

**Application for Contract Market Designation  
Compliance with Designation Criteria and Core Principles \***

CONTRACT MARKET CRITERIA FOR DESIGNATION	CCFE APPLICATION
<p><b>Sec. 5(a) Applications</b> – “A board of trade applying to the Commission for designation as a contract market shall submit an application to the Commission that includes any relevant materials and records the Commission may require consistent with the Act.”</p>	<p>See the Appendices submitted with CCFE’s application for contract market designation.</p>
<p><b>Sec. 5(b) Criteria for Designation</b></p>	
<p><b>Designation Criterion 1 – In General:</b> “To be designated as a contract market, the board of trade shall demonstrate to the Commission that the board of trade meets the criteria specified in this subsection.”</p>	<p>See the Appendices submitted with CCFE’s application for contract market designation.</p>
<p><b>Designation Criterion 2 – Prevention of Market Manipulation:</b> “The board of trade shall have the capacity to prevent market manipulation through market surveillance, compliance, and enforcement practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.”</p>	<p>CCFE’s Market Regulation Department is comprised of employees and agents of CCFE, including its Compliance Service Provider, the National Futures Association (the “NFA”). CCFE will conduct real-time monitoring of trading with the assistance from and coordination with the CCX Help Desk and will be ultimately responsible for enforcing disciplinary rules designed to deter abuses (<i>see Appendix D-2</i> for information regarding CCFE’s real-time monitoring). CCFE has also contracted with the NFA to perform certain of its market surveillance, compliance and enforcement functions as its designated Compliance Service Provider. As described in greater detail in <i>Appendix D-1</i>, the NFA will provide CCFE with Trading Privilege Holder application processing services, market and trade practice surveillance and ongoing surveillance of the financial and operational status of Trading Privilege Holders. Market Regulation Department personnel will coordinate with the NFA to address market actions deemed appropriate as a result of NFA’s ongoing market surveillance activities.</p> <p>Discipline and enforcement rules designed to deter abuses are contained in Chapter 7 of the Rulebook. The Review Panel, Disciplinary Panel and Appeals Panel of CCFE will enforce compliance with the Rules in conjunction with the surveillance services provided by NFA. Under Rule 705, the Review Panel will review investigation reports submitted</p>

\*Terms used but not defined herein have the meanings assigned to them in the Rulebook (*see Appendix B-1*). References to Appendices refer to those indexed documents submitted with CCFE’s application for contract market designation.

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	to it by the NFA and decide on the initiation of disciplinary action. The Disciplinary Panel will conduct disciplinary hearings and render a decision following each hearing pursuant to the procedures detailed in Chapter 7. Under Rule 717, the decisions of the Disciplinary Panel may be appealed before the Appeals Panel.
<p><b>Designation Criterion 3 – Fair and Equitable Trading:</b> “The board of trade shall establish and enforce trading rules to ensure fair and equitable trading through the facilities of the contract market, and [sic] the capacity to detect, investigate, and discipline any person that violates the rules.”</p>	<p>CCFE will establish and enforce trading rules to ensure fair and equitable trading. As described in greater detail in <i>Appendix C-4</i>, all Trading Privilege Holders and Authorized Traders (collectively, “Participants”) will have equal access to the CCFE Trading Platform, including information regarding prices, bids and offers. Orders will be executed impartially by the CCFE Trading Platform in accordance with the principles set forth in Chapter 4 of the Rulebook and the procedures included in <i>Appendix C-1</i>. Under Rule 614, pre-arranged trades that are not expressly permitted will be prohibited. The Rulebook also prohibits trading ahead of or against Customer Orders (Rules 610 and 611) and contains other rules to prevent trading-related abuses. The NFA will maintain procedures to detect abuses such as wash trading, accommodation trades, trading ahead and other types of market manipulation or fraud (<i>see Appendices D-1 and D-3</i>).</p> <p>CCFE will permit Exchange of Future for Physical and Block Trade transactions on the terms set forth in Rules 411 and 412, respectively.</p>
<p><b>Designation Criterion 4 – Trade Execution Facility:</b> “The board of trade shall (A) establish and enforce rules defining, or specifications detailing, the manner of operation of the trade execution facility maintained by the board of trade, including rules or specifications describing the operation of any electronic matching platform; and (B) demonstrate that the trade execution facility operates in accordance with the rules or specifications.”</p>	<p>CCFE will establish its trade execution facility, the CCFE Trading Platform, by utilizing network architecture operated by IntercontinentalExchange, Inc. <i>Appendix C-2</i> describes the arrangement between Chicago Climate Exchange, Inc., the parent company of CCFE, and IntercontinentalExchange, Inc. regarding the use of the CCFE Trading Platform. <i>Appendix C-1</i> describes the functionality of the CCFE Trading Platform. The capabilities of the CCFE Trading Platform with respect to quotation, Order placement, cancellation and matching are detailed in <i>Appendix C-1</i>.</p> <p>Order entry procedures and acceptable Order types are further described in Rules 403 and 404, respectively. The various alternatives of the trade-matching algorithm employed by the CCFE Trading Platform are reflected in Rule 405. Additional details regarding the trade-matching algorithms are set forth in <i>Appendix C-1</i>, which also contains certain information regarding the testing and review with respect to the CCFE Trading Platform.</p>
<p><b>Designation Criterion 5 – Financial Integrity of Transactions:</b> “The board of trade shall establish and enforce rules and procedures for ensuring the financial integrity of transactions entered into by or through the facilities of the contract market,</p>	<p>Under Rules 503 and 504, Trading Privilege Holders and Clearing Members are required to comply with minimum financial and related recordkeeping requirements. In addition, CCFE will have the authority to impose additional minimum financial requirements on Trading Privilege Holders and Clearing Members in accordance with Rule 507.</p>

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<p>including the clearance and settlement of the transactions with a derivatives clearing organization.”</p>	<p>Separately, Rule 506 reaffirms the obligations Trading Privilege Holders and Clearing Members have under Commission regulations with respect to the treatment of Customer funds. The NFA will maintain monitoring procedures to ensure compliance with minimum financial requirements (<i>see Appendix D-1</i>).</p> <p>As provided in Rule 304, all Trading Privilege Holders must be Clearing Members or have in place a financial guarantee by a Clearing Member. If a Clearing Member revokes its guarantee with respect to any Trading Privilege Holder, the Trading Privileges of that Trading Privilege Holder will automatically be suspended (Rule 307(b)). Clearing Members must be members of The Clearing Corporation. The general financial and other eligibility criteria and default fund contribution obligations established by The Clearing Corporation for its members will apply. The Clearing Corporation will establish margins for CCFE clearing participants. Margin requirements for customers of Trading Privilege Holders will be determined by CCFE on a contract-by-contract basis (Rule 515). The Clearing Corporation and CCFE will work with each other to coordinate the margin requirements for CCFE Contracts.</p> <p>All clearing services with respect to Contracts will be provided by The Clearing Corporation, pursuant to a clearing service agreement with Chicago Climate Exchange, Inc. (<i>see Appendix E-1</i>).</p>
<p><b>Designation Criterion 6 – Disciplinary Procedures:</b> “The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.”</p>	<p>In the case of rule violations, Participants will be subject to CCFE’s disciplinary authority, which will be exercised in accordance with the procedures set forth in Chapter 7 of the Rulebook. As described in response to <i>Criterion 2</i>, the Review Panel and Disciplinary Panel of CCFE, in conjunction with the NFA, will administer disciplinary proceedings. The Disciplinary Panel will conduct hearings in connection with any disciplinary proceeding and has broad authority to impose sanctions it deems fitting under the circumstances. Rule 715 specifies that sanctions imposed by the Disciplinary Panel may include the termination or suspension of Trading Privileges, or the barring or suspension of association with a Trading Privilege Holder. Rule 307 authorizes CCFE to revoke, suspend, limit, condition, restrict or qualify the Trading Privileges of any Trading Privilege Holder if CCFE finds such action to be in the best interests of CCFE.</p>
<p><b>Designation Criterion 7 – Public Access:</b> “The board of trade shall provide the public with access to the rules, regulations, and contract specifications of the board of trade.”</p>	<p>The Rulebook, all amendments thereto and notices and policies thereunder, as well as the specifications for all Contracts from time to time traded on CCFE, will be publicly available on CCFE’s website. In addition, CCFE will notify Trading Privilege Holders of any new or modified Rules of CCFE and any other relevant information.</p>

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<p><b>Designation Criterion 8 – Ability to Obtain Information:</b> “The board of trade shall establish and enforce rules that will allow the board of trade to obtain any necessary information to perform any of the functions described in this subsection, including the capacity to carry out such international information-sharing agreements as the Commission may require.”</p>	<p>Pursuant to Rule 502, Trading Privilege Holders will be required to make their books and records available for inspection by, and deliver copies thereof to, CCFE and the NFA upon request. Rule 702 also provides that each Trading Privilege Holder, Authorized Trader or other person under CCFE’s jurisdiction is required to respond to interrogatories and furnish documentary materials and other information requested by CCFE in connection with disciplinary investigations. Furthermore, Rule 211 enables CCFE to enter into such information-sharing arrangements as the Commission may require.</p>

CONTRACT MARKET CORE PRINCIPLES	CCFE APPLICATION
<b>Sec. 5(d) Core Principles for Contract Markets</b>	
<b>Core Principle 1 – In General:</b> “To maintain the designation as a contract market, the board of trade shall comply with the core principles specified in this subsection.”	See the Appendices submitted with CCFE’s application for contract market designation.
<b>Core Principle 2 – Compliance with Rules:</b> “The board of trade shall monitor and enforce compliance with the rules of the contract market, including the terms and conditions of any contracts to be traded and any limitations on access to the contract market.”	Rules regarding discipline and enforcement are set forth in Chapter 7 of the Rulebook. CCFE has delegated certain of its monitoring and enforcement functions to the NFA, as its Compliance Service Provider. NFA will have the authority to investigate any potential rule violations and to submit investigation reports to CCFE’s Review Panel. As described in response to <i>Designation Criterion 2</i> , the Disciplinary Panel will conduct a hearing to make findings and impose sanctions. Appeals of any decisions by the Disciplinary Panel will be held before the Appeals Panel in accordance with Rule 717.
<b>Core Principle 3 – Contracts Not Readily Subject to Manipulation:</b> “The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.”	Trading on or through CCFE will be limited to Futures or Options on Futures that are not readily susceptible to manipulation. CCFE expects that new Contracts will generally be listed by self-certification under Commission Regulation § 40.2.
<b>Core Principle 4 – Monitoring of Trading:</b> “The board of trade shall monitor trading to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process.”	CCFE and the NFA, as CCFE’s Compliance Service Provider, will implement practices and procedures to monitor trading to prevent manipulation, price distortion and disruptions of the delivery or cash-settlement process ( <i>see Appendices D-1, D-2 and D-3</i> ). Market Regulation Department personnel will coordinate with the NFA to address market actions deemed appropriate as a result of NFA’s ongoing market surveillance activities.
<b>Core Principle 5 – Position Limitations or Accountability:</b> “To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.”	Position limits and reportable position thresholds will be set by CCFE (Rules 408 and 409), and will comply with the general criteria set forth in Appendix B to Part 38 of the Commission Regulations. Rule 409 regarding position limits contemplates exemptions for certain qualified hedge transactions. Paragraph (e) of that Rule provides for aggregation ( <i>i.e.</i> , all positions in accounts for which a particular Person, by power of attorney or otherwise, directly or indirectly controls trading, are included in determining such Trading Privilege Holder’s compliance with applicable position limits), with paragraph (g) providing the applicable parameters for determining “control”. The NFA will monitor compliance with the position limits and reportable position thresholds as detailed in <i>Appendices D-1 and D-3</i> . Violations of such Rules will be

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	sanctioned in accordance with Rule 715.
<p><b>Core Principle 6 – Emergency Authority:</b> “The board of trade shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, where necessary and appropriate, including the authority to—(A) liquidate or transfer open positions in any contract; (B) suspend or curtail trading in any contract; and (C) require market participants in any contract to meet special margin requirements.”</p>	<p>Procedures and guidelines for the exercise of emergency authority by CCFE are set forth in Rule 414. Among other things, that Rule requires CCFE to notify the Commission of any emergency action taken, or proposed to be taken, and to document its decision-making process and reasons for using its emergency action authority. Any conflicts of interest arising in connection with emergency actions will be addressed in accordance with the principles set forth in Rule 210. The measures available to CCFE in the case of an emergency include each of the items listed in Appendix B to Part 38 of the Commission Regulations. In addition, measures available to CCFE concerning system redundancy, reliability and disaster recovery are further detailed in <i>Appendix C-1</i>.</p>
<p><b>Core Principle 7 – Availability of General Information:</b> “The board of trade shall make available to market authorities, market participants, and the public information concerning—(A) the terms and conditions of the contracts of the contract market; and (B) the mechanisms for executing transactions on or through the facilities of the contract market.”</p>	<p>See the response to <i>Designation Criterion 7</i> above.</p>
<p><b>Core Principle 8 – Daily Publication of Trading Information:</b> “The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.”</p>	<p>CCFE will publish information regarding settlement prices, volume, open interest and opening and closing ranges for actively traded Contracts on a timely basis on its website and through one or more market data vendors.</p>
<p><b>Core Principle 9 – Execution of Transactions:</b> “The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions.”</p>	<p>As described in response to <i>Designation Criterion 3</i> and <i>4</i> above, Orders will be entered into the CCFE Trading Platform in accordance with the procedures set forth in Rules 403 and 404 and executed impartially in accordance with the principles set forth, and the procedures referred to, in Rule 405. The block trading procedures reflected in Rule 412 are designed to ensure that block trading will not compromise the integrity of prices or price discovery in the relevant market. Ongoing testing and review procedures with respect to the CCFE Trading Platform are summarized in <i>Appendix C-1</i> (see also <i>Appendix C-8</i> regarding results of</p>

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	recent testing).
<p><b>Core Principle 10 – Trade Information:</b> “The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules of the contract market.”</p>	<p><i>Appendix C-1</i> submitted herewith describes how the CCFE Trading Platform and related systems employed by CCFE will record full data entry and trade details and safely store audit trail data. Rule 403 specifies Order entry and ticket procedures. Rule 407 sets forth the principles to be applied in the case of error in the handling of Orders after the relevant trade is completed.</p>
<p><b>Core Principle 11 – Financial Integrity of Contracts:</b> “The board of trade shall establish and enforce rules providing for the financial integrity of any contracts traded on the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization), and rules to ensure the financial integrity of any futures commission merchants and introducing brokers and the protection of customer funds.”</p>	<p>See the response to <i>Designation Criterion 5</i> above.</p>
<p><b>Core Principle 12 – Protection of Market Participants:</b> “The board of trade shall establish and enforce rules to protect market participants from abusive practices committed by any party acting as an agent for the participants.”</p>	<p>As described in response to <i>Designation Criterion 3</i> above, the Rulebook prohibits trading ahead of or against Customer Orders (Rules 610 and 611); it also addresses potential abuses related to withholding, withdrawing or disclosing Orders (Rules 612 and 613, <i>see</i> also the Order handling procedures described in Rule 403) and contains a broad prohibition against fraudulent acts and market manipulation (Rules 601 and 603). Separately, the Rulebook prohibits any fraudulent or misleading communications relating to the purchase or sale of any Contract (Rule 512) and establishes a due diligence standard with respect to the handling and execution of Customer Orders (Rule 513). In addition, as described in response to <i>Designation Criterion 2</i> above, the NFA will provide surveillance practices and procedures to protect market participants, as detailed in <i>Appendices D-1</i> and <i>D-3</i>.</p>
<p><b>Core Principle 13 – Dispute Resolution:</b> “The board of trade shall establish and enforce rules</p>	<p>Chapter 8 of the Rulebook provides for the resolution of disputes involving Trading Privilege Holders, or Trading Privilege Holders and their Customers, through arbitration conducted by the NFA, pursuant to</p>

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regarding and provide facilities for alternative dispute resolution as appropriate for market participants and any market intermediaries.”	NFA’s Code of Arbitration or NFA’s Member Arbitration Rules, as applicable. CCFE understands that NFA as an institution and the dispute resolution mechanisms administered by it satisfy the pertinent criteria set forth in Appendix B to Part 38 of the Commission Regulations.
<b>Core Principle 14 – Governance Fitness Standards:</b> “The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility (including any parties affiliated with any of the persons described in this paragraph).”	Rule 206 of the Rulebook sets forth the eligibility criteria for persons serving as members of the Board, any Review Panel, any Disciplinary Panel, any Appeals Panel or any other “disciplinary committee”, “arbitration panel” or “oversight panel” (all as defined in Commission Regulation § 1.63). A Person may qualify for Trading Privileges pursuant to the procedures for platform access provided in <i>Appendix C-4</i> and in accordance with the provisions of Rule 304.
<b>Core Principle 15 – Conflicts of Interest:</b> “The board of trade shall establish and enforce rules to minimize conflicts of interest in the decision making process of the contract market and establish a process for resolving such conflicts of interest.”	CCFE’s methods to ascertain the presence of conflicts of interest and to make decisions in the event of such conflicts are described in Rule 210. Limitations on the use or disclosure of material non-public information gained through the performance of official duties by Board or committee members or Exchange employees are contained in Rule 209.
<b>Core Principle 16 – Composition of Boards of Mutually Owned Contract Markets:</b> “In case of a mutually owned contract market, the board of trade shall ensure that the composition of the governing board reflects market participants.”	Not applicable.
<b>Core Principle 17 – Recordkeeping:</b> “The board of trade shall maintain records of all activities related to the business of the contract market in a form and manner acceptable to the Commission for a period of 5 years.”	CCFE will maintain records of all activities related to its business for a period of five years and in accordance with Commission Regulation § 1.31. Each Trading Privilege Holder and Clearing Member is obliged to maintain all requisite books and records for five years from the date such books and records were prepared (Rule 502).
<b>Core Principle 18 – Antitrust Considerations:</b>	CCFE believes that its Rulebook and business plan have been designed to avoid unreasonable restraints of

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<p>“The board of trade shall endeavor to avoid—  (A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or  (B) imposing any material anticompetitive burden on trading on the contract market.”</p>	<p>trade or the imposition of any material anticompetitive burden on trading. In particular, access to CCFE will not require the acquisition of any equity interest but will be available to a broad range and potentially unlimited number of participants, on a fair, equitable and timely basis. CCFE will operate through precise and predetermined electronic algorithms, without discrimination among different users or user groups. Trade information will be disseminated both to Participants and to the public on a continuous basis.</p>