Janet McGinness
Corporate Secretary
NYSE Liffe US
20 Broad Street, 18th Floor
New York, NY 10005
(212) 656-2039

By Online Submission

February 22, 2011

Mr. David A. Stawick
Office of the Secretariat
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581

Re: RIN No. 3038-AD09 – Core Principles and Other Requirements for Designated Contract Markets

Dear Mr. Stawick:

NYSE Liffe US LLC ("NYSE Liffe US" or the "Exchange") appreciates the opportunity to comment on the rules, guidance and acceptable practices proposed by the Commodity Futures Trading Commission (the "Commission") regarding the designation and operation of designated contract markets ("DCMs"). NYSE Liffe US is NYSE Euronext's majority-owned, U.S. futures exchange, offering futures and options through a fully electronic trading platform.

Minimum Centralized Market Trading Requirement

In proposing regulations for Core Principle 9, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"),[1] the Commission proposes to require the delisting of a contract that fails to maintain an average trading volume through the centralized market of at least 85%. The Commission indicates that this requirement is necessary to protect the price discovery function in the centralized market, but fails to explain how the requirement accomplishes this. As we will discuss in detail below, it is the Exchange's contention that a one-size-fits-all approach to the protection of price discovery is unworkable and ignores the reality that the price discovery function of a market is but one of many factors that bear consideration, all of which should be appropriately balanced against each other on a market-by-market basis to ensure a beneficial and healthy market. Only in cases where a particular market is deemed to serve a primary price discovery function should such market be subject to a more stringent standard under Core Principle 9, but such standard should be based on a sliding scale that

[1] Pub. L. 111-203, 124 Stat. 1376 (2010).

considers its relative dominance as measured by several factors, including trading volume and open interest. In addition, we do not find persuasive the analysis offered by the Commission in support of its numerical threshold approach and we have a number of concerns regarding the severe adverse affects any numerical threshold could have on competition and innovation.

Historical Perspective on Protection of Price Discovery

We believe a discussion of the historical context of the protection of the price discovery function of futures markets is necessary to properly understand the regulatory goal intended by Core Principle 9. As a result of that context, we propose that the Commission take a significantly different approach.

The Commission's proposed regulations under the amended Core Principle 9 appear to be based on an assumption that all DCMs, in all of their contracts, are providing the primary price discovery function for the commodities underlying their contracts. To be sure, as enshrined in the Commodity Exchange Act (the "CEA") as enacted in 1936, a paramount goal of the CEA and the Commission and its predecessor agencies was, and is, to protect the price discovery function of U.S. futures exchanges. Much has changed since 1936, however. In 1936, futures exchanges traded contracts tied to agricultural commodities For those commodities, at that time, the futures exchanges did generally serve as the primary price discovery venues. Since then, DCMs have introduced contracts on a panoply of futures on everything from metals, energy, interest rate and equity indices to weather and other esoteric commodities. In many cases, DCMs, after some time and enormous investment of resources, have developed futures contracts that have become the dominant price discovery mechanism for the underlying commodity involved. In other cases, DCMs have developed contracts that serve as important tools for segments of a market to achieve risk exposure to the price action in a commodity or an asset class without, however, becoming the predominant price discovery forum for that commodity or asset class. Although these contracts may still play a role in overall price discovery their primary value to market participants may be in serving other important risk management functions.

As an example, there are a number of contracts traded on a number of DCMs where there is a related contract traded on another DCM. In many of these situations, we submit that the primary price discovery function may take place in the trading of the dominant contract. However, the related contract may fulfill an important economic function, such as offering risk exposure in smaller increments or permitting access by a different class of market participant that

is not served by the dominant market. By bringing in a more diverse segment of the market, these related contracts actually enhance the primary price discovery occurring in the dominant contract since there often are price arbitrageurs seeking to profit from any momentary price discrepancies between the two markets. In other cases, the primary price discovery function occurs in the related cash market or a related securities market or markets.

In keeping with the CEA as enacted in 1936, and subsequently amended over many years, including the amendments made by the Commodity Futures Modernization Act of 2000 and the Dodd Frank Act of 2010, we submit that the regulatory approach taken by the Commission should be cognizant of the myriad of developments over the last 75 years in the products, services, and uses by various market participants of contracts offered by DCMs. In doing so, we suggest that the Commission recognize that DCMs offer products that, whether they serve as a primary price discovery venue or not, provide other economically important and useful functions. In fact, it is the Exchange's view that the Commission should balance the other important functions served by a particular market against the price discovery function of the particular market when assessing its compliance with Core Principle 9.

It follows then, that any regulations promulgated under Core Principle 9 principally should be focused on protecting the price discovery function served by those contracts that actually serve as the primary price discovery mechanism for the underlying commodity. To determine which contracts serve as the primary price discovery tool for the commodity involved, we suggest that the Commission adopt a standard where the trading in the futures market involved represents a significant amount of the trading volume, on a notional basis, of the futures and related cash market trading in the commodity or index. In addition, such market should capture the dominant portion of open interest. In cases where there are multiple related markets, such as underlying equity markets, exchange-traded-product markets, and other derivatives markets, we suggest that the Commission find that its Core Principle 9 authority extends only to those futures contracts that represent a material portion of the notional volume among the markets trading the instruments based on the relevant commodity or index. When considering these factors, the Commission should consider them over a significant period of time to avoid having the effects on trading activity of seasonal or multi-year business cycles distort the analysis.

Core Principle 9 Does Not Prescribe the Minimum Centralized Market Threshold

In addition to the fact that we believe that the Commission's proposed approach could be better framed based on the historical developments in the types and uses of futures contracts as set forth above, we have the following concerns regarding the Commission's proposed regulations under Core Principle 9. Core principle 9(A) requires DCMs to "provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading in the centralized market." The core principle does not, however, suggest that this is to be accomplished by requiring that all or even the majority of trades must be executed through the centralized market. Indeed, in other Dodd Frank amendments, where Congress contemplated the possibility of numerical limitations, it explicitly suggested them.[2] With regard to Core Principle 9 it did not. The terms of Core Principle 9(A) also fail to support the Commission's assertion that where most transactions in a DCM contract are executed off the centralized market "there is no price discovery taking place on the DCM such that the protection of the price discovery process of trading in the centralized market is not satisfied." A price discovery function is served by bringing together in one place the prices at which market participants are willing to buy or sell a particular contract. Core Principle 9(B) specifically contemplates the execution of trades other than through the centralized market. Although the price for an off-exchange trade may not be the result of bids and offers submitted to a trading floor or a screen, the price for trades executed off-exchange are the result of a competitive procedure and when reported to a DCM, and thus disseminated to the public, they serve a price discovery function for all market participants, including those in the centralized marketplace. The Commission offers no evidence, and we are not aware of any, that trades contemplated by Core Principle 9(B) have a negative impact on the price discovery process of the markets.

Inadequate Research Fails to Address Multiple Issues

In the proposal, the Commission explains that the 85% threshold was devised by calculating the average amount of trading on a centralized market in 128 existing contracts over a three month period. However, the Commission does not provide a list of the specific contracts used, access to its data or even a description of the data it used to make its calculations, so it is impossible to assess the quality of the data and thus the Commission's results. As a result, we have a number

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[2] *See* Section 726 of Dodd-Frank, providing that in order to mitigate conflicts of interest rules "may include numerical limits on the control of, or the voting rights with respect to" certain Registered Entities.

of initial questions, such as: (1) What proportion of contracts would have been able to comply with the 85% threshold within one year of launch? (2) Was the study, such as it was, limited to futures contracts or were other types of derivatives included, such as options on futures? (3) What order types were included as trades in the centralized market (e.g., trade at settlement)?

Regardless of the data used, the Commission does not explain how this threshold will serve the regulatory purpose of the core principle, which leads to us to ask whether the regulatory purpose can be achieved by other means? Additionally, the Commission notes that it discarded data regarding 410 contracts for which "almost all or all of the trading" was off-exchange because it "believes that the price discovery process in the centralized market is jeopardized where off-exchange transactions" dominate the manner of trading. This analysis is self-validating. In other words, the assumption that "the price discovery process in the centralized market is jeopardized where off-exchange transactions" dominate the manner of trading automatically supports the conclusion that some high percentage of centralized market trading is a necessity for the protection of the price discovery function of the centralized market. At a minimum, the Commission should offer an analysis of the trading off of the centralized market that demonstrates some detrimental effect on the centralized market's price discovery function in the context of each contract and that contract's underlying market or related markets, the extent of participation of different types of market participants, and the extent to which the exchange's prices affects prices in related markets.

Even assuming for argument's sake that the Commission's review and methodology supported its conclusions, it does not address how its review of three months of data supports setting a threshold for centralized market trading over a twelve month period. At a minimum, the Commission should consider whether there are seasonal patterns in which block or EFRP trades are more numerous as hedgers open and liquidate their positions to reflect physical deliveries and inventory drawdowns resulting from seasonal volumes in the related cash market.

Perverse Effects of Minimum Centralized Market Threshold

The Commission's proposed regulation could have a number of perverse effects. The requirement that 85% of trading been conducted through the centralized market will serve as a barrier to the development of new products and new DCMs. When a new futures contract is initially introduced, trading is often overwhelmingly done outside of the centralized market until sufficient liquidity is built. Successful contracts can take years to reach the 85% threshold. If

the proposed regulation is adopted, new contracts will not have the luxury to build upon incremental increases over a period of years but only twelve months to reach essentially full centralized trading. Additionally, the fact that if the contract does not meet the Commission's 85% threshold it will be delisted means that market participants will be hesitant, to say the least, to enter the market for the contract out of fear that within twelve months they may be forced to liquidate existing positions in a dead market.

The regulation's proposed petition procedure, under which a DCM could petition the Commission for a temporary reprieve from a particular contract's "death sentence" if it does not meet the 85% threshold, provides little solace. Few market participants would be willing to risk their capital or their clients' capital by holding positions and trading in a contract with the uncertainty of the long term viability of the product.

With the threat of delisting within twelve months hanging over every new contract it will be difficult to build a market for a new contract and even more difficult to grow a new DCM which will not have the benefit of existing profitable contracts to subsidize the added expense under the proposal of bringing new contracts to market**.** The proposed regulation will severely limit the likelihood that a DCM will seek to list new and innovative products and present an almost insurmountable barrier to the success of a new DCM, further reducing competition.

The proposed requirement that a DCM de-list any contract has serious potential ramifications to those market participants with open positions in the affected contract. The Commission should consider the potential impact to those users with "orphaned" open interest. If a contract is de-listed from all platforms, market participants may be required to hold existing positions to expiration which, depending on market conditions, could have a severe financial impact on holders of the open position. Even the migration of existing open interest from one platform to another platform where a lower central order book requirement is contemplated, such as a Swap Execution Facility ("SEF"), creates a significant disruption to market participants which would have a detrimental effect on the liquidity available in a product. This is particularly true for market participants that may not be permitted to trade on a SEF. If a contract is forced to migrate from a DCM platform to a more opaque structure, the re-development of a central order book market model in the future would be an even greater challenge. In other words, once a product dips below the 85% requirement, it would be extremely challenging for that product to ever re-achieve the 85% requirement because of the significant market disruption created through a de-listing of the product on a transparent platform. In its practical effect, then, it

would kill any future attempts at trying to establish such a market within a DCM environment and doom such markets to opaqueness, perhaps forever. Moreover, the Commission should consider the possibility for manipulation created by its approach. A market participant could itself, or in conjunction with others, realize that a contract is approaching the 85% threshold and engage in ex-pit trades with the intent of bringing the contract under the 85% threshold for its own advantage.

It is also puzzling why the Commission would establish a set of rules that would tend to move contracts from the more highly regulated environment of a DCM to a less regulated platform such as a SEF. On any number of levels, from customer protection issues, to transparency, to price discovery issues (which supposedly support the Commission's proposed regulation), we submit that the Commission's overall objective to protect the public interest would be better served by constructing a regulatory regime that encourages trading activity to remain on more highly regulated DCMs rather than on less regulated platforms.

We request that the Commission consider, as well, the effects of business forces on product development. Due to the enormous costs involved, DCMs do not make decisions to list contracts lightly. On the contrary, a great deal of study and forethought go into the ultimate decision as to whether to list a particular contract. In addition, the cost of maintaining a product listing is enormous. A DCM will naturally seek to limit its potential losses if a particular contract shows little or no chance of success. Placing the additional requirement that such new products would have to feature 85% of its execution in the centralized market on top of the already careful and diligent business decision-making process already observed by DCMs is simply discouraging and would lead to few if any new product offerings from DCMs, let alone the launch of new competitors.

Finally, it is not clear whether the proposed regulation would apply to options on futures. The Commission's release does not specifically discuss whether it included options on futures in the data it reviewed**.** The frequency of trades in options markets tends to be much smaller**;** this is particularly true, for example, in the interest rate market. In addition, options market participants' trading is largely focused on the volatility of the underlying commodity's price and not the price itself. We submit, consistent with our analysis above, that options market trading does not serve as a primary price discovery function. Accordingly, options on futures should not be subject to numerical thresholds.

Suggested Threshold Level

Notwithstanding all of the concerns set forth above, if the Commission determines that some numerical threshold is appropriate, we suggest that to protect competition and not stifle the introduction of innovative, new products, that the threshold only apply after a significant period of time, to allow market participants to become familiar with the product and the product to gain liquidity, and then only after the contract has gained some minimum level of open interest, either on an absolute basis or relative to the combined notional value of all of the related markets. In addition, in determining which trading activity is included as centralized market volume, we suggest that exchange for related risk trades be counted as such. Under current DCM rules, DCMs have no ability to control the volume of such trades and such trades, by their very nature reflect the view of the market participant engaging in the trade that the resulting futures position or liquidation of a futures position created by the trade reflects the value of the related commodity. Finally, if the Commission moves forward with some sort of numerical threshold, it should be cognizant of trading in related contracts. For instance, if trading in a related contract, either on the same DCM or on another DCM, together with a contract meets the numerical threshold in the aggregate, we submit that the price discovery function of the futures markets as a whole is met and therefore should not be found inconsistent with Core Principle 9.

Conclusion

In sum, to insist that a certain percentage of a contract's volume must be traded on a trading floor or screen serves no regulatory purpose where a contract is subject to regulation. Trades that are executed outside the centralized market are subject to the regulatory oversight of the DCM, as well as the Commission. The Commission offers no evidence that these trades, which are submitted to a DCM in accordance with the DCM's rules, harm the price discovery process of the centralized market. Further, in setting an arbitrary threshold the Commission fails to recognize that contracts and markets can have different characteristics that do not lend themselves to a "one-size-fits all" approach. A market may be naturally limited in the number of participants, the amount of trading or even the nature of the trading due to the characteristics of the contract and the related cash market. A futures contract may be fulfilling an important economic purpose for one or more segments of a market, without being the primary source of price discovery for the underlying commodity or index. It does not make regulatory sense for the Commission to determine that a market which serves a legitimate purpose and that is subjected to a full and robust regulatory scheme should not be permitted to exist simply because

it does not meet some arbitrary number. Rather, the determination as to whether the price discovery function in the centralized market is being protected and what requirements may be necessary to protect the price discovery process, should be based on a case-by-case balancing of all the qualities and features of the particular contract, the commodity involved and related markets, as opposed to a single-minded focus on a contract's price discovery function.

Regulatory Services Providers

The Exchange has entered into a regulatory services agreement with National Futures Association ("NFA") whereby NFA provides trade practice and market surveillance as well as certain compliance services including conducting investigations. The Exchange has found this relationship to be beneficial in permitting it to leverage the expertise of NFA to meet its regulatory obligations without building duplicative systems and hiring and training staff redundant to those already employed by NFA. Contracting with a regulatory service provider permits DCMs to ensure that they have available the necessary expertise to meet their regulatory obligations without having to incur the large expense and expending the significant amount of time it would take to build a full compliance system. For new DCMs, contracting with a regulatory service provider can be particularly important for permitting them to enter the market in a more competitive position with an expert market regulation function for protection of the public.

The Commission makes clear in the proposal that even where a DCM retains the services of a regulatory service provider it is ultimately responsible for meeting its regulatory obligations. The Exchange agrees that this is appropriate and is in regular contact with NFA staff regarding the compliance services it provides to the Exchange. In proposed regulation 38.154(c) the Commission provides that a DCM must retain "exclusive authority" in certain regulatory decisions. It is unclear what "exclusive authority" means, however. For example, the Exchange's rules and its regulatory services agreement provide that the Chief Regulatory Officer may refer the matter to a Review Panel with a recommendation to close the investigation, dispose of the investigation through an informal disposition, or commence disciplinary proceedings. The Review Panel then determines the appropriate course.[3] In such a case, if the regulatory service provider were to prepare and present the investigation report to the Review

[3] NYSE Liffe US Rule 705.

Panel**,** or assist the Exchange's Market Regulation Staff's presentation of the matter**,** would the Commission still consider the DCM to be retaining exclusive authority because the ultimate decision to bring a disciplinary action is with a panel properly formed pursuant to the DCM's rules? Similarly, would it be permissible for the regulatory service provider to prosecute a disciplinary proceeding as provided in the Exchange's regulatory services agreement, so long as the ultimate decision to impose a penalty on a respondent, including a possible denial of access to the trading platform, resides with a hearing panel formed pursuant to the DCM's rules?

Proposed regulation 38.155 provides that a DCM must maintain sufficient compliance resources to conduct effective audit trail reviews, trade practice surveillance, market surveillance and real time market monitoring. The proposed regulation also provides that the DCM must annually monitor the size and workload of its compliance staff and ensure its compliance staff and resources are at appropriate levels. The proposed regulations list certain items that should be considered by a DCM in determining the appropriate level of compliance resources and staff. This list does not, however, include whether the DCM has contracted with a regulatory services provider. As noted in proposed regulation 38.154(b), a DCM that contracts with a regulatory services provider must still maintain sufficient compliance staff. Accordingly, the Exchange believes that proposed regulation 38.155 should include as a consideration regarding the appropriateness of compliance staff and resources whether the DCM has contracted with a regulatory services provider. The Commission should also make clear that a DCM meets its requirement to have sufficient compliance staff to address unusual market or trading events where its regulatory services provider has sufficient resources for addressing these unusual events.

<u>Risk Controls for Trading</u>

The Exchange agrees with the Commission that it is important that DCMs have in place risk controls to reduce the risk of market disruptions and to ensure orderly markets. The Exchange subjects orders coming into its trading platform to dynamic price limits to prevent the execution of orders with manifest pricing errors. Additionally, the Exchange's trading platform has in place an anti-cascading logic to prevent triggering of stop orders that would result in disruptive volatile price moves.

Proposed Section 38.255 prescriptively mandates that a DCM's risk control mechanisms must include "restrictions that pause or halt trading in market conditions prescribed by the [DCM]." We believe that proposed regulation's mandate that a DCM's panoply of risk controls must include trading pauses and halts for all contracts is unduly prescriptive. A DCM should be left discretion to implement a suite of controls based on a number of factors such as the characteristics of the commodity traded by the market, the number of market participants, the market's liquidity, and the correlation of trading in the market to related derivatives, securities or cash markets. As part of the proposed regulation the Commission proposes that where a contract is based on equity securities or the level of an equity index that risk controls must be coordinated with controls placed on national security exchanges. In certain cases a contract is based on underlying equity securities or the level of an equity index that is not subject to halts or stops (e.g., foreign equity securities). In such a case, it would not make sense to put in place security style circuit breakers as this could result in a halt on trading in the contract while the underlying equity or index continues to trade in a liquid and orderly, although volatile, market. Moreover, regardless of whether the underlying equity or index is subject to controls, blindly applying risk controls meant for equities to futures contracts is not appropriate. Instead, DCMs should have the flexibility to put in appropriate risk controls for their markets. In implementing such controls, the DCM may take into account the controls, if any, on the underlying equity index but it should not be required to adopt identical controls. Each DCM must be able to adopt those controls that are appropriate for their markets.

Market Access

The Commission proposes to require a DCM to require a member or market participant to consent to its jurisdiction prior to granting either access to its markets. With regard to market participants, the Commission does not make clear whether this requirement only applies to direct access by the market participant. The Exchange permits only members to directly access its trading platform.[4] Accordingly, the Exchange asks the Commission to confirm that it would not consider a DCM to be "granting" market participants access to its markets, thus necessitating that it require market participants to consent to the DCM's jurisdiction, unless it permits market participants direct access to the DCM's trading platform.

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[4] *See*, NYSE Liffe US Rulebook Chapter 3.

Annual Audit Trail Compliance Review

Proposed regulation 38.553 requires a DCM to verify compliance with its audit trail and recordkeeping requirements by conducting annual reviews of all members and market participants. Similar to the granting of market access, the Exchange asks the Commission to confirm that the requirement to conduct annual reviews of all market participants is limited to only those that are granted direct access to the DCM's trading platform. If the regulation is read to include all market participants regardless of how they access the DCMs trading platform, it would be virtually impossible to conduct the large number of required annual reviews.

Communications with the Commission

Proposed regulation 38.401(b) requires a DCM to provide accurate and complete information in "any communication with the Commission." The Exchange certainly recognizes the importance of the Commission obtaining accurate and complete information in connection with its regulation of DCMs. The Exchange is concerned, however, that as written the regulation may chill an open and frank dialogue between DCM and Commission staff. The regulation applies to "any" communication with the Commission. In addition to formal filings with the Commission, DCM staff and Commission staff have numerous contacts, often to discuss situations and circumstances that are quickly developing and require people to, in some cases, speak without complete information. If DCM staff must worry that the information they provide might prove to have been inaccurate or incomplete and result in a violation of the regulation they may feel constrained from directly responding to Commission staff inquiries or proactively reaching out to Commission staff. To be clear, the Exchange is not suggesting that it is ever appropriate to knowingly provide inaccurate or incomplete information to the Commission or the Commission staff. Rather, it is concerned that the regulation could lead to hesitancy to provide information to Commission staff for fear that it might later prove to be incomplete, exactly at a time when communication between the DCM and Commission staff may be most important. Accordingly, we ask that the proposed regulation be clarified to apply only to formal filings made with the Commission.

The proposed regulation applies the same strict liability standard without any intent requirement for all of a DCM's "information required to be transmitted or made available to market

participants and the public, including its Web site or otherwise" Obviously, the Exchange makes every effort to post the information required to be made public accurately within the required timeframes. For several data elements, however, the Exchange must rely on data sent to it by clearing service providers, and member firms. It is inappropriate to set a strict liability standard over aggregated data that Part 16 of the Commission's rules requires the Exchange to make public when it does not entirely control the generation of component parts of that data.

Size of Block Trades

Guidance for Core Principle 9 in proposed Appendix B provides that in determining the minimum size for a block trade it should be a size that would not be able to be filled in its entirety without a "substantial price concession." It is not clear what level of price concession would be substantial. For some markets any deviation from a single price could be substantial. The Exchange recommends that the Commission retain the standard from its 2008 proposed rulemaking that the minimum block trade size be larger than the size at which an order can be filled in its entirety at a single price.[5] Also, proposed Section 38.503(g)(2) requires a DCM to "publicize the details of each block trade immediately upon receipt of the transaction report." We submit that the DCM should not be required to publicize the fact and details of a block trade until it has approved the transaction. Otherwise, the DCM may be publicizing a transaction that will later be rejected which would be more confusing and possibly misleading for market participants.

Equity Transfers

Proposed regulation 38.5 provides that a DCM must provide the Commission with certain information within one business day after it enters into a firm obligation to transfer ten percent or more equity interest. The Exchange agrees that it is important for the Commission to receive information regard significant transfers of equity interest in a DCM so as to analyze the effect such transfer may have on the DCM's self-regulatory responsibilities. The information requested, however, will require that certain information be collected and formatted, which will take time. For example, the proposed regulation requires that a DCM provide changes to

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[5] 78 Fed. Reg. 54097, 54104 (Sep. 18, 2008).

corporate documents, a chart outlining new organizational structures and a description of the purpose and impact of the equity interest transfer. The Exchange suggests that rather than requiring all of this information within one business day, the DCM be required to provide notice to the Commission within one business day, but have ten business days to provide the additional information. This additional time will permit the DCM to provide more accurate and meaningful information for Commission review. The Exchange also requests that the Commission clarify that the requirement to provide "preliminary agreements" only pertains to agreements that have been executed by the relevant parties and not drafts that may have been exchanged for purposes of discussion.

Effective Date for Existing DCMs

The Commission proposes in Rule 38.3(g) to require an existing DCM to certify that it is in compliance with the core principles and related regulations, as revised, within 60 days of the effective date of the final regulations. The Exchange recognizes the importance of a DCM being in compliance with the revised core principles in a timely manner, but is concerned that 60 days will not be sufficient. Even if the time for coming into compliance measured from publication of the final regulations would effectively be 90 or 120 days, the Exchange is unsure that this will be sufficient.

Certain of the proposals call for or will necessarily require the implementation of automated systems.[6] Significant time is required to determine the types of changes that will be required to existing systems, to implement the necessary coding and to conduct adequate testing before such systems will be operational. Even if work were to begin when the regulations are finalized, it would still take significantly more than 60 or even 120 days. In addition to the time needed for setting up systems, any rule changes may have to be reviewed and approved by the DCM's management committees and boards of directors before they can be implemented. Finally, there may also be changes to contracts with third-party service providers that must be negotiated and executed. For these reasons, the Exchange suggests that the Commission provide existing DCMs with at least 18 months from the effective date to certify compliance with the final regulations. During this time, of course, DCMs must remain in compliance with all existing core principles.

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[6] E.g., core principle 2 regulation 38.156, core principle 4 regulation 38.251 and core principle 20.

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I would be happy to arrange for appropriate NYSE Liffe US Staff to discuss any of the issues raised in this letter with the Commission or its staff. Please feel free to contact me at (212) 656-2039.

Respectfully submitted,

Janet McGinness