

**Cantor Futures Exchange  
New Contract Submission  
March 17, 2015**

1. The text of the terms and conditions of the CANTOR FUTURES EXCHANGE BRITISH POUND STERLING/US DOLLAR DIGITAL FLEX SWAPS CONTRACT (the “Contract”) and all related rules are attached.
2. The intended listing date is March 23, 2015
3. The certification of compliance with the Act and regulations thereunder is attached.
4. A certification that Cantor Futures Exchange that this submission was posted on the Cantor Futures Exchange, L.P. website the day of its submission to the Commission is attached.
5. Confidential Treatment is not requested.

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**CONCISE EXPLANATION AND ANALYSIS OF THE CONTRACT’S  
COMPLIANCE WITH APPLICABLE CORE PRINCIPLES AND COMMISSION  
REGULATIONS**

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission (“Commission”) rules thereunder Cantor Futures Exchange, L.P (“Cantor Exchange” or the “Exchange”) hereby notifies the Commission of the Exchange’s certification that it will list the Contract for trading. .

As set forth above, Cantor Exchange intends to list the Contract as of March 23, 2015.

The terms and conditions for the new contracts are contained in new Exchange rule IX-1020. Such new rule language including terms and conditions is provided in this submission as Appendix A.

The Exchange has received no opposing views regarding introduction of the Contract and respectfully submits the below narrative describing the contract, including data and information to support the Contract's terms and conditions, as set by the Exchange:

**Appendix C to Part 38—Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation**

**(4) Options on Physicals Contracts. (i) Under the Commission’s regulations, the term “option on physicals” refers to option contracts that do not provide for exercise into an underlying futures contract. Upon exercise, options on physicals can be settled via physical delivery of the underlying commodity or by a cash payment. Thus, options on physicals**

**raise many of the same issues associated with trading in futures contracts regarding adequacy of deliverable supplies or acceptability of the cash settlement price series. In this regard, an option that is cash settled based on the settlement price of a futures contract would be considered an “option on physicals” and the futures settlement price would be considered the cash price series.**

**(ii) In view of the above, acceptable practices for the terms and conditions of options on physicals contracts include, as appropriate, those practices set forth above for physical-delivery or cash-settled futures contracts plus the practices set forth for options on futures contracts.**

As required by Appendix C, the following analysis with respect to the Contracts, which consists of options on physicals, sets forth those relevant sections of Appendix C that pertain to cash-settled futures contracts and to options.

**(1) A narrative describing the contract, including data and information to support the contract's terms and conditions, as set by the designated contract market.**

The contract is based on the British pound sterling/US Dollar exchange rate. The cash settlement price is based on a price index determined by the Exchange (the “Index”). Contract Rule IX-1020(b) explains the Index calculation methodology in detail.

The Index price is derived from the latest eight spot bids and spot offers of independent third-party spot market participants. Cantor Exchange calculates the Index every half-second and broadcasts this value to market participants.

Cantor Exchange confirms that the Index remains representative of spot market value by continuously monitoring and comparing it with other widely accepted values for the British pound sterling/US dollar exchange rate provided by major quote vendor systems. As provided in Rule IX-1020(b) the calculated Index value will be replaced by the British pound sterling/US dollar rate provided by major quote vendors any time the Exchange determines that the Index is best represented by that rate, for example, if there were less than eight bids and offers received within an appropriate interval based on market conditions.

Contracts are listed for daily expiration, with an expiration the following day at 4:00pm. Participants may also request intra-day expirations by electronic means or by agreement with the Exchange

Final cash settlement of the Contract is digital in nature, such that if at the final settlement time the British Pound Sterling/US Dollar Index is above the strike price then each purchaser shall be paid one dollar; if at final settlement time the British Pound Sterling/US Dollar Index is below the strike price, then each seller shall be paid one dollar; if at final settlement time the British Pound Sterling/US Dollar Index is equal to the strike price, then each purchaser and each seller shall receive fifty cents. The

settlement obligation does not vary based upon the amplitude by which the price at expiration exceeds the strike price.

**2) A Detailed cash market description for physical and cash-settled contracts. Such descriptions should be based on government and/or other publicly-available data whenever possible and be formulated for both the national and regional/local market relevant to the underlying commodity.**

The contract is based upon a price Index that is calculated with reference to the relative value of a pair of currencies. Such trading is common. The foreign exchange market enjoys a large trading volume, has high liquidity, is geographically dispersed, and operates throughout the business day.

Contracts on foreign currency have been listed for many years on designated contract markets. Moreover, contracts on foreign currency have been recognized generally as not readily subject to manipulation because of the depth and transparency of the market. The Commission has recognized this by determining that foreign currency markets do not require speculative position limits. Congress, too, has recognized this distinction, classifying foreign currency as an “excluded commodity” under the Act.<sup>1</sup>

The following narrative, in chart format, details the particular contract terms and how they comply with Core Principle 3 and Commission Rule 38.200.

**(c) Futures Contracts Settled by Cash Settlement. (1) Cash settlement is a method of settling certain futures or option contracts whereby, at contract expiration, the contract is settled by cash payment in lieu of physical delivery of the commodity or instrument underlying the contract. An acceptable specification of the cash settlement price for commodity futures and option contracts would include rules that fully describe the essential economic characteristics of the underlying commodity (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, description of the underlying index and index's calculation methodology, etc.), as well as how the final settlement price is calculated. In addition, the rules should clearly specify the trading months and hours of trading, the last trading day, contract size, minimum price change (tick size) and any limitations on price movements (e.g., price limits or trading halts).**

Please see the narrative above which sets forth an explanation of the commodity underlying the Index and the calculation of the Index. The following chart sets forth each of the Contract’s terms and conditions with a narrative explanation of how the term or condition is consistent with cash market practice and Commission rules.

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<sup>1</sup> See Section 1a(19) of the Act.

Term or condition	Rule number of identical approved provision, if any <sup>1</sup>	Explanation as to consistency with, or reason for variance from, cash market practice
1. Commodity characteristics ( <i>e.g.</i> , grade, quality, weight, class, growth, issuer, maturity, source, rating, etc.)	IX-1020(b)	The commodities are foreign currency pairs of major financial center currencies. The British Pound Sterling/US Dollar Index is derived from dealable bids or offers of independent third-party spot market participants received by the Exchange which embodies the relationship between the applicable currencies.
2. Delivery months, noting any cyclical variations in trading activity that may affect the potential for manipulating the cash settlement price	IX-1020(d)	Contracts are settled to the British Pound Sterling/US Dollar Index which consists of at least 8 different bids and offers gathered from a wide array of spot market participants. Additionally, Cantor Exchange may use values obtained from outside market data providers in determining the settlement price. Therefore the settlement price will always be representative of the underlying British pound sterling/US dollar exchange rate.
3. Last trading day	IX-1020(d)	Each contract expires at or before 4PM New York time each trading day.
4. Contract size	IX-1020(e)	One dollar.
5. Minimum price change (tick)	IX-1020(f)(ii)	The minimum price change is \$0.01 and is designed to result in liquid trading with competitive bid/offer spreads.
6. Daily price limit provisions, relative to cash market price movements	IX-1020(f)(i)	Contracts may not trade above a price of one dollar, which is also the maximum cash settlement value of the Contract.

**2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement**

**price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity. The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.**

The Exchange has taken into account the characteristics of the spot currency market in determining the means by which it will calculate the Index value. As discussed above, the foreign currency spot markets are liquid, deep and relatively transparent. Cantor Exchange will calculate the Index using the Olympic average methodology. As set forth above, the British Pound Sterling/US Dollar Index will be calculated by the Exchange by continuously taking the last eight bid and the last eight offer spot quotations for each British pound sterling/US dollar exchange rate received by the Exchange, then removing the two highest bids and two highest offers and removing the two lowest bids and two lowest offers received by the Exchange from recognized distributors of currency price information or dealable quotations from independent third-party spot market participants, then taking the midpoint. The Exchange then compares its Index value against the values of other price feeds that track spot currency prices in order to ensure the accuracy of its Index.

Based on the above, the Exchange believes that the Index that it calculates will be a robust and reliable indicator of the value of spot currency and will provide an acceptable and widely accepted underlying for this Contract.

**(3) Where an independent, private-sector third party calculates the cash settlement price series, a designated contract market should consider the need for a licensing agreement that will ensure the designated contract market's rights to the use of the price series to settle the listed contract.**

Not applicable; the Index is calculated by Cantor Exchange.

**(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived**

**or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.**

Not applicable.

**(ii) Where a designated contract market itself generates the cash settlement price series, the designated contract market should establish calculation procedures that safeguard against potential attempts to artificially influence the price. For example, if the cash settlement price is derived by the designated contract market based on a survey of cash market sources, the designated contract market should maintain a list of such entities which all should be reputable sources with knowledge of the cash market. In addition, the sample of sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.**

The final settlement relies upon dealable price quotes that are continuously made available from institutional independent third party market participants. Dealable prices are superior to surveys because the quotes used represent levels at which parties are willing to enter into spot transactions. Furthermore, the rules provide for alternative calculation at the discretion of the Exchange in the event that dealable British pound sterling/US dollar spot quotes are unavailable due to market conditions.

**(iii) The cash-settlement calculation should involve computational procedures that eliminate or reduce the impact of potentially unrepresentative data.**

As noted above, the Exchange automatically discards the two highest and lowest bids and offers from the Index calculation. This methodology ensures that inadvertent or intentional attempts by any single market participant to influence the Index calculation will have no impact. Furthermore, the Exchange does not always use dealable quotes from the same providers, so it is impossible for any market participant to know if their quote is being used in the calculation of the Index.

**(iv) The cash settlement price should be an accurate and reliable indicator of prices in the underlying cash market. The cash settlement price also should be acceptable to commercial users of the commodity contract. The registered entity should fully document that the settlement price is accurate, reliable, highly regarded by industry/market agents, and fully reflects the economic and commercial conditions of the relevant designated contract market.**

The Index is calculated by reference to dealable quotes for spot market foreign currency transactions that are available to the Exchange. These quotes are being offered by numerous spot market participants that transact regularly and are active in the spot foreign currency market. Because the Exchange uses only dealable bids or offers, these quotes represent accurate values of the underlying spot commodity. The Exchange

confirms that its Index tracks other British pound sterling/US dollar spot market prices to ensure the reliability of the Index values.

**(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information that is appropriate for release to the public, available to the public when cash settlement is accomplished by the derivatives clearing organization. If the cash settlement price is based on cash prices that are obtained from non-public sources (e.g., cash market surveys conducted by the designated contract market or by third parties on behalf of the designated contract market), a designated contract market should make available to the public as soon as possible after a contract month's expiration the final cash settlement price as well as any other supporting information that is appropriate or feasible to make available to the public.**

As discussed above, the market for foreign currency trading is perhaps the most liquid and transparent in the world. Accordingly, the Index values will be readily comparable to pricing information on the value of spot currency that is widely disseminated by a number of reputable price reporters. In addition, the Exchange will disseminate the Index on a continuing basis to its members and to the public.

**(H) Speculative Limits: Specific rules and policies for speculative position limits are set forth in part 150 and/or part 151, as applicable, of the Commission's regulations.**

**(I) Reportable Levels: Refer to § 15.03 of the Commission's regulations.**

#### **Terms and Conditions Related to Speculative Limits.**

<b>Speculative limit</b>	<b>Standard</b>	<b>Level (exchange rule)</b>
1. Spot, single month, all months	Must be no greater than necessary to minimize the potential for manipulation or distortion of the contract's or the underlying commodity's price.	The Rules provide for a Position Accountability level of 10,000 contracts, all contracts combined, in the Contract. See CFTC Rule 150.5.
4. Reporting level	Equal to or less than levels specified in CFTC rule 15.03.	The exchange and clearing house have available complete information with respect to the positions of each participant, and therefore are able to report complete position information to a Swaps Data Repository as may be required by Commission Rule or to the Commission to the extent required.

5. Aggregation rule	Same as CFTC rule 150.5(g) or previously approved language.	Yes.
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**Conclusion**

As indicated by the above discussion and analysis, the cash price series for the Index is reliable, acceptable and timely and is not readily subject to manipulation. The Index will be calculated by Cantor Exchange based upon dealable bids and offers by third party market participants for spot currency transactions available to the Exchange. The data is collected in a highly automated manner and generally is recognized as reliable by cash market participants. In light of the depth and liquidity of the foreign currency spot market and the high transparency of spot market transactions, Cantor Exchange believes that the quotes upon which the Index is calculated are unlikely to be readily subject to manipulation.



CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE  
ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE  
40.2, 17 C.F.R. §40.2

I hereby certify that the BRITISH POUND STERLING/US DOLLAR DIGITAL FLEX  
SWAPS CONTRACT complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and  
regulations thereunder.



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By: Manavinder S. Bains  
Title: Counsel & Chief Regulatory Officer  
Dated: March 17, 2015

I hereby certify that a copy of this filing was posted on the Cantor Futures Exchange, L.P.  
website the day of its submission to the Commission.



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By: Manavinder S. Bains  
Title: Counsel & Chief Regulatory Officer  
Dated: March 17, 2015

**CANTOR FUTURES EXCHANGE, L.P.**  
**CHAPTER IX**  
**CONTRACTS**

**IX-1020      BRITISH POUND STERLING/US DOLLAR DIGITAL FLEX SWAPS  
CONTRACT**

**(a)      Scope and Underlying**

These Contract Rules will govern the trading on the Cantor Futures Exchange, L.P. (the “Exchange”) of the BRITISH POUND STERLING/US DOLLAR DIGITAL FLEX SWAPS CONTRACT (the “Contract”). Clearing of the Contract will be governed by the rules of the Cantor Clearinghouse, L.P. (the “Clearinghouse”). These Contract Rules are established pursuant to and constitute “Contract Rules” under Rule I-5 of the Rules of the Exchange and constitute “Contract Rules” Under Rule I-7 of the Rules of the Clearinghouse. Capitalized terms used, but not defined herein, have the meanings ascribed to them in the Rules of the Exchange or the Rules of the Clearinghouse, as applicable.

**(b)      Calculation of the Index**

The British Pound Sterling/US Dollar Index will be calculated by the Exchange continuously taking the last eight bid and the last eight offer spot quotations for each British pound sterling/US Dollar exchange rate received by the Exchange, then removing the two highest bids and two highest offers and removing the two lowest bids and two lowest offers received by the Exchange from recognized distributors of currency price information or dealable quotations from independent third-party spot market participants, then calculating the arithmetic mean of the remaining eight values and rounding to the fifth decimal place. Notwithstanding the above, the Exchange may determine the Index value, in its sole and absolute discretion, using the best available indicative spot British pound sterling/US Dollar prices available from recognized distributors of currency price information.

**(c)      Trading Hours for the Contract**

(i) Except as otherwise posted on the Exchange website, tradable contracts under the Contracts will be open for trading Sunday 6:30 PM ET until Friday 4:00 PM ET. No trading in these contracts shall occur between the hours of 4:00 PM ET and 6:30 PM ET on any Exchange Trading Day.

(ii) Abbreviated holiday trading schedules may apply and will be posted on the Exchange website.

**(d) First Time of Trading, Last Time of Trading for the Contract**

(i) Contracts shall be listed for trading for each Exchange Trading Day except as otherwise published on the Exchange website and shall begin trading at 6:30 PM ET and shall cease trading at 4:00 PM ET on that Exchange Trading Day.

(ii) Contracts may also be listed in response to requests received by the exchange from Participants. All such requests shall include the final settlement time and the strike price for the contract. Contracts become tradable immediately upon listing by the Cantor Direct System, and remain tradable until the final settlement time.

**(e) Final Settlement for the Contract**

(i) Each open position in tradable contracts under the Contract will be Cash Settled such that if at the final settlement time the British Pound Sterling/US Dollar Index is above the strike price then each purchaser shall be paid one dollar; if at final settlement time the British Pound Sterling/US Dollar Index is below the strike price, then each seller shall be paid one dollar; if at final settlement time the British Pound Sterling/US Dollar Index is equal to the strike price, then each purchaser and each seller shall receive fifty cents.

**(f) Price Limits and Minimum Increment for the Contract**

(i) There shall be no trading in tradable contracts under the Contract at a price of more than one dollar.

(ii) The minimum trading increment of each in tradable contracts under the Contract is one cent.

**(g) Contract Position Accountability Levels**

The position accountability level shall be 10,000 net short or net long per contracts combined in tradable contracts under the Contract.

**(h) Original Margin for the Contract**

(i) Original Margin shall be 100% of the at-risk amount for both buyers and sellers of tradable contracts under the Contract.

(ii) As required by Rule IX-1020(h)(i), buyers of Contracts shall post the purchase price as Original Margin; sellers of Contracts shall post one dollar minus the sale price as Original Margin.