

CIRCULAR



30 - 32 Grosvenor Street

Sydney NSW 2000

Australia

Telephone +61 (0)2 9256
0555Facsimile +61 (0)2 9256
0666**To: All Members****No: 266/98****Legal Update Series****Cantor Financial Futures Exchange, Inc.****Status for Purpose of Client Dealing**

Attached is Legal Update L4/98 in relation to the designation of Cantor Financial Futures Exchange, Inc. ("CFFE") by the U.S. Commodity Futures Trading Commission as a contract market making it the newest futures exchange in the U.S.. The Exchange, which trades U.S. Treasury futures contracts, is a fully electronic market. Access to the market is restricted under the Corporations Law wherein members may not trade on behalf of clients on the CFFE until it becomes a recognised futures exchange as set out in schedule 11 of the Corporations Regulations. The process to obtain the listing of the new exchange under schedule 11 has begun.

Please circulate to the relevant staff, in particular compliance and legal personnel in your office as soon as possible. Where Members have indicated relevant staff, the update will be directly circulated to those staff as well.



Legal Update

No: L4/98

Issued: 16 September 1998

**CANTOR FINANCIAL FUTURES EXCHANGE INC.
STATUS FOR THE PURPOSE OF CLIENT DEALING**

Introduction

Cantor Financial Futures Exchange, Inc. ("CFFE" or "Exchange"), a non-profit corporation, has been designated by the United States Commodity Futures Trading Commission ("CFTC") as a contract market. Under section 4 of the U.S. *Commodity Exchange Act 1922* it is unlawful for a person to enter into futures contracts within the United States unless exempted by the CFTC or such trade occurs on a board of trade designated by the CFTC as a contract market. This designation as a contract market permits the new exchange to operate lawfully. The new Exchange is a wholly electronic exchange. As noted below dealings on the new Exchange will not be permitted by Members of the SFE on behalf of clients until the new Exchange is listed in Schedule 11 of the regulations to the Corporations Law.

Ownership of CFFE

The CFFE is wholly owned by CFFE Regulatory Services. Equity interest in CFFE Regulatory Services is held by New York Cotton Exchange ("NYCE") (a wholly owned subsidiary of the New York Board of Trade) with a ten percent interest and NYCE's members, who hold a ninety percent interest. CFFE members and holders of CFFE trading privileges have no equity interest in the Exchange.

Contracts

The CFFE trades four futures contracts, a US Treasury bond contract, a US Treasury ten-year note contract, a US Treasury five-year note contract, and a US Treasury two-year contract from 7:30 a.m. to 5:30 p.m. each business day.

Algorithms

There will be two trade-matching algorithms used by the Exchange. One will be a "regular trade-matching algorithm" that will match orders continuously throughout the day and the other will be a "market-crossing trade-matching algorithm" that will match orders four times a day at pre-determined times. The regular trade-matching algorithm will match on a price and time priority basis, however, participants who are earliest in posting a best market bid or offer will be provided with certain priority rights to respond to subsequent counter offers or bids for limited periods of time.

Access

Access to the Exchange will be limited to holders of CFFE trading privileges. All CFFE traders will be responsible for the diligent execution of their customers' orders in the same manner as would a floor broker on an open-outcry exchange. Membership in the Exchange is divided into three categories: (1) Class A Membership, (2) Class B Membership, and (3) Associate Membership. Only Class B and Associate Members have any trading privileges on CFFE. Class B membership is available to each full member of either New York Cotton Exchange ("NCE") or Coffee, Sugar and Cocoa Exchange ("CSCE") upon payment of a one-time fee. Associate Memberships will be allotted to 1000 qualified natural persons.

Recognised Futures Exchange

Pursuant to the Corporations Law SFE Members are not permitted to trade on behalf of their clients on an overseas futures exchange unless the exchange is a recognised futures exchange as set out in Schedule 11 of the Corporations Regulations. At the present time

CFFE is not a recognised futures exchange. The application process to gain such recognised futures exchange status for CFFE has begun. As soon as a regulation is made placing the name on the list of recognised exchanges a circular announcing that fact will be dispatched to all SFE Members.

If there are any queries regarding this issue, please contact Francis Cox, Senior Manger- Regulation on (02) 9256-0505 or e-mail fcox@sfe.com.au.

NB: The above information is for the guidance of Members and does not purport to be legal advice. The note should be read in conjunction with the Corporations Law and any ASIC practice Notes and Policy Statements. Further information in relation to CFFE may be obtained from the U.S. CFTC. Where appropriate, legal or other professional advice should be sought.

**Tony Dreise
General Counsel; GM Legal**

17/09/98

**SYDNEY FUTURES EXCHANGE LIMITED
ACN 000 299 392**

**Address all correspondence to PO Box N680 Grosvenor Place Sydney NSW 2000
Australia**