

Questions Pending as of July 13, 2001, Regarding the Nasdaq LIFFE, LLC Contract Market Application

I. DESIGNATION CRITERION

1. Designation Criterion 2 - Capacity to Prevent Market Manipulation.

a. NASDR will be responsible for the large trader reporting system. Please see questions regarding Core Principle 5.

2. Designation Criterion 3 - Rules to Ensure Fair and Equitable Trading. We

understand that responses to many of the questions below may be provided during the compliance/surveillance demonstration at NASDR.

a.

b. Pre-negotiation of a trade followed by entry of the buy side by one member and entry of the sell side by another member would constitute pre-arranged trading in violation of Exchange rules. Do the Exchange rules clarify that under the pre-negotiation trading procedures, one member must enter both sides?

c. During the July 11 conference call, the Exchange informed Commission staff that the Exchange would be revising its rules and trading procedures to require prior, written customer consent for pre-negotiation, and require a separate, specific disclosure to customers concerning pre-negotiation with respect to customer accounts over which a member has discretion. We understand that those rule changes and disclosure statements are to be provided to us.

d. Under Trading Procedures 4.8.2 and 4.8.3, as clarified by Exchange officials in a conference call on July 11, 2001, orders for which matching business has been found by pre-negotiation may be entered to the Trading Host without delay between submission of the buy and sell orders involved, if both a bid (buy order) and an offer (sell order) are present in the Trading Host for the relevant contract month or strategy. We understand that these rules are being revised to so clarify and, as mentioned above, we will be provided with such changes.

e. How many NASDR staff would be included in each department or group, and how many in each department or group will be dedicated to Exchange surveillance?

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q. What is the depth of book seen by market participants?

3. Designation Criterion 4 - Trade Execution Facility.

4. Designation Criterion 5 - Financial Integrity of Transactions. Questions have also been provided to Michael Philipp, as of 7/13 concerning the clearing aspect.

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h. Will the Exchange or NASDR be joining the Joint Audit Committee? If not, what steps, if any, will the Exchange or NASDR take to coordinate its examinations and financial surveillance with other SROs?

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m.

5. Designation Criterion 6 - Disciplinary Procedures. No questions or comments at this time.
6. Designation Criterion 7 - Public Access to Rules, Regulations, and Contract Specifications. No questions or comments at this time
7. Designation Criterion 8 - Ability to Obtain Information. No questions or comments at this time.

II. COMMON PROVISIONS

III. DESIGNATION CORE PRINCIPLES

1. Core Principle 2 – Compliance with Rules. All questions or comments are found in designation criterion 3 above.
2. Core Principle 3 – Contracts Not Readily Subject to Manipulation.
 - a.

aware of the guidelines established by the President's Working Group on Financial Markets' pertaining to trading halts?

3. **Core Principle 4 – Monitoring of Trading.**
No questions or comments at this time.
4. **Core Principle 5 – Positions Limitations or Accountability.**
NASDR will be responsible for the large trader reporting system. However, no specific position limits or accountability rules have been specified. Presumably, such rules will be adopted as part of a commodity contract.
 - a. Will NASDR be responsible for reviewing hedge exemption applications for traders that need to hold additional positions above the speculative position limit? How often will large trader reports be produced? What is the aggregation definition that NASDR will use?
 - b. NOTE. Since NASDAQ LIFFE does not currently have a commodity contract under consideration with its application Core Principle 5: Position Limits or Accountability is not required to be approved as a contract market at this time. However, depending on the commodity contract position limits or accountability rules may be required.
5. **Core Principle 6 - Emergency Authority.** No questions or comments at this time.
6. **Core Principle 7 - Availability of General Information.** No questions or comments at this time.
7. **Core Principle 8 - Daily Publication of Trading Information.** No questions or comments at this time.
8. **Core Principle 9 – Execution of Transactions.** No questions or comments at this time.
9. **Core Principle 10 – Trade Information.** No questions or comments at this time.
10. **Core Principle 11 - Financial Integrity of Contracts.** No questions or comments at this time.
11. **Core Principle 12 Protection of Market Participants.** No questions or comments at this time.

12. **Core Principle 13 - Dispute Resolution.** The agreement for arbitration services between Nasdaq IIFFE and NASD Dispute Resolution has not been received. When will this agreement be received?

13. **Core Principle 14 – Governance Fitness Standards.** No questions or comments at this time.

14. **Core Principle 15 – Conflicts of Interest.** No questions or comments at this time.

15. **Core Principle 16 – Composition of Boards.** Unless members gain an ownership interests, no consideration of this core principle is necessary.

16. **Core Principle 17 – Recordkeeping.** No questions or comments at this time.

17. **Core Principle 18 – Antitrust Considerations.** No questions or comments at this time.