

Nasdaq Futures, Inc.

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**Rule Self-Certification**

July 2, 2018

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Re:  **Rule Certification for Various Rules Associated**

 **With Four New U.S. DV01 Treasury Futures Contracts**

 **Reference File: SR-NFX-2018-19**

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 rules relating to block trade minimum quantity thresholds and reporting times, trading hours, order type exclusions, daily settlement prices and non-reviewable ranges for four new financially settled U.S. DV01 Treasury futures contracts (together, the “New Contracts”).[[1]](#footnote-2)

The four New Contracts are:

* U.S. 2-YR DV01 Treasury Futures
* U.S. 5-YR DV01 Treasury Futures
* U.S. 10-YR DV01 Treasury Futures
* U.S. 30-YR DV01 Treasury Futures

The rule amendments proposed herein are attached to this letter in Exhibit 1 which amends Rulebook Appendix A, Listed Contracts. The Exchange anticipates listing U.S. 10-YR DV01 Treasury Futures beginning July 18, 2018, for trade date July 19, 2018. The remaining New Contracts will be rolled out on a schedule to be determined by the Exchange and announced in a Futures Trader Alert. The rule amendments proposed in this submission shall be effective on the listing date of the U.S. 10-YR DV01 Treasury Futures.

**Exhibit 1 - Amendments to Rulebook Appendix A, Listed Contracts**

Trading Hours. The Introduction to Rulebook Appendix A provides that unless otherwise specified by the Exchange, the regular Exchange trading days and hours for each contract, other than on the last trading day for the contract, will be Sunday - Friday, 7:00 PM EPT - 6:00 PM EPT, with a one hour break each day beginning at 6:00 PM EPT. Thus, the Monday trading session begins at 7:00 PM EPT on Sunday and ends at 6:00 PM EPT on Monday. Tuesday through Friday, each trading session begins at 7:00 PM EPT on the previous day and ends at 6:00 PM EPT. The Introduction to Rulebook Appendix A also provides that the last trading day for the contract terminates at the time specified in the rules specific to each contract. The New Contracts will have the regular Exchange trading days and hours. Each New Contract’s rules set forth in Exhibit 1 hereto specify that trading ceases at 3:00 PM EPT on the last trading day.[[2]](#footnote-3)

Block Trade Minimum Quantity Threshold and Reporting Times. Chapter IV, Section 11 of the Exchange’s rulebook provides for execution of block trades and requires the Exchange to designate the contracts in which block trades shall be permitted and to determine the minimum quantity thresholds for such transactions. Section 11(F) requires Futures Participants to ensure that block trades are reported to the Exchange within the number of minutes of the time of execution (the "Reporting Window") specified in the rules for the particular contract.[[3]](#footnote-4) The New Contracts are eligible for block trades. The minimum block trade size will be ten contracts, with a reporting window of fifteen minutes.[[4]](#footnote-5)

Daily Settlement Price. Chapter V, Section 3 of the rulebook provides in part that the Exchange shall establish daily settlement prices at the time and using the methodology established by the Exchange as described in the contract specifications. The new rules provide that the daily settlement price will be the Quality Weighted Average Price (“QWAP”) which will be determined by reference to the Yield-Derived Price of best bids, best offers, and executed transactions in the corresponding U.S. DV01 Treasury security futures on the NFX Trading System Order Book during the settlement period for the contract (the “Settlement Period”) except for the Last Trading Day for the contract month.[[5]](#footnote-6) Only the Yield-Derived Price associated with displayed orders on the NFX Order Book and executed transactions associated with those displayed orders shall be included in calculation of the daily settlement price. The Settlement Period for the contract will be 2:59 – 3:00 PM EPT every trading day except the Last Trading Day, provided, however, that in the event of an early close of trading on NFI, the Settlement Period will be a one minute period during the NFI trading day announced in advance by NFX in a Futures Trader Alert.

The calculation of the QWAP is made by dividing the Initial Sum by three and common rounding it to the nearest .001 (the nearest .002, in the case of the U.S. 2-YR DV01 Treasury Futures), where the Initial Sum is the sum of (1) two times the volume weighted average Yield-Derived Price of executed transactions occurring during the Settlement Period, and (2) the Continuous Time Average of the Weighted Midpoint of the best bid Yield-Derived Price and the best offer Yield-Derived Price observed on NFX during the Settlement Period. However, if no executed transactions occur during the Settlement Period, the QWAP will be the Continuous Time Average of the Weighted Midpoint of the best bid Yield-Derived Price and the best offer Yield-Derived Price observed on NFX during the Settlement Period, common rounded to the nearest .001 (or the nearest .002, in the case of the U.S. 2-YR DV01 Treasury Futures). For purposes of making the QWAP calculation, the Weighted Midpoint of each best Yield-Derived Price bid and the best Yield-Derived Price offer observed on NFX during the Settlement Period, is (1) the size of the best Yield-Derived Price offer multiplied by the best Yield-Derived Price bid plus the size of the best Yield Derived Price bid multiplied by the best Yield-Derived Price offer, divided by (2) the sum of the sizes of that best Yield-Derived Price bid and that best Yield-Derived Price offer. Finally, the Continuous Time Average of the Weighted Midpoint will be the pro rata average of all observed Weighted Midpoints based on the period of time, as a percentage of the Settlement Period, that each Weighted Midpoint remains unchanged. If during any portion of the Settlement Period there is an absence of bids or offers, that portion of time will not be included for purposes of calculating the Continuous Time Average of the Weighted Midpoint.

Non-Reviewable Range. Chapter V, Section 5 of the rulebook provides that the Exchange, in its sole discretion, may in certain circumstances either cancel a transaction or adjust the execution price of a transaction in a contract that has taken place outside the non-reviewable range designated for the contract. The new rules set forth the amount above and below the “true market price” for the contract as set forth in the Exchange’s Error Trade Policy that will constitute the non-reviewable range for the contract for purposes of Chapter V, Section 5. For purposes of Chapter V, Section 5 of the Rulebook, the non-reviewable range shall be from four basis points (in the case of U.S. 2-YR DV01 Treasury Futures), eight basis points (for the U.S. 5-YR DV01 Treasury Futures), or ten basis points (for the U.S. 10-YR DV01 Treasury Futures and the U.S. 30-YR DV01 Treasury Futures), above and below the true market price for the Contract as set forth in the Exchange's Error Trade Policy.[[6]](#footnote-7)

Order Type Exclusions. The NFX trading system will not accept Tailor Made Combination Orders nor will it generate Implied Orders in the four new contracts.[[7]](#footnote-8) The Exchange will initially list only one expiration month for each of the New Contracts. Absent additional listed months, there is no potential to generate Implied Orders. Additionally, there is limited potential for Tailor Made Combination Orders. Accordingly, the Exchange has elected not to accept either order type until a broader array of New Contracts and months are listed for trading.

 **DCM Core Principles**

The Exchange has reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act in connection with the amendments presented herein. Consistent with Core Principle 7 - Availability of General Information, the Exchange will post general information, including the NFX Rulebook as amended herein, on its website: [business.nasdaq.com/futures](http://business.nasdaq.com/nasdaq-futures/nfx-market).

With respect to the block trade amendments set forth in Exhibit 1 and Core Principle 9 - Execution of Transactions, the New Contracts will be listed for trading on the Exchange’s electronic trading system as well as by submission as block trades and Exchange for Related Position transactions pursuant to Exchange rules. The Exchange’s trading system provides a transparent, open and efficient mechanism to electronically execute trades in the New Contracts. The minimum quantity thresholds and Reporting Windows are established in the rules adopted for each New Contract.

 **Certifications**

There were no opposing views among the NFX’s Board of Directors, members or market participants. The Exchange hereby certifies that the New Contracts and rule amendments 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/nfx-market).

If you require any additional information regarding the submission, please contact Carla Behnfeldt at (215) 496-5208 or carla.behnfeldt@nasdaq.com. Please refer to SR-NFX-2018-19 in any related correspondence.



Regards,

Daniel R. Carrigan

President

 Attachments:

 Exhibit 1: Amendments to Rulebook Appendix A - Listed Contracts

1. The Exchange is separately filing SR-NFX-2018-18 pursuant to Commission Rule 40.2 to list the four New Contracts. Language appearing in the new Appendix A chapters which is not underlined in Exhibit 1 hereto is being separately certified in SR-NFX-2018-18. The New Contracts are cash settled On-The-Run U.S. Treasury futures contracts expressed as 100 minus the yield of the corresponding U.S. Treasury security. The underlying interest is the dollar value (“DV01”), assigned by the Exchange at the time of listing for each contract month, of a one basis point change in yield of the current On-The-Run U.S. Treasury security with a face value of one million dollars having fixed semi-annual coupon payments available for trading on the Nasdaq Fixed Income (“NFI”) Alternative Trading System Order Book (the “NFI Order Book”). In the event the On-The-Run U.S. Treasury security corresponding to a particular contract month is redeemed or is unavailable for trading, all previously issued fixed principal U.S. Treasury securities having fixed semi-annual coupon payments may be referenced for determination of yield for that contract month. The multiplier is 100 times the DV01 for the contract month. All contract months having the same DV01 will be assigned the same trading symbol. [↑](#footnote-ref-2)
2. See new Rules 2002.04, 2005.04, 2010.04 and 2030.04. [↑](#footnote-ref-3)
3. See Rules Chapter IV, Section 11(F) provides: “Futures Participants must ensure that each Block Trade is reported to the Exchange within the number of minutes of the time of execution (the "Reporting Window") specified in the rules for the particular contract; except that Block Trades executed outside of Trading Hours must be reported within fifteen minutes of the commencement of the next Open Session of a Trading Session for that Contract. If the Block Trade includes certain legs subject to a 5 minute Reporting Window and other legs subject to a 15 minute Reporting Window, the reporting requirement for the transaction will be 15 minutes. The report must include the Contract, contract month, price, quantity of the transaction, the respective Clearing Futures Participants, the time of execution, and, for Options on Futures, strike price, put or call and expiration month. The Exchange shall promptly publish such information separately from the reports of transactions in the regular market. Failure to timely and accurately report Block Trades may subject the Futures Participant to disciplinary action.” [↑](#footnote-ref-4)
4. See new Rules 2002.08, 2005.08, 2010.08, and 2030.08. [↑](#footnote-ref-5)
5. See the daily settlement price provisions of new Rules 2002.06(b) and (d), 2005.06(b) and (d), 2010.06(b) and (d), and 2030.06(b) and (d). [↑](#footnote-ref-6)
6. See new Rules 2002.10, 2005.10, 2010.10 and 2030.10. [↑](#footnote-ref-7)
7. See new Rules 2002.11, 2005.11, 2010.11 and 2030.11. [↑](#footnote-ref-8)