

FORM FBOT—EXHIBIT G-3

Request: Attach the following:

A description of the foreign board of trade's disciplinary rules, including but not limited to rules that address the following –

- (1) Disciplinary authority and procedures that empower staff to recommend and prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any market participant pursuant to fair and clear standards.
- (2) The issuance of warning letters and/or summary fines for specified rule violations.
- (3) The review of investigation reports by a disciplinary panel or other authority for issuance of charges or instructions to investigate further, or findings that an insufficient basis exists to issue charges.
- (4) Disciplinary committees of the foreign board of trade that take disciplinary action via formal disciplinary processes.
- (5) Whether and how the foreign board of trade articulates its rationale for disciplinary decisions.
- (6) The sanctions for particular violations and a discussion of the adequacy of sanctions with respect to the violations committed and their effectiveness as a deterrent to future violations.

Response:

The Chief Compliance Officer has the authority to issue a warning letter to any Contracting Party, informing it that there may have been a violation of Exchange rules, and that a continuation of such activity may result in disciplinary action.¹

If the Chief Compliance Officer is of the opinion that a violation of the code of conduct has occurred, the Chief Compliance Officer may negotiate and enter into a written settlement agreement with the Contracting Party.² In this agreement, the Contracting Party may, with or without admission of guilt, agree to a cease and desist order or reprimand; a fine of up to \$100,000 for each violation, plus the monetary value of any gains received as a result of the violation; and/or a Contracting Party Suspension.³

The Chief Compliance Officer also has the authority to refer any matter to the Disciplinary Committee for review.⁴

The Disciplinary Committee has authority to confirm, vary, or reverse a decision of the Chief Compliance Officer, or to reject a settlement agreement.⁵ It may also refer or return the

¹ NGX Contracting Party's Agreement at Article 6.2(c).

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *Id.* at Article 6.2(d).

matter to compliance staff with instructions for further investigation, or may negotiate a settlement agreement with a Contracting Party.⁶ The Committee has the power to order that a Contracting Party pay a fine of up to \$100,000 for each violation plus the monetary value of any gains received as a result of a violation, cause a Contracting Party Suspension, and issue a cease and desist order or reprimand.⁷

In the event that the Disciplinary Committee has made a determination that a violation has occurred, and has imposed one or more of the sanctions enumerated in Sections 6.2(c)(iv),(v), or (vi) of the CPA, the Disciplinary Committee will provide the Contracting Party with notice of such decision (“Notice of Violation”).⁸

A Contracting Party who has received a Notice of Violation shall be entitled, upon written request filed with Exchange within twenty (20) calendar days of receipt of such notice to a hearing before a Hearing Panel.⁹ Failure of the Contracting Party to request a hearing within twenty (20) days of the Notice of Violation, except where proven for good cause, shall be deemed to be a waiver of the right to a hearing, and an admission of the allegation or allegations contained in the Notice of Violation.¹⁰

Hearings will be conducted by a Hearing Panel in accordance with Exchange’s hearing procedures, as amended from time to time.¹¹ Such hearings are before panels composed of NGX senior managers. Accordingly, hearing panels are composed of persons that are not permitted to trade in the market and that would not have interests that may be impacted by the panel’s decision. The Participants are required to cooperate fully with any such investigations or examinations by NGX, including the requirement to produce copies of records and documents as requested by NGX.¹² A Contracting Party is entitled to representation by counsel and to present witnesses and documentary evidence.¹³ No formal rules of evidence shall apply, and the Hearing Panel is entitled to accept or reject any evidence it considers proper.¹⁴

The Hearing Panel may confirm, vary or reverse a decision of the Disciplinary Committee.¹⁵ A written decision setting out the Hearing Panel’s reasons for decision will be provided to the Contracting Party.¹⁶

NGX may also cause a Contracting Party Suspension as it believes necessary or advisable, if it believes any of the following events have occurred or are occurring: (1) financial condition, including any material adverse change in the financial condition of the Contracting Party or an affiliate or any person providing credit support for the Contracting Party each as determined in the sole discretion of Exchange, or Failure to Provide Eligible Collateral Support with Exchange when requested to do so; (2) detrimental effect, including circumstances which

⁶ *Id.* at Article 6.2(d).

⁷ *Id.*

⁸ *Id.* at Article 6.3(a).

⁹ *Id.* at Article 6.3(b).

¹⁰ *Id.* at Article 6.3(b).

¹¹ *Id.* at Article 6.3(c).

¹² *Id.* at Article 6.8.

¹³ *Id.* at Article 6.3(c).

¹⁴ *Id.*

¹⁵ *Id.* at Article 6.3(d).

¹⁶ *Id.*

make the continued access to the NGX Trading System by the Contracting Party detrimental to the existence of an orderly market, or otherwise detrimentally affects the interests, welfare or integrity of the NGX Trading System or NGX Clearing System; (3) regulatory approvals, including any matter which may, as determined in the sole discretion of Exchange, detrimentally affect the Regulatory Approvals of the Contracting Party in respect of its performance of this Agreement; (4) disciplinary action by an applicable regulatory authority against either the Contracting Party, an officer, principal, or a Credit Support Provider for the Contracting Party; or (5) the occurrence of a Failure to Deliver, Failure to Pay, Failure to Take, Event of Default, a Swap Party's Default, an Option Party's Default or Failure to Provide Eligible Collateral Support.

¹⁷ NGX may also terminate access to the NGX Trading System or NGX Clearing System for all Participants in relation to some or all products, whether temporarily or otherwise, if it believes that certain events (as described in Article 6.5 of the CPA) have occurred or are occurring that could have a material adverse effect on the ability of NGX's systems to continue to properly operate.¹⁸

NGX may, in its sole discretion, charge an amount as liquidated damages equal to \$5,000 representing the pre-estimated amount of the costs of investigation and damage suffered by Exchange in respect of injury to the development, reputation and integrity of the business carried on by Exchange.¹⁹

¹⁷ *Id.* at Article 6.4.

¹⁸ *Id.* at Article 6.5.

¹⁹ *Id.* at Article 6.6.