

Draft of 8/4/98

RECEIVED  
DIVISION OF  
REGULATORY SERVICES  
CANTOR FINANCIAL  
FUTURES EXCHANGE, INC. PM '98  
BY-LAWS AND RULES

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**SCOPE**

The By-Laws and Rules which follow deal with, among other things, contracts in futures ("Contracts") for which the Cantor Financial Futures Exchange, Inc. ("CFFE") has been designated as a contract market by the Commodity Futures Trading Commission (the "Commission").

All persons who hold Trading Privileges on CFFE shall (i) comply with, and be subject to, all applicable By-Laws, Rules, procedures, policies, orders, directives and decisions of CFFE, the New York Cotton Exchange (the "Cotton Exchange") and the Board of Trade of the City of New York, Inc. ("NYBT") from time to time hereafter in effect and (ii) be subject to the jurisdiction of CFFE, the Cotton Exchange and NYBT for purposes of arbitration, disciplinary, compliance and surveillance procedures.

The Secretary of CFFE shall cause to be published, from time to time, a listing of such Contracts, together with the defined terms used to refer to such Contracts throughout the By-Laws and Rules.

## GOVERNMENT AND ADMINISTRATION

### **SECTION 1            GOVERNMENT VESTED IN BOARD OF DIRECTORS**

The Government of CFFE shall be vested in a Board of Directors of thirteen members after taking into consideration the requirements of Commission Regulation 1.64(b)(1).

The Board of Directors shall appoint the Chairman of the Board, the Vice Chairman of the Board, the President and the Treasurer. Five directors shall be appointed by the Cotton Exchange, five others and the Secretary shall be appointed by Cantor. In addition, three Public Board Members shall be appointed by Cantor. In each case, the appointment shall be governed by applicable laws, regulations and Rules of CFFE.

No member of the Board of Directors shall receive any salary in any position or office held by him except as specifically authorized by the Board.

Two thirds of the entire Board of Directors shall constitute a quorum.

### **SECTION 2            DUTIES OF THE BOARD OF DIRECTORS**

The Board of Directors shall have entire management of the property and business of CFFE, so far as is not inconsistent with the Certificate of Incorporation and By-Laws, and shall adopt such Rules as it may deem advisable for carrying out the objects of CFFE. It shall have power to hire or lease and fit up such space as may be required for the purposes of CFFE, and to appoint, remove at pleasure and fix the compensation of all salaried employees of CFFE; provided that the Secretary shall be appointed by Cantor in accordance with Section 1.

No appropriation of money shall be voted by the Board of Directors except for matters connected with the business thereof.

### **SECTION 3            MEETINGS OF THE BOARD OF DIRECTORS**

Stated meetings of the Board of Directors shall be held on such days as may be fixed by the Board of Directors. The Board shall fix such dates at its first meeting after a new term has begun and may change them from time to time.

Any one or more members of the Board of Directors may participate in any meeting of the Board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board consent in writing to the adoption of a resolution authorizing said action. The resolution and the written consents thereto by the members of the Board shall be filed with the minutes of the proceedings of the Board.

#### **SECTION 4 SPECIAL MEETINGS OF THE BOARD OF DIRECTORS**

Special meetings of the Board of Directors may be called by the President or the Secretary upon the written request of at least five Directors.

#### **SECTION 5 APPOINTMENT OF DIRECTORS AND TERM OF OFFICE**

Members of the Board of Directors will be appointed in accordance with Section 1 of these By-Laws, each to hold office for a term of one year and until his successor has been elected and qualified.

#### **SECTION 6 RESERVED**

#### **SECTION 7 VACANCIES**

All vacancies occurring in the Board of Directors, in the offices of President or Treasurer, shall be filled by the Board of Directors. All vacancies occurring in the office of Secretary shall be filled by Cantor.

#### **SECTION 8 CHAIRMAN OF THE BOARD**

The Chairman shall preside at all meetings of CFFE and of the Board of Directors. He shall communicate to CFFE, or the Board of Directors, such matters and make such suggestions as may, in his opinion, tend to promote the welfare and increase the usefulness of CFFE. He shall perform such other duties as are necessarily incident to the office of the Chairman of the Board.

**SECTION 9            VICE-CHAIRMAN OF THE BOARD**

The Vice-Chairman shall, in the absence of the Chairman, assume all the functions and powers and discharge all the duties of the Chairman.

**SECTION 10          TREASURER**

The Treasurer shall receive all funds belonging to or payable to CFFE, and deposit or invest them for the account and in the name of CFFE in such a manner as the Board of Directors shall determine.

The Treasurer shall pay all bills against CFFE when approved in a manner designated by the Board of Directors. All checks or drafts against funds of CFFE shall be signed and countersigned by such officers or members of committees as the Board of Directors may determine. The Treasurer shall keep an account of all receipts and disbursements, and the books of account shall be subject at all times to examination by the Finance Committee and the Board of Directors. The Treasurer shall render a quarterly report to the Board of Directors and an audited annual report at the close of each fiscal year.

**SECTION 11          TEMPORARY OFFICERS**

In the event of the temporary absence, or inability to act, of the Chairman or the Vice-Chairman, the duties of the Chairman shall be performed by the Chairman pro tempore and in the event of the temporary absence or inability to act of the Treasurer, his duties shall be performed by the Treasurer pro tempore. The Board of Directors shall select one or more Directors to act as Chairman pro tempore and as Treasurer pro tempore.

**SECTION 12          PRESIDENT**

The President shall be the Executive Vice-President, President of Financial Products of NYBT and shall be the chief executive officer of CFFE. He shall be responsible to the Board of Directors for the discharge of his duties. He shall not be a member of the Board of Directors.

**SECTION 13            SECRETARY**

The Secretary shall perform all duties imposed upon him by the By-Laws and Rules and any other duties as may be required of him by the Board of Directors.

He shall have custody of the corporate seal. He shall keep accurate minutes of the meetings of CFFE and of the Board of Directors and give due notice of all meetings of CFFE and of the Board of Directors.

The duties of the Secretary may be performed by his assistant and, in the absence or either or both, by a person designated by the President.

**SECTION 14            COMMITTEES**

At its first meeting after a new term has begun, or as soon thereafter as possible, the Board of Directors shall appoint the following Standing Committees:

1. Executive Committee
2. Finance Committee
3. Committee on U.S. Treasury Securities<sup>1</sup>
4. Futures Committee

and such other Committees as may be deemed necessary or desirable for the conduct of the affairs of CFFE.

The following Committees of the Cotton Exchange will be appointed by the Board of Managers of the Cotton Exchange and the Board of Directors of NYBT and will perform such committee functions for CFFE as may be required.

1. Supervisory Committee
2. Committee on By-Laws and Rules
3. Committee on Membership
4. Committee on Information and Statistics
5. Arbitration Committee
6. Control Committee
7. Business Conduct Committee

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<sup>1</sup>For purposes of this draft, the term "U.S. Treasury Securities" shall encompass any and all contracts of CFFE.

8. Committee on Margins
9. Floor Committee

Where necessary, the President may appoint Committees ad interim, and may appoint persons to fill vacancies in Committees or to act in the absence of regular members of Committees, until the next meeting of the Board.

Subject to sub-section (1) and (2) below, each Committee shall have power to make informal procedures governing its own conduct and proceedings, so far as they are not inconsistent with the Rules of CFFE adopted by the Board of Directors and duly approved by the Commission governing such Committee conduct and proceedings. Except as otherwise provided in the By-Laws and Rules, the following shall apply:

- (1) a majority of the members of a Committee or a majority of the members of a Panel of a Committee shall constitute a quorum thereof respectively; and
- (2) the vote of a majority of the members present at any meeting shall be required for any action taken.

The Board may, at any meeting, by a majority vote of those present, change, in whole or in part, the composition of any Committee.

Each Committee may be composed of members of NYBT, except as specifically otherwise provided in the By-Laws.

Any one or more members of the Committee may participate in a meeting of the Committee by means of a conference telephone or similar communications equipment allowing all person participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

Any action required or permitted to be taken by any Committee may be taken without a meeting if all members of the Committee consent in writing to the adoption of a resolution authorizing said action. The resolution and the written consents thereto by the members of the Committee shall be filed with the minutes of the proceedings of the Committee.

**SECTION 15 EXECUTIVE COMMITTEE**

The Executive Committee shall consist of the President, the Chairman, the Vice-Chairman and one other member of the Board of Directors appointed by the Board of Directors. It shall have general supervision over the property, business and affairs of CFFE, subject to the Board of Directors. It shall make such recommendations to the Board of Directors as will, in its judgment, best promote the interests of CFFE.

**SECTION 16 FINANCE COMMITTEE**

The Finance Committee shall consist of the Treasurer, as Chairman, and two other members of the Board of Directors. It shall exercise a general supervision over the financial affairs of CFFE.

**SECTION 17 SUPERVISORY COMMITTEE**

The functions of the Supervisory Committee shall be carried out and performed by the Cotton Exchange Supervisory Committee.

**SECTION 18 COMMITTEE ON BY-LAWS AND RULES**

The functions of the Committee on By-Laws and Rules shall be carried out and performed by the Cotton Exchange Committee on By-Laws and Rules.

**SECTION 19 COMMITTEE ON MEMBERSHIP**

The functions of the Committee on Membership shall be carried out and performed by the Cotton Exchange Committee on Membership.

**SECTION 20 COMMITTEE ON INFORMATION AND STATISTICS**

The functions of the Committee on Information and Statistics shall be carried out and performed by the Cotton Exchange Committee on Information and Statistics.

**SECTION 21            COMMITTEE ON U.S. TREASURY SECURITIES**

The Committee on U.S. Treasury Securities shall consist of eight persons, at least one of whom shall be a member of the Board of Directors and Chairman of the Committee. At least five members of the Committee shall be full Cotton Exchange members. Five members of the Committee shall constitute a quorum.

The Committee shall have direction over all matters pertaining to the regulation of U.S. Treasury Securities.

It shall have such other powers and jurisdiction as are conferred upon it by the By-Laws and Rules.

The Secretary of CFFE shall be Secretary of the Committee on U.S. Treasury Securities. The Secretary shall, pursuant to the direction of the Committee on U.S. Treasury Securities, keep records of all matters over which said Committee has jurisdiction. The Committee on U.S. Treasury Securities may delegate another person to perform the aforesaid duties of the Secretary in his absence.

**SECTION 22            ARBITRATION COMMITTEE**

The functions of the Arbitration Committee shall be carried out and performed by the Cotton Exchange Arbitration Committee.

**SECTION 23            COMMITTEE ON MARGINS**

The functions of the Committee on Margins shall be carried out and performed by the Cotton Exchange Committee on Margins.

**SECTION 24            CONTROL COMMITTEE**

The functions of the Control Committee shall be carried out and performed by the Cotton Exchange Control Committee which shall consist of individuals knowledgeable about Contracts traded on CFFE.



**SECTION 25 BUSINESS CONDUCT COMMITTEE**

The functions of the Business Conduct Committee shall be carried out and performed by the Cotton Exchange Business Conduct Committee.

**SECTION 26 FLOOR COMMITTEE**

The functions of the Floor Committee shall be carried out and performed by the Cotton Exchange Floor Committee.

**SECTION 27 FUTURES COMMITTEE**

- (a) The Futures Committee shall consist of at least three, but not more than 10 persons, the Chairman and Vice-Chairman of which shall retire as Chairman and Vice-Chairman at the end of each month, and be replaced by a new Chairman and Vice-Chairman.
- (b) The Committee shall determine each day at the close of trading the tone of the market and the settlement price for Contracts in accordance with the Procedures set forth in Rule 314.
- (c) The Committee shall also determine each day, at the close of the period designated for such trading, the closing quotations for Contracts in accordance with the Procedures set forth in Rule 314.
- (d) In performing its functions, no notice of meeting shall be given and the action of such number of members of the Committee who are present at the time shall be deemed the action of the Committee.

**SECTION 28 RESERVED**

**SECTION 29 AMENDMENTS TO THE BY-LAWS**

Any proposed new By-Law, or amendment to an existing By-Law, must first be submitted to, considered by, and approved by a majority vote of the whole Board of Directors; provided, however, that if such proposed new or amended By-Law involves regulatory procedures of CFFE, such new or amended By-Law must also be approved by the Board of Directors of NYBT.

**SECTION 30            AMENDMENTS TO THE RULES**

The Board of Directors shall have the power, by a majority vote of the whole Board, to adopt Rules and amend the same; provided, however, that if such Rule involves regulatory procedures of CFFE, such Rule must also be approved by the Board of Directors of NYBT.

All Rules and amendments thereto adopted by the Board of Directors shall be effective and shall govern all cases to which they may be applicable, ten days after notice is given of such new or amended Rule, unless an earlier or later date is specified.

**SECTION 31            DUES, ASSESSMENTS AND FINES**

The Board of Directors of NYBT shall have the sole authority to set the time and amount of annual dues and assessments which shall be paid by every Clearing Member and Screen Based Trader with Trading Privileges. All assessments shall be due and payable at such time as the Board may determine.

If any annual dues or assessments on any Clearing Member or Screen Based Trader remain unpaid for more than thirty days after they have become due, the Board may suspend such Clearing Member's or Screen Based Trader's Clearing Privileges in whole or in part. If such dues or assessments remain unpaid for a further period of more than thirty days, the Board may cancel such Clearing Member's or Screen Based Trader's Trading Privileges.

**SECTION 32            FEES**

Fees which shall include Execution Fees and Transaction Fees for Contracts made on CFFE shall be paid to CFFE by Clearing Members in such amounts and at such time as may be determined by the Board; provided, however, that the Transaction Fee shall be determined in accordance with Rule 303-B; provided, further, that the Execution Fees payable to CFFE shall not be in excess of what is specified in the Rules for the applicable Contract.

**SECTION 33            FAILURE TO PAY FINES**

A Clearing Member or Screen Based Trader who or which fails to pay a fine imposed in a disciplinary proceeding within 10 days from the date of written notification of a decision imposing such fine shall be notified in writing of such failure. If such fine is not paid within 10 days after the day of such notice, the rights and privileges of said Clearing Member or Screen Based Trader shall automatically be suspended by reason of such nonpayment until such fine has been paid. On written application made prior to the date when the fine is first payable, the Executive Committee may, for good cause shown, grant an extension for payment of the fine.

**SECTION 34            ANNUAL MEETINGS, REPORTS AND DUES**

The annual meeting shall be held at the premises of the Cotton Exchange on the second Thursday in June in each year. If said day falls on a day that is not a business day, the annual meeting shall be held on the next business day. At said meeting the Board of Directors shall present a general statement of the affairs and finances of CFFE and an estimate of the expenses for the current fiscal year.

**SECTION 35            MEMBERSHIP CLASSIFICATIONS**

For purposes of the New York Not-for-Profit Corporation Law ("NPCL"), only CFFE Regulatory Services, LLC ("CFFE Regulatory") shall have the voting, liquidation and the other rights and privileges of a member in CFFE.

(a) CFFE Regulatory Full Membership

CFFE Regulatory's Articles of Organization and Operating Agreement provide for two classes of membership: Class A membership and Class B membership.

(1) Class A Membership

The Cotton Exchange shall be the sole Class A member. Only Class A membership shall confer the right to vote and participate in the management of CFFE Regulatory. Such Class A membership shall constitute a ten percent (10%) ownership interest in CFFE Regulatory for purposes

of the right to a share of the profits and losses and the right to receive distributions from CFFE Regulatory.

(2) Class B Membership

Class B memberships in CFFE Regulatory shall be offered to the full members of the Cotton Exchange and the CSCE on the date of the adoption of these By-Laws. Such membership shall be offered for the payment of \$100 to CFFE Regulatory to each full member of the Cotton Exchange or CSCE for each and every membership which is owned by him in the Cotton Exchange or CSCE. Such Class B membership shall pass with the transfer of the Cotton Exchange or CSCE membership with which it is associated, and not otherwise. Whenever a membership interest in the Cotton Exchange or CSCE is transferred, the Class B membership interest in CFFE Regulatory shall automatically be transferred to the same transferee.

Class B membership shall not confer the right to vote or participate in the management of CFFE Regulatory. Holders of Class B memberships shall have an equal right to a pro rata share of the profits and losses and the right to receive pro rata distributions from CFFE Regulatory, net of the 10% Class A membership's proceeds.

(b) CFFE Associate Membership

- (1) Associate memberships in CFFE shall be allotted to natural person applicants approved by the Board of Directors as provided in these By-Laws upon payment of an initiation fee of \$1,000 until such time as one thousand (1,000) Associate members have been elected to membership in CFFE and have qualified as Associate members; provided that, if the Board of Directors, in its sole discretion, determines that it would be appropriate to increase such number of Associate memberships, it may take all necessary actions (including, without limitation, seeking the Commission's approval to a change of this Section 35) to effectuate such increase. Associate memberships shall be non-transferable, non-assignable and may not be sold or leased; provided, however, that upon termination of an Associate membership pursuant to the provisions of By-Law Section 35-D,

CFFE shall have the right to re-sell such Associate membership.

- (2) Associate members will not have any ownership or other rights under the NPCL, and their rights will be contractual only. Associate members shall have no voting rights and no right to receive any dividends or distributions (of cash, securities or other property) whether arising from a dissolution, merger, consolidation or otherwise. Notwithstanding the foregoing, the Board and the officers of CFFE and CFFE Regulatory shall operate as fiduciaries with respect to Associate members.

#### **SECTION 35-A ASSOCIATE MEMBER TRADING PRIVILEGES**

- (a) Each Associate member who has completed any trading member procedure that is required by CFFE, shall have the right to place orders for Contracts listed for trading on CFFE directly to a CFFE Terminal Operator for the proprietary accounts of such Associate member or his or her employer and, if such Associate member is otherwise registered with the National Futures Association and authorized to act on behalf of customers, for the accounts of such customers.
- (b) The issuance of Trading Privileges shall be made by CFFE promptly following confirmation by the Cotton Exchange and Cantor that any CFFE trading member procedure has been completed in form acceptable to the Cotton Exchange and Cantor.

#### **SECTION 35-B APPLICANTS FOR ASSOCIATE MEMBERSHIP**

Every applicant for Associate membership must be of good character and financial standing and must be at least twenty-one years of age.

An applicant for Associate membership must have a full financial guarantee by a Clearing Member of CFFE in a form satisfactory to the Committee on Membership.

Upon the demand of CFFE, applicants for Associate membership shall produce any trading suitability letters from employers

or others attesting to the applicant's trading knowledge or background.

An applicant for Associate membership who has been rejected by the Board of Directors shall not be eligible for election during the six months immediately following such rejection.

#### **SECTION 35-C ELECTION TO ASSOCIATE MEMBERSHIP**

Every application for Associate membership shall be addressed to the Chairman of the Committee on Membership and shall be endorsed by at least one Class B member of CFFE Regulatory. Every such applicant shall present to the Committee on Membership a sworn statement in writing containing such facts and details as the Committee may require. When the Committee has endorsed an application "Approved" or "Disapproved" it shall be submitted to the Board of Directors, together with the applicant's sworn statement.

The Board of Directors may act upon applications for Associate memberships at any meeting, the voting being by ballot.

The favorable vote of a majority of the entire Board of Directors shall be necessary to elect an applicant approved by the Committee.

The favorable vote of two-thirds of the entire Board of Directors shall be necessary to elect an applicant disapproved by the Committee.

When an applicant has been elected to membership, the Secretary shall promptly notify him and all other members of CFFE of his election.

Every person elected to Associate membership shall acquire an Associate membership from CFFE within thirty days after his election and shall:

- (1) pay to the Treasurer of CFFE an initiation fee of \$1000; and
- (2) agree in writing to abide by the Rules of CFFE.

In the event of the failure to meet any or all of these requirements within the time specified, such person's election

shall be void unless otherwise decided by the Board of Directors.

#### **SECTION 35-D LIMITATION OF ASSOCIATE MEMBERSHIPS**

Associate members may have their membership or Trading Privileges suspended, revoked, limited, conditioned, restricted or qualified by CFFE for the same reasons Class B members of CFFE Regulatory have their membership or Trading Privileges suspended, revoked, limited, conditioned, restricted or qualified.

#### **SECTION 35-E DUES, ASSESSMENTS, FINES AND FEES**

The Board of Directors shall have the sole power to set the time and amount of any annual dues, assessments or fees to be levied on Associate members, which annual dues, assessments or fees shall be paid to NYBT; provided that the Board of Directors of NYBT shall have the sole power to set the time and amount of any fines to be levied on Associate members.

#### **SECTION 36 TRADING PRIVILEGES**

Clearing Members, Screen Based Traders, Class B Members of CFFE Regulatory (including their respective Authorized Traders, if any) and Associate members of CFFE shall be eligible to obtain Trading Privileges, subject to the applicable requirements of Rule 101.

#### **SECTION 37 INDEMNIFICATION OF CFFE OFFICIALS**

Any person made a party to an action by or in the right of CFFE to procure a judgment in its favor, or made, or threatened to be made, a party to an action or proceeding other than one by or in the right of CFFE to procure a judgment in its favor, by reason of the fact that he, his testator or intestate is or was an officer, a member of the Board of Directors, or a member of a Committee of CFFE, or of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which he, his testator or intestate, served in any capacity at the request of CFFE, shall be indemnified by CFFE against judgments, fines, amounts paid in settlement, and reasonable expenses (including attorney's fees) actually incurred by him as a result of such

action or proceeding, or any appeal therein, to the full extent to which CFFE is permitted to indemnify an officer or a member of the Board of Directors pursuant to the New York Not-for-Profit Corporation Law or Limited Liability Company Law.

#### **SECTION 38            CONFLICT WITH GOVERNMENT REGULATIONS**

Any United States Government regulations, orders or decrees affecting performance of a party to a Contract made on CFFE under the By-Laws or Rules shall take precedence over the By-Laws and Rules, or in the event of conflict between the By-Laws or Rules and Government regulations, orders or decrees, the Government regulations, orders or decrees shall prevail. No party to a Contract made on CFFE shall be responsible to the opposite party for delay or lack of performance hereunder resulting from compliance with such Government regulations, orders or decrees, and each shall cooperate fully with the other in endeavoring to comply with all such Government regulations, orders or decrees.

#### **SECTION 39            COMPUTATION OF TIME**

In computing any period of time prescribed by the Rules of CFFE, unless specifically provided otherwise in such By-Law or Rule, the term "day" shall mean calendar day. The day of the act, event or default from which the designated period of time begins to run shall not be included. If the last day of the period so computed is a Saturday, Sunday or other day on which CFFE is not open for business, the period of time shall run until the next day on which CFFE is open for business.

#### **SECTION 40            JURISDICTION FOLLOWING TERMINATION**

- (a) Holders of Trading Privileges whose Trading Privileges cease shall continue to be subject to the jurisdiction of CFFE, NYBT and the Cotton Exchange or the CSCE, as applicable, for any and all matters arising during the period of their Trading Privileges, to the extent provided below:



(i) Arbitration

The arbitration rights and obligations of persons with Trading Privileges shall survive any termination of such privileges for a period of 180 calendar days following such termination. Arbitration proceedings may be commenced by or against a former holder of Trading Privileges during such period by service of a notice of intention to arbitrate in accordance with the arbitration rules of the Cotton Exchange. Such person's rights and obligations under these By-Laws and Rules shall continue until the conclusion of the arbitration proceedings and the payment of any award made in such proceedings.

(ii) Disciplinary Proceeding

A former holder of Trading Privileges remains subject to any disciplinary proceedings of the Cotton Exchange and NYBT for a period of 180 calendar days following any termination of such person's status as a holder of Trading Privileges. If the Business Conduct Committee of the Cotton Exchange causes a complaint to be issued against such person during such period, he or she shall continue to be bound by the Rules regarding disciplinary proceedings until the termination of the disciplinary proceedings and full compliance with any penalty imposed.

- (b) A person whose Trading Privileges cease shall provide the Secretary with his or her current address to which any notices shall be delivered, and shall keep the Secretary apprised of any change of his or her address during a period of 180 calendar days following the termination of his or her Trading Privileges.
- (c) A person who terminates his or her Trading Privileges, or permits his or her Trading Privileges to be terminated, thereby designates the Secretary as his or her agent for the service of process with respect to any arbitration or disciplinary proceedings. Such agency shall continue for the longer of:

- (i) a period of 180 calendar days following the termination; and
- (ii) the payment of any arbitration award or full compliance with any penalty imposed in a disciplinary proceeding, as applicable.

DEFINITIONS -- DIVERSITY -- EMERGENCIES

**RULE 1 SCOPE OF DEFINITIONS**

Unless the context otherwise requires, the terms defined in Rules 2 to 32-A, inclusive, shall for all purposes of the Rules of CFFE, have the meanings therein specified.

**RULE 2 ACT**

The term "Act" means the Commodity Exchange Act as from time to time amended.

**RULE 3 AFFILIATED WITH OR AFFILIATE OF**

A person is "affiliated with" or an "affiliate of" an individual or organization if he or it is a stockholder, partner, officer, director, trustee or employee of, or any person occupying a similar status or performing similar functions with, such individual or organization.

**RULE 4 AUTHORIZED TRADER**

The term "Authorized Trader" means any natural person who is employed and authorized by a Clearing Member, Class B member of CFFE Regulatory or Screen Based Trader, or having apparent authority from a Clearing Member, Class B member of CFFE Regulatory or Screen Based Trader, to place orders for Contracts by telephone through a Terminal Operator or in any other manner permitted by CFFE from time to time.

**RULE 5 BOARD OF DIRECTORS OR BOARD**

The term "Board of Directors" or "Board" means the Board of Directors of CFFE.

**RULE 6 BUSINESS DAY**

The term "Business Day" means any day on which CFFE is open for business in accordance with Rule 719. A CFFE business day shall commence no earlier than 3:00:01 p.m. on one day and shall end no later than 3:00 p.m. on the next day.

**RULE 7 BY-LAWS**

The term "By-Laws" means the By-Laws of CFFE.

**RULE 7-A CANTOR**

The term "Cantor" means CFFE, LLC, a limited liability company formed under the laws of the State of Delaware.

**RULE 7-B CANTOR FITZGERALD SECURITIES**

The term "Cantor Fitzgerald Securities" means Cantor Fitzgerald Securities, a general partnership formed under the laws of the State of New York.

**RULE 8 CANTOR SYSTEM**

The term "Cantor System" means the proprietary order entry system of Cantor and its affiliates used by CFFE for the placement and execution of orders for Contracts or to collect and transmit any information relating to a Contract.

**RULE 9 CFFE DATA**

"CFFE Data" shall mean all data relating to or in connection with any Contract or transaction executed through the Cantor System, including prices, yields and quantities of bids and offers for Contracts, transactions in Contracts, the times such bids and offers for Contracts and transactions in Contracts are entered or executed, or any other data with respect to any Contracts or transactions executed through the Cantor System.

**RULE 10 CFFE TERMINAL**

"CFFE Terminal" shall mean any manner of dissemination or display (including stand-alone, digital feed or other dissemination media provided by Cantor) which displays or disseminates certain CFFE Data for use by Authorized Traders, provided that the type of CFFE Terminal may vary among users.

**RULE 11 CFFE**

The term "CFFE" means the Cantor Financial Futures Exchange, Inc., a corporation organized and existing under Section 402 of the New York Not-for-Profit Corporation Law (the "NPCL"), the sole member of which is CFFE Regulatory Services, LLC ("CFFE Regulatory"), a limited liability company organized and existing under Section 203 of the New York Limited Liability Company Law. When used with reference to the administration of any Rule of CFFE, such term means either the Board of Directors or the officer, employee, agent or committee to whom appropriate authority to administer such Rule of CFFE has been delegated by the Board.

**RULE 11-A CFFE INSIDER**

The term "CFFE Insider" means each person acting for or on behalf of, including any employee of, any of the following entities: CFFE, the Cotton Exchange, NYBT, Cantor, Cantor Fitzgerald Securities or its affiliates (excluding Cantor Fitzgerald & Co. and CF Account Managers LLC).

**RULE 12 CLEARING CORPORATION**

The term "Clearing Corporation" means, with respect to any Contracts, the Commodity Clearing Corporation. Whenever the Board designates a new clearing organization for the clearance of Contracts with respect to which there are open positions, each Clearing Member will, as of the close of business on the second business day prior to the effective date of such designation, either become a Clearing Member of such new organization, or cause any such open Contracts carried by it either to be transferred to a Clearing Member of such new clearing organization or to be liquidated.

**RULE 13 CLEARING MEMBER**

The term "Clearing Member" means a corporation or partnership which is otherwise permitted by the Cotton Exchange and CFFE to act as a Clearing Member on CFFE.

**RULE 14 COMMISSION**

The term "Commission" means the Commodity Futures Trading Commission.

**RULE 15 COMMISSION REGULATION**

The term "Commission Regulation" means any rule, regulation, order, directive and any interpretation thereof adopted from time to time by the Commission.

**RULE 16 CONTRACT**

The term "Contract" means any Contract listed for trading on CFFE.

**RULE 16-A CSCE**

The term "CSCE" means the Coffee, Sugar & Cocoa Exchange, Inc., a corporation organized and existing under Section 402 of the NPCL.

**RULE 17 CUSTOMER**

The term "Customer" means a person for whom a Clearing Member or Screen Based Trader carries an account or from whom any Clearing Member or Screen Based Trader solicits or accepts any order to effect any transaction involving a Contract-

**RULE 18 EMERGENCY**

The term "Emergency" means any occurrence or circumstance which the Board of Directors determines requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of or delivery pursuant to, any Contract; including such matters as:

- (a) Any manipulative activity or attempted manipulative activity.
- (b) Any actual, attempted or threatened corner, squeeze, congestion or undue concentration of positions;
- (c) Any circumstance which may materially affect the performance of Contracts;

- (d) Any action taken by the United States or any foreign government or any state or local governmental body, any other contract market, board of trade, or any other exchange or trade association (foreign or domestic), which may have a direct impact on trading on CFFE;
- (e) Any physical emergency;
- (f) The bankruptcy or insolvency of any Clearing Member or Screen Based Trader or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a Clearing Member or Screen Based Trader which may affect the ability of that Clearing Member or Screen Based Trader to perform on his or its Contracts;
- (g) Any circumstance in which it appears that a Clearing Member or Screen Based Trader or any other person has failed to perform Contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such person cannot be permitted to continue in business without jeopardizing the safety of customers' funds, Clearing Members, Screen Based Traders, CFFE or the Clearing Corporation; and
- (h) Any other unusual, unforeseeable and adverse circumstance with respect to which it is impracticable for CFFE to submit, in a timely fashion, a reviewable rule to the Commission for prior approval.

**RULE 19 EXCHANGE OF FUTURES FOR PHYSICALS (EFP)**

The term "EFP" means any transaction entered into in accordance with the Rule 305 of CFFE, a component of which is not executed on the CFFE and a component or all of which involves a Contract.

**RULE 19-A EXECUTION FEE**

The term "Execution Fee" means the fee discussed in Section 32 of the By-Laws that each Clearing Member shall pay to CFFE for each Contract executed on the CFFE.

**RULE 20 FLOOR**

The term "Floor" means the floor of NYBT.

**RULE 21 FLOOR BROKER**

The term "Floor Broker" means a member of NYBT who executes customer orders on NYBT for the account of one or more Clearing Members and is registered with the Commission.

**RULE 22 FLOOR TRADER**

The term "Floor Trader" means a member of NYBT who primarily trades for his own account or for an account which he controls, who is qualified to trade on NYBT.

**RULE 22-A NYBT**

The term "NYBT" means the Board of Trade of the City of New York, Inc., a corporation organized and existing under Section 402 of the NPCL.

**RULE 23 PERSON**

The term "Person" means any individual, partnership, corporation, limited liability company, trust, estate or other entity.

**RULE 24 PHYSICAL EMERGENCY**

The term "Physical Emergency" means any circumstance which may have a severe, adverse effect upon the physical functions of CFFE including, for example, fire or other casualty, bomb threats, substantial inclement weather, power failures, communications breakdowns, transportation breakdowns and computer or software malfunctions.

**RULE 25 RESERVED**

**RULE 26 PUBLIC BOARD MEMBER**

The term "Public Board Member" shall have the meaning ascribed to it in Rule 35.



**RULE 27    RULE OF THE CLEARING CORPORATION**

The term "Rule of the Clearing Corporation" means any provision of the Certificate of Incorporation or the By-Laws, or any rule, regulation, interpretation, stated policy, or instrument corresponding thereto, as adopted or amended by the Clearing Corporation.

**RULE 28    RULE OF CFFE**

The term "Rule of CFFE" means any provision of the Certificate of Incorporation or the By-Laws, these Rules or any other rule, regulation, interpretation, stated policy, or instrument corresponding thereto, as adopted or amended by CFFE.

**RULE 29    SCREEN BASED TRADER**

The term "Screen Based Trader" means any registered U.S. Futures Commission Merchant, Introducing Broker, Commodity Trading Advisor, Commodity Pool Operator, Floor Broker or Floor Trader, provided that such person has entered into a written agreement with a Clearing Member pursuant to which such Clearing Member agrees to clear and guarantee all Contracts entered into by such person.

**RULE 30    SELF-REGULATORY ORGANIZATION**

The term "Self-Regulatory Organization" shall have the meaning ascribed to it in the Securities Exchange Act of 1934 and, in addition, shall include any contract market, commodity clearing organization and registered futures association.

**RULE 31    TERMINAL OPERATOR**

The term "Terminal Operator" means an employee of Cantor Fitzgerald Securities who is authorized by Cantor and CFFE to accept orders for Contracts and to enter such orders into the Cantor System. For purposes of Commission Regulation S 3.11(b), each Terminal Operator shall be deemed to have been granted "trading privileges" by NYBT.

**RULE 32 TRADING PRIVILEGES**

The term "Trading Privileges" means the right to access a Terminal Operator and place orders for entry into the Cantor System; provided that the Trading Privileges of Associate members shall be limited as provided in Section 35-A of the By-Laws.

**RULE 32-A TRANSACTION FEE**

The term "Transaction Fee" means the fee determined in accordance with Rule 303-B for transacting a trade on the Cantor System.

**RULE 33 APPLICABILITY OF ACT AND COMMISSION REGULATIONS**

Unless otherwise specifically provided in these Rules or the context otherwise requires, any term used in the Rules of CFFE and which is defined in the Act or the Commission Regulations shall have the meaning ascribed to it therein.

**RULE 34 EFFECT OF TITLES**

The headings to the various Rules have been inserted for convenience only and shall not effect the meaning of the language contained in the Rules.

**RULE 35 DIVERSITY OF REPRESENTATION**

(a) For purposes of the By-Laws and Rules generally, and to assure the diversity and other requirements set forth in Commission Regulations 1.63 "Service on self-regulatory organization governing boards or committees by persons with disciplinary histories." and 1.64 "Composition of various self-regulatory organization governing boards and major disciplinary committees." the following terms shall have the following meanings:

(1) Public Board Member - any person appointed to the Board of Directors of CFFE pursuant to the By-Laws and Rules who:

(i) does not have Trading Privileges;

(ii) is not a member of CFFE, the Cotton Exchange, the CSCE or NYBT;

- (iii) is not a current salaried employee of CFFE, the Cotton Exchange, the CSCE, NYBT or Cantor or any of Cantor's affiliates;
  - (iv) is not primarily performing services for CFFE, the Cotton Exchange, the CSCE, NYBT or Cantor or any of Cantor's affiliates in a capacity other than as a member of the Board of Directors of CFFE or NYBT or the Board of Managers of the Cotton Exchange or the CSCE;
  - (v) is not an officer, principal or employee of a firm which either has Trading Privileges or is a member of CFFE, NYBT, the Cotton Exchange or the CSCE, either in its own name or through an employee on behalf of the firm;
  - (vi) is not an officer, principal or employee of Cantor or any of Cantor's affiliates; and
  - (vii) is knowledgeable of futures trading or financial regulation or is otherwise capable of contributing to the deliberations of the Board of Directors of CFFE.
- (2) CFFE Non-Member - any person who is neither a holder of Trading Privileges nor a member of the Cotton Exchange, the CSCE or NYBT nor an employee of CFFE, the Cotton Exchange, the CSCE, NYBT, Cantor or any of its affiliates.
  - (3) Oversight Committee - any Cotton Exchange or NYBT Committee (or Panel thereof) that may be established from time to time to oversee the compliance, disciplinary and market surveillance functions of CFFE.
  - (4) Major Disciplinary Committee (or Panel thereof) - any Cotton Exchange or NYBT Committee which conducts disciplinary hearings, settles disciplinary charges, imposes disciplinary sanctions or hears appeals thereof in cases involving any violation of the Rules of the self-regulatory organization, except those which:

- (i) are related to:
    - (A) decorum or attire,
    - (B) financial requirements, or
    - (C) reporting or recordkeeping; and
  - (ii) do not involve fraud, deceit or conversion.
- (5) Membership Interests - the categories as set forth in Commission Regulation 1.64 (a)(4)(i).
- (b) (1) For purposes of appointment to the Board of Directors, the Secretary shall determine the Membership Interest of each member of the Board of Directors as set forth in (a)(5) above.
- (2) In verifying Membership Interests, the Secretary shall be guided by the predominant endeavors engaged in by the respective member of the Board of Directors of CFFE for the 12 months immediately preceding election. In performing these functions, the Secretary may consult with the Executive Committee and seek such professional counsel as the Secretary deems appropriate. The Secretary's decision shall be a final decision of CFFE.
- (c) For purposes of disciplinary panel diversity, the Membership Interests as set forth in (a)(5) above shall apply.
- (d) (1) All Major Disciplinary Committees and Oversight Committees of the Cotton Exchange and NYBT shall have at least one CFFE Non-Member.
- (2) All panels of Major Disciplinary Committees and Oversight Committees engaged in disciplinary proceedings in which:
- (i) a member of the Board of Directors of CFFE, or of a Major Disciplinary Committee or Oversight Committee is the subject of an investigation report or disciplinary complaint; or
  - (ii) an allegation is made by the Compliance Department of:

- (A) manipulation or attempted manipulation of the price of a Contract; or
- (B) conduct which directly resulted in financial harm to a CFFE Non-Member

shall have at least one CFFE Non-Member on the panel.

- (3) Appointments to all Major Disciplinary Panels and Oversight Committee Panels may include representative(s) of the respondent's Membership Interest, as set forth under (a)(5) above; provided, however, that in no event may such representative(s) constitute or equal a majority of such panel.

### **RULE 36 EMERGENCIES**

#### Emergency Action

- (a) CFFE and NYBT shall have power to take action in an emergency as set forth in this section.
- (b) Emergency action may be taken by the following:
  - (1) the Board in the case of any emergency;
  - (2) the Executive Committee in the case of an emergency when it is impracticable, in the opinion of the Chairman of the Board, the Vice-Chairman of the Board or any two members of the Board, to call a meeting of the Board to deal with the emergency; or
  - (3) any Committee of CFFE or NYBT pursuant to powers conferred on said Committee under the Rules of CFFE.
- (c) The vote required of the governing body authorized to take any emergency action hereunder shall be:
  - (1) in the case of action by the Board of Directors, the affirmative vote of not less than two-thirds of the members of the Board physically present and voting at a meeting at which there is physically in attendance a quorum; or
  - (2) in the case of action by a Committee, the affirmative vote of two or more persons constituting not less than two-thirds of the

members of said Committee physically present and voting at a meeting at which there is physically in attendance a majority of the members of the Committee then in office; provided, however, that the consent in writing to such action of all members of such governing body shall be sufficient to take such emergency action without a meeting; and provided further, however, that a member of the Board or of a Committee shall also be deemed physically present or physically in attendance at a meeting if such a person participates in the meeting by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time.

- (d) (1) Emergency action which may be taken pursuant to this Rule 36 may provide for, or may authorize CFFE or any Committee of CFFE to undertake actions necessary or appropriate to meet the emergency including, but not limited to, such action as:
- (A) Limiting trading to liquidation only, in whole or in part;
  - (B) Limiting trading to liquidation only, except for new sales by parties who have the commodity to deliver pursuant to said sales;
  - (C) Extending or shortening the time for the expiration of trading in any Contract;
  - (D) Altering delivery terms and conditions;
  - (E) Modifying price limits;
  - (F) Modifying circuit breakers;
  - (G) Ordering the liquidation of Contracts and the fixing of a settlement price therefor;
  - (H) Ordering the reduction in positions for any or all Clearing Members and Screen Based Traders for any or all customers of Clearing Members and Screen Based Traders;
  - (I) Ordering the transfer of Contracts, and the money, securities and property securing such

Contracts, held on behalf of a Customer by a Clearing Member or Screen Based Trader to any other Clearing Member or Screen Based Trader willing to assume such Contracts or obligated to do so;

(J) Extending, limiting or changing the hours of trading;

(K) Suspending trading; or

(L) Modifying or suspending any provision of the By-Laws, Rules, Regulations or resolutions of CFFE, including any CFFE prohibition against dual trading; provided, however, that CFFE may not lift a dual trading ban imposed by the Commission.

(2) Whenever any action is taken under this Rule 36 pursuant to which trading is suspended or other changes in procedure are made, all matters relating to notices, deliveries and other obligations may be suspended or deferred in such manner as the governing body may determine.

(e) Any emergency action taken pursuant to this Rule 36, including any modification thereof, may not extend beyond the duration of the emergency as determined by the governing body taking such action; provided, however, that in no event shall such emergency action, or any modification thereof, continue beyond 30 days after such action has been taken without the express authorization of the Commission; and provided, further, that in no event shall such emergency action, or any modification thereof, remain in effect for more than 90 days after such action becomes effective.

(f) Whenever emergency action is taken pursuant to this Rule 36, CFFE shall notify the Commission of such action in accordance with the Commission Regulations applicable to such notification.

(g) (1) Nothing in this Rule 36 shall require CFFE to take emergency action in cases set forth in this Rule 36 or in the Regulations of the Commission.

(2) The powers granted to CFFE under this Rule 36 are in addition to and not in lieu of any powers of the Board, any Committee or any official pursuant to any other By-Law or Rule.

- (3) Any action taken by CFFE pursuant to this Rule 36 shall be binding on all Clearing Members and Screen Based Traders and all persons on whose behalf Contracts have been entered into on CFFE.
- (h)
- (1) Notwithstanding the foregoing paragraphs of this Rule 36 respecting the power of CFFE to take emergency action and the procedures relating thereto, CFFE may take emergency action in case of a physical emergency pursuant to the provisions of this paragraph (h).
  - (2) Action may be taken on behalf of CFFE under this subsection by any of the following officials of CFFE in order of their availability to take such action: the Chairman of the Board, any Vice Chairman of the Board, the President, or any member of the Executive Committee.
  - (3) The action which may be taken pursuant to paragraph (h) of this Rule 36 shall be the suspension of trading and/or such other action as may be necessary or appropriate to deal with the emergency. In no event, however, shall the suspension of trading under paragraph (h) of this Rule 36 continue in effect for more than five days, except where CFFE has submitted in writing and the Commission has granted, for good cause shown, a request for an extension of time.
  - (4) Any CFFE official authorized to take action under paragraph (h) of this Rule 36 shall be empowered to order the restoration of trading or removal of such other restrictions as may have been imposed upon a determination by any such official that the physical emergency has sufficiently abated to permit the physical functions of CFFE to continue in an orderly manner.
  - (5) CFFE must notify the Commission of the implementation, modification or termination of a physical emergency in accordance with Commission regulations.
  - (6) Nothing in paragraph (h) of this Rule 36 shall prevent the Board of Directors or the Executive Committee from taking emergency action in the case of a physical emergency or from superseding any action taken by a CFFE official pursuant to paragraph (h) of this Rule 36.



- (7) In all matters herein, the Board, Committee, or Official empowered hereunder shall avoid conflicts of interest by following applicable law, Commission Regulations and Rules of CFFE.

**Rule 37 BROKER ASSOCIATION RULES**

All Floor Brokers (excluding Terminal Operators registered as "floor brokers" with the National Futures Association) shall be subject to the Broker Association Rules contained in Rule 6.20 of the Consolidated Membership Rules of the Cotton Exchange or Rule 1.20 of the Rules of CSCE, as applicable.

MEMBERSHIP/ACCESS/TRADING PRIVILEGES

**RULE 100 CONSOLIDATED RULES**

All proceedings involving Trading Privileges and access to CFFE, unless otherwise set forth herein, shall be determined under, and governed by, the following Consolidated Membership Rules of the Cotton Exchange, and shall be handled by the Committee on Membership of the Cotton Exchange or by the staff of NYBT, if applicable:

- RULE 6.00 SCOPE
- RULE 6.01 MEMBERSHIP INTERESTS
- RULE 6.02 MEMBERSHIP FEE
- RULE 6.03 FINANCIAL REQUIREMENTS
- RULE 6.04 LEASING OF MEMBERSHIP INTERESTS
- RULE 6.05 MEMBER RESPONSIBILITY ACTION
- RULE 6.06 APPROVAL OF TRADING MEMBERS
- RULE 6.07 GUARANTEES AND PRIMARY CLEARING MEMBER AGREEMENTS
- RULE 6.08 CONTINUED COMPLIANCE
- RULE 6.09 REPORTING OF DEBTS AND EXCHANGE OBLIGATIONS
- RULE 6.10 MEMBER FIRMS
- RULE 6.11 UNTITLED
- RULE 6.12 UNTITLED
- RULE 6.13 UNTITLED
- RULE 6.14 UNTITLED
- RULE 6.15 UNTITLED
- RULE 6.17 TRADE MEMBERS
- RULE 6.20 BROKER ASSOCIATIONS
- RULE 6.21 FAILED AND DECEASED MEMBERS
- RULE 6.22 SURRENDER OF MEMBERSHIPS FOLLOWING SUSPENSION

**RULE 101 APPROVAL OF TRADING PRIVILEGES**

- (a) Associate members of CFFE. An Associate member of CFFE shall have Trading Privileges only if such privileges are granted to such Associate member by NYCE's Committee on Membership. Upon such grant, the Associate member shall receive an identification number from Cantor.
- (b) Clearing Members and Screen Based Traders. A Clearing Member or Screen Based Trader (including such Clearing Member's or Screen Based Trader's Authorized Trader(s), if any) shall have Trading Privileges only, if such Clearing Member or Screen Based Trader meets all of the following requirements:
  - (1) capability to act as a Clearing Member or Screen Based Trader, as set forth in clause (c) below;
  - (2) satisfaction of any financial requirements applicable to such Clearing Member or Screen Based Trader; and
  - (3) compliance with the provisions regarding clearing Member Guarantees, as hereinafter set forth.

(c) Capability.

A Clearing Member or Screen Based Trader (including such Clearing Member's or Screen Based Trader's Authorized Trader(s), if any) may be granted Trading Privileges if such Clearing Member or Screen Based Trader has the capability of performing the functions of a Clearing Member or Screen Based Trader by reason of its Floor experience, commodities futures trading experience, government securities trading experience or participation in a training program authorized by CFFE.

The Committee on Membership, at any meeting may waive and/or reduce any requirements set forth in this Rule 101(c) for any class of membership interest holder or individual member as it deems to be in the best interest of CFFE for such reasons as are set forth in the minutes of such meeting.

- (d) Financial Requirements: (Reserved)
- (e) Clearing Member Guarantee: In addition to any other rights and obligations that a Clearing Member may have under the Rules of CFFE or By-Laws or Rules of the Clearing Corporation and any agreements arising

thereunder, to the extent that it is a Clearing Member for any Screen Based Trader:

- (1) it shall be obligated to promptly accept and clear any trades that have been matched trader-to-trader on the Cantor System by any such Screen Based Trader but which have not been cleared by another Clearing Member; and
- (2) when directed by CFFE or the Clearing Corporation, it shall also be obligated to accept any transaction effected by or for the account of any such Screen Based Trader, by transfer trade or otherwise.

All questions respecting application requirements for Clearing Members and Screen Based Traders, may be resolved by the Committee on Membership, including, but not limited to proceedings taken by the Committee pursuant to Membership Responsibility Action under Cotton Exchange Rule 6.05

- (f) In each case in which a Clearing Member or Screen Based Trader (or an Authorized Trader of a Clearing Member or Screen Based Trader) seeks a grant or restoration of Trading Privileges, such Clearing Member, Screen Based Trader or Authorized Trader must re-submit an 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 101(b) exist; provided, however, that the Committee on Membership for good cause shown may waive any of the requirements set forth in this paragraph (f).

## **RULE 102 GUARANTEES AND CLEARING MEMBER AGREEMENTS**

- (a) Form

The guaranty of the guaranteeing Clearing Member and Clearing Member agreement shall be in such form as may be prescribed by the Committee on Membership.

- (b) Number of Guarantees and Clearing Member Agreements

The Committee on Membership may limit the number of guarantees and Clearing Member agreements that are issued by any Clearing Member of CFFE, taking into account the Clearing Member's net worth or net capital.

(c) Revocation

In the event of the revocation of a guaranty or of a Clearing Member agreement, the Trading Privileges of the Screen Based Trader shall be terminated unless and until the Screen Based Trader has satisfied the Committee that he meets the financial and Clearing Member requirements set forth in these rules.

(d) Limitations on Guaranteed Screen Based Traders and on Clearing Members

A guaranteed Screen Based Trader shall not open or maintain a commodities account anywhere other than at the guarantor Clearing Member without receiving prior written consent of the Clearing Member.

(e) Guaranteed Screen Based Trader's Duty to Disclose

Screen Based Traders shall promptly provide their guarantors with copies of each investigation report and demand for arbitration on CFFE, or on the Cotton Exchange on behalf of CFFE, in which the guaranteed Screen Based Trader is named as a party. To the extent that the Screen Based Trader fails to provide such documents, CFFE may provide copies of said documents, including subsequent pleadings, to the guarantor.

**RULE 103 CONTINUED COMPLIANCE**

- (a) A Clearing Member and Screen Based Trader shall continue to comply with the provisions of these membership rules as to capability, financial requirements and Clearing Membership Access as a condition to his continued qualification as having Trading Privileges.
- (b) Clearing Members and Screen Based Traders shall submit to CFFE and the Cotton Exchange statements of financial condition at such time and in such form as may be required by the Committee on Membership.

**RULE 200 POSITION LIMITS IN CFFE CONTRACTS**

(a) Position Limits

The limit on the maximum net long or net short positions which any one Person may hold or control in Contracts is set forth in the subchapter governing each such Contract.

All positions allowed under the Rules of CFFE shall be maintained in an orderly manner and will not be initiated or liquidated in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes.

For purposes of Rules 200, 201 and 202, any references to the authority of CFFE to regulate position limits and exemptions therefrom shall also be deemed to include the authority of NYBT to perform such regulatory functions for CFFE.

(b) Exemptions

The foregoing limits upon positions shall not apply to positions that have been exempted, upon application and approval by CFFE, in one of the following categories:

(1) Hedge

A bona fide hedging position as that term is defined in Commission Regulation 1.3(z) (1).

(2) Risk Management  
(Reserved)

(3) Commodity Pool Operators

Positions (except for positions in the spot month in Contracts which have spot-month limits) which are carried for a commodity pool operator (which, as used herein and in Rule 202, shall be deemed to include the operator of a trading vehicle which is excluded, or who itself has qualified for an exclusion from, the definition of the term "pool" or "commodity pool operator", respectively, under Commission Regulation § 4.5 in the separate account or accounts of an independent account controller (as defined in Commission Regulation § 150.1(e)) qualifies under Rule 202; provided, however, that the overall positions held or controlled by each such independent account controller may not exceed the limits specified in paragraph (a) herein.

(c) CFFE's Ability to Reduce Positions

Nothing contained in this Rule shall be construed to affect any other provisions of the Rules of CFFE, including, but not limited to, the power of CFFE to order a reduction in positions for any or all Clearing Members or Screen Based Traders or any or all customers of

Clearing Members or Screen Based Traders as permitted by any other Rule of CFFE.

(d) Aggregation

In determining whether any person has exceeded the limits established under this Rule, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly controls trading shall be included with the positions held by such person; such limits upon positions shall apply to positions held by two or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person.

(e) Supervision by Clearing Members and Screen Based Traders

- (1) No Clearing Member or Screen Based Trader shall maintain a position in a Contract for itself in excess of the position limits set forth in subchapter governing such Contract; nor shall it maintain such a position for any other person if such Clearing Member or Screen Based Trader knows, or with reasonable care should know, that such position will cause such other person to exceed the position limit set forth therein.
- (2) No Clearing Member or Screen Based Trader shall be deemed to have violated its duty to avoid maintaining positions for another person, in violation of this Rule, if: (A) there have been established procedures and a system for applying such procedures which would reasonably be expected to detect, insofar as practicable, any violation by such other person; and (B) such Clearing Member or Screen Based Trader has reasonably discharged the duties and obligations incumbent upon it by reason of such procedures and system without reasonable cause to believe that such procedures and system were not being complied with.
- (3) Upon request by CFFE, which may be written or oral, a Clearing Member or Screen Based Trader shall be required, within 24 hours of receipt, or such longer or shorter period as may be specified by CFFE in its request:
  - (A) To assure CFFE as to the Clearing Member's or Screen Based Trader's position and/or to seek written assurance from a person for whom it is

maintaining a position, that such position does not violate any provisions of this Rule. Such assurance shall be communicated by the Clearing Member or Screen Based Trader to CFFE by the fastest means available to it. A Clearing Member or Screen Based Trader may not maintain a position for any such person who has failed to give such written assurance to the Clearing Member or Screen Based Trader within five days of receipt of such request from the Clearing Member or Screen Based Trader. The maintenance of such position by the Clearing Member or Screen Based Trader after such period shall be deemed prima facie evidence of the Clearing Member's or Screen Based Trader's violation of this Rule; or

- (B) To reduce the specified position maintained by the Clearing Member or Screen Based Trader for himself or for another person to comply with applicable CFFE position limits. In the event that any such specified position is maintained at more than one Clearing Member or Screen Based Trader, then the position shall be reduced proportionately or otherwise as CFFE may direct so that the aggregate position of that person maintained by all Clearing Members and Screen Based Traders does not exceed CFFE position limits.

If a Clearing Member or Screen Based Trader fails to follow the CFFE's directive to reduce positions, that matter may be immediately referred to a Cotton Exchange Supervisor Panel for Member Responsibility Action. Such referral may, but need not, be consolidated with the underlying position limit violation allegation or both matters may be made part of a disciplinary proceeding under Chapter 10 of the Consolidated Rules of the Cotton Exchange.

#### **RULE 201 EXEMPTIONS FROM CFFE POSITION LIMITS**

##### **(a) Applications**

Any person (other than a commodity pool operator, exemptions for whom are governed by Rule 202) seeking an exemption from the position limits set forth in Rule 200 must file an application with CFFE no later than 10 Business Days after the day on which the person's

position exceeds the limits specified in Rule 200. CFFE may direct that an application be filed in less than 10 Business Days.

The application shall contain the following:

(1) (A) Hedge Exemption

An explanation of how the hedge position sought to be exempted would be exempt under Commission Regulation 1.3(z)(1).

(B) Risk Management  
(Reserved)

(2) A statement of the maximum reasonable level that the applicant is seeking to have exempted under Rule 202.

(3) A description of the applicant's specific position in U.S. Treasury Securities, whether spot or futures.

(4) A description of the applicant's business operations.

(b) Undertakings and Acknowledgements

If a person is granted an exemption by CFFE under this Rule, or under Rule 202, then the exercise of that exemption, in whole or in part, by that person, shall constitute an undertaking by that person to (i) notify CFFE of any change in its circumstances that affect the reasonableness of the exemption granted; and (ii) supply CFFE with such other and further information as CFFE might require. Additionally, such exercise of the exemption shall constitute an acknowledgement by the exempted person that CFFE may, at any time, review, revoke, alter, or place limits on any such exemptions granted if CFFE deems such action to be in the best interests of CFFE.

(c) Notification

Within five business days of the submission of an application conforming to the requirements of this Rule, CFFE shall notify the applicant whether the exemption has been approved and if any limitations have been placed thereon. An exemption shall remain in full force and effect until (i) the applicant requests a withdrawal



thereof or (ii) CFFE revokes, modifies or places further limitations thereon.

(d) Denial Procedures

- (1) If an application for an exemption under this Rule 201, or Rule 202 is denied, the affected party may apply for the reversal of the denial to the Executive Committee or the Board and a hearing on such application shall be granted or denied at the discretion of the Executive Committee.
- (2) Any action by CFFE respecting any application for exemption under the Rules of CFFE shall remain in effect until and unless it is reversed by the Executive Committee or the Board, but may be stayed by the Executive Committee pending a decision thereon after a hearing.

(e) Identification

Applicants and exempted persons shall be identified by CFFE staff to Committees and/or the Board initially by symbol; provided, however, that if a Committee or the Board needs further identification to perform its functions, then such further identification shall be supplied.

(f) Compliance

In the event that CFFE has reason to believe that a Clearing Member or Screen Based Trader has violated any CFFE position limit rules, the matter shall be promptly reviewed by the NYBT Compliance Department which, if appropriate, shall issue a warning letter to the Clearing Member or Screen Based Trader; provided, however, that if there appears to be a more serious or systematic violation by the Clearing Member or Screen Based Trader of these position limit rules, then the NYBT Compliance Department must conduct a specific review culminating in an investigation report or a close out report as the facts may warrant.

**RULE 202 POOL AND RISK MANAGEMENT EXEMPTIONS**

(I) Pool Exemptions

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

- (1) Eligible entity means a commodity pool operator, the operator of a trading vehicle which is excluded, or who itself has qualified for exclusion from the definition of the term "pool" or "commodity pool operator", respectively, under Commission Regulation § 4.5, or a commodity trading advisor:
  - (A) Which authorizes an independent account controller independently to control all trading decisions for positions it holds directly or indirectly, or on its behalf, but without its day-to-day direction, and
  - (B) Which maintains only such minimum control over the independent account controller as is consistent with its fiduciary responsibilities and necessary to fulfill its duty to supervise diligently the trading done on its behalf.
- (2) Independent Account Controller ("IAC") means a person
  - (A) Who specifically is authorized by an eligible entity as defined in paragraph (a) (1) of this Rule, independently to control trading decisions on behalf of, but without the day-to-day direction of the eligible entity;
  - (B) Over whose trading the eligible entity maintains only such minimum control as is consistent with its fiduciary responsibilities necessary to fulfill its duty to supervise diligently the trading done on its behalf;
  - (C) Who trades independently of the eligible entity and of any other independent account controller trading for the eligible entity;
  - (D) Who has no knowledge of trading decisions by any other independent account controller; and
  - (E) Who is registered as a futures commission merchant, introducing broker, commodity

trading advisor, or an associated person of any such registrant.

- (3) Eligible Contract means all Contracts.
- (b) The position limits set forth in each subchapter covering Eligible Contracts may be exceeded to the extent such positions are carried for an eligible entity on the separate account or accounts of an independent account controller as set forth in this Rule, and not in the spot month if there is a position limit which applies to individual trading months during their expiration; provided, however, that the overall positions held of controlled by each such independent account controller may not exceed the limits specified in the respective subchapter for the Eligible Contract.
- (c) Additional Requirements for exemption of Affiliated Entities.

If the independent account controller is affiliated with the eligible entity or another independent account controller, each of the affiliated entities must:

- (1) have and enforce written procedures to preclude the affiliated entities from having knowledge of, gaining access to, or receiving data about, trades of the other. Such procedures must include document routing and other procedures or security arrangements, including separate physical locations, which would maintain the independence of their activities; provided, however, that such procedures may provide for the disclosure of information that is reasonably necessary for an eligible entity to maintain the level of control consistent with its fiduciary responsibilities and necessary to fulfill its duty to supervise diligently the trading done on its behalf;
- (2) trade such accounts pursuant to separately developed and independent trading systems;
- (3) market such trading systems separately; and
- (4) solicit funds for such trading by separate Disclosure Documents that meet the standards

of Commission Regulations §§ 4.21 or 4.31, as applicable where such Disclosure Documents are required.

- (d) Call for Information. Upon call by CFFE, any person claiming an exemption from CFFE's speculative position limits must provide to CFFE such information as specified in the call relating to the positions owned or controlled by that person; trading done pursuant to the claimed exemption; the futures, options or cash market positions which support the claim of exemption; and the relevant business relationships supporting a claim of exemption.

(II) Risk Management (Reserved)

#### TRADING RULES

##### **RULE 300 TIME AND PLACE OF TRADING**

- (a) Trading of Contracts shall be conducted only through the Cantor System as designated for such by the Commission, and only during the hours set forth in the Rules governing such Contracts.
- (b) Cantor will provide a CFFE Terminal at the booth (on the Floor) of any full NYBT member requesting a CFFE Terminal solely for use by such NYBT member. In addition, Cantor may, in its sole discretion provide, at the booth of such NYBT member, a direct telephone line to one or more Terminal Operators solely for use by the NYBT member that controls the booth in which such telephone line is situated. If Cantor provides an NYBT member with a direct telephone line, such NYBT member shall supervise access to and the use of such direct telephone line to ensure that such line is secure and only accessible to and used by Authorized Traders of such NYBT member and such NYBT member shall be fully responsible for any order placed on such direct telephone line.
- (c) The Board of Directors or, in the absence of a quorum thereof, the Executive Committee, may, in its discretion, without previous notice, close CFFE or any Contract market thereof on such days or portions of days as will in the Board's or Executive Committee's judgment serve to promote the best interest of CFFE. During such periods, all matters relating to notices, deliveries, margin calls, Clearing Corporation settlement or other CFFE or

Contract requirements shall remain in status quo without prejudice thereby to any interest concerned and the subsequent rulings of the Board with respect thereto shall be binding on all parties in interest, notwithstanding anything in these By-Laws and Rules to the contrary.

**RULE 301 DEFINITIONS**

- (a) Time references:
  - (1) Time references shall mean local time prevailing in New York, unless otherwise set forth in the Rules.
  - (2) Opening times start on the first second of the minute cited. For example, if 6:00 p.m. were the opening for the trading day, trading would commence at the end of 5:59 p.m. and 60 seconds.
  - (3) Closing times end on the last second of the minute cited. For example, if the market were to recess at 10:00 p.m., trading would cease at the end of 9:59 p.m. and 60 seconds.
- (b) A "trading day" commences no earlier than 3:00:01 p.m. on a business day and ends no later than 3:00 p.m. on the next business day.
- (c) A "trading week" commences no earlier than Friday at 3:00:01 p.m. and ends no later than the following Friday at 3:00 p.m.
- (d) "Current trading hours" means the trading hours in effect for a Contract as set forth in the Rules governing the terms of said Contract.
- (e) "Opening" means
  - (1) the beginning of trading on a trading day and
  - (2) the beginning of trading on a reopening.
- (f) "Close" means
  - (A) the end of any trading day and
  - (B) prior to any recess.

- (g) "Close of business" means the period following the end of one trading day but not including the beginning of the next trading day.
- (h) "Business day", notwithstanding any Rule to the contrary, means "trading day" so that, for example, the expression "following business day" means the following trading day and "prior business day" means the prior trading day.

**RULE 301-A STATUS OF TERMINAL OPERATORS ETC.**

When performing their respective functions with respect to CFFE, each of the Terminal Operators and those employees of Cantor or its affiliates who administer the tapes containing conversations between Terminal Operators and Authorized Traders shall be considered "agents" of CFFE for purposes of Section 2(a)(1)(A)(iii) of the Act.

**RULE 302 OFFERS TO BUY OR SELL**

- (a) All offers to buy or sell a Contract shall be quoted in such terms as are set forth in the Rules governing said Contract.
- (b) No transaction that is not made through the Cantor System shall be permitted, reported, or recorded in the record of transactions except:
  - (1) transfers of open Contracts of a Clearing Member necessitated by the death of the only member of such firm who had held membership in NYBT;
  - (2) transfers of open Contracts of a customer, made at the request of such customer, from one Clearing Member to another Clearing Member;
  - (3) transfers of open Contracts of a customer at the request of the original Clearing Member to another Clearing Member;
  - (4) transfers of open Contracts from one account to another within the same office of a Clearing Member, or between different offices of one Clearing Member, where no change in ownership is involved. The transferred Contracts in the transferee account must be recorded at the original date and price;
  - (5) transfers or exchanges of Contracts in connection with EFPs; and

- (6) transactions conducted pursuant to Rules 308(b) and 309(a)(3).

Such trades may be effected between or in the offices of the Clearing Member or Clearing Members but must be reported to CFFE for recording, clearly showing the exception above justifying the trade and stating whether the transaction has resulted in a change of ownership, the quantity, if any, of the spot commodity involved, the kind and quantity of the Contracts, the price, the name of the other Clearing Member, if any, and any other pertinent data. The Clearing Member must in its records clearly label all such trades. The names of the purchaser and seller shall be given when required.

Acceptances of offers or parts of offers to buy or sell shall be binding upon the acceptor at the price named by the Clearing Member or Screen Based Trader offering.

- (c) If an error or dispute arises between Clearing Members or between Screen Based Traders, or any combination thereof, as to a claim of a purchase or a sale of a Contract, the party claiming the sale or purchase shall, unless otherwise mutually agreed upon, liquidate the same as soon as possible and the loss resulting shall be the subject of arbitration. Any claim of a purchase or sale of a Contract must be made promptly after discovery and no later than five minutes before the next trading day for such Contract.
- (d) If a Clearing Member or Screen Based Trader claims to have bought or sold, or has bought or sold, a Contract and the Clearing Member or Screen Based Trader with whom the trade has been made, or is claimed to have been made, is absent or cannot be found, the trade shall be closed at the opening of the next trading day for such Contract, and notice of such closing of the trade shall be filed with CFFE, and the resulting loss, if any, shall, if the trade is disputed, be subject to arbitration, and if not disputed, shall be immediately paid.

### **RULE 303 EXECUTION OF ORDERS**

- (a) For purposes of this Rule, the following defined terms shall have the respective meanings set forth below:
- (1) "Execution Time" means the period of time during which the Cantor System flashes the execution of a trade.

- (2) "Exclusive Time" means the limited period of time during the Execution Time, as set forth in the Rules relating to the applicable Contract, when certain traders obtain exclusive rights to trade with each other or with other traders who wish to buy or sell at the price prevailing during the Execution Time.
  - (3) "First Best", when used in connection with a bid or offer, means the one that is first posted on the Cantor System.
- (b) Bids and offers to buy or sell a Contract are matched and executed electronically through the Cantor System in accordance with the following principles:
- (1) Only the best bid and offer (including their respective sizes) available at any given time are accepted and posted on the Cantor System; provided, however, that during Exclusive Time, the trader with exclusive rights to trade will retain such rights even if a bid or offer superior to such trader's bid or offer would otherwise be available. Any inferior bids already residing in the Cantor System or made subsequently are automatically canceled or rejected, as applicable.
  - (2) It shall be the duty of the Screen Based Trader or Clearing Member making an offer to buy or sell a Contract to specify with respect to each order, as applicable, a customer or proprietary account identifier, the relevant Contract, the quantity and price offered with respect to such Contract and any other information that may be necessary to make such offer sufficiently clear and specific.
  - (3) During the Execution Time, the trader making the First Best bid or First Best offer may obtain certain exclusive rights to trade additional Contracts with the trader making the best offer or bid or with others, in each case during the Exclusive Time. The duration of the Exclusive Time is specified in the Rules relating to the applicable Contract. During the Execution Time, other offerors or bidders may join the prevailing offer or bid, but no joining party's bids or offers will be executed during any Exclusive Time unless and until the party with exclusive rights relinquishes such rights.



- (4) Where multiple bids or offers co-exist at the same best price, the Cantor System will match them with a seller or buyer on a time priority basis based on the time they were entered into the Cantor System until such seller or buyer has filled its order or there are no more bids or offers at such seller's or buyer's designated price.
- (c) Bids and offers to buy or sell a Contract are subject to the minimum trading requirements specified in the Rules relating to the applicable Contract.

**RULE 303-A      MARKET CROSSING**

- (a) Notwithstanding anything in Rule 303(c) to the contrary, a trader may submit a bid or offer for any size in accordance with the applicable trading increments (including for a size smaller than that specified in the minimum trading requirement that would otherwise apply), if such bid or offer is made at least one second prior to, with instructions that it be executed at the price set at, the next available Market Crossing (as defined below). Any bid or offer made in accordance with the preceding sentence shall only specify the applicable Contract and the size of the order and shall not include any price reference. Such bids and offers shall be entered but not posted on the Cantor System.
- (b) At such time or times during each Trading Day as shall be specified with respect to each Contract, all outstanding bids and offers for a Contract posted in accordance with the second and third sentences of clause (a) above will be matched electronically on a time priority basis based on the time they were entered into the Cantor System, in each case until the seller or buyer in question has filled so much of its order as there are buyers or sellers with outstanding bids or offers (this process being referred to herein as the "Market Crossing"). The price at which such trades are executed shall be determined as of the time of the relevant Market Crossing in accordance with the principles set forth in 314-B. If no crossing price is determined with respect to a particular Contract in accordance with the last sentence of such Rule 314-B, no Market Crossing shall take place with respect to such Contract, and all bids and offers relating to the Market Crossing with respect to such Contract will be automatically canceled.

**RULE 303-B          PAYMENT OF TRANSACTION FEE**

- (a) A trader may post a bid or offer on the Cantor System without any obligation to pay the Transaction Fee. It becomes obligated to pay the Transaction Fee if it wishes to hit a bid or lift an offer posted on the Cantor System, thereby becoming the "aggressor". If the bidder/buyer initiates the first trade during the Execution Time, then all buyers pay the applicable Transaction Fee for trades executed during such Execution Time. The opposite applies if the offeror/seller initiates the first trade.
- (b) Traders executing transactions during the Market Crossing shall each pay one-half of the Transaction Fee applicable to such Contract.

**RULE 304    TRADING LIMITATION**

Trades in any Contract shall be subject to such daily price limits as may be set forth in the Rules governing such Contract.

**RULE 305    EFP TRANSACTIONS**

- (a) A bona fide Exchange of Futures for Physicals ("EFP") for any size in accordance with the applicable trading increments for the Contract may be entered into at a price mutually agreed upon by the two parties to such transaction. EFPs must contain the following three essential elements:
  - (i) A futures transaction and a cash transaction that are integrally related;
  - (ii) An exchange of futures contracts for cash commodity where the cash commodity contract provides for the transfer of ownership of the cash commodity to the cash buyer upon performance of the terms of the contract, with delivery to take place within a reasonable time, thereafter, in accordance with prevailing cash market practice; and
  - (iii) Separate parties to the EFP, where the accounts involved have different beneficial ownership or are under separate control.
- (b) Each Exchange of Futures for Physicals shall be designated as such, and cleared through the Clearing Corporation in the regular manner.

- (c) Upon request, Clearing Members to an EFP transaction shall provide documentation of the cash transactions underlying the EFP to NYBT.

**RULE 306 CUSTOMER INFORMATION AND RISK DISCLOSURE STATEMENT**

No Clearing Member or Screen Based Trader shall accept an order from, or on behalf of, any Customer for entry into the Cantor System, unless such Customer has been previously provided with a CFFE Customer Information and Risk Disclosure Statement in a form approved by the Board.

**RULE 307 ORDERS SUBJECT TO BY-LAWS AND RULES**

Every order, written or oral, given to a Clearing Member or Screen Based Trader of CFFE, as agent or broker of the party giving the order, shall be subject to the Rules of CFFE.

**RULE 308 ERRORS OF TERMINAL OPERATORS**

- (a) If CFFE acknowledges responsibility for the Terminal Operator entering erroneous information regarding the identity of one or both of the parties to a transaction, such information shall be corrected promptly upon discovery.
- (b) If CFFE acknowledges responsibility for the Terminal Operator entering erroneous information regarding the price at which a trade was executed, or the size of a particular trade, or for the Terminal Operator's failure to enter a trade at all, such error shall be corrected, promptly upon its discovery (or, if such error is discovered at a time when CFFE is not open for trading, as soon as CFFE re-opens), by one or more trades entered into by, and in the name of CF Account Managers LLC, a Cantor affiliate established for such purpose. The correcting trade or trades shall be executed at (1) the price prevailing at the time of the erroneous trade or (2) the price prevailing at the time of the correcting trade or trades, whichever is better for the Customer.
- (c) If and to the extent that CFFE does not acknowledge any responsibility of the Terminal Operator for any alleged error of the types described in clauses (a) or (b) above, the Clearing Member affected by such error will be notified thereof through its TIPS terminal, and asked to respond to such notification within 30 minutes from receipt thereof.

- (1) If the Clearing Member fails to respond during such period, or it expressly accepts its own responsibility for such error, it will have no further possibility to challenge such error.
- (2) If the Clearing Member challenges its responsibility for such error during such period, CFFE may acknowledge its responsibility for such error and take action in accordance with the procedures described in clause (a) or (b) above, as applicable.
- (3) Unless CFFE acknowledges responsibility for such error, the relevant trade will be cleared at the Clearing Member affected by such error, and such Clearing Member or its guaranteed Screen Based Trader shall be obligated to cover its position promptly in accordance with Rules 302 and 309. Such Clearing Member or Screen Based Trader can then file an arbitration claim in respect of such trade in accordance with Rule 600.

#### **RULE 309 ERRORS OF CLEARING MEMBERS AND SCREEN BASED TRADERS**

- (a) If a Clearing Member or a Screen Based Trader discovers an error in the handling of an order after the relevant trade is completed, and the order cannot be executed in the market at a price which is better than or equal to that which the order should have received, the Clearing Member or a Screen Based Trader shall do one or more of the following:
  - (1) Execute the order in the market and adjust the customer's trade price if the price is worse than that which the customer should have originally received.
  - (2) Execute a spread transaction in the market whereby one leg of the spread is for the customer's order and, notwithstanding any Rule to the contrary, the other leg is for the account of the Clearing Member or Screen Based Trader. The order must receive a price better than or equal to the price it should have originally received. Such spread transactions must be reported to the Compliance Department.

- (3) Take the opposite side of the order at a price which is better than or equal to the price the order should have originally received. If such price cannot be obtained in the market, the Clearing Member or Screen Based Trader may assign the opposite side of the order to the Clearing Member or Screen Based Trader's own account at a price which is better than or equal to the price which the order should have originally received, notwithstanding any Rule to the contrary. Such transactions must be reported to the Compliance Department.

In no case may a customer receive a price which is worse than that which the customer should have originally received. A violation of this Rule for the purpose of taking advantage of an order or orders shall be considered to be conduct which is inconsistent with just and equitable principles of trade.

- (b) This Rule shall not be construed to contravene any instructions received from a customer respecting any order prior to its execution, but shall be construed to permit execution of orders under the conditions described without prior instructions from the customer.

#### **RULE 310 RESPONSIBILITY IN CONNECTION WITH QUOTATIONS**

There shall be no liability for money damages arising from a request to quote the market when no correlative purchase or sale of a Contract is made. Where a purchase or sale of Contracts is made, liability, if any, may apply only to the extent of the number of Contracts so bought or sold.

#### **RULE 311 TRADING STANDARDS**

- (a) Any Screen Based Trader that is a registered FCM must at all times remain in compliance with Commission Regulation 155.3, as from time to time amended.
- (b) No Clearing Member or Screen Based Trader shall make any purchase or sale which has been directly or indirectly prearranged.
- (c) No Clearing Member or Screen Based Trader shall withhold or withdraw from the market any order or part of an order

of another person for the convenience of any other person.

- (d) No Clearing Member or Screen Based Trader shall purchase any Contract for his own account, or for any account in which he has an interest, while holding an order of another person for the purchase of the same Contract which is executable at the market price or at a price at which such purchase can be made for the Clearing Member's or Screen Based Trader's own account or for an account in which he has an interest.
- (e) No Clearing Member or Screen Based Trader shall sell any Contract for his own account, or for any account in which he has an interest, while holding an order of another person for the sale of the same Contract which is executable at the market price or at a price at which such sale can be made for the Clearing Member's or Screen Based Trader's own account or for an account in which he has an interest.
- (f) No Clearing Member or Screen Based Trader shall execute any transaction for any account of a customer for which buying and/or selling orders can be placed or originated, or for which transactions can be executed by such Clearing Member or Screen Based Trader, without the prior authorization of the customer (hereinafter referred to as "discretionary orders") regardless of whether the general authorization for such orders or transactions is pursuant to a written agreement, except that discretionary orders may be placed with another Clearing Member or Screen Based Trader for execution.

For purposes of this paragraph (f), an order which gives the Clearing Member or Screen Based Trader discretion only with respect to time and price shall not be deemed to be a discretionary order.

The restrictions set forth in this paragraph (f), shall not apply to discretionary orders for:

- (1) in the case of a Screen Based Trader who is a natural person, members of such Screen Based Trader's immediate family, which is defined to mean a spouse, parent, parent of a spouse, child, or spouse of a child;
- (2) another Clearing Member or Screen Based Trader with Trading Privileges; or

- (3) a proprietary account of the Clearing Member or Screen Based Trader, as that term is defined in Commission Regulation 1.3 (y).

However, a Clearing Member or Screen Based Trader shall not be permitted to execute discretionary orders for members of his immediate family, other members, or proprietary accounts until after the execution of orders for the account of other persons including time and price discretion orders.

- (g) No Clearing Member or Screen Based Trader shall disclose at any time that he is holding an order of another person or shall divulge any order revealed to him by reason of his relationship to such other person except to execute an order or except pursuant to subparagraph (f) of this Rule or at the request of an authorized representative of the Commission or CFFE.
- (h) No Clearing Member or Screen Based Trader shall take, directly or indirectly, the other side of any customer order revealed to him by reason of his relationship to the customer except with the customer's prior written consent and in conformity with the Rules of CFFE applicable to such transactions. Such consent need not be given for each transaction but may be given in general terms and must be filed with and retained by the Clearing Member or Screen Based Trader.
- (i) No Clearing Member or Screen Based Trader shall allocate trades among accounts except in the sequence in which the orders for such accounts have been received. Trades executed for orders received at the same time shall be allocated on an equitable basis among the orders received; provided, however, that all orders received after the close on one trading day and prior to the opening on the next trading day shall be considered as received at the same time.

#### **RULE 312 SPREAD TRANSACTIONS**

- (a) Clearing Members and Screen Based Traders of CFFE are permitted to execute orders to purchase one Contract and sell another Contract at a stated price difference ("futures spread"). Such transactions must be for the account of one customer except in the case of a transfer of interest in an authentic commercial transaction. These orders are to be executed through the Cantor System with at least one side of the futures spread at the market price prevailing at the time of the trade.

- (b) Nothing in this Rule shall be construed to prevent the execution of futures spreads by individual purchases and sale by individual transactions.

**RULE 313 RESERVED**

**RULE 314 SETTLEMENT PRICE COMPUTATION**

Unless otherwise set forth in the Rules governing the terms of a particular Contract, at the end of each business day, the Cantor System will automatically determine the settlement price for each Contract:

- (a) In the case of a Liquid Contract, by calculating the average weighted price for such Contract, based on (i) the last US\$25,000,000 worth of trades in such Contract executed prior to the end of the relevant business day or (ii) the total volume of trades in such Contract executed during the last five minutes of the relevant business day, whichever represents the greater volume of trades in US\$ terms; provided that the relevant business day shall include any period of post-closing trading in accordance with Rule 315, up to and including the point in time when (x) the US\$25,000,000 threshold specified in subclause (i) is reached or (y) such post-closing trading terminates in accordance with Rule 315, whichever occurs first; or
- (b) in the case of any other Contract, by multiplying the settlement price of the nearest Liquid Contract for which a settlement price was determined in accordance with clause (a) with the applicable financing rate, which shall be the financing rate specified in the Rules applicable to such Contract.
- (c) In each case (a) or (b), any fractional amount resulting from the calculation of the settlement price shall be rounded up or down to the increment of trading that is closest to the settlement price for the relevant Contract determined at the end of the last preceding business day in accordance with this Rule 314.
- (d) For purposes of clauses (a) and (b), the term "Liquid Contract" means any Contract with respect to which at least US\$100,000,000 worth of trades have been executed during the last 60 minutes of the relevant business day.



#### **RULE 314-A CLOSING PRICE COMPUTATION**

Unless otherwise set forth in the Rules governing the terms of a particular Contract, at the end of each trading day, the Cantor System will automatically determine the closing price of each Contract by reference to the price at which the last trade in such Contract was executed during such business day (including any trade executed during post-closing trading in accordance with Rule 315).

#### **RULE 314-B CROSSING PRICE COMPUTATION**

Notwithstanding anything in Rule 314 to the contrary, at the end of each Market Crossing in accordance with Rule 303-A, the Cantor System will automatically determine a price for each Contract by randomly selecting a trade executed with respect to such Contract during the three minutes immediately following such Market Crossing. The Cantor System will randomly pick one of the six thirty-second intervals during such three-minute interval, and then randomly pick a trade that occurred within such thirty-second interval. The price at which such trade was executed shall apply to all trades executed with respect to such Contract at such Market Crossing. If no trades with respect to a particular contract are executed within the three minutes immediately following such Market Crossing, no crossing price will be established with respect to such Contract.

#### **RULE 315 POST-CLOSING TRADING**

At and after the time at which trading on the Exchange is scheduled to terminate (the "Closing"), no new transactions may be executed on the Cantor System. Notwithstanding the first sentence of this Rule 315, if the Execution Time for the relevant trade or series of trades continues after the end of a business day, transactions at the relevant pre-closing price may be executed in accordance with Rule 303 for up to five minutes after the Closing. In the event that the Execution Time continues after such five minute period, all executions shall cease.

#### **RULE 316 RECORDING OF ORDERS**

- (a) CFFE shall keep full, complete and systematic records, together with any and all pertinent data and memoranda, of all transactions relating to its business of dealing in Designated Contracts,

including, but not limited to, the records referred to in clause (b) of this Rule. Each Clearing Member and Screen Based Trader shall retain such records, data and memoranda, as applicable, in accordance with the Rules of CFFE and Commission Regulations, and produce them for inspection and furnish true and correct information and reports as to the contents or the meaning thereof, when and as requested by an authorized representative of the Commission or CFFE.

- (b) Upon receipt of a Clearing Member's or Screen Based Trader's order by a Terminal Operator, a written record (which may be generated electronically) of such order shall have been prepared by such Clearing Member or Screen Based Trader upon receipt of an order from a customer in a form that permits such record to be maintained for the period prescribed in these Rules and that, to the extent practicable, prevents subsequent alteration of such record. Such record may be in computer format, subject to the requirements of CFFE By-Laws and Rules and Commission Regulations. Each such record shall include the account identification and order number, and shall record thereon the date and time, to the nearest second, the order is received, and in addition, the time, to the nearest second, the order is transmitted to a Terminal Operator for execution. The failure of Clearing Members or Screen Based Traders to prepare such records in the form required by this Rule shall subject such persons or entities to disciplinary action.

**RULE 317 RESERVED**

**RULE 401 BOOKS AND RECORDS**

A financial statement in such form and at such times as may be prescribed, shall be furnished by every Clearing Member and by every Screen Based Trader who would otherwise be required to furnish such financial statement under the Rules of the Cotton Exchange, of CFFE who carries Contracts for others. The Board of Directors shall designate an official solely employed by CFFE or a Committee of CFFE to carry out the purposes of this Rule.

Each Clearing Member and Screen Based Trader shall furnish to CFFE annually, and at such other times as CFFE may request, a financial statement certified by an independent public accountant.

- (a) Each Clearing Member registered as a futures commission merchant or introducing broker with the Commission shall comply with the minimum financial requirements set forth in Commission Regulation 1.17.
- (b) Each Clearing Member referred to in subsection (a) of this Rule shall file with CFFE such reports and other documents as are required to be filed pursuant to Commission Regulation 1.10 at such time as may be required by CFFE.

**RULE 402 RESERVED**

**RULE 403 MARGINS**

- (a) Speculative Margins. Initial margin for Contracts traded on CFFE shall be established by the Committee on Margins (the "Committee").
- (b) Hedge Margins. The initial margin required in paragraph (a) above may be waived for hedging transactions involving Contracts provided a hedging declaration in a form acceptable to the Clearing Member has been filed with the Clearing Member by a bona fide member of the financial trade. The Committee shall establish initial hedge margins which must be maintained. For purposes of this Rule, a person is a member of the financial trade to the extent that he engages in hedge transactions as set forth in Section 4(a)(3) of the Act and regulations thereunder.
- (c) Spread Margins. The Committee may establish initial margin which must be maintained for futures spreads. To qualify for futures spread margins, the positions constituting the futures spread must be held at the same Clearing Member for the benefit of the person claiming the spread margin. Permissible futures spreads for margin purposes are intramarket spreads of the following two types:

- (1) A long (short) position in a Contract matched with a short (long) position of the same Contract in a different delivery month;
  - (2) A long (short) position in a Contract matched with an opposite position (whether long or short) in a different Contract in such ratio as the Committee may from time to time establish.
- (d) In each such case, the initial margin per Contract which must be maintained shall be fixed by the Committee. Notice of any such action and regulation shall be given by mail and shall be binding on all Clearing Members and Screen Based Traders. When margins are impaired to the extent of 25%, they must be restored to the initial amount required by the foregoing, except that if the prevailing requirement varies from that required when the trade was initiated, either the margin originally deposited or the prevailing margin rate, may be used as a basis for calculating the amount of margin which must be maintained. In the event of failure by the customer to so restore promptly, his position shall be reduced so as to leave any remaining Contracts fully margined.
- (e) Equities in speculative or hedging accounts may be withdrawn only to the extent that the customer's equity exceeds the respective margin requirement on the date that the request for such monies is made:
- All initial margins shall be deposited in:
- (1) U.S. funds.
  - (2) U.S. government obligations.
  - (3) Negotiable securities having an open and ready market in the United States.
  - (4) Such other instruments as the Committee may from time to time designate.
  - (5) Available equity.
- (f) The direct or indirect extension of credits to any person, firm, corporation or association, in Contract transactions is prohibited.
- (g) The replenishment of margins required under paragraph (d) hereof may be demanded during any business day and must be demanded at the close of any business day when debits so require. A demand for replenishment of margin may be

met by a favorable market movement, provided that such movement increases the equity in the account to an amount sufficient to satisfy the initial margin requirement.

- (h) When positions in other Contract markets are involved in a margin calculation, the latest comparative prices in such markets shall be the basis for determining the status of a customer's account.
- (i) Customers' net equities, exclusive of margin requirements in other markets, may be included in determining the amount owing.

### DISCIPLINARY PROCEEDINGS

#### **RULE 500 DISCIPLINARY SCOPE**

Persons under CFFE jurisdiction shall be subject to, and governed by, the following Consolidated Disciplinary Rules of the Cotton Exchange. Any disciplinary proceedings shall be handled by the Supervisory Committee, Business Conduct Committee or Cotton Floor Committee and by NYBT, if applicable.

RULE 9.01	PROHIBITED ACTS
RULE 9.02	PUTS AND CALLS
RULE 9.03	FALSE INFORMATION
RULE 9.04	MANIPULATION
RULE 9.05	BETTING
RULE 9.07	PAYMENTS TO EMPLOYEES OF OTHERS
RULE 9.08	RULES OF PHYSICAL DECORUM
RULE 9.09	RULES OF TRADING DECORUM AND PROTOCOL
RULE 9.10	TIMELY SUBMISSION AND ACCURACY OF REPORTS
RULE 9.11	IMPOSITION OF FINES AND APPEAL PROCEDURES
RULE 9.12	FINAL DECISION
RULE 9.13	UNTITLED
RULE 10.01	MEMBER SUBJECT TO DISCIPLINARY PROCEEDINGS
RULE 10.02	APPLICABILITY OF THIS CHAPTER
RULE 10.03	JURISDICTION
RULE 10.04	COMPLIANCE STAFF-COMPOSITION, POWERS AND GENERAL DUTIES
RULE 10.05	DISCIPLINARY COMMITTEE-DIVISION OF FUNCTIONS
RULE 10.06	REVIEW OF INVESTIGATION REPORTS

RULE 10.07	COMPLAINT
RULE 10.08	RIGHT TO REPRESENTATION
RULE 10.09	ANSWER TO COMPLAINT
RULE 10.10	FAILURE TO FILE ANSWER OR DENY ALLEGATION
RULE 10.11	RIGHT TO HEARING
RULE 10.12	HEARING
RULE 10.13	DECISION
RULE 10.14	EXPULSION OF A MEMBER BY THE BOARD
RULE 10.15	FINAL DECISION
RULE 10.16	SETTLEMENT
RULE 10.17	FILING, SERVICE, EXECUTION, AND DATING OF DOCUMENTS
RULE 10.18	TIME
RULE 10.19	CONFIDENTIALITY OF EXCHANGE INVESTIGATION AND PROCEEDINGS
RULE 10.20	NOTICE TO COMMISSION
RULE 10.22	MEMBER RESPONSIBILITY ACTION
RULE 10.23	APPEALS AND REQUESTS FOR STAYS BEFORE THE EXECUTIVE COMMITTEE
RULE 10.24	FINAL DECISION AND EFFECTIVE DATE

**RULE 501 PROHIBITION FROM SERVICE ON BOARD AND CERTAIN COMMITTEES**

(a) For purposes of this rule;

- (1) The term "Disciplinary Offense" shall have the same meaning as that set forth in Commission Regulation 1.63.
- (2) The term "Disciplinary Condition" shall mean any of the conditions set forth in subsection (b)(1) through (b)(6) of Commission Regulation 1.63.
- (3) The term "Exchange Governing Body" shall mean the Board of Directors of CFFE, and, when carrying out the self-regulatory responsibilities of CFFE, the Board of Directors of NYBT, the Supervisory Committee of the Cotton Exchange, the Business Conduct Committee of the Cotton Exchange, the Floor Committee, and the Arbitration Committee of the Cotton Exchange.
- (4) The term "Exchange Disciplinary Committee" shall mean the Board of Directors of NYBT, the Supervisory Committee of the Cotton Exchange and the Business Conduct Committee of the Cotton Exchange.
- (5) The term "suspension" shall mean suspension from all Trading Privileges.

- (b) No person shall serve on an Exchange Governing Body if that person:
- (1) in the preceding thirty-six (36) months, has committed a Disciplinary Offense; or
  - (2) currently is, or was (for the applicable period set forth in Commission Regulation 1.63(b)), subject to a Disciplinary Condition.
- (c) Any finding imposing a penalty by an Exchange Disciplinary Committee that a person has violated a By-Law or Rule of CFFE or the Cotton Exchange as set forth in subsection (f) of this Rule shall also constitute a Disciplinary Offense.
- (d) In the case of financial, record-keeping, reporting, decorum and other exempted offenses set forth pursuant to subsection (a)6(i) of Commission Regulation 1.63, any such violation shall not constitute a disciplinary offense unless a disciplinary committee finds that it involves fraud, deceit, or conversion; or a disciplinary committee issues a penalty of suspension or expulsion for such violation.
- (e) In the case of record-keeping and reporting violations, any such violation shall not constitute a disciplinary offense unless the person receives fines aggregating more than \$5,000 per year in any of:
- (i) the current calendar year, or
  - (ii) either of the immediately preceding 2 calendar years.
- (f) (1) The following lists the By-Laws and Rules, the violation of which would constitute a disciplinary offense:

BY LAWS AND RULES	DESCRIPTION
CFFE Rule 311(a)	FCM non-compliance with Commission Regulation 155
CFFE Rule 311(b)	Making pre-arranged trades
CFFE Rule 311(c)	Withholding or withdrawing an order
CFFE Rule 311(d)	Purchasing ahead of a Customer
CFFE Rule 311(e)	Selling ahead of a Customer
CFFE Rule 311(f)	Trading for a discretionary account
CFFE Rule 311(g)	Disclosing an order

CFFE Rule 311(h)	Taking the opposite side of a Customers order
NYCE Rule 7.12	Disclosing proprietary information
NYCE Rule 9.01(a)	Misconduct in relations with Exchange
NYCE Rule 9.01(b)	Fraudulent transactions
NYCE Rule 9.01(c)	Conduct detrimental to the best interests of the Exchange
NYCE Rule 9.01(d)	Conduct inconsistent with just and equitable principles of trade
NYCE Rule 9.03	Disseminating false information
NYCE Rule 9.04	Price manipulation and cornering

(f) (2) The schedule of By-Laws and Rules set forth in this paragraph (f) shall be, if revised, submitted to the Commission after each calendar year in the manner set forth in Commission Regulation 1.63.

Such schedule shall be maintained, kept current and posted in the manner set forth in Commission Regulation 1.63.

**RULE 600 ARBITRATION SCOPE**

Controversies regarding transactions made on CFFE involving persons under CFFE jurisdiction shall be determined under, and governed by, the following Consolidated Rules of the Cotton Exchange before a diverse Panel of the Cotton Exchange Arbitration Committee, and shall be overseen by the staff of NYBT, if applicable:

RULE 8.00	SCOPE
RULE 8.01	UNTITLED
RULE 8.02	JURISDICTION
RULE 8.03	CHOICE OF PANEL
RULE 8.04	TIME LIMITATION
RULE 8.05	PROCEDURE
RULE 8.06	WAREHOUSEMEN AND LICENSED FACILITIES
RULE 8.07	FEES
RULE 8.08	INDEPENDENCE OF NON-STATUTORY ARBITRATION PROCEDURES

**RULE 710 FAILURE TO SEGREGATE**

Each Clearing Member which is a futures commission merchant shall forthwith notify CFFE whenever he or it



fails to maintain segregated funds as required by the Commission.

**RULE 711 EMERGENCY EVENT REPORTING**

- (a) Each Clearing Member and Screen Based Trader shall, upon being involved in an emergency event, immediately advise CFFE of the occurrence thereof by the fastest means of communication reasonably available and shall immediately thereafter deliver written notice to CFFE specifying the nature of such emergency event including the details of the Clearing Member's or Screen Based Trader's involvement and the time when such emergency event occurred.
  
- (b) For the purpose of this Rule, the term "emergency event" shall mean, with respect to any Clearing Member or Screen Based Trader:
  - (i) the filing of a petition, answer or other document, or the taking of any other action, by a Clearing Member or Screen Based Trader with respect to himself or itself, or against any Clearing Member or Screen Based Trader, in connection with any liquidation, arrangement, reorganization, receivership, assignment for the benefit of creditors or other bankruptcy or insolvency proceeding under state or federal law;
  
  - (ii) the adoption of a plan of dissolution of such Clearing Member or Screen Based Trader;
  
  - (iii) the insolvency (as defined under any applicable state or federal law) of such Clearing Member or Screen Based Trader;
  
  - (iv) the failure of such Clearing Member or Screen Based Trader to meet the applicable financial requirements of CFFE, the Clearing Corporation or any governmental agency or self-regulatory body;

- (v) the default of such Clearing Member or Screen Based Trader under any commodity Contracts on CFFE or on any other Contract market, or the failure or inability for financial reasons of such Clearing Member or Screen Based Trader to comply with any of his or its Contracts; or
- (vi) the imposition of any injunction or other restraint by any government agency, court or arbitrator which may affect the ability of such Clearing Member or Screen Based Trader to perform his or its Contracts or otherwise engage in business.

**RULE 712 DISCLOSURE AND TRADING BY CFFE INSIDERS**

(a) Disclosure of Information:

A CFFE Insider shall not disclose to any person who is not a CFFE Insider any material non-public information regarding Contracts which such CFFE Insider obtains as a result of his or her relationship with CFFE, Cantor, Cantor Fitzgerald Securities or its affiliates or the Cotton Exchange if such CFFE Insider has or should have a reasonable expectation that such information could assist another person in trading any commodity interest (as such term is defined in Commission Regulation 1.59(a)(6)); provided, however, that this provision does not prohibit any disclosures made (i) to another self-regulatory organization, (ii) to a court of competent jurisdiction or (iii) to any person who the employee reasonably believes to be a representative of a governmental agency acting in his or her official capacity.

(b) Trading Prohibition:

A CFFE Insider shall not trade, directly or indirectly, for his or her own account or for the account of any other person, in (i) any Contract traded on CFFE or cleared by the Commodity Clearing Corporation or (ii) any related commodity interest, any commodity interest traded on, or cleared by,

any contract market or clearing organization, as applicable, and any commodity interest traded on, or cleared by, a linked exchange or clearing organization, as applicable, provided that, in the case of clause (ii) only, such CFFE Insider has access to material non-public information concerning such commodity interest.

(c) Exceptions:

- (1) Notwithstanding the provisions of paragraph (b) above, a CFFE Insider may, upon application to and approval by the Executive Committee, trade in one or more of the Contracts or commodity interests referred to therein in such manner as the Executive Committee may permit. The Executive Committee may permit exceptions from the provisions of paragraph (b) above on a case-by-case basis under circumstances which are not contrary to the purposes of this Rule, the Act or Commission Regulation 1.59 thereunder, the public interest and just and equitable principles of trade. Such circumstances may include:
  - (A) participation by a CFFE Insider in pooled investment vehicles where such CFFE Insider has no direct or indirect control over transactions executed by the pool;
  - (B) service by a CFFE Insider as an executor or administrator of an estate;
  - (C) service by a CFFE Insider in any other fiduciary capacity, such as an officer of a charitable organization, in which such CFFE Insider receives no pecuniary benefit from the trading of Contracts;
  - (D) trading by a CFFE Insider in contracts traded on or subject to the rules of other exchanges under circumstances in which such CFFE Insider's access to material non-public information as to

those contracts is sufficiently minimal or attenuated so as to be insignificant;

(E) such other circumstances as the Executive Committee may determine. (Exemptions granted under this category shall be submitted to the Commission pursuant to Commission Regulation 1.41, and shall become effective as provided therein.)

(2) The procedure for any application for and approval of an exemption from the provisions of paragraph (b) above shall be determined by the Executive Committee.

(3) Notwithstanding anything in this Rule 712 to the contrary, any participation in a CFFE sponsored savings or retirement plan shall not be deemed to constitute trading directly or indirectly in a Contract, notwithstanding such plan's use of pooled funds which utilize contracts or the trading thereof.

(d) Definitions:

Terms used in this Rule shall have the same meanings as in Commission Regulation 1.59 (as from time to time amended), unless the context of this Rule clearly requires otherwise.

#### **RULE 712-A CONDUCT OF TERMINAL OPERATORS**

Terminal Operators, in performing their role and responsibilities on and for CFFE, shall be subject to the following principles of conduct (without limiting the effect of any other Rules applicable to Terminal Operators). No Terminal Operator shall:

(a) provide any advice (whether written, oral or in any other form) with respect to trading on CFFE generally or in any Contract in particular to any Authorized Trader or Screen Based Trader or any customer of such Authorized Trader or Screen Based Trader;

- (b) prearrange, directly or indirectly, any purchase or sale of Contracts on CFFE;
- (c) withhold or withdraw from CFFE any order or part of any order of another person for the convenience of any other person; or
- (d) enter any order for the purchase or sale of any Contract by an Authorized Trader or Screen Based Trader into the Cantor System without prior instruction and authorization, which must (i) specify the Contract and the applicable price and quantity and (ii) be for immediate entry into the Cantor System.

**RULE 713 CFFE PROPRIETARY INFORMATION**

- (a) Definitions (as used in this Rule):
  - (1) the term "governing member" means a member of the Board of Directors or a member of any Committee of CFFE, NYBT or the Cotton Exchange;
  - (2) the terms "material" and "non-public information" shall have the same meanings as set forth in Commission Regulation 1.59(a), as from time to time amended;
  - (3) the term "CFFE Proprietary Information" shall mean information which is both material and non-public and which is learned by a governing member through participation on the Board of Directors or a Committee of CFFE, the Cotton Exchange or NYBT.

(b) Prohibition:

No governing member shall use or disclose, for any purpose other than the performance of such member's official duties as a member of the Board, or as a member of any Committee, CFFE Proprietary Information obtained as a result of such member's participation on any such Committee or Board.

**RULE 714 OPEN POSITION REPORT**

- (a) Clearing Members and Screen Based Traders carrying Contracts for the account of customers and clearing the same through a member of the Clearing Corporation shall report their internal gross open futures position in the maturing month to each Clearing Member three days prior to the first notice day. Subsequent changes in such position shall be reported as they occur.
- (b) The President may from time to time direct Clearing Members to supply such other information with respect to positions as he deems necessary to fulfill the purposes of this Rule and the market surveillance functions for CFFE.

**RULE 715 RESERVED**

**RULE 716 TRANSFER OF ACCOUNTS**

Upon written request from a customer of his intention to transfer his account(s) from one Clearing Member or Screen Based Trader to another, both the Clearing Members and/or Screen Based Traders shall expedite the transfer, provided that the transfer does not result in a change of ownership, in which case the transfer shall not be effected.

**RULE 717 PROMOTIONAL MATERIAL**

No Clearing Member or Screen Based Trader shall, directly or indirectly, publish or disseminate any promotional material that such Clearing Member or Screen Based Trader knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

**RULE 718 SALES COMMUNICATION**

No Clearing Member or Screen Based Trader or associated person of such Clearing Member or Screen Based Trader shall employ any fraudulent, misleading, or high-pressure sales communication, directly or indirectly, in the offer or sale of Contracts.

**RULE 719 BUSINESS DAYS**

Unless the Board determines otherwise, CFFE shall be open for business every day except Saturdays, Sundays and such holidays as may be prescribed by the Board.

**RULE 720 EXTENSION OR WAIVER OF RULES**

- (a) The time fixed by the Rules of CFFE for the doing of any act or acts may be extended, or the doing of any act or acts required by the Rules may be waived, by CFFE whenever, in its judgment, such extension or waiver is necessary or expedient.
- (b) A written report of any such extension or waiver (other than an extension of time of less than eight hours), stating the pertinent facts, the identity of the person or persons who authorized such extension or waiver, and the reason such extension or waiver was deemed necessary or expedient, shall be promptly made and filed with CFFE's records and shall be available for inspection by any Clearing Member or Screen Based Trader during regular business hours on business days. Any such extension or waiver may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than sixty calendar days after the date thereof unless it shall be approved by the Board of Directors within such period of sixty calendar days.

**RULE 721 EFFECT OF AMENDMENTS, REPEAL OR NEW RULE**

Upon the effective date, any amendment, repeal of a Rule, or any new Rule relating to Contracts shall be binding on all Contracts entered into before and after the effective date; provided, however, that if such amendment, repeal or new Rule affects the amount of money to be paid, or the quality of the commodity to be received, under any such Contracts, such amendment, repeal or new Rule shall be binding only on Contracts listed for trading on or after the effective date, and Contracts listed as of the effective date for which no open positions are then in existence, unless otherwise specifically provided by the Board.

**RULE 722 CFFE DEFENSE**

Any Clearing Member or Screen Based Trader who, after notice and opportunity for hearing, has been found to have violated any By-Law or Rule of CFFE, may in the discretion of the Supervisory Panel appointed in the matter, be required to pay to CFFE an amount equal to any and all expenses incurred by CFFE in connection with the prosecution of such violation, in addition to any penalty which may be imposed by virtue of the violations found by the Supervisory Panel.

**RULE 723 LIMITATION ON LIABILITY**

Except in instances where there has been a finding of willful or wanton misconduct, in which case the party found to have engaged in such conduct cannot avail itself of the protections in this Rule 723, neither CFFE, nor Cantor or Cantor Fitzgerald Securities, nor the Cotton Exchange or any of its affiliates or subsidiaries, nor NYBT, nor the Clearing Corporation, nor any Clearing Member or Screen Based Trader or any of their respective officers, directors or employees shall be liable to any person, including any customer of a Clearing Member or Screen Based Trader, for any losses, damages, costs or expenses (including, but not limited to, loss of profits, loss of use, direct, indirect, incidental or consequential damages), arising from (i) any failure or malfunction, including, but not limited to, any inability to enter or cancel orders, of the Cantor System or any CFFE services or facilities used to support the Cantor System, or (ii) any fault in delivery, delay, omission, suspension, inaccuracy or termination, or any other cause, in connection with the furnishing, performance, maintenance, use of, or inability to use, all or any part of the Cantor System or any CFFE services or facilities used to support the Cantor System. The foregoing shall apply regardless of whether a claim arises in contract, tort, negligence, strict liability or otherwise. The foregoing shall not limit the liability of any Clearing Member or Screen Based Trader or any person acting as an agent for a Clearing Member or Screen Based Trader in causing orders of others to be entered into the Cantor System or any of their respective officers, directors or employees for any act, incident or occurrence within their control.



There are no express or implied warranties or representations provided by CFFE, the Cotton Exchange or any of its affiliates or subsidiaries, NYBT or any Clearing Member or Screen Based Trader relating to the Cantor System or any CFFE services or facilities used to support the Cantor System, including, but not limited to, warranties of merchantability and warranties of fitness for a particular purpose or use.

Any dispute arising out of the use of the Cantor System or CFFE services or facilities used to support the Cantor System in which CFFE, the Cotton Exchange or any of its affiliates or subsidiaries, NYBT, any Clearing Member or Screen Based Trader or any of their respective officers, directors or employees is a party shall be construed and enforced in accordance with the laws of the State of New York. Any actions, suits or proceedings against any of the above shall be subject to binding arbitration in accordance with Rule 600.

Notwithstanding any of the foregoing provisions, this Rule 723 shall in no way limit the applicability of any provision of the Act or the Commission's regulations thereunder.

**RULE 724 TERMINAL OPERATORS - LIMITATION OF LIABILITY**

CFFE shall provide Terminal Operators to perform certain services for Clearing Members and Screen Based Traders with respect to CFFE. CFFE shall be liable when such employees negligently: (i) cancel or fail to cancel orders resting in the Cantor System; (ii) fail to enter an order into the Cantor System; (iii) enter an incorrect price or quantity for any order into the Cantor System; or (iv) issue passwords to unauthorized persons in violation of instructions by a Clearing Member or Screen Based Trader; provided, however, that, while any liability shall be determined based on the relevant facts and circumstances, in no event shall CFFE be liable for any act or failure to act of a type described in clauses (i) through (iii) if, in the event of an act, such act is corrected within 15 seconds or, in the event of a failure to act, such failure to act lasts for less than 15 seconds.

The liability of CFFE for the above shall be limited as follows:

- US\$10,000 for any single claim; and
- US\$100,000 for all claims arising out of the negligent actions or failures to act of all Terminal Operators on any single business day.

For purposes of the foregoing paragraph, a "Single Claim" shall mean a loss resulting from all actions or failures to act as described above that were performed negligently by all Terminal Operators with respect to a single order entered into the Cantor System for a single customer. Such claim may be brought by the Clearing Member or Screen Based Trader who (or whose customer) was damaged.

If the number of allowed claims arising out of the negligent actions or failures to act of all Terminal Operators on a single day cannot be fully satisfied because of the above limitations, all such claims shall be limited to a pro rata share of the maximum per day amount.

A claim against CFFE for the negligent actions or failures to act enumerated above of the Terminal Operators shall only be allowed if such claim is brought pursuant to, and in accordance with, this Rule 724.

#### **RULE 725 AUDIT TRAIL RECORDS**

- (a) In addition to the recording requirements set forth in Rule 316, CFFE, the Clearing Members and the Screen Based Traders are required to prepare, maintain and file with NYBT additional records to comply with the audit trail requirements of Commission Regulation 1.35.
- (b) Definitions:

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

- (1) Category of Trades and Customer Orders

- (A) Trades

- (i) Type 1 is a trade done by a Screen Based Trader or Clearing Member for his own account, an account which he controls or an account in which he has a financial interest.

(ii) Type 2 is a trade done for other house accounts or other proprietary account of the Screen Based Trader or Clearing Member which clears the trade as other than Type 1 or Type 3.

(iii) Type 3 is a trade done by a Screen Based Trader or Clearing Member for another individual Screen Based Trader or Clearing Member, both trading on CFFE, an account controlled by such other Screen Based Trader or Clearing Member or an account in which such other Screen Based Trader or Clearing Member has a financial interest.

(iv) Type 4 trades are all other trades done on CFFE.

(B) Orders

(i) Receipt of Orders. All orders for Types 2, 3, and 4 trades must be written by the Clearing Member or Screen Based Trader and contain:

(a) an account identification and, in the case of a transaction entered into by a Clearing Member or Screen Based Trader for a customer of such Clearing Member or Screen Based Trader, a customer identification ;

(b) an order number;

(c) date and time to nearest minute transmitted to the Clearing Member or Screen Based Trader for entry into the Cantor System;

(d) the terms of the order;

(ii) Execution of Orders

(a) The executing Clearing Member or Screen Based Trader must write the fill price on the order;

(b) The Clearing Member or Screen Based Trader that reports the execution off the Cantor System must time stamp the order so that it shows the date and time to the nearest minute that such report was made.

(iii) Entries on Orders

(a) All handwriting on orders must be done in non-erasable ink.

(b) A Clearing Member or Screen Based Trader may correct any errors on orders by:

(1) crossing out erroneous information without obliterating or otherwise making illegible any of the originally recorded information; and

(2) entering the correct information.

(c) COMPLIANCE WITH RULE

(1) Clearing Members and Screen Based Traders who fail to prepare, maintain and file records required by this Rule, shall be subject to Summary Action by CFFE and the Cotton Exchange.

(2) In the event that a violation of this Rule has been found by the Floor Committee or a Disciplinary Committee of the Cotton Exchange to involve the failure of a Clearing Member or Screen Based Trader to gather trade information required by this Rule or other Rules of CFFE, then, in addition to any other penalties imposed, that Committee may also require that the Clearing Member or Screen Based Trader cease transacting business on CFFE until it presents evidence satisfactory to the respective Committee that it has systems in place to assure compliance with this Rule.

(3) In addition to the record production requirements of this Rule, the Compliance Department of NYBT continues to have the power to require production of records at such time and place as it designates.

(4) In the event that a Clearing Member or Screen Based Trader violates this Rule by losing his records, the Clearing Member or Screen Based Trader must report that fact promptly to the Compliance Department of NYBT in writing.

(d) COTTON FLOOR COMMITTEE

Questions with respect to trade types and orders may be referred to the Cotton Floor Committee.