**Rule Self-Certification**

March 3, 2017

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Re: **Amendments to NFX Rulebook**

**Reference File: SR-NFX-2017-07**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6 of the Commission’s regulations thereunder, NASDAQ Futures, Inc. (“NFX” or “Exchange”) hereby submits rule amendments relating to Chapters II (Membership Rules), III (Obligations of Futures Participants & Authorized Traders) and V (Trading Procedures & Standards). The Exchange anticipates these rule amendments going into effect on March 19, 2017, for trade date March 20, 2017.

In July of 2016 NFX marked its one year anniversary since becoming re-designated as a Designated Contract Market. With the passing of this milestone, the Exchange began a process of reviewing the rulebook to ensure continued compliance with CFTC Core Principles and regulations. During this review process, the Exchange also set out to identify parts of the rulebook that should be updated. This analysis was based in large part on identifying rules that would benefit from slight modifications. The rules in questions were chosen based on input from senior management of the Exchange, the Chief Regulatory Officer for NFX and Nasdaq’s Office of General Counsel. The rule amendments are outlined below with a brief description of the change as well as the reasoning for the amendment. The amendments range in significance from grammatical to substantive. Amendments with a substantive change will be discussed in detail below and noted in Appendix A. Amendments that are merely grammatical changes may be viewed in Appendix A. The rule amendments proposed herein are attached to this letter in Exhibit A which amends Rulebook Chapters II, III and V.

**Exhibit A - Amendments to Rulebook Chapters II, III and V**

**Chapter II, Membership Rules**

The rule amendments contained within Chapter II are grammatical and/or non-substantive in nature. The amendments may be reviewed in Appendix A, attached herein.

**Chapter III, Obligations of Futures Participants & Authorized Traders**

Section 21 Disciplinary Action by Other Organizations

Section 21 of Chapter III is being amended to impose an affirmative obligation on Futures Participants to immediately notify the Exchange in the event any of the circumstances enumerated in the CEA’s Statutory Disqualifications section become applicable to the Futures Participant in question.[[1]](#footnote-1) NFX already maintains the right to deny membership to the Exchange when any circumstance in the CEA’s Statutory Disqualification section is present with respect to a potential Futures Participant. Combined with the amendments in Chapter V below, the present amendment is being adopted in order to aid the Exchange in identifying market participants that could potentially pose a threat to the integrity of the marketplace and provide the Exchange an opportunity to assess the risk posed by the Futures Participant in question and consider whether the implementation of particular measures are necessary.

Such measures might include, but are not be limited to, limitations on the Future’s Participants trading activity, a suspension from the NFX Trading System or a permanent revocation of a Futures Participant’s membership to NFX. The failure of a Futures Participant to inform NFX of such a Statutory Disqualification will constitute a violation of the NFX Rulebook and potentially subject the Futures Participant to further disciplinary action, including suspension of access to the Trading System.

**Chapter V, Trading Procedures & Standards**

Section 4 of Chapter V is being amended to align the rules regarding Direct Access to the trading platform by Authorized Customers (ACs) and Off-Exchange Reporting Brokers (ORBs) with the rule governing membership of Futures Participants to NFX. Under the previous draft of the Direct Access rule, it might have been interpreted that an AC or ORB would be denied Direct Access to the trading system, or have their Direct Access revoked, in the event they were presently enjoined by order, judgement or decree of any court of competent jurisdiction or of the Commission or the Securities and Exchange Commission or of any state securities authority or agency from engaging in or continuing any conduct or practice in connection with the purchase or sale of any commodity, security, option or similar instrument.[[2]](#footnote-2) This language was drawn in large part from §8a of the CEA which lists grounds for Statutory Disqualification. The provision in the NFX rule however may have been interpreted as being more limiting than the actual rule found in the CEA. Under the NFX rule, one could infer that the Exchange had no choice but to deny or terminate an AC’s or ORB’s access to the trading platform in the event this criteria was met. In contrast, under §8a of the CEA, the Commission is given the authority to use the presence of any of the enumerated criteria as grounds for denying registration, but denial is not mandatory. Similarly, the Exchange has great discretion in dealing with a Futures Participant that falls within one of the Statutory Disqualification categories.

In order to provide clarity, and give the Exchange greater discretion in dealing with these circumstances for all market participant that trade on the platform, NFX is amending Section 4 of Chapter V to make it clear that there is a similar standard when dealing with Futures Participants, AC and ORBs. Now, it will be clear that the Exchange has the discretion to analyze the situation and decide if a particular Futures Participant, AC or ORB should be prohibited from trading on the platform. This is the same level of discretion rested with the Commission by §8a of the CEA. It will also be made clear that the Exchange has discretion to craft an appropriate resolution based on the concerns raised by the Futures Participant, AC or ORB in question.

The failure of an AC to inform the Exchange that they fall within one of the §8a Statutory Disqualification criteria will result in a violation of the NFX Rulebook and potentially subject the AC to further disciplinary action, including suspension or revocation of access to the trading platform. Likewise, a Clearing Futures Participant that has approved an ORB to submit block trades or exchange for related position transactions must notify the Exchange immediately in the event an ORB meets any of the criteria listed in §8a of the CEA with respect to Statutory Disqualifications.

**Certifications**

There were no opposing views among NFX’s Board of Directors, members or market participants. The Exchange hereby certifies that the rule amendments set forth herein comply with the Act and the Commission’s regulations thereunder. The Exchange also certifies that notice of pending certification and a copy of this submission have been concurrently posted on the Exchange’s website at [business.nasdaq.com/futures](http://business.nasdaq.com/nasdaq-futures).

If you require any additional information regarding the submission, please contact Aravind Menon at (301) 978-8416 or aravind.menon@nasdaq.com. Please refer to SR-NFX-2017-07 in any related correspondence.



Regards,

Daniel R. Carrigan

President

Attachments:

Exhibit A: Amendments to Rulebook Appendix A – NFX Rulebook Chapters II, III and V

1. See §8a of the Commodity Exchange Act, listing factors for statutory disqualification from registration with the CFTC. [↑](#footnote-ref-1)
2. See NFX Rulebook, Chapter V, Section 4 Direct Access. The categories listed in this rule was based on the Statutory Disqualifications found in §8a of the CEA. [↑](#footnote-ref-2)