# Cantor Clearinghouse, L.P.

## Form DCO—Exhibit A—General Information/Compliance

**Request**: Attach as Exhibit A–4, a detailed business plan setting forth, at a minimum, the nature of and rationale for Applicant's activities as a derivatives clearing organization, the context in which it is beginning or expanding its activities, and the nature, terms, and conditions of the products it will clear.

**Response**:

*Nature of and rationale for Applicant's activities as a derivatives clearing organization*

The Commodity Futures Trading Commission ("Commission") issued an Order of Registration ("Registration Order") to Cantor Clearinghouse, L.P. ("Cantor Clearinghouse") as a Derivatives Clearing Organization ("DCO") on April 20, 2010. Cantor Clearinghouse's activity as a DCO is to provide clearing services for futures and option contracts traded on the Cantor Futures Exchange, L.P. ("Exchange"). The Exchange was designated as a contract market ("DCM") also on April 20, 2010 by the Commission. Cantor Clearinghouse, as explained in greater detail below, is a non-intermediated clearinghouse that limits it's clearing to contracts on the basis that the original margin required from each party holding a long position and from each party holding a short position is 100% of such party's at-risk amount.

The rationale for operation of the clearinghouse to clear only fully-margined futures or option contracts is discussed in Exhibit D. The requirement that all clearing participants must pass a real-time credit check to ensure that sufficient funds are available in the Participant's Clearing Account to satisfy each product's original margin requirement ensures that original margin is collected immediately at the time of trade and eliminates any risk that a Participant might fail to provide sufficient funds to cover the amount of original margin required. Given that original margin for both long and short positions has been secured by the clearinghouse at time of trade, the only risk any Participant presents to the Clearinghouse would be the failure to satisfy a variation margin call. This risk may be completely eliminated if the clearinghouse sets the original margin rate equal to 100% of the at-risk amount of the underlying position.

The Order of Designation of the Exchange permits the Exchange to list for trading futures or option contracts without restriction as to the underlying commodity. However, the Order of Designation did include the condition that the Exchange submit "any new class or category of contracts associated with media-related products, including its first contracts, the Domestic Box Office Receipt futures contract, prior to listing them for trading."[1] The business plan of the Exchange at this time does not include listing any media-related futures or option contracts.

*Context in which Cantor Clearinghouse is beginning or expanding its activities*

[1] See, Order of Designation, dated April 20, 2010 at http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/cantorfuturesexchangeorder.pdf.

At the time of the Commission's Registration Order, Cantor Clearinghouse anticipated that the first contracts that would be cleared would be the Domestic Box Office Receipt Contract. At that time, Cantor Clearinghouse anticipated that it would expand the contracts that it cleared to futures and option contracts on commodities other than box office receipts that were fully margined, thereby having a similar risk profile as the box office receipts contract. However, a condition of the Registration Order required that the order be amended prior to offering additional contracts.

Section 721 of the Dodd-Frank Wall Street Reform and Consumer Protection Act[2] ("DFA") excluded "motion picture receipts" from the definition of "commodity" under the Commodity Exchange Act, 7 U.S.C. §1 et. seq. ("Act"). Therefore the Clearinghouse is seeking an amendment of the Order of Registration to permit it to clear contracts with risk profiles similar to the box office receipts contract.

The Exchange has determined to begin trading futures and/or option contracts on other commodities that, like the box office receipts contract, are similarly fully margined. In order to ensure that the contracts cleared will present to Cantor Clearinghouse only the same type of limited risk, the Board of Directors of Cantor Clearinghouse has approved a resolution requiring that all contracts be cleared on the basis that the original margin required from each party (long and short positions) shall be 100% of such party's at-risk amount.

*Nature, terms, and conditions of the products Cantor Clearinghouse will clear*

Initially, the Exchange will list for trading, and Cantor Clearinghouse will clear, Foreign Exchange Spot Index ("FXSI") Binary Flex Options. The terms and conditions of these contracts were self-certified to the Commission under Rule 40.2 on October 6, 2010 and became effective the following day, October 7, 2010. The Exchange will list these contracts for trading immediately after the Registration Order is amended.

Although the terms and conditions of the contracts that are listed for trading will vary depending upon the underlying commodity, all will share the common element that they must be able to be, and will be, fully margined. Accordingly, there will be no change in the risk profile to Cantor Clearinghouse arising from the listing of contracts on additional underlying commodities.

[2] Public L. 111-203, 124 Stat. 1376 (2010).