

**Cantor Futures Exchange**  
**New Contract Submission 2013-05**  
**March 13, 2013**

1. The text of the terms and conditions of the CANTOR EXCHANGE EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT and all related rules are attached.
2. The intended listing date is April 2, 2013. It should be noted that Cantor Exchange certified to the Commission the terms and conditions of the FXSI Daily Futures and Binary Flex Option contracts on October 6, 2010. As noted with that submission, the FXSI Daily Futures and Binary Flex Option contracts could not be listed until Cantor Clearinghouse, L.P.'s Petition to Modify the Commission Order Registering Cantor Clearinghouse, L.P. as a Derivatives Clearing Organization, issued on April 20, 2010, was granted. The Commission, by Order dated February 11, 2013, modified Cantor Clearinghouse's Order of Registration as a Derivatives Clearing House to enable it to clear FXSI Contracts. This contract, the EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT, along with two (2) other contracts being filed today, are intended as substitutes for the contracts certified on October 6, 2010, which Cantor Exchange will withdraw following the listing of the EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT and its companions.
3. The certification of compliance with the Act is attached.

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

The EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT is one of three (3) related contracts that are substitute contracts for the FXSI contracts as certified by Cantor Exchange on October 6, 2010. The operation of the EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT and its companions (together "Digital Swaps") are economically identical to the FXSI contracts that were previously certified to the Commission.

Digital Swaps contracts have exactly the same risk characteristics, the same margin requirements (initial margin, which must be paid prior to a position being established, is 100% of the at-risk amount for both contract longs and shorts) and are cleared in exactly the same way in all respects as the FXSI binary contracts which were certified on October 6, 2010.

Cantor Exchange is certifying these Digital Swaps contracts in order to simplify the rule book by providing a separate rule governing the contract terms for each of the contracts individually. Cantor Exchange is renaming the contracts as Digital Swaps consistent with section 1a(47) of the Commodity Exchange Act, which includes "options" within the definition of "swap."

The Commission previously reviewed the contracts, including whether they are not readily susceptible to manipulation and meet the other requirements for listing new contracts in October, 2010. That review is equally applicable to the contracts as being certified herein.

The following analysis, in the form of narrative and explanatory charts, demonstrates that the contracts are consistent with the requirements of the Act, Commission rules and policies, and in particular, Appendix C to Part 38 of the Commission's Rules, as required by Commission Rule 40.2.

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

**(4) Options on Physicals Contracts. (i) Under the Commission's regulations, the term "option on physicals" refers to option contracts that do not provide for exercise into an underlying futures contract. Upon exercise, options on physicals can be settled via physical delivery of the underlying commodity or by a cash payment. Thus, options on physicals raise many of the same issues associated with trading in futures contracts regarding adequacy of deliverable supplies or acceptability of the cash settlement price series. In this regard, an option that is cash settled based on the settlement price of a futures contract would be considered an "option on physicals" and the futures settlement price would be considered the cash price series.**

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

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

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

The contract is a contract on the Euro/U.S. dollar exchange rate. The cash settlement price is based on a price index determined by Cantor Exchange (the "Index"). Contract Rule IX-3(b) explains the Index calculation methodology in detail. The Index price is calculated by using dealable spot quotations of third party, independent spot market participants willing to enter into spot transactions which have been made available to Cantor Exchange. The Exchange calculates the contract prices on a continuous basis and broadcasts the prices to the market. The calculation methodology is robust, providing that only dealable quotes (and no indicative quotes) be used. Moreover, the Exchange will remove the two highest and lowest bids and offers. Finally, the Exchange has provided alternative calculation rules if insufficient bids and offers are received within the requisite period.

The Exchange will surveil the Index, comparing it to other widely accepted Index values. In this way, the Exchange will be able to determine that the Index remains representative of spot market values for the applicable currencies. The Exchange will update its calculation of the Index every one-half second. It will disseminate the Index to all participants via its trading interfaces.

Digital Swaps Contracts will be listed for daily expiration. Contracts will be listed with the beginning of trading at 5:30 P.M. for expiration the following day at 4:00 P.M. Market Participants, through the Request for Quote (“RFQ”) process, are able to request an expiration intra-day.

Final cash settlement of the contract is digital in nature. That is, the holder of a long contract that exceeds the reference price will be paid \$100 by the contract short and vice versa. The settlement obligation does not vary based upon the amplitude by which the price at expiration exceeds the strike or strike price.

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

The contract is based upon a price Index that is calculated with reference to the relative value of a pair of currencies. Such trading is common. The foreign exchange market enjoys a huge trading volume, has high liquidity, is geographically dispersed, and operates throughout the business day. According to the Bank for International Settlements, as of April 2010, average daily turnover in global foreign exchange markets was estimated at \$3.98 trillion.

Contracts on foreign currency have been listed for many years on designated contract markets. Accordingly, the Commission has many years of experience surveilling foreign currency contracts and is well-acquainted with the cash market. Moreover, contracts on foreign currency have been recognized generally as not readily subject to manipulation because of the enormous depth and transparency of the market. Moreover, unlike physical commodities, the foreign currency markets are global in nature and are not plagued by geographical limitations, temporal fluctuations, illiquidity, obstacles to delivery or other factors that would make a contract possibly susceptible to manipulation. The Commission has recognized this by determining that foreign currency markets, unlike physical commodities, do not require speculative position limits. Congress, too, has recognized this distinction, classifying foreign currency as an “excluded commodity” under the Act.<sup>1</sup>

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

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

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

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

<b>Term or condition</b>	<b>Rule number of identical approved provision, if any<sup>1</sup></b>	<b>Explanation as to consistency with, or reason for variance from, cash market practice</b>
1. Commodity characteristics (e.g., grade, quality, weight, class, growth, issuer, maturity, source, rating, etc.)	IX-3(b)	The commodities are foreign currency pairs of major money center currencies. The Cantor Euro Spot Index is derived from dealable bids or offers of independent third party market participants received by the Exchange. It values the spot value of the spread relationship between the applicable currency pair.
2. Delivery months, noting any cyclical variations in trading activity that may affect the potential for manipulating the cash settlement price	IX-3(d)	The Digital Swaps Contracts are daily swaps contracts. Expiration is at the end of each day. These contracts are consistent with cash market practice and contracts listed on other exchanges. Intra-day expirations may be provided through an RFQ process.
3. Last trading day		See above.
4. Contract size	IX-3(e)	The Digital Swaps Contract size is determined as a multiplier times the underlying Index. This is common industry practice in determining the contracts that are cash settled to an Index.

5. Minimum price change (tick)	IX-3(f)(ii)	The minimum price change for the Digital Swaps Contract is \$1.00. The tick size is reasonably determined given the overall contract value so as not to be unduly large. The minimum tick size is anticipated to result in liquid trading and bid/offer spreads that are not unduly or unusually large.
6. Daily price limit provisions, relative to cash market price movements	IX-3(f)(i)	There are no daily price limits. However, the Digital Swaps Contracts are price bounded. That is, pursuant to Exchange Rule IX-3(f)(i) there is no trading of the contract above a price of \$100, which is also the full cash settlement obligation on the contract.

**2) Cash settled contracts may be susceptible to manipulation or price distortion. In evaluating the susceptibility of a cash-settled contract to manipulation, a designated contract market should consider the size and liquidity of the cash market that underlies the listed contract in a manner that follows the determination of deliverable supply as noted above in (b)(1). In particular, situations susceptible to manipulation include those in which the volume of cash market transactions and/or the number of participants contacted in determining the cash-settlement price are very low. Cash-settled contracts may create an incentive to manipulate or artificially influence the data from which the cash-settlement price is derived or to exert undue influence on the cash-settlement price's computation in order to profit on a futures position in that commodity. The utility of a cash-settled contract for risk management and price discovery would be significantly impaired if the cash settlement price is not a reliable or robust indicator of the value of the underlying commodity or instrument. Accordingly, careful consideration should be given to the potential for manipulation or distortion of the cash settlement price, as well as the reliability of that price as an indicator of cash market values. Appropriate consideration also should be given to the commercial acceptability, public availability, and timeliness of the price series that is used to calculate the cash settlement price. Documentation demonstrating that the settlement price index is a reliable indicator of market values and conditions and is commonly used as a reference index by industry/market agents should be provided. Such documentation may take on various forms, including carefully documented interview results with knowledgeable agents.**

As explained above, the Exchange has taken into account the characteristics of the spot currency market in determining the means by which it will calculate the Index value. As discussed above, the foreign currency spot markets are liquid, deep and relatively transparent. Cantor Exchange will calculate the Index using the Olympic average methodology. The Euro Spot Index will be calculated by the Exchange by continuously taking the midpoint of the last eight dealable bid and the last eight offer spot quotations for each Euro/U.S. dollar exchange rate received by the Exchange, then removing the two

highest bids and two highest offers and removing the two lowest bids and two lowest offers, then calculating the arithmetic mean of the remaining eight values and rounding to the fifth decimal place. Only dealable bids or offers will be included in the calculation. Calculation will be continual and will be disseminated to Exchange subscribers. In the event that no quotes are received during a period of time exceeding one-half hour, then the Exchange shall calculate the price, in its sole and absolute discretion, using the best available indicative spot Euro/U.S. dollar prices available from recognized distributors of currency price information. In the event that quotes are unavailable for a period of less than one-half hour, the Euro Spot Index shall be the last Index value calculated.

The Exchange believes that the price will be highly reliable and will be able to compare its Index value against the values of multiple other available price feeds that track spot currency prices. Moreover, in the event that it appears that the Index departs from the actual value of the spot currency, the Exchange retains the authority under Exchange Rule IV-19 to calculate the Euro Spot Index in a manner different from the above-described methodology in its sole and absolute discretion. Based on the above, the Exchange believes that the Index that it calculates will be a robust and reliable indicator of the value of spot currency and will provide an acceptable and widely accepted underlying for the Digital Swaps Contract.

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

Not applicable; the Index is calculated by Cantor Exchange.

**(i) Where an independent, private-sector third party calculates the cash settlement price series, the designated contract market should verify that the third party utilizes business practices that minimize the opportunity or incentive to manipulate the cash-settlement price series. Such safeguards may include lock-downs, prohibitions against derivatives trading by employees, or public dissemination of the names of sources and the price quotes they provide. Because a cash-settled contract may create an incentive to manipulate or artificially influence the underlying market from which the cash-settlement price is derived or to exert undue influence on the cash-settlement computation in order to profit on a futures position in that commodity, a designated contract market should, whenever practicable, enter into an information-sharing agreement with the third-party provider which would enable the designated contract market to better detect and prevent manipulative behavior.**

Not applicable.

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

**sources polled should be representative of the cash market, and the poll should be conducted at a time when trading in the cash market is active.**

The final settlement price is generated by Cantor Exchange, but relies upon price quotes that are made available from independent third party market participants. The Exchange will calculate the Index using an Olympic average of 8 quotes (4 bids and 4 offers after the two highest and two lowest bid/offer values are discarded) on a continual basis. The Exchange uses only dealable quotes, that is the quote must be one on which the parties are willing to enter into spot transactions. The Exchange will not use indicative quotes in its calculation. The rules provide for alternative calculation in the discretion of the Exchange in the event that quotes are unavailable for a period of greater than one-half hour.

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

As noted above, the Exchange calculates the Index by means of an Olympic average. This automatically discards the high and low bids and offers from the calculation. Moreover, the Exchange uses only dealable quotes, that is the quote must be one on which the parties are willing to enter into spot transactions. The Exchange will not use indicative quotes in its calculation.

As noted above, the rules provide for alternative calculation in the discretion of the Exchange in the event that quotes are unavailable for a period of greater than one-half hour.

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

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

As explained above, the Exchange will track other spot market price indicators to ensure the reliability of the Index values.

Cantor believes that the Index will be regarded as a reliable indicator for the purpose of establishing the contract digital reference price upon which the cash settlement obligation will be determined.

**(v) To the extent possible, the cash settlement price should be based on cash price series that are publicly available and available on a timely basis for purposes of calculating the cash settlement price at the expiration of a commodity contract. A designated contract market should make the final cash settlement price and any other supporting information**

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

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

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

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

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

<b>Speculative limit</b>	<b>Standard</b>	<b>Level (exchange rule)</b>
1. Spot, single month, all months	Must be no greater than necessary to minimize the potential for manipulation or distortion of the contract's or the underlying commodity's price.	As foreign currency contracts, the contracts provide for a Position Accountability level of 10,000 contracts, all contracts combined. <i>See</i> CFTC Rule 150.5. Because the contracts are for daily, or intra-day expiration in response to an RFQ, there is no need to differentiate between spot and deferred months.
4. Reporting level	Equal to or less than levels specified in CFTC rule 15.03.	Not applicable to swaps. The exchange and clearing house have available complete information with respect to the positions of each participant, and therefore are able to report complete position information to a Swaps Data Repository as may be required by Commission Rule or to the Commission.
5. Aggregation rule	Same as CFTC rule 150.5(g) or previously approved language.	Yes.



## **Conclusion**

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

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

I hereby certify that the CANTOR EXCHANGE EURO SPOT INDEX DIGITAL FLEX  
SWAPS CONTRACT complies with the Commodity Exchange Act, 7 U.S.C. §1 *et seq.* and  
regulations thereunder.



By: Nolan Glantz  
Title: Chief Operations Officer  
Dated: 3/13/2013

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



By: Nolan Glantz  
Title: Chief Operations Officer  
Dated: 3/13/2013

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

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**IX-3. EURO SPOT INDEX DIGITAL FLEX SWAPS**

**(a) Scope and Underlying**

These Contract Rules will govern the trading on the Cantor Futures Exchange, L.P. (the “Exchange”) of the EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT. Clearing of the EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT will be governed by the rules of the Cantor Clearinghouse, L.P. (the “Clearinghouse”). These Contract Rules are established pursuant to and constitute “Contract Rules” under Rule IX-3(e) of the Rules of the Exchange and constitute “Contract Rules” Under Rule IX-3(g) of the Rules of the Clearinghouse. Capitalized terms used, but not defined herein, have the meanings ascribed to them in the Rules of the Exchange or the Rules of the Clearinghouse, as applicable.

**(b) Calculation of the Euro Spot Index**

The Euro Spot Index will be calculated by the Exchange by continuously taking the midpoint of the last eight dealable bid and the last eight dealable offer spot quotations for each Euro/U.S. dollar exchange rate received by the Exchange, then removing the two highest bids and two highest offers and removing the two lowest bids and two lowest offers received by the Exchange from independent third-party spot market participants, then calculating the arithmetic mean of the remaining eight values and rounding to the fifth decimal place. In the event that no quotes are received during a period of time exceeding one-half hour, then the Exchange shall calculate the price, in its sole and absolute discretion, using the best available indicative spot Euro/U.S. dollar prices available from recognized distributors of currency price information. In the event that quotes are unavailable for a period of less than one-half hour, the Euro Spot Index shall be the last Index value calculated. Nothing in this paragraph shall preclude the Exchange in an Emergency declared under Exchange Rule IV-19 from calculating the Euro Spot Index in a manner different from the methodology provided in this paragraph in its sole and absolute discretion.

**(c) Trading Hours for EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTS**

(i) Except as otherwise posted on the Exchange website, EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTS will be open for trading Sunday 5:30 PM ET until Friday 4:00 PM ET. No trading in these contracts shall occur between the hours of 4:00 PM ET and 5:30 PM ET on any Exchange Trading Day.

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

**(d) EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT First Time of Trading, Last Time of Trading**

(i) EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs shall be listed for trading for each Exchange Trading Day except as otherwise published on the Exchange website and shall begin trading at 5:30 PM ET and shall cease trading at 4:00 PM ET on that Exchange Trading Day.

(ii) EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs may also be listed in response to Request for Quote (“RFQ”) messages received by the exchange from Participants. All such RFQs shall include the final settlement time and the digital strike reference price for the contract. RFQs may optionally include the number of contracts available for purchase or sale and corresponding price. All responses to RFQs shall include the number of contracts that are available for purchase or sale and the corresponding price. EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs become tradable immediately upon a Request For Quote (“RFQ”) being submitted through the Cantor Direct System and are available for trading from the time of RFQ acceptance by the Cantor Direct System until final settlement time.

**(e) EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT Final Settlement**

(i) Each open position in EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs will be Cash Settled such that if at the final settlement time the Euro Spot Index is above the digital strike reference price then each purchaser shall be paid one hundred dollars (\$100.00); if at final settlement time the Euro Spot Index is below the digital strike reference price, then each seller shall be paid one hundred dollars (\$100.00); if at final settlement time the Euro Spot Index is equal to the digital strike reference price, then each purchaser and each seller shall receive fifty dollars (\$50.00).

**(f) Euro Spot Index Digital Flex Futures Price Limits and Minimum Increment**

(i) There shall be no trading in Euro Spot Index Digital Flex Futures at a price of more than one hundred dollars (\$100.00).

(ii) The minimum trading increment of each EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT is one dollar (\$1.00).

**(g) Euro Spot Index Digital Flex Swaps Position Accountability Levels**

The position accountability level shall be 10,000 net short or net long per EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACT.

**(h) Original Margin for EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs**

(i) Original Margin shall be 100% of the at-risk amount for both buyers and sellers of EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs.

(ii) As required by IX-3(h)(i), buyers of EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs shall post one dollar times the purchase price as Original Margin;

sellers of EURO SPOT INDEX DIGITAL FLEX SWAPS CONTRACTs shall post one dollar times one hundred minus the sale price as Original Margin.