



May 30, 2018

Via CFTC Portal Submissions

Mr. Christopher Kirkpatrick  
Secretary of the Commission  
Office of the Secretariat  
Commodity Futures Trading Commission  
3 Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington D.C. 20581

**RE: Rule Certification: Nadex Updates Fast Market Period Prior to Expiry to Accommodate Monthly Bitcoin Spread in Market Maker Agreement – Submission Pursuant to Commission Regulation §40.2(a)**

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 (the “Commission”) under the Act (the “Regulations”), North American Derivatives Exchange, Inc. (“Nadex”, the “Exchange”) hereby submits to the Commission its amendments to the Nadex Market Maker Agreement with respect to the specific period during which Market Makers are permitted to refrain from quoting. Nadex is amending the language of this section to remove the specific reference to “Weekly Bitcoin Contract” in order to also include its Monthly Bitcoin Contract (self-certified in February 2018), from which Market Makers will also be permitted to cease quoting in the last 5 minutes leading up to expiry of the contract. Additionally, Nadex is amending its fees structure to charge non-intermediated Market Makers a \$0.20 Exchange trading fee per contract per side for each trade executed on the Exchange, and a \$0.20 Exchange settlement fee for each contract that settles in-the-money for all Monthly Bitcoin Mini Spread contracts. The Market Maker fees for all other products will remain unchanged. Given the volatility in the underlying market, as well as the structure and scale of the Monthly Bitcoin Mini Spread contract, at the current fees rate Market Makers are unable to price a market that is both attractive to market participants and fiscally

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practical. Accordingly, Nadex is making the change to the fee structure in order to incentivize its Market Makers to quote tighter markets and provide a better experience to its market participants. The discounted fees will be accounted for in the form of a rebate credited to the Market Makers' accounts following the end of each trading month.

### DCM Core Principles

Nadex has identified the following Designated Contract Market (“DCM”) Core Principles as potentially being impacted by the addition of the Bitcoin Contracts: Core Principle 2 (Compliance with Rules), Core Principle 7 (Availability of General Information).

Core Principle 2 (Compliance with Rules), implemented by Commission Regulation 38.151 (Access Requirements) requires the DCM provide impartial access to its markets to any of its members or market participants, including comparable fee structures for members and persons with trading privileges. In its proposed amendments to Part 38 of the Commission’s Regulations, Commission staff noted that “A DCM can satisfy the requirement that membership and participation criteria are impartial, transparent, and non-discriminatory by establishing clear and impartial guidelines and procedures for granting access to its facilities and publishing such guidelines and procedures on its website. Such requirements may establish different categories of market participants, but may not discriminate within a particular category. Fee structures may differ among categories if such fee structures are reasonably related to the cost of providing access or services to a particular category.”<sup>1</sup> The categories of participants with the ability to access Nadex markets include Direct Trading Members, Market Maker Members, and FCM Members. The change in fees specifically for the Monthly Bitcoin Mini Spread contracts will apply uniformly to the category of Market Maker Members. Accordingly, the amendments discussed herein will not negatively impact Nadex’s ability to comply with this Core Principle.

Core Principle 7, implemented by Commission Regulations 38.400 and 38.401, requires the DCM to make its Rules, including material terms of its market maker program, available on its website. Nadex is updating its Market Maker Agreement to clarify that market makers are permitted to refrain from quoting in the 5 minute period just prior to expiry of any Bitcoin contract, not merely the Weekly Bitcoin Contract. Additionally, the Fee Schedule is available on the Nadex website and details the fees charged to all categories of participants on the Exchange, and will identify the specific fees for the Monthly Bitcoin Mini Spread contract. The Nadex Market Maker Agreement and Fee Schedule are available on the Nadex website, and will continue to be available on the website after the amendments described herein are made. As the amendments discussed herein are being made to provide additional information and transparency to the public, the changes will positively impact Nadex’s compliance with this Principle.

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<sup>1</sup> 75 Fed. Reg. 80579 (Dec. 22, 2010).

## DCO Core Principles

Nadex has identified the following Derivatives Clearing Organization (“DCO”) Core Principle as potentially being impacted by the amendments discussed herein: Core Principle L (Public Information).

Core Principle L (Public Information), implemented by Commission Regulation 39.21, requires the DCO to publicly disclose fees charged to its members. The Nadex Fee Schedule will reflect the amendments to the Market Maker Fees for the Monthly Bitcoin Mini Spread contracts and is public available on the Nadex website. Accordingly, the amendments discussed herein will not negatively impact Nadex’s ability to comply with this Core Principle.

The amendments to the Market Maker Agreement are attached in Exhibit A, and changes to the Fee Schedule are attached in Exhibit B. Any deletions are stricken out while the amendments and/or additions are underlined.

Nadex hereby certifies that the additions contained herein comply with the Act, as amended, and the Commission Regulations adopted thereunder. No substantive opposing views were expressed to Nadex with respect to any of these actions.

Nadex hereby certifies that a copy of these additions was posted on its website at the time of this filing. Pursuant to the 10-day filing period under Regulation 40.6(a)(3), this filing will be effective on June 14, 2018.

Should you have any questions regarding the above, please do not hesitate to contact me by telephone at (312) 884-0927 or by email at [Jaime.walsh@nadex.com](mailto:Jaime.walsh@nadex.com).

Sincerely,



Jaime Walsh

North American Derivatives Exchange, Inc., 200 West Jackson Blvd., Suite 1400, Chicago, IL 60606

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# EXHIBIT A

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# Market Maker Agreement

This Market Maker Agreement ("Agreement") is entered into between North American Derivatives Exchange, Inc., a designated contract market and derivatives clearing organization incorporated in Delaware, with its principle place of business at 200 West Jackson Blvd., Suite 1400, Chicago, Illinois 60606 ("Nadex"), and

\_\_\_\_\_, a [corporation/limited liability company] incorporated under the laws of the State of \_\_\_\_\_, with its principle place of business at \_\_\_\_\_, ("Market Maker"), as of \_\_\_\_\_, 20\_\_\_\_ (the "Effective Date"). Capitalized terms not expressly defined in this Agreement shall have the meaning ascribed to them in the Nadex Rules.

## 1 CONTROLLING PROVISIONS; CONDITION PRECEDENT

(a) All of the terms and conditions contained in the Membership application process as well as the Nadex Rules shall regulate all exchange trading activities of a Market Maker unless otherwise provided for in this Agreement, in which case this Agreement shall be controlling.

(b) For avoidance of doubt, Market Maker may not function as a Market Maker under this Agreement unless Market Maker is a Member of Nadex, and notwithstanding any other provision of this Agreement, Market Maker being a Member shall be a condition precedent to the effectiveness of this Agreement.

## 2 MARKET MAKER OBLIGATIONS

(a) Beginning on the Effective Date, the Market Maker shall continuously quote binding bid and offer prices, submitted as Post-Only Quotes as that term is defined in the Nadex Rules, at or inside of the maximum spread ("Defined Spread") at not less than the defined minimum size ("Defined Size") in the listed Contracts of all Classes to which the Market Maker is assigned as set forth on Appendix A Table 1 ("Designated Classes"), as it may be amended from time to time by mutual agreement of the parties, at all times during which the Designated Classes are open for trading, except as otherwise provided in Section 3 of this Agreement. Market Maker shall not submit Non Post-Only Orders as defined by the Nadex Rules.

(b) The Market Maker acknowledges and agrees not to engage in any activity that would violate the Commodity Exchange Act, as amended (the "Act"), and the Commission's regulations adopted thereunder. The Market Maker also understands and agrees that this Agreement may be unilaterally modified or cancelled by Nadex for any reason if directed to do so by the Commodity Futures Trading Commission (the "Commission") in order to comply with the Act and the Commission's regulations adopted thereunder.

(c) Market Maker shall not knowingly employ any Authorized Traders who are subject to statutory disqualification under Section 8a(3) of the Act.

## 3 SUSPENSION AND MODIFICATION OF MARKET MAKER OBLIGATIONS

(a) Market Maker shall not be required to act in accordance with Section 2(a) during the occurrence of any of the following events ("Suspension Events"):

(i) The calculation of the Underlying which is the subject of any Designated Class that has been suspended;

(ii) If there is no direct Underlying market for a Designated Class or no related market or event upon which to base the prices for a Designated Class, then there is a suspension of the trading of such Designated Class;

(iii) There exists in the reasonable opinion of Nadex and/or Market Maker such a change, whether or not foreseeable, in national or international financial, political, or economic conditions as would in Nadex and/or Market Maker's view make it impossible to accurately price Contracts in the Designated Class;

(iv) Where an act of God, war, terrorism, fire, flood, civil disturbance, or act of any governmental authority beyond the control of the Market Maker occurs which prevents the Market Maker from entering bids and offers or prevents Nadex from maintaining an orderly market; or

(v) Where any interruption, defect, withdrawal or failure of power supply, trading systems, network, internet connections, computer systems, communications (whether owned or operated by Market Maker, Nadex or any third party) or other similar force majeure event prevents Market Maker from entering bids and offers or prevents Nadex and/or Market Maker from maintaining an orderly market;

(vi) The Market Maker has a position in any Designated Class or Contract that equals or exceeds 90% of the applicable position limit for such Designated Class or Contract.

(vii) The Market Maker is holding a position in certain specified contracts that reaches or exceeds a level set forth in the applicable contract specifications in the Nadex Rules.

(b) The parties will each inform the other by telephone and subsequently by email as soon as practicable after either of them becomes aware that they believe any of the foregoing Suspension Events has occurred, is ongoing, or ceases to exist.

(c) Market Maker shall not be required to act in accordance with Section 2(a) during a Fast Market and shall be permitted, at the discretion of the Market Maker, to refrain from quoting binding bid and offer prices during this period. A Market Maker that chooses to submit binding bid and offer prices during a Fast Market will be required to comply with the Defined Spread and Size as set forth in Appendix A. A Fast Market is defined as:

(i) for any particular Contract, the period just prior to expiry of that Contract, specifically,

(A) the 5 minute period just prior to expiry of any Event Contract or ~~Weekly~~ Bitcoin Contract;

(B) the 2 minute period just prior to expiry of any Intraday, Daily, or Weekly Contract, with the exception of the Intraday 5-Minute and 20-Minute Contracts;

(C) the 1 minute period just prior to the expiry of any Intraday 5-Minute or Intraday 20-Minute Contract;

(ii) the five (5) minutes prior to the scheduled announcement and the five (5) minutes after the announcement of any major economic indicator;

(iii) any unusual market condition or price volatility which is determined by Nadex, acting reasonably and in consultation with Market Maker, to prevent the maintenance of an orderly market.



**(d)** Nadex may amend the definition of a Fast Market and its applicable Rules unilaterally by providing 15 days' written notice to the Market Maker. To the extent reasonably possible and practicable, Nadex will consult with the Market Maker and other relevant Market Makers prior to amending its Fast Market Rules

**(e)** Market Maker will not be required to price a two-sided market, and will be permitted to reduce its size below the Defined Size (including to 0) ;

**(i)** in any Binary Contract within a Designated Class that is so deep in-the-money as to be valued at \$100 offer or so deep out-of-the-money as to be valued at zero bid, and

**(ii)** in any Variable Payout Contract within a Designated Class when the underlying for that Variable Payout Contract is outside the range of the Variable Payout Contract.

**(iii)** during the first 30 seconds and last 30 seconds of any Intraday 5-Minute Binary Contract.

**(iv)** when the Market Maker is holding a particular position level in certain specified contracts that reaches or exceeds a level set forth in the applicable contract specifications in the Nadex Rules.

#### 4 CONFIDENTIALITY

**(a) Confidential Information** means all information, whether written or oral, and in any form (including, without limitation, engineering documents, research and development, manuals, reports, designs, drawings, plans, flowcharts, software (in source or object code), program listings, data file printouts, processes, component part listings and prices, product information, new product plans, sales and marketing plans and/or programs, pricing information, customer lists and other customer information, financial information and employee files or other employee information) relating to the disclosing party's business or technology to receiving party.

**(i)** The term "Confidential Information" also shall be deemed to include: (a) all notes, analyses, compilations, studies, interpretations, or other documents prepared by recipient or its representatives that contain, reflect or are based upon in whole or in part, the information furnished by or on behalf of disclosing party to recipient pursuant hereto, and (b) Confidential Information disclosed prior to, as of or after the date of this Agreement.

**(ii)** Confidential Information does not include information; (a) lawfully received from third parties without confidentiality obligation to the disclosing party; (b) in the public domain other than through breach of the obligation of confidentiality imposed by this Agreement; (c) independently developed without use of the other party's Confidential Information; or (d) is lawfully known to the recipient without an obligation of confidentiality the time recipient receives the same from the disclosing party, as evidenced by written records.

**(b) Return of Confidential Information.** Promptly upon the written request of the discloser, the recipient shall, and shall cause its representatives to, return to the discloser, or destroy all Confidential Information. If the recipient destroys the Confidential Information, it shall certify that it has done so in writing and promptly deliver that certificate to discloser. Despite the provisions of this Section 4b), the recipient may retain one permanent file copy of the Confidential Information of the discloser and any derivative materials if required to do so under any state or federal law or regulation.

#### **(c) Obligations of Confidentiality.**

**(i)** Each party will: (a) use the other's Confidential Information solely to perform its obligations under this Agreement, and disclose the other's Confidential Information only to its agents, contractors, and employees legally bound, in writing, to keep Confidential Information confidential and only to the extent necessary for them to perform this Agreement; **(b)** in no event use less than ordinary care to protect the other's Confidential Information against unauthorized disclosure to any third party; and **(c)** notify the other of unauthorized use, disclosure, theft or other loss of Confidential Information of which it learns;

**(ii)** Confidential Information may be disclosed as required by law, provided that prior to any such disclosure, the recipient will; **(a)** assert the confidential nature of the Confidential Information to the court or agency; **(b)** provide sufficient notice to the disclosing party to permit it to contest the disclosure requirement; and **(c)** cooperate with the disclosing party, at the disclosing party's expense, in protecting against any such disclosure and/or obtaining a protective order narrowing the scope of the compelled disclosure and protecting its confidentiality.

**(d) Survival.** Despite any other provision of this Agreement, this entire Section 4 Confidentiality survives any termination of this Agreement.

#### 5 FEES

**(a)** The Market Maker will pay a fee of \$\_\_\_\_\_ in order to establish a dedicated line.

**(b)** The Market Maker shall pay transaction-based Exchange Fees to Nadex during the Term of the Agreement. These fees will be set by the fee committee and approved by the Nadex board. "Exchange Fees" are all fees relating to the execution and settlement of transactions on the exchange, including, but not limited to, trading and settlement fees.

#### 6 MINIMUM DEPOSIT AND MAINTENANCE AMOUNT

**(a)** Market Maker is required to have an initial Minimum Deposit of \$500,000 and a Maintenance Amount of \$250,000:

**(b)** In this Section, "Minimum Deposit" means the amount the Market Maker must initially deposit in order to establish an account at Nadex and "Maintenance Amount" means the minimum amount that must be in the Market Maker's account at all times. In the event the Market Maker's available cash balance falls to the Maintenance Amount, the Market Maker must immediately deposit sufficient funds to bring the available cash balance to \$500,000.

**(c)** Market Maker cannot withdraw funds from its Nadex account if, after such withdrawal, its Nadex available cash balance would be less than \$500,000 except on termination of Agreement.



**7 ASSIGNMENT**

Neither this Agreement, nor any of the rights or obligations under this Agreement, may be assigned or transferred by either party without the express prior written consent of the other party.

**8 TERM OF AGREEMENT**

The term of this Agreement shall be for a term of one year ("Initial Term"), as of the Effective Date. This agreement shall be automatically renewed annually after the Initial Term (collectively "Term") unless terminated pursuant to paragraph 9 of this Agreement.

**9 TERMINATION**

(a) This Agreement may be terminated immediately by Nadex in the event that the product in which the Market Maker has contracted to make markets is delisted, the Market Maker makes a material statement which is untrue or made in bad faith, Nadex is so ordered by the Commission, the Market Maker does not satisfy the terms of the Agreement, or the Market Maker breaches a material provision of this Agreement or commits a major offense. Notwithstanding anything to the contrary herein, the sole and exclusive remedy of Nadex for any breach of Market Maker's obligations hereunder shall be to terminate this Agreement.

(b) This Agreement may be terminated by either party for any reason provided the terminating party provides 30 days written notice to the non-terminating party.

(c) This Agreement will terminate if and when the Market Maker's Nadex Membership terminates.

**10 AMENDMENTS**

**Unless otherwise stated in this Agreement, no provision of this Agreement may be amended or modified except by written agreement of both parties.**

**11 WAIVER OF COMPLIANCE**

**Any failure of a party to comply with any obligation herein may be expressly waived in writing by the other party to this agreement, but such waiver or failure to insist upon strict compliance with such obligation shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.**

**12 MANDATORY ARBITRATION**

Any controversy or claim arising out of or in connection with this Agreement or the performance or breach hereof, or relating to designation as a market maker, including any claim against Nadex, the Nadex settlement bank, or any other Nadex Member or Market Maker, shall be settled by arbitration as set forth in the Nadex Rules.

**13 CHOICE OF LAW**

THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND ALL DISPUTES HEREUNDER SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF ILLINOIS AS APPLIED TO CONTRACTS MADE AND TO BE PERFORMED IN ILLINOIS, WITHOUT APPLYING CONFLICT OF LAW RULES.

BY SIGNING THIS AGREEMENT, MARKET MAKER ACCEPTS FULL RESPONSIBILITY FOR HAVING KNOWLEDGE OF AND ADHERING TO ALL RULES AND REGULATIONS GOVERNING NADEX.

**MARKET MAKER**

*Signed for and on behalf of Market Maker:*

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**NORTH AMERICAN DERIVATIVES EXCHANGE, INC.**

*Signed for and on behalf of Nadex:*

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

# EXHIBIT B

North American Derivatives Exchange, Inc., 200 West Jackson Blvd., Suite 1400, Chicago, IL 60606

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## NADEX FEE SCHEDULE

### DIRECT TRADING MEMBERS

#### Membership Fee:

- Nadex does not charge a Membership fee to join the Exchange.

#### Initial Deposit:

- Direct Trading Members are required to make an initial deposit of at least \$250; no minimum balance is required thereafter.

#### Transaction Fees:

Nadex charges no fee for orders placed, cancelled or amended.

Direct Trading Members incur an Exchange trading fee per contract per side for each trade executed based on order size according to the following schedule:

- \$1.00 for each lot traded from 1 up to and including 50 lots;
- An additional \$0.00 for each lot over 50 lots.

#### Settlement Fees:

Nadex charges no fee for contracts that settle out-of-the-money.

Direct Trading Members incur an Exchange settlement fee per contract per side for each contract that settles in-the-money based on the position size at expiration according to the following schedule:

- \$1.00 for each lot settled in-the-money.

If the per-contract settlement payout is greater than \$0, but the total fee to be charged for the position exceeds the total settlement payout for that position, Nadex will reduce its fee to the amount of the total settlement payout for that position (that is, Nadex will not charge a settlement fee that exceeds a settlement payout).

### FCM MEMBERS

#### Membership Fee:

- Nadex does not charge a FCM Membership fee to join the Exchange.

#### Minimum Balance:

- FCM Members are required to make an initial deposit of at least \$100,000 and to maintain a minimum balance of uncommitted funds of \$50,000.

#### Transaction Fees:

Nadex charges no fee for orders placed, cancelled or amended.

FCM Members incur an Exchange trading fee per contract per side for each contract executed based on order size according to the following schedule:

- \$0.35 for each lot traded from 1 up to and including 10 lots;
- \$0.00 for each lot traded over 10.

#### Settlement Fees:

FCM Members incur an Exchange settlement fee per contract per side for each contract that settles in-the-money based on the position size at expiration according to the following schedule:

- \$0.35 for each lot settled in-the-money.

If the per-contract settlement payout is greater than \$0, but the total fee to be charged for the position exceeds the total settlement payout for that position, Nadex will reduce its fee to the amount of the total settlement payout for that position (that is, Nadex will not charge a settlement fee that exceeds a settlement payout).

Nadex charges no fee for contracts that settle out-of-the-money.

### MARKET MAKERS

#### Membership Fee:

- Nadex does not charge Market Makers a membership fee.

#### Minimum Balance:

- Market Makers are required to make an initial deposit of at least \$500,000 and to maintain a minimum balance of uncommitted funds of \$250,000 to collateralize the trades executed on Nadex.

#### Transaction Fees:

Nadex charges no fee for Market Maker quotes placed, cancelled or amended.

Nadex charges its non-intermediated Market Makers an Exchange trading fee of \$0.20 per contract per side for each Monthly Bitcoin Mini Spread trade executed on Nadex. For all other products, Nadex charges its non-intermediated Market Makers an Exchange trading fee of \$0.50 per contract per side for each trade executed in on Nadex.

#### Settlement Fees:

Nadex charges its non-intermediated Market Makers an Exchange settlement fee of \$0.20 per contract per side for each Monthly Bitcoin Mini Spread contract that settles in-the-money. For all other products, Nadex charges its non-intermediated Market Makers an Exchange settlement fee of \$0.50 per contract per side for each contract that settles in-the-money. If the total fee to be charged for the position exceeds the total settlement payout for that position, Nadex will reduce its fee to the amount of the total settlement payout for that position (that is, Nadex will not charge a settlement fee that exceeds a settlement payout).

Nadex charges no fee for contracts that settle out-of-the-money.

#### Additional Fees:

Market Makers will be assessed a Wide Spread Surcharge equal to 50% of the average per lot profit above \$2.00 (after standard transaction and settlement fees), in a given month. This Surcharge is applicable only to Binary contracts.

### SYSTEM PROVIDERS

Nadex is interested in discussing partnership opportunities with systems providers.

Anyone interested in becoming a Nadex FCM Member or Market Maker or pursuing a partnership as a systems provider should contact us.

# NADEX FEE SCHEDULE CHART:

EFFECTIVE JANUARY 3, 2017

## TRADING FEES

### Direct Member Exchange Trading Fees

Lots Traded	Fees Per Side
Lots 1-50	\$1.00
Lots above 50	\$ 0.00

### FCM Member Exchange Trading Fees

Lots Traded	Fees Per Side
All lots traded	\$0.35

### Market Maker Member Exchange Trading Fees

Lots Traded	Fees Per Side
All lots traded in Monthly Bitcoin Mini Spread contracts	\$0.20
All lots traded (non-Monthly Bitcoin Mini Spread contracts)	\$0.50

## SETTLEMENT FEES

### Direct Member Settlement Fees\*

Lots Settled in-the-money	Fees Per Side
All lots settled in-the-money	\$1.00

### FCM Member Settlement Fees\*

Lots Settled in-the-money	Fees Per Side
All lots settled in-the-money	\$0.35

### Market Maker Member Settlement Fees\*

Lots Settled in-the-money	Fees Per Side
All lots settled in-the-money for Monthly Bitcoin Mini Spread contracts	\$0.20
All lots settled in-the-money (non-Monthly Bitcoin Mini Spread contracts)	\$0.50

## ADDITIONAL MARKET MAKER FEE

Average per Lot Profit per Month (Binaries only)	Wide Spread Surcharge
Over \$2.00	50% above \$2.00

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\*If the per-contract settlement payout is greater than \$0, but the total fee to be charged for the position exceeds the total settlement payout for that position, Nadex will reduce its fee to the amount of the total settlement payout for that position (that is, Nadex will not charge a settlement fee that exceeds a settlement payout).