation Department Insider Trading Section Procedures Manual (received 6/25/01)
5. User Agreement (received 6/25/01)
6. API License Agreement (received 6/25/01)
7. Change Control Procedures (received 6/25/01)

Materials/Software or Documents Still to be Developed/Adjusted for Nasdaq LIFFE

1. NASDR Assessment Letter
2. NASDR Centralized FOCUS will be adapted to accommodate CFTC's Form 1-FR
3. NASDR automated system to perform market surveillance.
4. NASDR Vista System for marking the close
5. NASDR Examination Module for error accounts and market-making, EFP/Block Trades

Demonstrations Still To Be Provided

1. Real-time market surveillance demonstration (London, July 23, 2001)

Calendar Uncertainties

- 1.

2. We understand that NASDR is developing necessary programs for surveillance/compliance and arbitration, but are not yet able to compare the timeline for such development to the Exchange plan for implementation of principle-to-principle trading.

Questions Pending as of July 20, 2001 other than questions asked on July 13, 2001

I. DESIGNATION CRITERION

1. **Designation Criterion 2 - Capacity to Prevent Market Manipulation.**
no new questions at this time.
2. **Designation Criterion 3 - Rules to Ensure Fair and Equitable Trading.**
 - a. In our list of questions dated June 26, we had asked for a clarification of the workings of the "Asset Allocation Facility" provided in Trading Procedure 4.20, but did not find any response to this question in the submission of July 13. Please either point to the location of information answering this question, or provide us with the answer.
 - b. The Act provides that disciplined members have a right to appeal an adverse disciplinary decision to the Commission, and most exchanges mention this right in their disciplinary rules in order to notify members of the right. Therefore, would the Exchange amend the disciplinary rules to mention this right?
 - c. The Exchange stated in its July 13 submission that it would amend Rule 5.2 to provide that members have a right to counsel at any stage of an investigation. Rule 5.4.1 should be revised to include notice of the right to counsel in the notice of charges given to respondents.
 - d.
 - e.
 - f. Staff notes that Trading Procedures 4.8 and 4.9 do not require the entry of the customer order first before a proprietary order. Is there a reason not to require that the customer order be entered first?

- g. Do the Exchange rules define the trading hours?
- h. Staff points out that review of futures exception reports would be necessary before staff could complete its review of compliance/surveillance in any particular compliance/surveillance area.
- i. Is it correct to view the Exchange response to question I.2.i, in its submission dated July 13, 2001, as a representation that the Exchange would not limit its liability nor indemnify members of the operating board or officers of the company in cases of fraud?
- j.

3. Designation Criterion 4 - Trade Execution Facility.

- a.
- b. Provision of a pro-rata algorithm rule (including in a trading procedure) is requested, many such rule are general descriptions.
- c. Please inform us of the location of the Exchange.

4. Designation Criterion 5 - Financial Integrity of Transactions.

- a. Exchange submission dated July 13, 2001, did not explain the purpose of Rule 3.2.2 and the criteria that the Exchange would utilize to implement this rule in any particular situation.
- b. Staff will provide further questions concerning this designation criterion next week.

5. Designation Criterion 6 - Disciplinary Procedures. No questions or comments at this time.

6. Designation Criterion 7 - Public Access to Rules, Regulations, and Contract Specifications. No questions or comments at this time

7. Designation Criterion 8 - Ability to Obtain Information. No questions or comments at this time.

II. COMMON PROVISIONS - No questions or comments at this time.

III. DESIGNATION CORE PRINCIPLES

- 1. **Core Principle 2 – Compliance with Rules.** All questions or comments are found in designation criterion 3 above.

2. **Core Principle 3 – Contracts Not Readily Subject to Manipulation.** No questions or comments at this time
3. **Core Principle 4 – Monitoring of Trading.** Does Nasdaq Liffe have rules (which could be through a notice or procedure) pertaining to trading halts as established by the President's Working Group on Financial Markets? If so, where are they stated?
4. **Core Principle 5 – Positions Limitations or Accountability.** No questions or comments at this time.
5. **Core Principle 6 - Emergency Authority.** No questions or comments at this time.
6. **Core Principle 7 - Availability of General Information.** No questions or comments at this time.
7. **Core Principle 8 - Daily Publication of Trading Information.** No questions or comments at this time.
8. **Core Principle 9 – Execution of Transactions.** No questions or comments at this time.
9. **Core Principle 10 – Trade Information.**
 - a.
 - b. The trading system allows but does not require the input of a customer account number or other customer code. Such information allows for useful searches to be carried out by market surveillance personnel, and lack of such information requires greater individual examinations by the surveillance personnel. We understand that it is possible for this field to be a field required for order entry, and request that this modification be made.
10. **Core Principle 11 - Financial Integrity of Contracts.** No questions or comments at this time.
11. **Core Principle 12 Protection of Market Participants.** No questions or comments at this time.

12. **Core Principle 13 - Dispute Resolution.** The agreement for arbitration services between Nasdaq LIFFE and NASD Dispute Resolution has not been received. When will this agreement be received?
13. **Core Principle 14 – Governance Fitness Standards.** In its July 13 submission, the Exchange states “Article 5.7(a)(iii)(A) of the LLC Agreement will be revised to include “a court of competent jurisdiction.” A similar revision should be made to Article 5.7(a)(i).
14. **Core Principle 15 – Conflicts of Interest.** No questions or comments at this time.
15. **Core Principle 16 – Composition of Boards.** Unless members gain an ownership interests, no consideration of this core principle is necessary.
16. **Core Principle 17 – Recordkeeping.** In its July 13 submission, the Exchange states that “Exchange records will be kept in the U.K. and a duplicate set of trade data will be kept by NASDR in Rockville, MD.” Will the “Exchange records” kept in the U.K. differ from “set of trade data” kept in Rockville?
17. **Core Principle 18 – Antitrust Considerations.** Do the Exchange agreements comply with this core principle?