

Cantor Futures Exchange, L.P.
Rule Amendment Submission 2017-4
September 29, 2017

1. The text of the rule changes to the Cantor Futures Exchange, L.P. Rulebook is attached. Additions are underlined and deletions are stricken through. This rule has been approved by Cantor Futures Exchange, L.P. Capitalized terms, unless otherwise defined herein shall possess the meaning(s) ascribed in the Cantor Futures Exchange, L.P. Rulebook.
2. The proposed effective date is ten business days after receipt by the Commodity Futures Trading Commission of this submission.
3. Attached, please find a certification that: (1) these rules comply with the Commodity Exchange Act, and the Commission's regulations thereunder; and (2) concurrent with this submission, Cantor Futures Exchange, L.P. posted on its website: (i) a notice of pending certification of the rule submissions with the Commission; and (ii) a copy of this submission.
4. A concise explanation and analysis of the operation, purpose, and effect of the amended rule appears below.
5. There were no opposing views expressed regarding these amended rules.

CONCISE EXPLANATION AND ANALYSIS OF THE OPERATION, PURPOSE, AND
EFFECT OF THE CERTIFIED RULE AND ITS COMPLIANCE WITH APPLICABLE
PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION'S
REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.6(a)(7)(vi), the following is a concise explanation and analysis of the operation, purpose, and effect of the amended rules.

Chapters V-8, VI-2, and VI-5 of the Cantor Futures Exchange, L.P. ("CX") Rulebook currently prohibit fraudulent or misleading communications, fraudulent acts, and market manipulation. CX proposes to amend these provisions, and to adopt new Chapter VI-12, as requested by Commission staff. These rules are being amended in order to conform to and incorporate recent amendments to the Commodity Exchange Act, 7 U.S.C. §1 et seq. (the "Act"). Among these is section 4c(a)(5) of the Act, which prohibits several disruptive trading practices. These prohibited practices include conduct that is commonly known to the trade as "spoofing" (bidding or offering with the intent to cancel the bid or offer before execution).

Current CX Rule IV-4 is titled "Financial Requirements for Order Entry and Executions." Under paragraph (h), it is a violation to enter an Order that, if matched, cannot be executed due to insufficient funds. This is known as a "Fail" under the rule. Paragraphs (i),(j) and (k) provide for summary penalties to be assessed for violating Rule IV-4(h).

The provision of paragraph 4(h) making it a violation to have an order that is a Fail and the summary schedule of fines for such orders has been included in CX's rules from its inception. CX included these provisions in order to discourage traders from entering Orders that would not be able to be executed if matched due to funding. This was intended to counter practices by traders trying to game the matching engine through the aggressive use of the credit check functionality. At the time, it was feared that traders might attempt to influence the direction of prices through such aggressive trading activities. The summary penalty provision was thought to be an appropriate means to discourage such conduct. Because this rule was adopted prior to the adoption of section 4c(a)(5) of the Act, there was not a more direct means of addressing "spoofing"-type activities involving the aggressive use of orders that were not executable.

Since it first adopted this rule, there have been few, if any, instances on CX where the rule has been breached. In one instance, several "Fails" were caused by technological issues, rather than the intentional, aggressive entry of orders to affect price. Moreover, the rule was written when the notional value of CX contracts was much higher than currently. If the rule is revised to set the fines at a level commensurate with the reduction in the size of the contracts, the fines would be exceedingly small (less than \$1) and would not operate as a meaningful deterrent. Leaving the fines at the current level transforms the penalty from a summary fine to a significant penalty, when compared against the size of contracts traded on CX today.

CX is removing the provision making it a violation to have a Failed transaction and the accompanying summary penalty schedule in light of its simultaneous adoption of CX Rule VI-12(c). This rule explicitly prohibits spoofing. CX believes that Rule VI-12(c) accomplishes the goal of the removed provisions more directly and transparently. Accordingly, CX believes that the adoption of Rule VI-12(c) and simultaneously removing of the last sentence of IV-4(h) and IV-4(i), (j) and (k) will provide traders with clearer notice as to behavior that is prohibited under the rules.

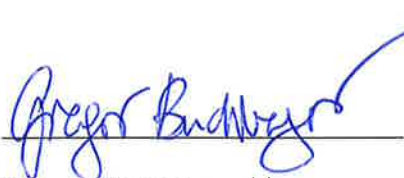
CX reviewed the Core Principles for Designated Contract Markets under section 5(d) of the Act. Core Principle (2) (Compliance with Rules); Core Principle (9) (Execution of Transactions); Core Principle (11) (Financial Integrity of Transactions) and Core Principle 12 ("Protection of Markets and Market Participants") are relevant. For the reasons discussed above, amended Rule VI-12(c) is a more transparent prohibition, providing traders with better notice of prohibited behavior. The exchange, as a self-regulatory organization, prefers that rules prohibiting conduct be clear and that the rule itself address directly the prohibited conduct.

Removing the schedule of fines will not disadvantage traders either in their executions, the financial integrity of the transactions or in their protection while trading. Occasional broken trades are an accepted fact of trading. Where a trade is not consummated because the credit requirement cannot be met, the innocent counterparty will end up being matched against the next available counter-offer, usually at the same price as the failed order. Accordingly, it is not expected that removal of this rule will result in significant disadvantage of the contra-parties to the Failed trade. And, if a trader abuses the credit facility resulting in repeated orders that are not executed or in a significant number of broken trades, the Exchange could bring a disciplinary action under Rule VI-1 for "conduct which is inconsistent with just and equitable principles of trade." CX believes that this result is in accordance with its self-regulatory obligations and with the Core Principles and Commission rules thereunder.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE
ACT, 7 U.S.C. §7A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.6,
17 C.F.R. §40.6

I hereby certify that:

- (1) the amended Rules above comply with the Commodity Exchange Act, and the Commodity Futures Trading Commission's regulations thereunder; and
- (2) concurrent with this submission, Cantor Futures Exchange, L.P. posted on its website: (a) a notice of pending certification of the above Rules with the Commission; and (b) a copy of this submission.



By: Gregor Buchberger
Title: Chief Regulatory Officer
Date: September 29, 2017

Attachment —Rule Amendment

(Additions are underlined, deletions are struck through)

IV-4 Financial Requirements for Order Entry and Executions

(a) * * * * *

(h) * * *

(i) * * *

(ii) * * *

(iii) The credit check will “FAIL” if the funds immediately available in the applicable Participant Clearing Account are less than the Original Margin required to establish the new position or increase an existing position. In such case, the size of the matched trade shall be reduced such that the minimum quantity of Contracts that would PASS the credit check, if any, based on the level of Original Margin in the applicable Participant Clearing Account, will be matched. Any remaining portion of the purchaser’s or seller’s Order that would have passed the credit check had the purchaser or seller’s Order originally been limited to such amount shall be (i) restored with its original price and time priority to the Master Order Book and, (ii) any remaining portion of the purchaser’s or seller’s Order that failed the credit check shall be cancelled. ~~For the avoidance of doubt, if any part of an Order “FAILS” under this Rule IV-4(h), the placing of such Order shall be deemed to be a violation of this Rule for which penalties may be imposed under Rule IV-4(f) below.~~

(i) If a standing Limit Order “FAILS”, as described in Rule IV-4(h) above, then the Exchange will ~~immediately~~ notify the Participant of such event as soon as practicable in light of the circumstances via email or another form of communication. ~~and the following penalties shall immediately be assessed by the Exchange on the Participant Clearing Account of the corresponding Participant:~~

(i) ~~— \$10.00 for each Order that was cancelled in whole or in part; plus~~

(ii) ~~— \$1.00 per Contract in each Order cancelled in whole or in part; plus~~

(iii) ~~— \$100.00 if Orders in respect of such Participant’s Trading Account were cancelled in whole or in part on three or more of the last 360 Trading Days.~~

(j) ~~— Notwithstanding anything in these Rules to the contrary, an inquiry as provided in Rule VII-2 shall be conducted upon:~~

~~(i) — The entry of any Order or series of Orders that, when taken in the aggregate, could reasonably be expected to result in Orders being cancelled as described in IV-4(h) for any Participant; or~~

~~(ii) — The third instance of Orders being cancelled pursuant to Rule IV-4(h) for any Participant.~~

~~(k) — Furthermore, notwithstanding anything in these Rules to the contrary, within 180 Trading Days of the occurrence of:~~

~~(i) — the first three violations of this Rule IV-4, a summary hearing pursuant to Chapter VII hereof shall be conducted with respect to such Participant;~~

~~(ii) — the fourth occurrence of a violation of this Rule IV-4, a Participant will have its Trading Privileges summarily suspended for a period of 30 days;~~

~~(iii) — the fifth occurrence of a violation of this Rule IV-4, a Participant will have its Trading Privileges summarily suspended for a period of 180 days; and~~

~~(iv) — the sixth occurrence of a violation of this Rule IV-4, a Participant will have its Trading Privileges summarily revoked; provided that, unless determined otherwise by the Board in its sole discretion, a Participant shall not be deemed to have violated this rule IV-4 more than one time for violations that occur within the same 60 minute period.~~

V-8. Fraudulent or Misleading Communications

No Participant shall make, or attempt to make, any fraudulent or misleading communications relating to the purchase or sale of any Contract.

VI-2. Fraudulent Acts

- (a) No Participant, Authorized Trader or, if applicable, any other Supervised Persons shall engage, or attempt to engage, in any fraudulent act or engage, or attempt to engage, in any scheme to defraud, deceive or trick in connection with or related to any trade on or other activity related to the Exchange or the Clearinghouse.
- (b) Notwithstanding anything to the contrary in these Rules, neither the prohibitions on trading described in Rule VI-12 nor any other provisions of these Rules will supersede any applicable prohibitions on fraud and manipulation, whether such prohibitions are prescribed by law, regulation or the Rules of the Exchange or the Rules of the Clearinghouse. All such prohibitions on fraud and manipulation, including, but not limited to, the antifraud provisions of the CEA and the antifraud rules promulgated by the CFTC thereunder, will remain in full force and effect with respect to, and will be fully applicable to, the trading of all Contracts. The Exchange and the Clearinghouse each

retain the right to take any appropriate disciplinary actions against Participants as permitted by the Rules of the Exchange or the Rules of the Clearinghouse, as applicable.

VI-5. ~~Market-Price Manipulation~~

Any manipulation of the market in any Contract is prohibited. It shall be a violation of this Rule for any person to manipulate or attempt to manipulate the price of any Contract traded on or subject to the rules of the Exchange.

VI-12. Disruptive Practices

It shall be a violation of this Rule for any person to engage in any trading, practice, or conduct on or subject to the rules of the Exchange that:

- (a) violates bids or offers;
- (b) demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or
- (c) is, is of the character of, or is commonly known to the trade as, “spoofing” (bidding or offering with the intent to cancel the bid or offer before execution).