

**Media Derivatives, Inc. Application for Contract Market Designation
Regulatory Chart**

DESIGNATION CRITERIA	MEDIA DERIVATIVES APPLICATION
<p>Sec. 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.”</p>	<p>See the responses in this Regulatory Chart, the Rulebook and other appendices submitted with the Application.</p>
<p>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.”</p>	<p>The responses in this Regulatory Chart, the Rulebook and other materials submitted with the Application demonstrate that Media Derivatives Exchange, Inc. (“MDEX” or “Exchange”) meets the designation criteria to be approved as a designated contract market (“DCM”).</p> <p>As a DCM, MDEX plans to list contracts based on gross domestic box office revenues for major motion picture releases as well as other contracts related to the movie industry.</p> <p>MDEX will have sufficient financial resources, consistent with CFTC standards, to cover its operating costs for at least one year on a rolling basis, including unencumbered, liquid financial assets equal to at least six months’ operating costs on a rolling basis. See Financial Resources Analysis. See also MDEX’s audited financial statement for 2008 and unaudited financial statement for July 2009 month-end.</p>
<p>Designation 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>	<p>MDEX has rules prohibiting fictitious transactions, demoralization of the market and market manipulation and attempted market manipulation. See Rules 423, 424 and 425. MDEX also has various trade practice rules. See Rules 411 through 421.</p> <p>Trading on MDEX occurs electronically, on a proprietary trade execution system (“Trading System”). The Trading System creates and captures complete audit trail information with respect to submission, modification, cancellation and execution of all orders on the Trading System. See the discussion of audit trail functionality in the document entitled “CFTC Guidance for Compliance with Core Principles and Designation Criteria for Electronic Trading Systems.”</p> <p>MDEX has entered into a Regulatory Services Agreement (“RSA”) with the National Futures Association (“NFA”), pursuant to which NFA will conduct trade practice surveillance and market surveillance with respect to MDEX’s markets, conduct investigations of potential violations of MDEX rules and assist MDEX in bringing disciplinary actions with respect to suspected violations of MDEX rules.</p> <p>MDEX will have a Chief Regulatory Officer (“CRO”), who is responsible for overseeing MDEX’s regulatory program and for coordinating compliance and enforcement activities with NFA. The Media Derivatives, Inc. Regulatory Compliance Manual (“Compliance Manual”) describes the</p>

	<p>procedures for coordinating such activities with NFA.</p> <p>In addition, MDEX has procedures for real-time market supervision. As explained in Chapter 2 of the Compliance Manual, MDEX compliance staff will monitor trading on a daily basis, using real-time surveillance screens to detect potential market anomalies or trade practice violations. The Market Supervision Procedures provide more detail on functions that the Compliance Department’s Trading Operations and Market Supervision staff will perform.</p> <p>MDEX has rules setting out procedures governing disciplinary proceedings. See Chapter 6 of the Rulebook. See also the response to Designation Criterion 6.</p> <p>MDEX may take emergency action to address any occurrence or circumstance that threatens or may threaten the integrity of its markets, including manipulative activity or attempted manipulation. See Rule 426a) and definition of “Emergency” in Rule 101. See also Chapter 5 of the Compliance Manual.</p>
<p>Designation 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 the capacity to detect, investigate, and discipline any person that violates the rules.”</p>	<p>MDEX has rules governing access to the Trading System. Clearing Members are required to establish and maintain access to the Trading System either (i) through a web-based access application offered by MDEX, called the “<i>Exchange Front-end Access</i>” or (ii) through connections over leased lines, VPN connections or other acceptable means. See Rule 301(a). At launch, access will be limited to the Exchange Front-end Access. A Clearing Member may permit its customers to enter their orders over this means of access as “<i>Authorized Participants</i>.” See Rule 302.</p> <p>In the future, the Exchange will allow a Clearing Member to establish its own connections to the Trading System over leased lines, VPN connections or other acceptable means if it so chooses, and to authorize a customer to establish its own connection of this type as a “<i>Direct Market Access Participant</i>.” See Rule 303. A Clearing Member that has established such a connection may also authorize its customers to enter orders over an automated order routing that has been approved by the Exchange following conformance testing. See Rule 305.</p> <p>A Clearing Member, Authorized Participant or Direct Market Access Participant is required to register each individual who is authorized on its behalf and in its name to enter orders onto the Trading System as a Registered User. See Rule 304.</p> <p>A Clearing Member is a member of MDEX and customers of Clearing Members that are Authorized Participants or Direct Market Access Participants are considered direct market participants, as are Registered Users, in each case subject to the Exchange’s rules and self-regulatory jurisdiction. See Rule 601.</p> <p>Orders are executed impartially on the Trading System in accordance with price and time priority. See Rule 406.</p> <p>In addition, MDEX has trade practice rules to ensure fair and equitable trading on the Trading System. MDEX rules prohibit:</p>

	<ul style="list-style-type: none"> • Pre-arranged trades, subject to a limited exception for permissible pre-execution discussions (Rule 419); • Knowingly trading ahead of or opposite a customer order (Rules 414, 415 and 416); • Withholding orders from the market (Rule 417); • Disclosing a customer’s order (Rule 418); • Accepting simultaneous offsetting buy and sell orders from a customer (Rule 420); and • Fictitious transactions (Rule 423). <p>MDEX permits transfer trades when there is no change in ownership. See Rule 427.</p> <p>As described in the response to Designation Criterion 2, NFA conducts trade practice surveillance for MDEX. NFA will conduct trade practice surveillance on a T+1 basis, using end-of-day audit trail information that it will receive. In addition, MDEX Trading Operations and Market Surveillance staff will monitor trading on a daily basis, using real-time surveillance screens, to detect potential market anomalies or trade practice violations.</p> <p>MDEX, in coordination with NFA, will enforce compliance with the MDEX trade practice rules in accordance with the MDEX disciplinary procedure rules in Chapter 6 of the Rulebook. See also the Compliance Manual.</p>
<p>Designation 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 MDEX Board sets the trading hours for each contract. See Rule 402. Currently, it is planned that contracts will be listed for trading Monday through Friday from 8:30 am CST to 2:30 pm CST (subject to the last trading day requirements).</p> <p>The Trading System accepts limit orders, but not market orders. See Rule 407(a). Each order must include a time designation as a session order, a good-till-date order or a good-till-cancelled order. See Rule 407(b). A session order remains open on the Trading System throughout a trading session so long as it is unexecuted or uncancelled, subject to automatic cancellation when the Clearing Member’s login application is disconnected. See Rules 404(a) and 407(b)(i). A good-till-date order remains open on the Trading System so long as it is unexecuted or uncancelled, through the end of the trading session for the date specified on the order. See Rule 407(b)(ii). A good-till-cancelled order remains open on the Trading System, so long as it is unexecuted or uncancelled, through the end of the trading session on the last trading day for the applicable contract. See Rule 407(b)(iii).</p> <p>Prior to its execution, an active order may be cancelled or modified to reduce the quantity during a trading session, during the 15 minute period immediately following the close of one trading session, and during the 15 minute pre-opening period for the next trading session. See Rules 409, 404(b) and 403. Between trading sessions, new orders may only be entered during the 15 minute pre-opening period for the next trading session. See</p>

	<p>Rules 403 and 404(c).</p> <p>The Trading System provides a single opening price for each contract during the trading session based upon all orders entered prior to the designated opening time, provided, however that in the absence of such orders, the opening price will be the prior day’s settlement price. See Rule 403.</p> <p>The Trading System will not accept new orders or modification or cancellation of orders during a trading halt or suspension. See Rule 405. However, MDEX may treat the resumption of trading as the open of a trading session and may specify a pre-open period during which new orders may be entered or modified. See Rules 405 and 403.</p> <p>The Trading System is undergoing acceptance testing to confirm that the system operates in accordance with its specifications and the MDEX Rules. See also the document entitled “CFTC Guidance for Compliance with Core Principles and Designation Criteria for Electronic Trading Systems.”</p>
<p>Designation 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>MDEX has entered into a Clearing Services Agreement (“<i>CSA</i>”) with the Minneapolis Grain Exchange (“<i>Clearing House</i>”) to clear and settle transactions in MDEX contracts. The Clearing House is registered as a derivatives clearing organization (“<i>DCO</i>”) with the CFTC and is subject to the DCO core principles set out in CEA §5b.</p> <p>A person must be approved by MDEX as a Clearing Member to clear transactions in MDEX contracts. See Rule 801. To qualify as an MDEX Clearing Member, a person must be a clearing member in good standing in the Clearing House; be authorized by the Clearing House to clear and settle trades in MDEX contracts; and establish and maintain access to the Trading System through the Exchange Front-end Access or, when allowed in the future, by connection via leased lines or VPN connections or other acceptable means. <i>Id.</i> A Clearing Member of MDEX must also agree to abide by MDEX rules and applicable Clearing House regulations with respect to MDEX contracts. See Rules 801(a) and 802(c) and the draft Chapter 23 Regulations of the Clearing House.</p> <p>A Clearing Member that is a registered futures commission merchant (“<i>FCM</i>”) controls its customers’ access to the Trading System. A Clearing Member may permit its customers to transmit orders to the Clearing Member over the Exchange Front-end Access as an Authorized Participant. See Rule 302. In the future, a Clearing Member will also be able to authorize a customer to have a direct connection to the Trading System over a leased line, VPN connection or other acceptable means for such customer’s proprietary trading as a Direct Market Access Participant, and to permit customers to enter orders over an automated order routing system over the Clearing Member’s leased line or VPN connection (if it has elected to establish such a connection). See Rules 303 and 305.</p> <p>The Clearing Member guarantees the financial obligations of each of its customers. See Rules 306 and 802. It may also terminate an Authorized Participant’s or Direct Market Access Participant’s access at any time, by taking prescribed steps. See Rules 302(c) and 303(c).</p> <p>A Clearing Member is responsible for conducting due diligence on its</p>

customers, including any customer for which it authorizes access as an Authorized Participant or Direct Market Access Participant. A Clearing Member will conduct an appropriate level of due diligence and screening of its customers, because it is financially liable for all trades of each Authorized Participant or Direct Market Access Participant it authorizes.

A Clearing Member is responsible for supervising the use by its Customers of the Exchange Front-end Access or an automated order routing system, in accordance with the NFA Interpretive Notice under NFA Compliance Rule 2-9 on Supervision of User of Automated Order Routing Systems. See Rule 306. MDEX has incorporated the relevant standards from such notice into Rule 306, including the provisions with respect to the use of pre- or post-execution controls.

The Clearing House plans to adopt a separate chapter of regulations specific to clearing and settlement of MDEX contracts. See the draft Chapter 23 Clearing House Regulations (which the Clearing House will formally submit to the CFTC).

The Clearing House establishes Clearing Member margin requirements with respect to MDEX contracts. See Rule 802(b).

The Clearing House, in consultation with the MDEX, will establish customer margin requirements for MDEX contracts, subject to the MDEX Board's authority to increase such margin levels for any contract. See Rule 902(a).

The Clearing House and MDEX have jointly developed Settlement and Expiration Settlement Valuation Procedures and a Margin Model, which are included in the DCM application materials for reference.

MDEX also imposes various requirements with respect to a Clearing Member's customer margin obligations to assure integrity of the customer margining process. See Rule 902(b) through (g).

Under the CSA, MDEX will provide the Clearing House with cash or U.S. Treasury securities in the amount of \$150,000, which would be available to the Clearing House in the event of, and in connection with, a Clearing Member default on MDEX contracts. See Section 3.02(e)(ii) of the CSA. This pledged amount will be increased by at least \$0.10 per cleared MDEX contract side, up to \$5,000,000. *Id.*

MDEX has the authority to impose conditions or restrictions, or take other action, when an FCM Clearing Member is subject to the early warning requirements in CFTC Rule 1.12. See Rule 505. MDEX would coordinate with the Clearing House, which has separate authority to take action over its clearing members.

A violation of CFTC net capital or customer funds segregation requirements by an FCM Clearing Member constitutes an MDEX rule violation. See Rules 504 and 506.

MDEX intends to join the Joint Audit Committee comprised of financial surveillance and audit staff of the NFA and various DCMs to enhance its monitoring of the financial compliance of its Clearing Members. In

	<p>addition, following its designation as a contract market, MDEX also intends to become a signatory to the International Information Sharing Memorandum of Understanding and Agreement (“<i>Boca Declaration</i>”) executed by the initial signatories as of March 15, 1996.</p>
<p>Designation 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>As explained in the response to Designation Criterion 2, NFA will conduct trade practice surveillance and market surveillance, conduct investigations of potential violations of MDEX rules and assist MDEX in bringing disciplinary actions with respect to suspected violations of MDEX rules.</p> <p>The CRO will oversee MDEX’s regulatory program and coordinate compliance and enforcement activities with NFA. The CRO reports to the Regulatory Oversight Committee, which is authorized to oversee MDEX’s regulatory program, as more fully described in the response to Core Principle 15.</p> <p>Chapter 6 of the Rulebook sets out disciplinary procedures for enforcing compliance with MDEX rules. MDEX has the authority to take disciplinary action against any Clearing Member, Authorized Participant, Direct Market Access Participant or Registered User of the foregoing. See Rule 601. MDEX will coordinate with the Clearing House with respect to a disciplinary matter involving a Clearing Member. See Chapter 6 of the Compliance Manual.</p> <p>The MDEX Chapter 6 Rules incorporate by reference the disciplinary procedures set out in NFA Compliance Rules 3-2 through 3-13, subject to modifications to refer to MDEX’s disciplinary bodies, CRO and rules. See Rules 602 and 605.</p> <p>The MDEX Business Conduct Committee is responsible for reviewing investigative reports and authorized to initiate disciplinary action. See Rules 206 and 605(c) and NFA Compliance Rules 3-2 through 3-4. The MDEX Hearing Committee is authorized to adjudicate disciplinary charges. See Rules 207 and 605(d) and NFA Compliance Rules 3-5 through 3-10. A decision by the Hearing Committee may be appealed to the MDEX Board. See Rule 605(e) and NFA Compliance Rule 3-13. A disciplinary proceeding may be settled upon acceptance of a settlement offer by the Business Conduct Committee, Hearing Committee or Board, as applicable based on the stage of the proceeding. See Rule 605(c) through (e) and NFA Compliance Rule 3-11. Rule 603 sets out the range of penalties that may be imposed.</p> <p>Rule 604 sets out the authority and procedures pursuant to which MDEX’s President, with the concurrence of the Board, may summarily suspend access to the Trading System by a Clearing Member, Authorized Participant or Direct Market Access Participant, or take other remedial action against such person, when necessary to protect MDEX or its market users. This authority to take summary action is in addition to MDEX’s emergency authority, described in the response to Core Principle 6.</p> <p>A Clearing Member, Authorized Participant, Direct Market Access Participant or Registered User continues to be subject to MDEX’s disciplinary jurisdiction after such person ceases to have that status, for a period of at least 180 calendar days. See Rule 308.</p>

<p>Designation 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>MDEX will publish its Rulebook and contract specifications on its website. MDEX will also publish any advisories, interpretations or policies that it may adopt from time to time on its website.</p>
<p>Designation 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>Clearing Members, Authorized Participants, Direct Market Access Participants and their Registered Users are required to cooperate in any investigation or inquiry undertaken by MDEX or by NFA as its authorized representative. See Rule 512.</p> <p>As explained above in the response to Designation Criterion 5, following its designation as a contract market, MDEX intends to become a signatory to the Boca Declaration. Numerous futures exchanges and clearinghouses located around the world are parties to this information sharing agreement. Information with respect to Clearing Members may also be shared with other signatories to the Boca Declaration by the Clearing House, which is also a party.</p> <p>As explained above in the response to Designation Criterion 5, following its designation as a contract market, MDEX also intends to become a member of the Joint Audit Committee, which should facilitate its ability to obtain financial compliance information from the other members of the Joint Audit Committee.</p>
<p>CORE PRINCIPLES</p>	<p>PROPOSAL AND COMMENT</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 the subsection.”</p>	<p>The responses in this Regulatory Chart, the Rulebook and other materials submitted with the Application demonstrate that MDEX meets the DCM core principles.</p>
<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>	<p>See the responses to Designation Criteria 2, 3 and 6.</p>
<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>	<p>MDEX will only list contracts that are not readily susceptible to manipulation. MDEX intends to submit the terms and conditions for the contracts it intends to list initially (Motion Picture Revenue Contracts in the form of Binary Option Contracts and Collared Futures Contracts) to the CFTC for review and approval before listing such contracts, to assure that such contracts meet applicable Designation Criteria and Core Principles.</p>
<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>	<p>As explained in the response to Designation Criteria 2 and 3, MDEX has rules prohibiting fictitious transactions, demoralization of the market and market manipulation or attempted market manipulation, various trade practice rules, and procedures to monitor trading to prevent manipulation and price distortion.</p>

<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>MDEX will establish position accountability levels, position limits or a combination of the two for each of its contracts. See Rule 903.</p> <p>For contracts where MDEX establishes accountability levels, if a person holds or controls positions in the contracts above the accountability level, MDEX may require that person to provide information regarding the nature of the position, trading strategy and hedging information, as applicable. See Rule 904(a). MDEX may also instruct the person not to increase its position or to limit the size of its position. See Rule 904(b). In addition, positions must be established and liquidated in an orderly manner. See Rule 904(c).</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>MDEX may take emergency action to address any occurrence or circumstance that threatens or may threaten the integrity of its markets. See Rule 426(a) and definition of “Emergency” in Rule 101. MDEX has the authority to take a range of emergency actions, as set out in Rule 426(a), including limiting trading to liquidation only and ordering liquidation or transfer of open positions.</p> <p>MDEX also has the authority to take emergency action in the event of a physical emergency, such as to suspend or delay the open of trading. See Rule 426(b).</p> <p>MDEX will notify the CFTC of any emergency action it takes, whether to address a physical or non-physical emergency. See Chapter 5 of the Compliance Manual. Pursuant to Rule 426(c), it will also post notice of any emergency action on its website when feasible.¹</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>MDEX will publish its Rulebook and specifications for each contract it lists for trading on its website. The Rulebook includes rules that describe the mechanisms for executing transactions on the Trading System. See Rules 401 through 409. MDEX will include the terms and conditions for the contracts it lists in its Rulebook.</p>
<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>MDEX intends to publish on its website, on a daily basis, information on settlement prices, volume, open interest, and opening and closing ranges for all contracts it lists.</p>

¹ This represents a change to the proposed language for new Rule 426(c) described in response to question #15 under “Office of General Counsel Questions” in the paper “Responses to CFTC Questions Regarding Informal Submission of DCM Application,” dated August 17, 2009.

<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>Trading occurs on the Trading System, which provides an efficient mechanism for executing transactions. Orders are executed impartially in accordance with the Trading System execution algorithm based on price and time priority. See Rule 406.</p> <p>MDEX has adopted trade practice rules designed to provide a competitive, open and efficient market for executing transactions. MDEX has rules that prohibit:</p> <ul style="list-style-type: none"> • Pre-arranged trades, subject to a limited exception for permissible pre-execution discussions (Rule 419); • Knowingly trading ahead of or opposite a customer order (Rules 414, 415 and 416); • Withholding orders from the market (Rule 417); • Disclosing a customer’s order (Rule 418); • Accepting simultaneous offsetting buy and sell orders from a customer (Rule 420); and • Fictitious transactions (Rule 423). <p>See also responses to Designation Criteria 3 and 4.</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>Clearing Members, Authorized Participants and Direct Market Access Participants are required to input for each order they enter onto the Trading System the order type, underlying commodity or interest, contract month and year, price, quantity, account designation, CTI Code, clearing origin and, for binary option contracts, strike value. See Rule 408(a). Orders are also electronically dated and time stamped when received and executed. See Rule 408(b). When a Clearing Member receives a customer order other than by transmission by telephone, if it cannot enter the order immediately onto the Trading System it must prepare a written record of the order, including the account designation and date and time of receipt. See Rule 408(c).</p> <p>The Trading System creates and captures audit trail information with respect to submission, modification, cancellation and execution of all orders on the Trading System. See the discussion of audit trail functionality in the document entitled “CFTC Guidance for Compliance with Core Principles and Designation Criteria for Electronic Trading Systems.” See also the response to question #9 under “Market Compliance Questions for Media Derivative” in the paper “Responses to CFTC Questions Regarding Informal Submission of DCM Application,” dated August 17, 2009.</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 Designation Criterion 5.</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>MDEX has and will enforce rules to protect market users against abusive practices by any Clearing Member acting as its agent. In addition to the rules listed in the response to Core Principle 9, MDEX rules prohibit:</p> <ul style="list-style-type: none"> • Making fraudulent or misleading statements in connection with the purchase or sale of MDEX contracts (Rule 510); and • Engaging in fraud, dishonorable or dishonest conduct or conduct inconsistent with just and equitable principles of trade (Rule 511). <p>MDEX also has other business conduct rules for Clearing Members that generally serve to protect customers. See Rules 501 (CFTC Registration), 502 (Books and Records), 503 (Audit and Financial Filings), 504 (Minimum Financial and Related Reporting Requirements for Commission Registrants), 506 (Treatment of Customer Funds), 507 (Supervision), 508 (Confirmations) and 509 (Customer Statements).</p> <p>In addition, MDEX Rule 514 requires Clearing Members, Authorized Participants, Direct Market Access Participants and Registered Users to comply with applicable provisions of the CEA and CFTC Rules.</p> <p>Although not directed to abusive practices, Rule 410 is also relevant in that it prescribes the action a Clearing Member must take when it discovers an error in the handling of a customer order.</p>
<p>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.”</p>	<p>Pursuant to the RSA, NFA will administer the MDEX arbitration program. MDEX will appoint an Arbitration Committee from time to time to hear arbitration claims within the scope of MDEX’s Chapter 7 Arbitration Rules.</p> <p>MDEX arbitration is available for claims against a Clearing Member, Authorized Participant, Direct Market Access Participant or their Registered Users brought by a customer. See Rule 702. MDEX has adopted by reference most provisions of the NFA Code of Arbitration with respect to such claims, subject to modifications to refer to MDEX’s Arbitration Committee and President, and to define “Member” as used in the NFA Code of Arbitration to mean Clearing Members, Authorized Participants, Direct Market Access Participants and their Registered Users. See Rules 702(b) and 704.</p> <p>MDEX arbitration is also available for claims between or among Clearing Members, Authorized Participants, Direct Market Access Participants and Registered Users. See Rule 703. MDEX has adopted by reference most provisions of the NFA Member Arbitration Rules with respect to such claims, subject to modifications to refer to MDEX’s Arbitration Committee and President, and to define “Member” as used in the NFA Member</p>

	<p>Arbitration Rules to mean Clearing Members, Authorized Participants, Direct Market Access Participants and their Registered Users. See Rules 703(b) and 704.</p> <p>A Clearing Member, Authorized Participant, Direct Market Access Participant or Registered User continues to be subject to MDEX jurisdiction with respect to arbitration after such person ceases to have that status, for a period of at least 180 calendar days. See Rule 308.</p>
<p>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).”</p>	<p>No one may serve on the MDEX Board of Directors if such person (i) is subject to an action or proceeding that would constitute a basis for refusal to register such person under CEA §8a(2); (ii) would be subject to disqualification under CFTC Rule 1.63; or (iii) is suspended from serving on a board under any federal law. See the First Amended and Restated Bylaws of Media Derivatives, Inc. (“<i>Bylaws</i>”),² Article II, Section 2.3(d). The same qualification standards also apply to the Regulatory Oversight Committee, because it is comprised solely of one or more Board members each of whom will be a “public director” within the meaning prescribed by the CFTC in its guidance on Core Principle 15. See Rule 204(b).</p>
<p>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.”</p>	<p>The MDEX Board of Directors will be comprised of 11 members, four of whom will be public directors as defined in the CFTC’s guidance on Core Principle 15. See Rule 201(a) and Bylaws, Article II, Sections 2.2 and 2.3(c).</p> <p>MDEX will have a Regulatory Oversight Committee comprised of one or more members each of whom is a public director. See Rule 204(b). The Regulatory Oversight Committee is responsible for monitoring the sufficiency, effectiveness and independence of MDEX’s regulatory program; overseeing the regulatory program and conduct of investigations; and reviewing MDEX’s regulatory budget and resources, including the number, hiring, termination and compensation of MDEX regulatory personnel. See Rule 205(a) through (c). The Regulatory Oversight Committee is also responsible for supervising the CRO, who reports directly to the Committee. See Rule 205(d). The Regulatory Oversight Committee will prepare an annual report assessing MDEX’s self-regulatory program for the Board and the CFTC; may recommend changes that would ensure fair, vigorous and effective regulation; and will review regulatory proposals and advise the Board as to whether and how such changes may impact regulation. See Rule 205(e) through (g).</p> <p>No member of the Board, the Business Conduct Committee, the Hearing Committee or any other MDEX deliberative body may take part in any deliberation or vote on any matter in which the named party in interest is such member, such member’s employer or employee, or any other person that has a business, employment, or family relationship with such member that warrants his abstention. See Rule 212. The procedures set out in Rule 212 for determining whether such a conflict of interest may exist are</p>

² MDEX was originally formed under the name “Motion Picture Trading, Inc.” and is currently operating under the “Bylaws of Motion Picture Trading, Inc.,” adopted April 12, 2007. Veriana Networks, Inc., which is the parent of MDEX, plans to adopt the “First Amended and Restated Bylaws of Media Derivatives, Inc.” prior to MDEX’s commencement of operations as a designated contract market.

	<p>consistent with CFTC Rule 1.69.</p> <p>Article II, Section 2.13 of the Bylaws provides further grounds for excusing an interested director from consideration of a matter, consistent with the Delaware General Corporate Law.</p>
<p>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.”</p>	<p>Not applicable. MDEX is not a mutually owned contract market.</p>
<p>Core Principle 17 – Recordkeeping: “The board of 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.”</p>	<p>MDEX will maintain records of all activities related to its business for a period of five years and in accordance with Commission Regulation 1.31.</p>
<p>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.”</p>	<p>MDEX has designed its rules to avoid unreasonable restraints of trade or the imposition of any material anti-competitive burden on trading.</p>

	<p>(Minimum Financial and Related Reporting Requirements for Commission Registrants), 506 (Treatment of Customer Funds), 507 (Supervision), 508 (Confirmations) and 509 (Customer Statements).</p> <p>In addition, MDEX Rule 514 requires Clearing Members, Authorized Participants, Direct Market Access Participants and Registered Users to comply with applicable provisions of the CEA and CFTC Rules.</p> <p>Although not directed to abusive practices, Rule 410 is also relevant in that it prescribes the action a Clearing Member must take when it discovers an error in the handling of a customer order.</p>
<p>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.”</p>	<p>Pursuant to the RSA, NFA will administer the MDEX arbitration program. MDEX will appoint an Arbitration Committee from time to time to hear arbitration claims within the scope of MDEX’s Chapter 7 Arbitration Rules.</p> <p>MDEX arbitration is available for claims against a Clearing Member, Authorized Participant, Direct Market Access Participant or their Registered Users brought by a customer. See Rule 702. MDEX has adopted by reference most provisions of the NFA Code of Arbitration with respect to such claims, subject to modifications to refer to MDEX’s Arbitration Committee and President, and to define “Member” as used in the NFA Code of Arbitration to mean Clearing Members, Authorized Participants, Direct Market Access Participants and their Registered Users. See Rules 702(b) and 704.</p> <p>MDEX arbitration is also available for claims between or among Clearing Members, Authorized Participants, Direct Market Access Participants and Registered Users. See Rule 703. MDEX has adopted by reference most provisions of the NFA Member Arbitration Rules with respect to such claims, subject to modifications to refer to MDEX’s Arbitration Committee and President, and to define “Member” as used in the NFA Member Arbitration Rules to mean Clearing Members, Authorized Participants, Direct Market Access Participants and their Registered Users. See Rules 703(b) and 704.</p> <p>A Clearing Member, Authorized Participant, Direct Market Access Participant or Registered User continues to be subject to MDEX jurisdiction with respect to arbitration after such person ceases to have that status, for a period of at least 180 calendar days. See Rule 308.</p>

<p>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).”</p>	<p>No one may serve on the MDEX Board of Directors if such person (i) is subject to an action or proceeding that would constitute a basis for refusal to register such person under CEA §8a(2); (ii) would be subject to disqualification under CFTC Rule 1.63; or (iii) is suspended from serving on a board under any federal law. See the First Amended and Restated Bylaws of Media Derivatives, Inc. (“<i>Bylaws</i>”),² Article II, Section 2.3(d). The same qualification standards also apply to the Regulatory Oversight Committee, because it is comprised solely of one or more Board members each of whom will be a “public director” within the meaning prescribed by the CFTC in its guidance on Core Principle 15. See Rule 204(b).</p>
<p>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.”</p>	<p>The MDEX Board of Directors will be comprised of 11 members, four of whom will be public directors as defined in the CFTC’s guidance on Core Principle 15. See Rule 201(a) and Bylaws, Article II, Sections 2.2 and 2.3(c).</p> <p>MDEX will have a Regulatory Oversight Committee comprised of one or more members each of whom is a public director. See Rule 204(b). The Regulatory Oversight Committee is responsible for monitoring the sufficiency, effectiveness and independence of MDEX’s regulatory program; overseeing the regulatory program and conduct of investigations; and reviewing MDEX’s regulatory budget and resources, including the number, hiring, termination and compensation of MDEX regulatory personnel. See Rule 205(a) through (c). The Regulatory Oversight Committee is also responsible for supervising the CRO, who reports directly to the Committee. See Rule 205(d). The Regulatory Oversight Committee will prepare an annual report assessing MDEX’s self-regulatory program for the Board and the CFTC; may recommend changes that would ensure fair, vigorous and effective regulation; and will review regulatory proposals and advise the Board as to whether and how such changes may impact regulation. See Rule 205(e) through (g).</p> <p>No member of the Board, the Business Conduct Committee, the Hearing Committee or any other MDEX deliberative body may take part in any deliberation or vote on any matter in which the named party in interest is such member, such member’s employer or employee, or any other person that has a business, employment, or family relationship with such member that warrants his abstention. See Rule 212. The procedures set out in Rule 212 for determining whether such a conflict of interest may exist are consistent with CFTC Rule 1.69.</p> <p>Article II, Section 2.13 of the Bylaws provides further grounds for excusing an interested director from consideration of a matter, consistent with the Delaware General Corporate Law.</p>

² MDEX was originally formed under the name “Motion Picture Trading, Inc.” and is currently operating under the “Bylaws of Motion Picture Trading, Inc.,” adopted April 12, 2007. Veriana Networks, Inc., which is the parent of MDEX, plans to adopt the “First Amended and Restated Bylaws of Media Derivatives, Inc.” prior to MDEX’s commencement of operations as a designated contract market.

<p>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.”</p>	<p>Not applicable. MDEX is not a mutually owned contract market.</p>
<p>Core Principle 17 – Recordkeeping: “The board of 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.”</p>	<p>MDEX will maintain records of all activities related to its business for a period of five years and in accordance with Commission Regulation 1.31.</p>
<p>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.”</p>	<p>MDEX has designed its rules to avoid unreasonable restraints of trade or the imposition of any material anti-competitive burden on trading.</p>