



U.S. COMMODITY FUTURES TRADING COMMISSION

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DIVISION OF
TRADING & MARKETS

December 12, 1997

Mr. Michael R. Koblenz
Mound, Cotton & Wollan
One Battery Park Plaza
New York, New York 10004-1486

RE: Draft By-Laws and Rules of the Cantor
Financial Futures Exchange and the New York
Board of Clearing, Inc.

Dear Mr. Koblenz:

Enclosed please find a list of questions and issues that the Division of Trading and Markets ("Division") has identified in its informal review of the draft By-Laws and Rules of the Cantor Financial Futures Exchange ("CFFE") and the New York Board of Clearing, Inc. ("NYBOC"). This list does not preclude either the Division or the Commission from raising additional questions or issues upon review of the CFFE's and the NYBOC's formal submissions

If you have any questions concerning this matter, please contact me, David Van Wagner or Evan Davis at (202) 418-5490.

Very truly yours,



John C. Lawton
Associate Director

cc: Kenneth M. Raisler

Listed below are items concerning rules and procedures that are not addressed in the draft Cantor Financial Futures Exchange ("CFFE") and the New York Board of Clearing ("NYBOC") rules that you have forwarded to the Division. These items should be addressed in the CFFE's or NYBOC's respective submissions, either in rules or explanatory text.

1. The CFFE's draft does not include any rules implementing the trading standards of the Commission's Part 155 regulations. Does the CFFE plan to submit any such rules? If not, please explain why the CFFE believes that such rules are unnecessary.
2. The CFFE's proposed draft rules do not include any rules that address the committee service disqualification requirements of Regulation 1.63. The CFFE's submission should include provisions implementing Regulation 1.63.
3. The CFFE's proposed draft rules do not include any rules addressing the disciplinary committee composition requirements of Regulation 1.64(c). The CFFE's submission should include provisions implementing Regulation 1.64(c).
4. Will the CFFE have its own rules implementing the requirements of the Commission's Part 156 regulations? Will it adopt the New York Cotton Exchange's ("NYCE") broker association rules? Please explain.
5. The CFFE's draft proposed rules refer to various NYCE Consolidated Rules. The CFFE's submission should be coordinated with the NYCE's submission of these Consolidated Rules.

6. If any CFFE or NYBOC rules are derived from other rules previously approved by the Commission, the Commission's review of the CFFE's and NYBOC's respective submissions would be facilitated if the submission included references to any such previously-approved rules.
7. The CFFE's submission should include the terms and conditions of any proposed contract(s), including any contract-specific provisions such as position limits, clearing times, execution times, etc.
8. The CFFE's draft proposed rules refer to option contracts. If the CFFE does not intend to include option contracts in its designation application, all references to option contracts should be deleted from the proposed rules.
9. The CFFE's draft proposed rules include references to exchange for physicals ("EFP") transactions (e.g., Rule 18). If the CFFE plans to allow EFPs, it must have rules that explicitly permit such transactions and that establish applicable governing procedures. If the CFFE does not intend to allow EFPs, then it should delete all references to EFPs from its proposed rules.
10. The CFFE's submission should address the registration status of terminal operators and/or any supervisory CFFE personnel.
11. Would the planned merger of the NYCE and the Coffee Sugar & Cocoa Exchange have any impact on the operations of the CFFE and NYBOC? Please explain.

12. Would any trading arm affiliates or subsidiaries of the CFFE be able to conduct trading on the CFFE, either directly or through a NYCE member? If so, please explain any safeguards the CFFE would implement to ensure that such entities do not obtain material, non-public information regarding contracts traded on the Exchange.

13. The CFFE's draft proposed rules do not include a description of the CFFE's corporate form. Please explain the CFFE's corporate structure and describe what ownership relationship it will have with Cantor Fitzgerald, Cantor, LLC, and the NYCE.

Listed below are items concerning issues that are raised by the draft CFFE and NYBOC rules that you forwarded to the Division. These items should be addressed in the CFFE's or NYBOC's respective submissions, either in rules or explanatory text.

1. The numbering of certain CFFE draft proposed rule subsections appears inconsistent (See, e.g., Rules 36(d)(i) and 403(c)(1)). Please review the numbering of rule subsections and revise the subsections so that they are consistent throughout.
2. The CFFE's draft proposed Bylaw Section 1 is inconsistent with the requirements of Commission Regulation 1.64(b) in the following respects:
 - a. Bylaw Section 1 provides that two of the CFFE's twelve members of the Board of Directors ("Board") shall be public directors. This provision does not comply

with the requirement of Regulation 1.64(b)(1) that at least 20% of each governing board consist of public directors.

b. Under Bylaw Section 1, NYCE employees would be eligible to serve as public directors of the CFFE, which is inconsistent with public director qualification standards of Regulation 1.64(b)(1)(ii).

c. Regulation 1.64(b)(2) provides that at least ten percent of each contract market's governing board shall be persons representing "farmers, producers, merchants or exporters of principal commodities underlying a commodity futures or commodity option traded on the contract market." Bylaw Section 1 does not make any provision for such ten percent commercial interest representation on the CFFE's Board.

3. The CFFE's draft proposed Bylaw Section 10 provides that the type of CFFE terminal may vary among authorized traders. Please explain how the functions of the CFFE terminals might so vary.
4. The CFFE's draft proposed Bylaw Section 14 states that the Board has supervening powers over committees including NYCE committees that will manage certain CFFE regulatory and disciplinary functions.
 - a. Please explain the meaning of the term "supervening power" in this context.
 - b. Would the CFFE Board's retention of supervening power over NYCE committees lead to confusion over whether the CFFE Board of Directors or the

NYCE Board of Managers controlled such functions as the appointment of committee members? Please explain how both governing boards would exercise authority over NYCE committees.

5. The CFFE's draft proposed rules do not specify the form of the NYCE committees that will conduct CFFE business. Please explain whether each of these NYCE committees will include a subcommittee that is exclusively concerned with CFFE matters. Will it be necessary to revise any NYCE rules to reflect the additional CFFE-related responsibilities certain NYCE will have?
6. The CFFE's draft proposed Bylaw Section 14 states that each committee will have the power to make the "rules governing its own conduct and proceedings."
 - a. Under this provision, would CFFE committees be able to adopt the rules without approval from the Board of Directors? If yes, please explain the process by which such rules would be adopted.
 - b. Would such rules be submitted to the Commission for review pursuant to Section 5a(a)(12) of the Commodity Exchange Act ("Act")?
7. In some instances, the CFFE's draft proposed bylaws do not use consistent names for committees. For example, Bylaw Section 14 refers to the Committee on Margins, while Bylaw Section 23 refers to the Margin Committee. The CFFE's rules should refer to committees with consistent terms.

8. The CFFE's draft proposed Bylaw Section 15 lists the Executive Committee members as the President, ex-officio, the Chairman, the Vice-Chairman, and one other member of the Board. Please explain how this fourth member will be chosen.
9. The CFFE's draft proposed rules fail to use consistent terms to describe the New York Cotton Exchange. The rules alternatively refer to the "NYCE" and "Cotton." The CFFE's rules should employ a single consistent term to refer to the New York Cotton Exchange.
10. The CFFE's draft proposed Bylaw Section 26 designates the Committee on Recordkeeping as a standing committee of the CFFE. The Bylaws delegate most other regulatory and disciplinary functions to NYCE committees. Please explain why the functions of the Committee on Recordkeeping are not delegated to a NYCE committee.
11. The CFFE's draft proposed Bylaw Section 27(b) refers to an unnamed rule as the basis for determining the closing quotation for U.S. Treasury Securities. Please address this omission in the CFFE's submission.
12. The CFFE's draft proposed Bylaw Section 27(c) allows a meeting of the Futures Committee to be called without notice, and no quorum is necessary to make decisions. Since the actions of the members of the Futures Committee present at the meeting time are deemed the actions of the Committee, the chairman alone could decide to call a meeting without notice and to take action without any other members present. Please explain the need for potentially vesting these powers in a single person and what safeguards exist to prevent the abuse of these procedures.

13. The CFFE's draft proposed Bylaw Section 29 states that proposed new or amended Bylaws that involve "regulatory procedures of the Exchange" must be approved by the Board of Managers of the NYCE in addition to being approved by the CFFE's Board of Directors. Please explain the meaning of this term.
14. The CFFE's draft proposed Bylaw Sections 29 and 30 establish requirements for adopting revisions to the CFFE's bylaws and rules respectively. Please explain why these provisions provide for different levels of consultation with the NYCE's Board of Managers.
15. The CFFE's draft proposed Bylaw Section 30 provides that upon the adoption of CFFE rule changes, they shall be posted for ten days "upon the bulletin of the Exchange." Please explain how and where such rule changes would be posted. Upon the floor of the NYCE? Upon some sort of electronic bulletin board maintained by the CFFE or the NYCE?
16. The CFFE's draft proposed Bylaw Section 32 describes the procedures under which a fee "will be paid to the exchange" upon execution of an order. Which side to a transaction will pay this fee? The party that posted the bid or offer that was hit or lifted or the party that hit or lifted a posted bid or offer? Or, will both parties to a transaction pay such a fee?
17. The CFFE's draft proposed Bylaw Section 33 provides that the Executive Committee may extend the time for the payment of disciplinary fines "for good cause shown." Please explain what circumstances would constitute such good cause.
18. The CFFE's draft proposed Bylaw Section 33 provides that, if written application is made, the Executive Committee may "extend the day for payment of the fine." Does this phrase mean

that the Executive Committee can extend the time deadline on the day on which payment is due, or does it mean that the Executive Committee can extend the deadline by some number of days? Please explain.

19. The CFFE's draft proposed Rule 3 establishes a definition of persons who are "affiliated with" another individual or organization. Under this definition, would agents of an individual or organization be considered as "affiliated with" such an individual or organization? Please explain.

20. The CFFE's draft proposed Rule 4 establishes the definition of "authorized trader."

a. Please clarify what the registration status of these authorized traders would be.

b. Rule 4 defines authorized traders as persons who act with the "apparent authority" of a clearing member or screen based trader. Please explain the use of the phrase "apparent authority" in this context.

c. Rule 4 also refers to authorized traders as a computer that "directly transmits orders for contracts to the Cantor System." Please confirm that the CFFE does not plan to have such types of authorized traders upon the start of CFFE trading.

21. The CFFE's draft proposed rules contain two Rule 16s -- one defining "customer" and the other defining "emergency."

22. Under the CFFE's draft proposed Rule 28, the term "Rule of the Exchange" includes the Exchange's Certificate of Incorporation. Please include such Certificate in the CFFE's submission.
23. The CFFE's draft proposed Rule 29 addresses agreements between screen based traders and clearing members. Please include a sample of such an agreement in the Exchange's submission.
24. The CFFE's draft proposed Rule 29 defines a "Screen Based Trader" as any person who is a registered futures commission merchant ("FCM"), floor trader or floor broker of the NYCE. Could a non-person qualify as a screen based trader?
25. The CFFE's draft proposed Rule 30 refers to the Securities and Exchange Act of 1934 as the basis for the definition of "Self-Regulatory Organization." Is this reference correct?
26. The CFFE's draft proposed Rule 31 states that terminal operators can "take" and/or "accept" orders for contracts on the Exchange. Are these terms to be interpreted as synonymous, or do they describe two different actions? Please explain.
27. Please confirm that terminal operators will only take and/or accept orders submitted to them by authorized traders.
28. The CFFE's draft proposed Rule 31 describes terminal operators as employees or agents designated by Cantor. Who will terminal operators be employees or agents of – Cantor Fitzgerald; CFFE, LLC; or the CFFE?

29. Will the NYCE have any involvement in the authorization of terminal operators? Please explain what role the NYCE will have in selecting or removing terminal operators.
30. Please describe any qualification standards that a person would have to meet in order to be designated as a terminal operator. Will the CFFE conduct any background check to determine satisfaction of these standards? Please explain.
31. Subsections (a)(5) through (a)(8) of the CFFE's draft proposed Rule 35 appear to be mis-numbered.
32. The CFFE's draft proposed Rule 35(b) provides that all major disciplinary committees at the NYCE that have been delegated disciplinary authority concerning CFFE matters shall include at least one non-NYCE member. Consistent with Regulation 1.64, this provision also should require that such a person not be affiliated with the CFFE or any CFFE-affiliated entity. To avoid confusion, perhaps the Exchange could use Rule 35's "public member" definition instead of the draft proposed formulation.
33. The CFFE's draft proposed Rule 36(d)(i)(L) allows the CFFE to lift dual trading bans during emergencies. The CFFE should amend this provision to indicate that the Exchange may not lift a dual trading ban that has been imposed by the Commission.
34. The CFFE's draft proposed Rule 300 states that the CFFE "may, in its sole discretion" provide NYCE members with a direct telephone line to an Exchange terminal operator. Please describe the process that the CFFE will use to determine which NYCE members will receive such lines. Will the CFFE have the capacity to permit each NYCE member with a

CFFE terminal to have a direct phone line to a terminal operator? If not, please explain why not.

35. Under the CFFE's draft proposed Rule 300, is it possible that a NYCE member could have a direct phone line to a terminal operator, but not have a CFFE terminal? If so, would a terminal operator have any additional responsibilities in handling phone orders from NYCE members who did not have CFFE terminals? For instance, would a terminal operator have to inform such a member how much time remained in a pending clearing time or execution time period? Please explain what, if any, special responsibilities terminal operators would have in these situations.

36. Can CFFE terminals or direct phone lines to terminal operators be located anywhere other than at a NYCE member's booth on the floor of the NYCE? If so, please explain where else they may be located.

37. The CFFE's draft proposed Rule 300(c) gives the CFFE's Board and Executive Committee the authority to "close the Exchange or any contract market thereof, [if it would] serve to promote the best interests of the Exchange."

a. Please provide examples of the types of circumstances that could be the basis for such a closure decision.

b. Please explain how contracts would be cleared, settled and delivered upon during such an Exchange closure.

38. The CFFE's draft proposed Rule 301 defines a contract's "Close" as the final half-hour of trading each day. This proposed closing period is lengthier than most other contract market closing periods. Please explain the rationale for the length of the close for CFFE contracts.
39. The CFFE's draft proposed Rule 301(f) defines "Opening period" as the beginning of trading, either for a trading day or upon the reopening of trading.
- a. Please confirm that the Cantor system would not have an opening period of a defined length of time, but rather would simply have some fixed point in time when trading begins.
 - b. Would terminal operators be able to accept and enter orders into the system prior to the opening period which would be eligible for matching upon the open? If so, please describe any pre-opening, order-entry requirements.
40. The CFFE's draft proposed Rule 302(b)(6) allows clearing members to transfer contracts after the close of trading on the last trading day of any delivery month to rectify errors. The CFFE's submission should describe the types of errors that can be so resolved through transfers and what, if any, procedures the CFFE will use to monitor clearing member compliance with this requirement.
41. The CFFE's submission should include a list and description of the types of orders which may be accepted by clearing members or screen based traders for entry into the CFFE's trading system.

42. The CFFE's draft proposed Rule 303 describes the Cantor System's trade-matching algorithm. The CFFE's eventual submission should include a comprehensive explanation of this rule along with specific examples of how the algorithm would operate in a variety of trading situations.
43. The CFFE's draft proposed Rule 303(a) defines "Clearing Time" and "Execution Time" in connection with the Exchange's trade-matching procedures. Will the CFFE terminals provided to NYCE members pursuant to Rule 300 display clearing time or execution time periods? If so, how will this information be conveyed on the screen of such terminals? Will the screen indicate a countdown of the time left in a clearing time or execution time period? If not, would a NYCE member be able to ascertain such information by contacting a terminal operator or by any other means? Please explain.
44. The CFFE's draft proposed Rule 303(b)(i) states that the first best bid and offer available at any given time are accepted and posted on the Cantor System. If trader A's bid is so posted on the Cantor System and subsequently Trader B submits a better bid, is Trader's B's bid posted on the system and Trader A's bid removed? In this situation, is Trader's A bid still eligible to be matched or must Trader A re-enter his or her bid in order to be matched?
45. Under Rule 303(b)(i), bids or offers that are not the best bid or offer "are automatically cancelled or rejected by the Cantor System." If a terminal operator receives a bid or offer from a screen based trader or clearing member which does not improve upon the best bid or offer then posted on the system, will the terminal operator actually enter the bid or offer and wait for it to be rejected by the system, or will he or she simply inform the submitter that the

- bid or offer will be rejected and not enter the order? Please explain any discretion that a terminal operator will have with respect to the entry of orders into the Cantor System.
46. Under the CFFE's draft proposed Rule 303(b)(i), is there any difference between an order being "cancelled" or "rejected?" Please explain any difference between these two terms.
47. The CFFE's draft proposed Rule 303(b)(iii) addresses how offerors or bidders can join a first best bid or offer. Please explain at what point a joining party may begin to join a first best bid or offer -- before, during or after the clearing time.
48. The CFFE's draft proposed Rule 303(b)(v) states that the clearing time will end upon, among other events, a trader "passing" on his or her exclusive right to hit or lift the best bid or offer. Does this mean that terminal operators would have the ability to cancel a clearing time period upon such an instruction from a trader? If so, will the CFFE have any safeguards in place to prevent miscommunications or abuses in these situations? Please explain.
49. Under this same provision, a trader with the exclusive right to trade during a clearing time period may hit or lift a part of a best bid or offer. Upon such a partial hitting or lifting, does the clearing time automatically expire or does a terminal operator have the discretion to end the period upon the trader's instructions? Please explain.
50. The CFFE's draft proposed Rule 303(b)(vi) states that when there are multiple bids or offers at the same price they will be matched with a seller or buyer on a time-priority basis. Please include in the eventual submission specific examples of how this time-priority matching would occur.

51. Please explain how the Cantor System would handle a situation in which the first best bid and the first best offer are both at the same price. Would the system match the two orders? If so, please provide examples of how they would be matched. If not, please explain the rationale for not matching such orders.
52. Similarly, how would the Cantor System handle situations where the first best bid is higher than the pending first best offer? Would the system accept such a bid? If so, could the bid be matched with the pending first best offer? And, if they could be matched, how would the system assign a trade price?
53. The CFFE's draft proposed Rule 309(b) gives certain relief to clearing members and screen based traders who fail to execute orders when "market conditions of large volume and rapidly fluctuating prices exist." Please explain who will determine the existence of such market conditions and explain what, if any, objective factors will be considered when making such determinations.
54. The CFFE's draft proposed Rule 309 establishes procedures for resolving certain types of errors that occur in the handling of an order. The provision does not appear to address the issue of how to resolve errors due to unfilled orders. Please explain how such errors will be resolved at the CFFE.
55. Please explain how the CFFE will address trading errors that are attributable to terminal operators.

56. Please explain how straddle transactions, under draft proposed Rule 312, will be executed at the CFFE. Will a terminal operator enter separate orders for each leg of the transaction or will they enter a single straddle order? Please explain.
57. The CFFE's draft proposed Rule 312(b) permits inter-exchange transactions whereby spread or straddle transactions may be executed involving CFFE contracts and contracts at other exchanges.
- a. Does the CFFE plan to permit such transactions when it implements trading? If so, please explain what other exchanges and contracts would be involved.
 - b. Please describe the procedures that the Exchange will use to confirm that an inter-exchange transaction includes a position at another exchange.
58. The CFFE's draft proposed Rule 316(b) requires clearing members and screen based traders to write up an order ticket upon transmitting an order to a terminal operator. The provision appears to conflict with Commission Regulation 1.35(a-1) which requires that an order ticket be prepared immediately upon receipt of an order from a customer.
59. The CFFE's draft proposed Rule 401(a) requires that clearing members and screen based traders file certain financial statements with the Exchange in conformance with Commission Regulation 1.52. The CFFE also should submit similar Regulation 1.52 - conforming requirements for introducing broker members, if appropriate.
60. The CFFE's draft proposed Rule 403(e) provides a listing of the acceptable forms of initial margin. How will these different forms of margin each be valued--at par or market value?

Would there be any haircutting or special valuation requirements for any of these forms of margin?

61. In the CFFE's draft proposed Rule 705(e)(2)(B), the conjunctive "Clearing Member and Screen Based Trader" presumably should be stated in the disjunctive.
62. Please explain what, if any, deadline there is for filing an appeal from a decision to deny a position limit exemption under the CFFE's draft proposed Rule 706(d)? Is the customer expected to reduce his position during the pendency of such an appeal?
63. Please describe the process by which a customer must reduce his or her position upon the Exchange's final decision that the customer is not entitled to an exemption from a position limit. How much time would the customer have to reduce his or her position to an acceptable level?
64. The CFFE's draft proposed Rule 706(f) states that if a "more serious or systematic violation" of a position limit rule is alleged, then the Compliance Department must conduct a specific review culminating in an investigation report or a close-out report. Please explain what a "more serious or systematic violation" means in this context.
65. The CFFE's draft proposed Rule 712 prohibits certain types of information disclosure and trading by CFFE employees. Who will qualify as CFFE employees under this provision -- employees of the CFFE; the CFFE, LLC; the NYCE; and/or Cantor Fitzgerald? Please explain the scope of Rule 712 in this regard.

66. Under the CFFE's draft proposed Rules 712(c)(iii), Exchange employees who invest in a CFFE-sponsored saving or retirement plan are not deemed to be trading directly or indirectly in a commodity interest, even if the plan uses pooled funds to trade in commodity interests. Please confirm that CFFE employees would have no direct or indirect control over trades executed by any such plan.

67. The CFFE's draft proposed Rule 713 prohibits CFFE governing members from disclosing Exchange proprietary information. The provision defines governing members to include members of the CFFE's Board and committees. Does this rule apply to members of NYCE committees carrying out actions on behalf of the CFFE? If so, please clarify this point in the governing member definition and make any necessary revisions to the NYCE's rules.

68. The CFFE's draft proposed Rule 722 provides that in those instances where a clearing member or screen based trader is found to have violated an Exchange by-law or rule, the Supervisory Panel may, in its discretion, assess the respondent for the CFFE's costs in prosecuting the violation.

a. Please describe what factors the Supervisory Panel will consider in making such a decision.

b. Please describe how matters that are resolved by settlement agreements will be treated under this expense-shifting provision.

c. In the event of a dispute over the CFFE's expenses, will the Exchange be required to put on "proof" of its costs in a case? Please explain the process by which the amount of expenses will be determined.

69. The CFFE's draft proposed Rule 723, the Exchange's limitation of liability rule, lists the individuals and entities that are provided some degree of protection from liability. Did the Exchange intend to exclude NYCE members from the scope of this provision? If so, please explain why.
70. The CFFE's draft proposed Rule 724 apparently protects the CFFE from liability when terminal operators negligently fail to enter orders or enter incorrect orders. If this is correct, please explain the rationale for this approach.
71. The CFFE's draft proposed Rule 725(b)(1)(B)(i)(c) provides that clearing members and screen based traders must record on each order ticket the date and time to the nearest minute that an order is "transmitted to the Clearing Member or Screen Based Trader for entry into the Cantor System." Please confirm that this time is not the time when a clearing member or screen based trader transmits an order to a terminal operator, but is the time that a clearing member or screen based trader receives an order.
72. The CFFE's draft proposed Rule 725(b)(1)(B)(ii) states that upon the execution of an order, the executing clearing member or screen based trader must "cause" the fill price to be written on an order ticket and "cause" the order ticket to be time-stamped. Please explain why the word "cause" is used in this context. Is this approach used in order to permit someone other than the pertinent clearing member or screen based trader to fulfill this obligation?

73. The CFFE's draft proposed Rule 725(c)(2) states that a Member Responsibility Committee can find a clearing member or screen based trader in violation of Rule 725's order ticket requirements. The Member Responsibility Committee is not listed as one of the CFFE's committees under Bylaw Section 14.
74. The CFFE's draft proposed Rule 725(c)(4) includes trading cards among the records that a clearing member or screen based trader must retain. Please explain the function of trading cards in the CFFE's electronic trading system. If the Exchange intends to require clearing members and screen based traders to maintain trading cards, the CFFE's eventual submission must include additional rules concerning the collection of such cards.
75. NYBOC draft proposed Bylaw Section 13 does not specify how much each clearing member must contribute to the NYBOC guaranty fund. The NYBOC's submission should include these contribution levels.
76. Please provide a description of the NYBOC's level of capitalization, as well as any other financial safeguards the NYBOC will have in place to ensure its integrity as a clearing organization.
77. Could the Commodity Clearing Corporation, as the sole stockholder of the NYBOC, have any liability exposure for the conduct of the NYBOC? Please explain.
78. Please provide the Commission with a sample NYBOC--clearing member agreement.
79. The NYBOC's draft proposed rules do not include a description of the NYBOC's corporate form. Please explain the NYBOC's corporate structure and describe what ownership

relationship it will have with the Commodity Clearing Corporation, Cantor Fitzgerald, Cantor, LLC, and the NYCE.

80. The NYBOC's draft proposed Rule 9 requires clearing members to maintain certain levels of working capital. Working capital is defined as current assets less total liabilities. The Commission's Regulation 1.52 requires that SROs submit capital requirements that are the same as, or more stringent than, those contained in Commission Regulation 1.17(c). The submission should incorporate by reference the Commission's capital requirements.
81. The NYBOC's draft proposed Rule 10 allows margins to be deposited in an approved depository. If the funds are customer funds, they must be placed in segregation. The clearing organization should incorporate by reference the Commission's regulations for separately accounting for and segregating customer funds as set forth by Regulations 1.20 through 1.29.
82. The NYBOC's draft Rule 10-H(a)(1) requires that each clearing member file a financial statement within 45 days after the end of each of the first three fiscal quarters of such clearing member's fiscal year. Under Commission Regulation 1.10(b)(1)(i), a clearing member which is also an FCM is required to file its 1-FR no later than 17 business days after the date for which the report is made. The FCM is also required to file a fourth quarter report. The submission should incorporate the Commission's reporting requirements.
83. The NYBOC's draft Rule 10-H(c) requires notification within three business days after the event of a decline of adjusted net capital by 20% and all withdrawals of capital scheduled to take place within the next six months. The Commission's Regulation 1.12 requires that an

FCM provide notice within two business days of the event. The submission should incorporate the Commission's early warning requirements.

84. The NYBOC's draft Rule 10-I(c) refers to approval of subordinated borrowings by the Commission. The Commission has delegated this authority to designated self-regulatory organizations. The submission should remove this reference to the Commission.