

MEMBERSHIP & TRADING

JANUARY 2001

FINEX[®] A GUIDE TO MEMBERSHIP AND TRADING ON THE EXCHANGE

OVERVIEW

- MEMBERSHIP:** Memberships in FINEX and FINEX Europe may be purchased or leased at privately negotiated fees.
- CAPITAL:** Minimum \$25,000 deposit with Clearing Member.
- TRADING:** Dublin: between the hours of 8:00 to 14:00 (3:00 to 9:00 NY time). New York: 13:05 to 20:00 (8:05 to 15:00 NY time)
- ADMINISTRATION:** The Exchange assists applicants with regulatory filings and with the ongoing administration.
- SUPPORT:** The Exchange actively supports those interested in making a career in futures trading.
- TRAINING:** The Exchange provides training and simulated trading.
- CONTACT:** Ann Carroll, Head of Membership - Europe.

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Dublin

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The material presented here is for general information. All matters with respect to contract terms are subject to and superseded by Exchange rules; current rules should always be consulted. The values stated have been compiled from sources believed to be accurate and current values should always be consulted. The Exchange assumes no responsibility for errors or omissions. All examples are for illustrative purposes only and should not be construed as investment advice.

INTRODUCTION

On June 10, 1998, **The New York Board of Trade** was formed from the merger between the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE) and the New York Cotton Exchange (NYCE®).

In 1985, the NYCE established FINEX as its financial instrument division. This establishment was in recognition of the growing importance of the financial derivatives sector and the need to provide this sector with distinct products and services. FINEX began its trading operations with the launch of the U.S. Dollar Index® (USDIX®). In 1992, FINEX extended its trading hours by adding an evening session in New York, which offered open outcry trading during European and Asian hours. In 1994, the NYCE established FINEX Europe in Dublin as a complementary open outcry trading facility. FINEX specialises in the trading of currency futures and futures options contracts.

MEMBERSHIP / LICENSING

Exchange membership falls into the following categories:

1. **Clearing Member:** A Clearing Member (usually a large institution) guarantees the trading of its customers to the Exchange and is responsible for payment and collection of funds to the clearing house.
2. **FINEX License Holder:** Eligible to trade Cotton options and FCOJ options in New York and FINEX contracts in New York and Dublin. Upon request they also may be eligible to trade NYFE contracts for their own account.
3. **European Permit Holder:** Eligible to transact FINEX contracts in Dublin only.
4. **Permitted Organisation:** Eligible to purchase and lease permits and supply required capital to traders affiliated to the Organisation.

Membership/licenses/permits (known as seats) are available for purchase or through a lease arrangement. A number of FINEX Dublin seat holders are presently willing to lease, at a nominal charge, to encourage new entrants. Leasing avoids the need to tie up scarce capital in a seat purchase.

Those interested in purchasing or leasing a European Permit should contact the Exchange's Membership Department in Dublin or in New York.



TRADING PRIVILEGES

Trading on the Exchange floor is only permitted by individuals with a seat, who register with the U.S. National Futures Association (NFA®) and who undertake Exchange-sponsored training, which includes simulated trading and membership review. Training can be a relatively straightforward process for those with an aptitude for trading and it usually can be completed in a period of one to three months. This training intends to provide the applicant with the practical knowledge necessary to begin trading. In addition, the Commodity Futures Trading Commission (CFTC) requires prospective traders to complete an ethics training course. If an applicant requests trading privileges he/she must produce financial documentation showing a net worth (i.e. liquid assets) of at least \$25,000 plus a guarantee from a clearing member. Documentation could be a current bank statement.

CAPITAL REQUIREMENTS

All trades on the Exchange are guaranteed by Members of the Clearing House, which is owned by the Exchange. Traders therefore need to establish an account with a clearing member firm in order to trade on the Exchange. It is possible to negotiate with a number of clearing members, some of whom specialise in servicing the individual traders (locals).

If an applicant wishes to become a Trading Member of the NYCE, then financial documentation showing net worth of minimum \$25,000 must be produced. If the applicant is leasing a seat a minimum \$25,000 must be deposited with the chosen clearing member.

The amount of capital required by the clearing members is negotiable, based on the experience of the trader and the maximum position size that he wishes to control.

Seat holders also require a buffer against trading losses and sufficient capital to cover initial overheads and operating expenses. In the case of European permits, such capital may be supplied or maintained by the trader's Permitted Organisation.

TRADING HOURS

FINEX Europe's trading hours, which are dictated by New York trading hours, normally occur from 8:00am to 14:00pm (i.e. 3:00am to 9:00am New York time). FINEX New York trades 13:05pm to 20:00pm (8:05am to 15:00pm New York time)

BROKERING AND TRADING

Seat holders may transact for themselves (i.e. proprietary trading) and/or act as executing agents for others (i.e. floor brokering). The Exchange rules require that priority be given to customer orders by members who trade for themselves and broker for others. Seat holders who trade only for their own account are known as locals. Those who trade both for themselves and others are known as dual traders and must register as a Floor Broker.

This role flexibility may enable dual traders to cover day to day expenses by acting as a floor broker and taking on proprietary trading positions when circumstances seem appropriate. Presence on the Exchange floor enables traders to monitor positions and keep in touch with market developments.

In the case of FINEX Europe, some major financial institutions execute their own business through independent floor brokers with operations on the FINEX Europe floor. FINEX Europe members who register as floor brokers can seek business from brokerage houses, banks and fund managers, among others.

Locals and dual traders perform a valuable role in providing liquidity on the Exchange floor. Because of the Exchange's price transparency, the local's presence on the floor can put them on an equal footing with even the most sophisticated traders in terms of price information and access to the marketplace.

ESTABLISHMENT

Establishment as a FINEX Europe broker or local is relatively straightforward and inexpensive.

- a) Starting up: An individual may choose to establish in his or her own name (sole trader) or may form a Limited Company to do so. Irish resident individuals will pay income tax on profits. By forming a company, it is possible to make profits in the company which will, subject to having an IFSC licence, to which certain criteria apply, be taxed at 10% rate.

An individual may choose to establish himself/herself initially as a sole trader and consider company formation at a later date. Generally seats are readily transferable.

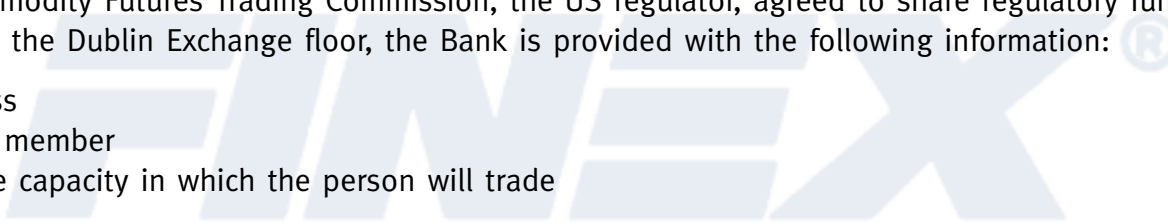
The Exchange provides this information for your convenience. You should consult your legal and tax advisers for specific guidance covering your situation.

- b) Forming a Company: Company formation is a simple process in Ireland. It is possible for an individual to fill in the necessary forms

and register the company at a nominal cost. The Companies' Registration office or an applicant's lawyer/accountant, will detail the company's obligations regarding making returns to the Companies' office.

- c) Keeping Records: The Exchange operates in an efficient manner in an effort designed to minimise bureaucracy. This intends to prevent a disproportionate amount of time being devoted to record-keeping by seat holders and locals in particular. Daily statements are produced by clearing firms to show the closing value of Members' accounts and the profit or loss of each day's transactions. The Exchange provides each trader with 'cards' on which details of transactions are written as the trades are done and which are submitted to the Exchange for record purposes at intervals during each day. The trader retains a copy and cross checks details against the Exchange's records during and at the end of each trading day. In effect, locals need little administration support for their trading functions.
- d) Applying to NYCE: Applicants must complete an application for membership and forward it together with a \$750 application fee to the Membership Department.
- e) Registering with the NFA: Individuals granted trading privileges by the Exchange must register with the NFA before being permitted to commence trading on the Exchange floor. A Form 8-R, together with a \$85 registration fee and fingerprints are required for registration. In addition, an Ethics Course must be completed by new traders.

The application process is relatively straightforward. Fingerprinting is a common practice in the United States and can be arranged at any Garda station in Ireland.

- f) Systems: Most operations on the floor will have their own booths, telephones, faxes and pricing systems. Booth fees are approximately \$2,500 per annum. There are also telephone charges to be considered. If individual systems are required, the Exchange can place new members in contact with financial information vendors.
 - g) Dealing with the Regulator: The Central Bank of Ireland is responsible, under the Central Bank Act 1989, for the supervision of futures and options exchanges and their members. Because FINEX Europe is a division of an exchange which is already regulated in the U.S., the Bank and the Commodity Futures Trading Commission, the US regulator, agreed to share regulatory functions. Before an individual commences trading on the Dublin Exchange floor, the Bank is provided with the following information: 
- name and address
 - name of clearing member
 - declaration of the capacity in which the person will trade

This information is verified via the Exchange and depending on the capacity in which the person intends to trade, the Bank imposes various regulatory requirements. These range from a full authorisation process (similar to that in the EU Investment Services Directive)

for those acting only for themselves or for other members. Each participant is required to comply with the relevant CFTC regulations and with the NYCE rules. Participants are also required to submit to legal jurisdiction in the U.S.

- h) Getting a 10% Tax Certificate: Where the special tax privileges applicable to the IFSC are being sought, certification is necessary which is granted by the Industrial Development Authority (I.D.A.).
- i) Managing the Risk: In its simplest form the only outlay required to allow an individual to establish as a floor broker is \$820 to cover the NYCE application and NFA registration. If the individual acts as a floor trader, risk flows directly from positions taken and relates to the underlying capital rather than margin outlay. Successful traders develop a capacity to control their use of leverage, which increases the capacity for both profit and loss. Both the Exchange and the clearing member attempt to monitor new entrants to discourage overtrading.

SUMMARY – TRADING ON FINEX

To qualify for trading privileges on FINEX, the individual must meet a number of requirements:

1. A European Permit (seat) must be purchased or leased. The price of a seat can fluctuate depending on market supply and demand. An alternative to an outright purchase is leasing a seat. The cost is privately negotiated between the lessor and the lessee and an exchange approved lease agreement is signed for one year. .
2. If an applicant wishes to become a Trading Member of the New York Cotton Exchange then an application fee of \$750 is payable (non-refundable). The applicant must furnish financial documentation showing net worth of minimum \$25,000.
3. Individuals requesting trading privileges must register with the national futures Association (NFA). A payment of \$85 and a finger print form are required.
4. The applicant must decide on a Clearing Member and set up a trading account with them. A minimum \$25,000 must be deposited with the chosen clearing member. A list is available from the exchange
5. When the NYBOT and NFA forms have been submitted to the membership department the individual must meet with a representative from the Central Bank of Ireland. The Central Bank is responsible under the Central Bank Act 1989, for the supervision of Futures and Options Exchanges and the Central Bank will impose various regulatory requirements on the applicant. These can range from full authorisation for those handling customer accounts to minimal requirements for those engaged only in proprietary trading
6. A series of mock trading sessions must be attended and a Broker exam passed. An Ethics course must be complete within 6 months of Board approval.

7. When steps 1-6 are complete the applicant will then be interviewed by the Dublin Membership Committee and if sanctioned the application will be forwarded to New York for board approval. The application must be submitted one month in advance of the next Board Meeting.
8. Once the Board has elected an applicant to Membership, the member- elect has thirty days to pay an initiation fee of \$1,000 and secure a membership seat on the exchange.
9. Final Approval and Trading Privileges will be granted subsequently.

Additional Fees:

Lease Application Fee	\$100
(Renewal or change included in \$750 on initial application)	
Change of Status	\$250
(i.e. changing guarantor or changing membership license)	
Members are required to lease at least one booth annually	\$2500



SUMMARY

The Exchange is keen to support and assist new members. The United States tradition of futures trading has provided a tremendous career path for ambitious individuals. In Dublin, the launch of FINEX Europe provides these same opportunities. Those interested in knowing more about FINEX are encouraged to contact FINEX.

Additional information about futures and futures options contracts traded on FINEX is available by calling the Exchange

Dublin (353) 1 607-4000 or in
New York 718 391 7841 or by
visiting our web site www.nybot.com.