



## Rule Self-Certification

April 1, 2015

VIA ELECTRONIC PORTAL

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

Re: **Regulation §40.6 Submission Certification  
Combination Order Quotes and Kill Switch  
Reference File: SR-NFX-2015-14**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission under the Act, NASDAQ Futures, Inc. (“NFX” or “Exchange”) amends Chapter I, Section 1, entitled “Definitions and Governance of the Exchange” to restrict the definition of an Order with respect to Combination Orders. The Exchange is also amending Chapter IV, Section 4, entitled “Acceptable Orders,” the Reference Guide, the Tailor Made Combinations Reference Guide, the Combination & Implied Orders Technical Reference Guide and the Market Maker Protection & Self-Match Prevention Reference Guide to make conforming amendments to the usage of the term “Combination Orders.” Finally, the Exchange is amending Chapter IV, Section 7, entitled “Pre-Trade Risk Parameters” to adopt a Kill Switch. The text of these amendments is set forth in Exhibit A. The amendments will be implemented on May 1, 2015.

The Exchange amends the definition of Order in Chapter I, Section 1 to note that, for purposes of a Combination Order, the term “Order” shall not refer to a Quote. Quotes are not currently supported in the Combination Order Book. The Exchange also amends the term “Quote” to note that Quotes will not be accepted into the Combination Order Book. The Exchange is removing any references to quoting into the Combination Order Book into all of the reference guides including the main Reference Guide, the Tailor Made Combinations Reference Guide, the Combination & Implied Orders Technical Reference Guide and the Market Maker Protection & Self-Match Prevention Reference Guide. Other technical amendments are also amended. The Exchange is also adopting a Kill Switch. The Exchange amends Chapter IV, Section 7 to provide for the cancellation of all active, open Orders for any designated Authorized Trader as part of a mass cancellation. Quotes are not impacted by the Kill Switch.

With respect to the designated contract market core principles (“Core Principles”) as set forth in the Act:

- *Compliance with Rules:* The Exchange has in place Rules which describe the manner in which Futures Participants may access and trade on NFX. Chapter II, Section I provides for the qualifications and rules of participation applicable to Futures Participants as well as Authorized Traders. Chapter V, Section 18 describes prohibited activities with respect to the Trading System. Trading is subject to the Rules at Chapter III of the Exchange’s Rulebook, which include prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading is subject to the trading procedures and standards in Chapter V of the Rulebook. The Exchange’s disciplinary Rules are contained in Chapter VI of the Rulebook.
- *Prevention of Market Disruption:* The Exchange’s Regulatory Department, which handles real-time surveillance, monitors trading activity on the Exchange with a SMARTS Surveillance Application through which the Exchange can track activity of specific Authorized Traders, monitor price and volume information and receive alerts regarding market messages. The Exchange’s Regulatory Department, which handles real-time surveillance in conjunction with staff that handles T+1 surveillance, utilizes data collected by the SMARTS Surveillance Application to monitor price movements, as well as market conditions and volumes to detect suspicious activity such as manipulation, disruptive trading and other abnormal market activity.
- *Availability of Contract Information.* The Exchange has indicated within its trading Rules where specific information relates to a particular Contract. The Exchange will post the terms and conditions of Exchange Contracts in its Rulebook along with trading Rules.
- *Publication of Information.* The Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for actively traded Contracts on its website. The Exchange’s volume information will include information on the volume of Block Trades.
- *Execution of Transactions.* The Exchange operates an electronic trading facility that provides Futures Participants with the ability to execute Orders within the Exchange’s Order Book and offers within a predetermined automated trade matching and execution algorithm. Orders submitted into the Trading System will continue to be matched in either Price-Time priority or Size Pro-Rata

priority order, as specified by the Exchange. The Exchange specifies the types of Orders that will be accepted by the Trading System in recently filed Chapter IV, Section 4. The Exchange provides a competitive, open and efficient market and mechanism for executing transactions that protects the price discovery process and also authorizes for bona fide business purposes rules for Block Trades and Exchange for Related Positions at Chapter IV, Sections 10 and 11.

- *Trade Information.* As previously described, the Exchange has established audit trail processes that capture trading information to facilitate the Exchange's trade practice and market surveillance activities. The audit trail program is based on original source documents that are unalterable, sequentially identified records. The audit trail contains a history of all Orders as well as other identifying information. All data gathered as part of the audit trail is maintained in accordance with the Commission's recordkeeping requirements and in a manner that does not allow for unauthorized alteration, erasure or other potential loss.

- *Financial Integrity of Transactions.* The Exchange's Rules provide that all matched trades generated by the Trading System, after the application of pre-trade risk parameters, will be automatically submitted to the Clearing Corporation as described in Chapter V, Section 2. Furthermore, all off-exchange transactions submitted for clearing will be subject to pre-trade risk parameters. Chapter II, Section 1 of the Exchange's Rules requires that all Futures Participants must be members of the Clearing Corporation either directly or indirectly. Futures commission merchants (FCMs) must maintain an account directly with the Clearing Corporation. Clearing Futures Participants are required to guarantee all trades transacted on NFX on behalf of itself, its Customers and Non-Clearing Futures Participants. Clearing Futures Participants must guarantee and assume financial responsibility for all Exchange Contracts of each Futures Participant guaranteed by it, and will be liable for all trades made by that Futures Participant. The Exchange requires a similar guarantee for Authorized Customers submitting trades into the Trading System via Direct Access pursuant to Chapter V, Section 4. The Exchange's Rules governing minimum financial requirements and protection of Customer funds are set forth in Chapter III.

- *Protection of market participants.* Chapter III of the Exchange's Rulebook contains prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading in all Contracts.

There were no opposing views among the Exchange's Board of Directors, members or market participants. The Exchange hereby certifies that the amendments to Chapter I, Section 1; Chapter IV, Sections 4 and 7 and the main Reference Guide, the Tailor Made Combinations Reference Guide, the Combination & Implied Orders Technical Reference Guide and the Market Maker Protection & Self-Match Prevention Reference Guide comply with the Commodity Exchange Act and regulations thereunder. The Exchange also certifies that a notice of pending certification with the Commission and a copy of this submission have been concurrently posted on the Exchange's website at <http://www.nasdaqomx.com/transactions/markets/nasdaq-futures>.

If you require any additional information regarding the submission, please contact Angela S. Dunn at +1 215 496 5692 or via e-mail at [angela.dunn@nasdaq.com](mailto:angela.dunn@nasdaq.com). Please reference SR-NFX-2015-14 in any related correspondence.

Regards,

A handwritten signature in black ink that reads "Daniel R. Carrigan". The signature is written in a cursive style with a large, sweeping "D" and "C".

Daniel R. Carrigan  
President

cc: National Futures Association

## **Exhibit A**

*New text is underlined; deleted text is stricken.*

### **NASDAQ Futures Rules**

#### **Chapter I Definitions and Governance of the Exchange**

##### **Section 1 Definitions**

Unless otherwise specifically provided in the By-Laws or Rules of the Exchange or the context otherwise requires, the terms defined herein shall for all purposes of the By-Laws and Rules of the Exchange, have the meanings therein specified.

\* \* \* \* \*

**Order.** The term “Order” means any bid or offer. An Order may be a Market Order, Limit Order, Market-to-Limit Order, Stop Order, Stop Limit Order, Iceberg Order, TAS Order, Combination Order or Implied Order. Each Order may include one of the following time conditions: Day; Good till Canceled (GTC); Good till Dated (GTD); Fill or Kill (FOK) and Immediate or Cancel (IOC). These Orders shall have the respective meanings set forth in Chapter IV, Section 4, as well as any other types of Orders that may be approved by the Exchange from time to time. The term Order shall also refer to a Quote, except with respect to Combination Orders.

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**Quote.** The term “Quote” means a message which contains a bid and/or offer. Quotes will not be accepted in the Combination Order Book. ~~A Quote is also defined as an Order.~~

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#### **Chapter IV Trading System**

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##### **Section 4 Acceptable Orders**

Orders entered into the Trading System for display and/or execution, as appropriate, are executable against marketable contra-side Orders in the Trading System.

(a) Types of Orders accepted by the Trading System are as follows:

- (i) – (vii) No Change

(viii) Combination Orders.

(i) Combination Orders or “Combination Strategies” will be traded in a separate Order Book pursuant to the Rules in Chapter IV, Section 5. The Combination Order Book will not accept Quotes, only Orders will be accepted into the Combination Order Book. Combination Orders may be originated (adding Expiries, Contracts and trading symbols), by either: (i) the Exchange; or (ii) a Futures Participant or its Authorized Traders or Authorized Customers. Combination Orders may execute against other Combination Orders or they may execute against the respective legs of Orders within the Order Book. Combination Orders shall not update the prices of the respective legs of such Combination Orders in their respective Order Book. The Exchange will disseminate Combination Orders through ITCH and FIX protocols.

(ii) Types of Combination Orders accepted by the Trading System, which may not exceed four legs, are as follows:

(a) – (k) No Change.

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**Section 7 Pre-Trade Risk Parameters**

(a) The Authorized Risk Officer designated by the Clearing Futures Participant shall initially set and thereafter adjust, as appropriate, pre-trade risk parameters to a level that is appropriate for the trading activity of a Futures Participant, Authorized Trader or Authorized Customer for which the Clearing Futures Participant is the designated Clearing Futures Participant. Futures Participants should employ other necessary pre-trade risk controls in their order management systems.

(b) When pre-trade risk parameters have been met, the Exchange's Trading System will reject all new Orders (which includes Quotes). The Trading System will not accept an Order if that Order, in its entirety, would exceed pre-trade risk parameters. The Trading System could accept new Orders if the Futures Participant canceled existing Orders, but only to the extent that the pre-trade risk parameter was not exceeded.

(c) Futures Participants or Authorized Customers may cancel all active, open Orders (“Kill Switch”). The Futures Participant or Authorized Customer would be required to designate Authorized Traders whose Orders would be subject to the mass cancellation. Once the Futures Participant or Authorized Customer has designated those Authorized Traders whose accounts would be affected, the initiation of the Kill Switch would cause these Orders to be cancelled. Quotes will not be impacted. Futures Participants or Authorized Customers would need to re-enter any cancelled Orders.

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# **NASDAQ Futures, Inc. (NFX) Reference Guide**

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Version 1.00 | 2015-5-01



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### 2.1.1 Order Book ("On-Exchange Trades")

The Trading System provides sophisticated and rich trade matching functionalities including Implied Order generation with efficient execution of a broad range of hedge, strategy and contingent trades.

Market participants which have been configured as Users in the Trading System (Section 2.3), will be able to submit and manage Orders (including Quotes) through the FIX Order entry interface. All Orders (including Quotes) accepted by the Trading System are firm and made available for execution after going through market integrity controls to ensure fair and efficient markets. Orders (including Quotes) are maintained in Single Order Books and ranked and matched according to the trade match algorithm for each product. Quotes are not permitted in Combination Order Books.

The trading platform supports the following functionalities:

- Order—a bid or an offer which may have include time in force conditions or triggers which qualify Orders. See Chapter IV, Section 4 for Order types.
- Quote—a one or two-sided bid and offer message packet which is replaced with a new Quote. Only one active Quote packet can exist per Instrument series per trading participant (up to twenty-four bids and offers may be contained in one Quote packet).
- Request for Quote (RFQ)—an indication of intent to buy or sell a specified quantity of a Contract used to invite participants into a bidding process for specific products. Market participants who wish to trade an Instrument which may not be particularly liquid use RFQ functionality to request a price from the market and broadcast an interest in trading a particular Instrument.
- Request for Cross (RFC)—an indication of interest submitted by a single party for a two-sided Limit Order at the same price and quantity. Crossing Order functionality provides customers submitting RFC Orders the best available price with optimal market transparency.

The Order and Quote interfaces share the same FIX architecture and will not be advantaged or disadvantaged using one type or the other.



### 3.1 Strategies – Combination Orders

The Trading System supports the trading of Strategies also referred to as Combination Orders, which will trade in a separate Order Book. The Exchange may list Futures and/or Options combinations for trading, and users may create their own tailor made combination (TMC) for Futures and/or Options combinations not already defined in the Trading System. Market participants may submit GFD Combination Orders that, if matched, will simultaneously trade the referenced single leg Instruments according to the specified strategy without execution risk. Once created intraday, a TMC Order Book is visible to the entire market and lives throughout the trading day. Quotes are not permitted in Combination Order Books, only Orders are permitted.

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### 3.7 Quotes

Quotes are similar to Orders, but with the following additional characteristics:

- A special FIX message is used for entering and replacing Quotes (streaming Quotes).
- Quotes can be single-sided or two-sided, i.e. both the bid and ask side can be provided in one message packet.
- A Quote can be replaced by a new Quote in the same Order Book (although it is possible to replace only one side with the other side retaining its priority). This is done in an atomic manner to enable market makers to provide continuous quotes.
- All Quotes are assumed to be valid until end of day (or until canceled or replaced).
- Only one active Quote packet can exist per Instrument series per trading participant (up to twenty-four bids and offers may be contained in one Quote packet).
- Quotes may only be submitted into Single Order Books.
- Quotes may not be submitted into Combination Order Books.

Quotes are firm, and will automatically be matched when executable against other Orders and Quotes.

In order to keep the Quote message as small as possible, it does not include any account information (FIX Tag 1 of the Order specification). Each User will have a pre-defined account as the Quote account and all trades will be associated to that account after execution for transmission to OCC for clearing.

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## 4 Order types and Time Conditions

### 4.1 Order Types

The following Order types, time-in-force and time conditions are available for all Products:

Order Types	DAY (Good-for- Day)	GTC (Good-till- Cancel)	GTD (Good-till- Date)	FOK (Fill- or-Kill)	IOC (Immediate- or-Cancel)
Market Order				X	X
Limit Order	X	X	X	X	X
Market-to-Limit Order	X	X	X	X	X
Stop Order	X	X	X	X	X
Stop Limit Order	X	X	X	X	X
Iceberg Order	X	X	X	X	X
Trading at Settlement	X				
Combination Order	X	X	X		
Implied Orders	X				

### 8. Combination Order

A “Combination Order” means an Order to simultaneously buy and/or sell at least two contracts in one or more Contracts in a form accommodated by the Trading System. All legs of a Combination Order are acquired simultaneously and must be for the same account or accounts with the same beneficial ownership. The Exchange will accept a Combination Order of up to four legs into the Trading System. Combination Orders may execute against other Combination Orders or they may execute against the respective legs of Orders within the Order Book. Combination Orders shall not update the prices of the respective legs of such Combination Orders in their respective Order Book. The Exchange will disseminate Combination Orders through ITCH and FIX protocols. These types of Orders may also be referred to as “Strategies.” Quotes are not permitted in Combination Order Books, only Orders are permitted.

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## **5 REPORTING OF OFF-ORDER BOOK (OFF-EXCHANGE) TRADES**

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### **5.5 Risk Management**

All Block Trades submitted to the Trading System will pass through [Nasdaq's]the Exchange's Pre-Trade Risk Management System, TradeGuard, before being accepted by the Exchange for clearing by OCC if such trades are part of a Pre-Trade Limit Group or PTLG created by the Participant. TradeGuard checks the initiated (pending) position with all respective positions and risk metrics (as defined by the Clearing Futures Participant) before accepting Orders into the Trading System for clearing. If the proposed trade is rejected, the User (Authorized Trader or Authorized Customer) and responsible parties will be notified and provided a reason for the rejection. A Combination strategy and its respective legs must be qualified in its entirety by the Pre-Trade Risk Management System to avoid partial acceptance of this Strategy. For more detailed information on TradeGuard please see Section 2.6.1 in this Reference Guide.

# Tailor Made Combinations

*Reference Guide*

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## **Introduction**

The Trading System supports the trading of Strategies also referred to as Combination Orders, which will trade in a separate Combination Order Book. The Exchange may list Futures and/or Options combinations for trading, and users may create their own custom or tailor made combination (TMC) for Futures and/or Options combinations not already defined in the Trading System. Market participants may submit Day Order Combination Orders that, if matched, will simultaneously trade the referenced single leg Instruments according to the specified strategy without execution risk. Once created intraday, the TMC Orders will be visible in the Combination Order Book to the entire market and lives throughout the trading day. Quotes are not permitted in Combination Order Books, only Orders are permitted.

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## **3Trading A TMC**

Once a TMC Order Book has been created, working Day Orders can be entered, modified, and deleted using the standard order entry messages via FIX. Such Orders can either be matched against opposing Orders in the TMC Order Book, or with [outright] Orders and Quotes in the respective leg [instruments] Single Order Books. All legs of the respective Order will be matched according to the defined ratios.

# Nasdaq Futures, Inc. (NFX) Combination & Implied Orders Technical Reference Document

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## 1 Combination Strategies

The Trading System supports the trading of Strategies also referred to as Combination Orders, which will trade in a separate Combination Order Book. The Exchange may list Futures and/or Options Combination Orders for trading, and Participants and Users may create their own custom or tailor made Combination (TMC) Orders for Futures and/or Options not already defined in the Trading System. A Participant is defined as a Clearing Futures Participant, Futures Participant, or Authorized Customer. A User is defined as an Authorized Trader. (See NFX Reference Guide, Section 2.3, Relational Model) Participants and Users may submit Day Combination Orders that, if matched, will simultaneously trade the referenced single leg Instruments according to the specified strategy without execution risk. Once created intraday, TMC Orders will be visible in the Combination Order Book to the entire market and will remain in force until the end of Trading Hours for the Contract. Quotes are not permitted in Combination Order Books, only Orders are permitted.

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### 1.2.6.8 Boundaries for Implied Order Generation

Regarding Implieds:

- ~~Implied Orders are not generated for Quotes (when quoting in the Combination Order Book itself);~~
- Implied Orders are only generated, using the best single prices, Quotes and Orders, as a base; and
- Implied Orders are never used as a base for other Implied Orders.

# **NASDAQ Futures, Inc. (NFX) Market Maker Protection & Self- Match Prevention Reference Guide**

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## 2 MMP Parameters

The MMP parameters are configurable by the Market Maker and are set at the Participant level. The Market Maker can update (change or disable) the MMP parameters intra-day.

Parameters available for a Market Maker to set by underlying are:

- Exposure Limit Time Interval;
- Quotation Frozen Time;
- Delta Protection;
- Quantity Protection; and
- Include Futures.

To prevent the “Quantity Protection” and “Delta Protection” parameters from being set too low by the Market Maker, thus triggering the MMP thresholds too often, there will be a pre-defined minimum quantity parameter set by the Exchange. The minimum quantity will be specified per underlying Contract and the value will apply for both the “Quantity Protection” and “Delta Protection” parameters.

Note that all MMP parameter calculations will be measured on Market Maker Quote executions, and once triggered, only Market Maker Quotes will be purged from the Trading System Single Order Book(s). Orders entered into the Trading System are not included in any MMP parameter calculations.

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## 3 Triggering calculations and consequences

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### 3.2 Threshold breach action

When a Quantity or Delta Protection threshold is reached and/or breached, all Quotes for the Underlying Asset Class in which the threshold violation took place will automatically be purged by the Trading System. Note that Quotes in Futures Contracts will be purged regardless of whether the Delta Protection threshold calculation is set to include or exclude Futures Contracts. As an example, if a Market Maker’s Delta Protection threshold calculation method excludes Futures Contracts and the Market Maker executes an amount of WTI Crude Options on Futures Contract trades via Quotes in one direction to reach or breach the Market Maker’s threshold, MMP will purge all of the Market Maker’s existing Quotes in WTI Crude Futures Contracts and WTI Crude Options on Futures Contracts (the WTI Crude Underlying Asset Class) regardless of direction (either long or short) of the Quotes.

Single Orders and Combination Orders/~~Quotes~~ submitted by the Market Maker will not be purged. The Market Maker will be informed via a Trading System broadcast message of the purge. There will be one Trading System broadcast message sent for each purged Quote. The Market Maker will also be informed when limits have been reached or breached via a broadcast message.

In the case where the Market Maker has many Quotes in the Order Book in the same Instrument series, all Quotes will be purged.

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### **In-house trading**

A Participant or User will not be able to match its Orders against its own Orders or Orders submitted by another Participant or User affiliated with a common Futures Participant or Authorized Trader.

#### **3.7.1 Aggressive Quote matched with a Combination Order**

If an aggressive Quote by a ~~protected~~ Market Maker is matched with an Implied Order, generated from a Combination Order, the MMP will first check each individual Quote item, and then consider other legs of the Combination Order Strategy, which shall be traded before the MMP is triggered, even if a threshold is reached after the first leg is traded. See example 3 in Section 5.3 herein.

#### **3.7.2 Passive Quote matched with a Combination Order**

If a passive Quote by the ~~protected~~ Market Maker is matched with an Implied Order, generated from a Combination Order, the MMP will first check each individual quote item, and then consider the other legs of the Combination Order Strategy, which shall be traded before the MMP is triggered, even if a threshold is reached after the first leg is traded.

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