

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

DESIGNATED CONTRACT MARKET REGISTRATION REQUIREMENTS	CANTOR EXCHANGE APPLICATION
Section 5(a) Applications – “A board of trade applying to the Commission for designation as a contract market shall submit an application to the Commission that includes any relevant materials and records the Commission may require consistent with the Act.”	See the Rulebook and other Appendices submitted with the Cantor Exchange’s application for contract market designation.
Sec. 5(b) Designation Criteria	See the Rulebook and other Appendices submitted with the Cantor Exchange’s application for contract market designation.
Criterion 1 – In General: “To be designated as a contract market, the board of trade shall demonstrate to the Commission that the board of trade meets the criteria specified in this subsection.”	
Criterion 2 – Prevention of Market Manipulation: “The board of trade shall have the capacity to prevent market manipulation through market surveillance, compliance, and enforcement practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.”	<p>The Cantor Exchange will conduct real-time monitoring of trading with assistance from and coordination with eSpeed Inc. and will be ultimately responsible for enforcing disciplinary rules designed to deter abuses. The Cantor Exchange has contracted <u>is in discussions to contract</u> with the National Futures Association (“NFA”) to perform certain of its market surveillance, compliance and enforcement functions as its designated regulatory service provider. <u>It is the intention of the Cantor Exchange that</u> NFA will provide the Cantor Exchange with market and trade practice surveillance and ongoing surveillance of the financial and operational status of Authorized Traders. The <u>It is the intention of the Cantor Exchange that the</u> Cantor Exchange’s Compliance Director will coordinate with the NFA to address market actions deemed inappropriate as a result of NFA’s ongoing market surveillance activities.</p> <p>Discipline and enforcement rules designed to deter abuses are contained in Chapter VII of the Rulebook.</p>

¹ Terms used but not defined herein have the meanings assigned to them in the Rulebook (see Appendix C-1). References to Appendices refer to those indexed documents submitted with the Cantor Exchange’s application for contract market designation.

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	<p>The Compliance Director, Disciplinary Panel and Appeals Panel will enforce compliance with the Rules in conjunction with the surveillance services <u>intended to be</u> provided by NFA. Under Rule VII-5, the Compliance Director will review investigation reports <u>(which the Cantor Exchange intends will be submitted to <him or her>the Compliance Director</u> by the NFA) and consult with the NFA on the initiation of disciplinary action. The Disciplinary Panel organized upon the recommendation of the Compliance Director will conduct disciplinary hearings and render a decision following each hearing pursuant to the procedures detailed in Chapter VII. Under Rule VII-17, the decisions of the Disciplinary Panel may be appealed before the Appeals Panel, consisting of an Independent Director sitting on the Board of Directors of the Cantor Exchange (or, if the Independent Director is ineligible, an individual meeting the requirements of an Independent Director who is appointed by the Compliance Director pursuant to Rule VII-17).</p>
<p>Criterion 3 – Fair and Equitable Trading: “The board of trade shall establish and enforce trading rules to ensure fair and equitable trading through the facilities of the contract market, and [sic] the capacity to detect, investigate, and discipline any person that violates the rules.”</p>	<p>The Cantor Exchange will establish and enforce trading rules to ensure fair and equitable trading. All Authorized Traders and Authorized Trader Representatives (collectively, “Participants”) will have equal access to the eSpeed System, including information regarding prices, bids and offers. Orders will be executed impartially by the eSpeed System in accordance with the principles set forth in Chapter IV of the Rulebook. Under Rule VI-15, pre-arranged trades that are not expressly permitted will be prohibited. The Rulebook also prohibits trading ahead of or against customer orders (Rules VI-11 and VI-12) and contains other rules to prevent trading-related abuses. <The> <u>It is the intention of the Cantor Exchange that the</u> NFA will maintain procedures to detect abuses such as wash trading, accommodation trades, trading ahead and other types of market manipulation or fraud.</p> <p>The Cantor Exchange will permit Exchange of Future for Physical and Block Trade transactions on the terms set forth in Rules IV-15 and IV-16, respectively.</p>

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<p>Criterion 4 – Trade Execution Facility: “The board of trade shall (A) establish and enforce rules defining, or specifications detailing, the manner of operation of the trade execution facility maintained by the board of trade, including rules or specifications describing the operation of any electronic matching platform; and (B) demonstrate that the trade execution facility operates in accordance with the rules or specifications.”</p>	<p>The Cantor Exchange will utilize the eSpeed System, the proprietary, trade-matching system developed by eSpeed, Inc., as its trade execution facility. The capabilities of the eSpeed System with respect to quotation, Order placement, cancellation and matching are detailed in Appendix D-1.</p> <p>Order entry procedures and acceptable Order types are described in Rules IV-3 and IV-4, respectively. Details regarding the trade-matching algorithm employed by the eSpeed System are set forth in Appendix D-1, which also contains certain information regarding the testing and review with respect to the eSpeed System.</p>
<p>Criterion 5 – Financial Integrity of Transactions: “The board of trade shall establish and enforce rules and procedures for ensuring the financial integrity of transactions entered into by or through the facilities of the contract market, including the clearance and settlement of the transactions with a derivatives clearing organization.”</p>	<p>Under Rules V-2 and V-3, Authorized Traders are required to comply with minimum financial and related recordkeeping requirements. In addition, the Cantor Exchange will have the authority to impose additional minimum financial requirements on Authorized Traders in accordance with Rule V-6. Separately, Rule V-5 reaffirms the obligations Authorized Traders have under CFTC regulations with respect to the treatment of Customer funds.</p> <p>The <u>It is the intention of the Cantor Exchange that the</u> NFA will maintain monitoring procedures to ensure compliance with minimum financial requirements.</p> <p>As provided in Rule III-4, all Authorized Traders must be Clearing Privilege Holders, or in the case of Class A Authorized Traders, have in place a financial guarantee by a Clearing Privilege Holder. If a Clearing Privilege Holder revokes its guarantee with respect to any Class A Authorized Trader, the Trading Privileges of that Class A Authorized Trader are automatically suspended (Rule III-7). Clearing Privilege Holders must be members of the Clearinghouse. The general financial and other eligibility criteria and default fund contribution obligations established by the Clearinghouse for its members will apply. Margin requirements for Class A Authorized Traders and Class B Authorized Traders, as the case may be, will be determined by the Cantor Exchange on a contract-by-contract basis (Rule</p>

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	<p>V-18).</p> <p>The Cantor Exchange and the Clearinghouse will work with each other to coordinate the margin requirements for Contracts. All clearing services with respect to Contracts will be provided by the Clearinghouse pursuant to a clearing services agreement with the Cantor Exchange (see Appendix G-1).</p>
<p>Criterion 6 – Disciplinary Procedures: “The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.”</p>	<p>In the case of rule violations, Authorized Traders and Authorized Trader Representatives will be subject to the Cantor Exchange’s disciplinary authority, which will be exercised in accordance with the procedures set forth in Chapter VII of the Rulebook. As described in response to <i>Criterion 2</i>, the Compliance Director of the Cantor Exchange, in conjunction with the NFA and a Disciplinary Panel organized at the recommendation of the Compliance Director, will administer disciplinary proceedings. The Disciplinary Panel will conduct hearings in connection with any disciplinary proceeding and has broad authority to impose sanctions it deems fitting under the circumstances. Rule VII-15 specifies that sanctions imposed by the Disciplinary Panel may include the termination or suspension of Trading Privileges, or the barring or suspension of association with an Authorized Trader. Rule III-7 authorizes the Cantor Exchange to revoke, suspend, limit, condition, restrict or qualify the Trading Privileges of any Authorized Trader if the Cantor Exchange finds such action to be in the best interests of the Cantor Exchange.</p>
<p>Criterion 7 – Public Access: “The board of trade shall provide the public with access to the rules, regulations, and contract specifications of the board of trade.”</p>	<p>The Rulebook, all amendments thereto and notices and policies thereunder, as well as the specifications for all Contracts from time to time traded on the Cantor Exchange, will be publicly available on the Cantor Exchange’s website.</p>
<p>Criterion 8 – Ability to Obtain Information: “The board of trade shall establish and enforce rules that will allow the board of trade to obtain any necessary information to perform any of the functions described in this subsection, including the capacity to carry out such international information-sharing agreements as the Commission may require.”</p>	<p>Pursuant to Rule V-1, Authorized Traders will be required to make their books and records available for inspection by, and deliver copies thereof to, the Cantor Exchange, NFA, CFTC, Department of Justice, and their respective authorized representatives, upon request. Rule VII-2 also provides that each Authorized Trader or other person under the Cantor Exchange’s jurisdiction is required to respond to</p>

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	interrogatories and furnish documentary materials and other information requested by the Cantor Exchange in connection with disciplinary investigations. Furthermore, Rule II-10 enables the Cantor Exchange to enter into such information-sharing arrangements as the Commission may require.
<p>Section 5(d) Core Principles</p> <p>Core Principle 1 – In General: “To maintain the designation as a contract market, the board of trade shall comply with the core principles specified in this subsection.”</p>	See the Appendices submitted with the Cantor Exchange’s application for contract market designation.
<p>Core Principle 2 – Compliance with Rules: “The board of trade shall monitor and enforce compliance with the rules of the contract market, including the terms and conditions of any contracts to be traded and any limitations on access to the contract market.”</p>	Rules regarding discipline and enforcement are set forth in Chapter VII of the Rulebook. The Cantor Exchange has delegated <u>is in discussions to delegate</u> certain of its monitoring and enforcement functions to the NFA, as its regulatory service provider. The <u>It is the intention of the Cantor Exchange that the</u> NFA will have the authority to investigate any potential rule violations and to submit investigation reports to the Cantor Exchange’s Compliance Director. As described in response to <i>Designation Criteria 2</i> , a Disciplinary Panel organized at the recommendation of the Compliance Director will conduct a hearing to make findings and impose sanctions. Appeals of any decisions by the Disciplinary Panel will be held before the Appeals Panel consisting of an Independent Director, sitting on the Board of Directors of the Cantor Exchange (or if the Independent Director is ineligible, an individual meeting the requirements of an Independent Director who is appointed by the Compliance Director pursuant Rule VII-17).
<p>Core Principle 3 – Contracts Not Readily Subject to Manipulation: “The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.”</p>	Trading on or through the Cantor Exchange will be limited to Futures or Options on Futures that are not readily susceptible to manipulation.
<p>Core Principle 4 – Monitoring of Trading: “The board of trade shall monitor trading to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process.”</p>	The Cantor Exchange and the NFA, as the Cantor Exchange’s <u>intended</u> regulatory services provider, will implement practices and procedures to monitor trading to prevent manipulation, price distortion and disruptions of the delivery or cash-settlement process. The Cantor Exchange will <u>intends to</u> coordinate

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	with the NFA to address market actions deemed inappropriate as a result of the NFA’s ongoing market surveillance activities.
<p>Core Principle 5 – Position Limitations or Accountability: “To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.”</p>	<p>Position limits and reportable position thresholds will be set by the Cantor Exchange (Rules IV-11 and IV-13), and will comply with the general criteria set forth in Appendix B to Part 38 of the Commission Regulations. Rule IV-11 regarding position limits contemplates exemptions for certain qualified hedge transactions, arbitrage transactions and spread transactions. Paragraph (e) of that Rule provides for aggregation (<i>i.e.</i>, all positions in accounts for which a particular Authorized Trader, by power of attorney or otherwise, directly or indirectly controls trading, are included in determining such Authorized Trader’s compliance with the applicable position limits), with paragraph (g) providing the applicable parameters for “control”. The It is the intention of the Cantor Exchange that the NFA will monitor compliance with the position limits and reportable position thresholds. Violations of such Rules will be sanctioned in accordance with Rule VII-15.</p>
<p>Core Principle 6 – Emergency Authority: “The board of trade shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, where necessary and appropriate, including the authority to—(A) liquidate or transfer open positions in any contract; (B) suspend or curtail trading in any contract; and (C) require market participants in any contract to meet special margin requirements.”</p>	<p>Procedures and guidelines for the exercise of emergency authority by the Cantor Exchange are set forth in Rule IV-19. Among other things, the Rule requires the Cantor Exchange to notify the Commission of any emergency action taken, or proposed to be taken, and to document its decision-making process and reasons for using its emergency action authority. Any conflicts of interest arising in connection with emergency actions will be addressed in accordance with the principles set forth in Rule II-9. The measures available to the Cantor Exchange in the case of an emergency include each of the items listed in Appendix B to Part 38 of the Commission Regulations.</p>
<p>Core Principle 7 – Availability of General Information: “The board of trade shall make available to market authorities, market participants, and the public information concerning—(A) the terms and conditions of the contracts of the contract market; and (B) the mechanisms for executing transactions on or through the facilities of the contract market.”</p>	<p>See the response to <i>Designation Criterion 7</i> above.</p>

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<p>Core Principle 8 – Daily Publication of Trading Information: “The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.”</p>	<p>The Cantor Exchange will publish information regarding settlement prices, volume, open interest and opening and closing ranges for actively traded Contracts on a timely basis on its website.</p>
<p>Core Principle 9 – Execution of Transactions: “The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions.”</p>	<p>As described in response to <i>Designation Criterion 3</i> and <i>4</i> above, Orders will be entered into the eSpeed System in accordance with the procedures set forth in Rules IV-3 and IV-4 and executed impartially in accordance with the principles set forth, and the procedures referred to, in Rule IV-6. The block trading procedures reflected in Rule IV-16 are designed to ensure that block trading will not compromise the integrity of prices or price discovery in the relevant market.</p>
<p>Core Principle 10 – Trade Information: “The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules of the contract market.”</p>	<p>The eSpeed System and related systems employed by the Cantor Exchange will record full data entry and trade details and safely store audit trail data. Rule IV-3 specifies Order entry and ticket procedures. Rule IV-10 sets forth the principles to be applied in the case of error in the handling of Orders after the relevant trade is completed.</p>
<p>Core Principle 11 – Financial Integrity of Contracts: “The Board of Trade shall establish and enforce rules providing for the financial integrity of any contracts traded on the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization), and rules to ensure the financial integrity of any futures commission merchants and introducing brokers and the protection of customer funds.”</p>	<p>See the response to <i>Designation Criterion 5</i> above.</p>
<p>Core Principle 12 – Protection of Market Participants: “The board of trade shall establish and enforce rules to protect market participants from abusive practices committed by any party acting as an agent for the participants.</p>	<p>As described in response to <i>Designation Criterion 3</i> above, the Rulebook prohibits trading ahead of or against customer orders (Rules VI-11 and VI-12); it also addresses potential abuses related to withholding, withdrawing or disclosing Orders (Rules VI-13 and VI-14, see also the Order handling procedures described in Rule IV-6) and contains a broad prohibition against fraudulent acts and market manipulation (Rule VI-2 and VI-5). Separately, the Rulebook prohibits any fraudulent or misleading communications relating to the purchase or sale of any</p>

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	Contract (Rule V-11) and establishes a due diligence standard with respect to the handling and execution of Customer Orders (Rule V-12). In addition, as described in response to <i>Designation Criterion 2</i> above, <u>it is the intention of the Cantor Exchange that</u> the NFA will provide surveillance practices and procedures to protect Authorized Traders and Authorized Trader Representatives.
Core Principle 13 – Dispute Resolution: “The board of trade shall establish and enforce rules regarding and provide facilities for alternative dispute resolution as appropriate for market participants and any market intermediaries.”	Chapter VIII of the Rulebook provides for the resolution of disputes involving Authorized Traders, or Authorized Traders and their Customers, through arbitration conducted by the NFA, <u>in its role as the Cantor Exchange’s regulatory services provider</u> , pursuant to the NFA’s Code of Arbitration or the NFA’s Member Arbitration Rules, as applicable. The Cantor Exchange believes that the NFA as an institution and the dispute resolution mechanisms administered by it satisfy the pertinent criteria set forth in Appendix B to Part 38 of the Commission Regulations.
Core Principle 14 – Governance Fitness Standards: “The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility (including any parties affiliated with any of the persons described in this paragraph).”	Rule II-5 of the Rulebook sets forth the eligibility criteria for persons serving as members of the Board, including the Independent Director, the Executive Committee and any other “disciplinary committee”, “arbitration panel” or “oversight panel” (all as defined in Commission Regulation § 1.63). A Person may qualify for Trading Privileges as a Class A Authorized Trader or a Class B Authorized Trader, as the case may be in accordance with the provisions of III-4.
Core Principle 15 – Conflicts of Interest: “The board of trade shall establish and enforce rules to minimize conflicts of interest in the decision making process of the contract market and establish a process for resolving such conflicts of interest.”	The Cantor Exchange’s methods to ascertain the presence of conflicts of interest and to make decisions in the event of such conflicts are described in Rule II-9. Limitations on the use or disclosure of material non-public information gained through the performance of official duties by Board of Directors or committee members or Exchange employees or agents are contained in Rule II-8.
Core Principle 16 – Composition of Boards of Mutually Owned Contract Markets: “In case of a mutually owned contract market, the board of trade shall ensure that the composition of the governing board reflects market participants.”	Not applicable.
Core Principle 17 – Recordkeeping: “The board of	The Cantor Exchange will maintain records of all

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trade shall maintain records of all activities related to the business of the contract market in a form and manner acceptable to the Commission for a period of 5 years.”	activities related to its business for a period of five years and in accordance with Commission Regulation § 1.31. Each Authorized Trader is obliged to maintain all requisite books and records for five years from the date such books and records were prepared (Rule V-1).
Core Principle 18 – Antitrust Considerations: “The board of trade shall endeavor to avoid—(A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or (B) imposing any material anticompetitive burden on trading on the contract market.”	The Cantor Exchange believes that its Rulebook and business plan have been designed to avoid unreasonable restraints of trade or the imposition of any material anticompetitive burden on trading. In particular, access to the Cantor Exchange will not require the acquisition of any equity interest but will be available to a broad range and potentially unlimited number of participants, on a fair, equitable and timely basis. The Cantor Exchange will operate through precise and predetermined electronic algorithms, without discrimination among different users or user groups. Trade information will be disseminated both to Authorized Traders and to the public on a continuous basis.