#

 Futures

April 12, 2019

# designated market maker tender: BFQ Futures

Introduction

Nasdaq Futures, Inc. (NFX or the Exchange) is establishing a new Designated Market Maker (DMM) program which will commence on trade date May 1st, 2019 through trade date October 31st, 2019.

The purpose of the program is to support liquidity in the Brent Crude Financial Futures by recruiting DMMs to maintain competitive bid/ask spreads across the forward Contract curves and Intra-Commodity (Time) Spreads to produce NFX market widths that are equivalent to the comparable ICE reference products with reasonable size to support liquid trading.

NFX invites Futures Participants and Authorized Customers to apply for DMM appointments in the Brent Crude Financial Futures. NFX will assess tender applications received based upon several qualitative metrics, including each applicants proposed commitments with respect to volume and minimum bid-ask spreads. Applicants may also request a monthly financial stipend, which the Exchange will evaluate in light of their proposed market making commitments.

Program Design

The NFX Designated Market Maker program objectives are:

1. To facilitate competitive bid/ask spreads in the most liquid Contracts and expiries;
2. To provide for sufficient depth in the most liquid Contracts and expiries;
3. To provide for competitive bid/ask spreads for Intra-Commodity one-month (Time) Spreads up to 5 months;
4. To provide for sufficient depth in Intra-Commodity two-month (Time) Spreads up to 5 months;
5. To provide for competitive bid/ask spreads for Intra-Commodity two-month (Time) Spreads up to 5 months;
6. To provide for sufficient depth in Intra-Commodity one-month (Time) Spreads up to 5 months;
7. To provide for competitive bid/ask spreads for Intra-Commodity three-month (Time) Spreads up to 5 months;
8. To provide for sufficient depth in Intra-Commodity three-month (Time) Spreads up to 5 months;
9. To provide for competitive bid/ask spreads for Intra-Commodity six-month (Time) Spreads up to 18 months; and
10. To provide for sufficient depth in Intra-Commodity six-month (Time) Spreads up to 18 months.

Applicants must provide Continuous Quoting Market Making. **Continuous Quoting Market Making** **(CQ)** is continuous quoting (using Order functionality) for a set of liquid Contracts with Quotes for a pre-defined number of expirations.

NFX acknowledges that DMMs might have different areas of focus along the forward curve, as well as different capabilities to manage physical deliveries. NFX expects a number of DMM appointments to support the provision of liquidity in the market. Applications shall be made by the following Product Groups: Crude Oil Futures and Crude Oil Future Spreads.

1. DMM Program Products

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Contract Name | NFX Symbol | Size | Reference Exchange | Reference Symbol |
| NFX Brent Crude Financial Futures | BFQ | 1,000bbl | ICE | B |

NFX wants to incentivize market making in both the front month contracts (outrights) and Intra-Commodity (Time) Spreads. DMMs may apply to make markets in Combination Strategies (an Order to simultaneously buy and/or sell at least two contracts in one or more Contracts) of the above listed Energy Products. The Exchange seeks DMM proposals that are limited to market making commitments for:

Oil Complex

* NFX Brent Crude Financial Futures: Front Month Outright
* NFX Brent Crude Financial Futures: 1st three Outrights beginning with June or December
* NFX Brent Crude Financial Futures: Intra-Commodity one-month (Time) Spreads (e.g. month 3 vs 4) first four listed
* NFX Brent Crude Financial Futures: Intra-Commodity two-month (Time) Spreads (e.g. month 2 vs 4) first three listed
* NFX Brent Crude Financial Futures: Intra-Commodity three-month (Time) Spreads (e.g. month 1 vs 4) first two listed
* NFX Brent Crude Financial Futures: Intra-Commodity six-month (Time) Spreads (e.g. month 3 vs 9) first two beginning with either June or December
1. DMM Benefits

Appointed DMMs may receive a monthly stipend to contribute towards the direct costs associated with providing the DMM service. DMM execution and OCC clearing fees will be charged by the Exchange and the Clearing Corporation for any transactions in Energy Products during the term of the program. The OCC clearing fee is currently $0.055 per contract (or $55 per trade for greater than 999 contracts), but this may be subject to change outside of the Exchange’s control.

Appointed DMMs will be able to use all functionality in the NFX Trading System. The DMM will be able to use Orders only for futures. Self-Match Prevention functionality is available. An explanatory reference guide for these key concepts and services provided by NFX may be found here: [business.nasdaq.com/futures](file:///C%3A%5CUsers%5CShieldsS%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CTemporary%20Internet%20Files%5CContent.Outlook%5CHL8FUUUH%5Cbusiness.nasdaq.com%5Cfutures).

1. DMM Obligations and Assessment Metrics

DMMs must be NFX Futures Participants or an NFX Futures Participant’s Authorized Customer capable of executing transactions on the NFX Trading System on the commencement date of the program.

Program Obligations:

**Price Quality** - NFX will calculate the average size and spread of each contract in the program on a per minute basis during Peak Hours. NFX will then compare both quote size and width to the primary competing contract during the same time frame to determine % at or inside the competing market.

For outrights NFX will expect participants to provide orders creating a Bid/Ask spread equal to the Bid/Ask spread of the reference product plus 1 tick.

For spreads, NFX will expect participants to provide orders creating a Bid/Ask spread equal to the Bid/Ask spread of the reference product.

Peak Trading Hours:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Contract Name | NFX Symbol | Reference Exchange | Reference Symbol | Peak Trading Hours |
| NFX Brent Crude Financial Futures | BFQ | ICE | B | 4 AM EPT – 4 PM EPT |

Applications received in response to this solicitation will be evaluated with respect to the following criteria:

Continuous Quote Market Making

* Previous History with NFX DMM or MQP programs;
* Size commitment for required Bid/Ask spread and time commitment in outright futures;
* Size commitment for required Bid/Ask spread and time commitment in Intra-Commodity (Time) Spreads; and
* Assessment of the stipend which offers most value to NFX for the range of market maker activities applied for.
1. Supervision of Market Maker Performance

NFX shall monitor Order Book activity to ensure that DMMs selected for the program comply with their obligations under this program. Please note the following:

* If Quote volume is asymmetrical (the volume on the bid / ask not being equal), then the lower volume will be the measured volume of the Quote.

Time spent meeting quoting obligations will not carry over from one trading session to the next. DMM time commitments must be met on each and every trading day. All DMMs will receive a report each morning detailing their previous days and month-to-date performance.

All trading in the DMM program is subject to NFX rules and applicable law. Any trading activity that, in the sole and absolute discretion of the Exchange, may, or might appear to be, in violation of either will not count towards any commitment under this program.

NFX reserves the right to suspend or terminate the benefits under this DMM program with immediate effect if any DMM fails to meet its obligations. NFX also reserves the right to terminate this DMM program for any reason, subject to filing with the CFTC to do so.

1. DMM Selection Process and Appointment

Invitation

Futures Participants and Authorized Customers are invited to submit competitive tender applications via tender form template available from Alex.Beausang@nasdaq.com. Applications should be submitted to NFX no later than the close of business (17:00 EPT) on Friday April 26th, 2019.

Eligibility

Applications for this DMM program are invited from all NFX Futures Participants, as well as Authorized Customers of Futures Participants.

Applicant Commitment

The application should contain the following information for each Product which the applicant wishes to submit a tender:

* The number of Futures (size) the applicant is willing to quote for the required Bid/Ask width and times for outrights.
* The number of Futures (size) the applicant is willing to quote for the required Bid/Ask width and times for spreads.
* The required stipend amount the applicant feels is needed to fulfill the obligation, and an explanation of the direct costs associated with providing the DMM service which the stipend would help to cover.

Trader List

An appointed DMM will be required to provide a list of the Authorized Traders who will be responsible for quoting and executing trades under this DMM program.

Appointment

Selected DMMs will be appointed by NFX following assessment of all applications submitted under this tender. NFX’s selection and appointment of DMMs shall be final. If oversubscribed, NFX will maintain a reserve list (Reserve DMMs) that will be used to replace appointed DMMs in the case appointed DMMs fail to meet their obligations. Appointed DMMs and Reserve DMMs shall be notified of their appointment status shortly after the application deadline. Appointed DMMs will be engaged by NFX subject to its Rules, this tender, and the applicants’ accepted proposals. DMM benefits and obligations will officially commence on May 1st, 2019, and will continue for the term of the DMM program.

1. Qualifying Business

Only Orders in the central limit order book made by the DMM’s Authorized Traders will qualify towards the DMM’s quoting obligations. If a Quote is asymmetrical, then the lower volume will be used by NFX in assessing the DMM’s compliance with its quoting obligations.

Participants will be compensated based on a monthly fixed stipend. Distribution of this stipend will be based on the percentage compliance with the reference products in terms of quality as well as committed size during peak hours according to the following table:

|  |
| --- |
| Bid / Ask Spread Quality |
| Percent equal or better | >80% | 60-80% | 40-60% | <40% |
| Payout of fixed stipend | 100% | 75% | 50% | 0 |

* Compliance percentages will be calculated on a per-minute basis during peak hours per product. Minutes will be averaged for the day to calculate the daily compliance percentage per product.
* Daily compliance percentages will be averaged to calculate monthly compliance per product. All DMMs will receive a report each morning detailing their previous days’ and month-to-date performance.
* Final distribution will be paid based on the monthly compliance percentage.

If a DMM makes any changes to its trading or clearing arrangements, its Authorized Traders, Clearing Futures Participant, or any other aspects of its operations reasonably required by NFX to manage this DMM program, then it is the responsibility of the DMM to notify NFX of those changes in advance in order to ensure continuity of the DMM’s benefits.

1. Fast Markets Conditions / Unusual Volatility

NFX shall actively monitor market conditions. Should the need arise, the exchanges reserves the right to take temporary mitigating action on behalf of Participants in the program to maintain an orderly marketplace. This action may include decreasing the size measured for participants in the program and/or widening the bid/ask width being measured. Participants will be notified by email and/or phone should these conditions arise.

1. Administration of Exchange and Clearing Fee Charges, Rebates, and Stipend Payments

As stated above, execution or clearing fees will be charged by the Exchange or the Clearing Corporation for any transactions in Energy Products during the term of the program.

NFX shall monitor each DMM’s performance against its obligations, and subsequently calculate any stipend due in accordance with this DMM program in the following month. Upon request, NFX will provide an invoice breakdown at the Authorized Trader level but will not settle stipend payments directly with Authorized Traders.

NFX reserves the right, in its sole and absolute discretion, to terminate this DMM program at any time by way of a Futures Trader Alert announcing it has filed with the CFTC for termination of the program, and may announce another market maker program in the future that may include the Energy Products that are the subject of this DMM program.