November 12, 2018

Nasdaq Futures, Inc.

FMC Tower, Level 8,

Christopher J. Kirkpatrick 2929 Walnut Street

Office of the Secretariat Philadelphia, PA 19104

Commodity Futures Trading Commission

Three Lafayette Center business.nasdaq.com/futures

1155 21st Street, NW

Washington, DC 20581

Re: Rule 40.6 Certification

NFX PJM Western Hub Real-Time Peak

One Time Calendar Financial Futures (PMQ)

Reference File: SR-NFX-2018-53

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 amendments to Rulebook Appendix A, Rule 316E.05, governing exercise of NFX Options on NFX PJM Western Hub Real-Time Peak One Time Calendar Financial Futures (PMQ). The amendments eliminate the ability of option holders to submit contrary exercise instructions. The Exchange intends to implement the amendments on November 28, 2018, for trade date November 29, 2018. The amendments will therefore be effective for the December 21, 2018 PMQ options expiration.

The text of the rule amendment is set forth below. New language is underlined and deletions are struck through.

## *Rulebook Appendix A - Listed Contracts*

***\* \* \* \* \****

***Chapter 316E NFX Options on NFX PJM Western Hub Real-Time Peak One Time Calendar Year Financial Futures (PMQ)***

*\* \* \* \* \**

##### **316E.05 Exercise Style**

## *The option contracts are European-style exercise. At such time as the Clearing Corporation establishes for automatic exercise on the last trading day, the Clearing Corporation will automatically exercise all options that are in-the-money on behalf of the holder ~~unless instructed otherwise by the holder~~. Contrary exercise instructions will not be accepted. Unexercised options which are out-of-the-money expire automatically.*

*\* \* \* \* \* \**

Concise Explanation and Analysis

A PMQ option is a put or call option on a basket of yearly Contract Periods, January-December, of the NFX PJM Western Hub Real-Time Peak One Time Calendar Year Financial Futures. A PMQ option will exercise into the exact number of Underlying Futures Contracts for each Peak Day of each month in the basket using a single price based on the average price of the peak days in the month. PMQ options share the same expiration date, but deliver into a basket of yearly Contract Periods, January-December. [[1]](#footnote-1)

NFX understands that The Options Clearing Corporation (“OCC”) is unable to process contrary exercise advices in a coordinated fashion for PMQ calendar strip options, which represent the purchase of an option for all 12 calendar months simultaneously, where the underlying futures price is the weighted average of all 12 monthly futures prices. OCC has explained that contrary exercise advice instructions would need to be executed for each expiring option in the entire calendar strip and assigned to members based on the number of peak days in each contract month. Absent further OCC automation to ensure that commensurate quantities of each option are exercised or not exercised simultaneously, the exchange has decided to remove the risk of clearing member submission of either inadvertent or intentional contrary exercise instructions to OCC by removing the contrary exercise feature.

Additionally, NFX understands that the comparable ICE Futures U.S. (“ICE”) option does not permit contrary exercise advices.[[2]](#footnote-2) NFX customers have requested NFX to mirror the ICE product in order to reduce operational risk across exchanges for parallel treatment of out of the money options.

Consequently, Exchange Rule 316E.05 is being amended to provide that contrary exercise instructions will not be accepted. As a result all options which are out-of-the-money will expire automatically. Similarly, all options which are at-the-money will continue to expire automatically.[[3]](#footnote-3)

Core Principle Analysis

NFX reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act and identified that the rule amendments may have some bearing on the following Core Principles:

Contracts Not Readily Susceptible to Manipulation: The contracts are not readily subject to manipulation as a result of the deep liquidity and robustness of the underlying cash and futures market. The amendments described in this submission will not affect this.

Availability of General Information: The Exchange will amend the NFX rulebook accordingly on the implementation date which will be publicly available on the NFX website. In addition, the Exchange will publish a Futures Trader Alert to advise the marketplace of the rule amendment as well as the implementation date. The Futures Trader Alert will also be posted on the NFX website.

Execution of Transactions: The NFX trading system provides a transparent, open and efficient mechanism to electronically execute trades. The amendments described in this submission will not affect this.

Certifications

There were no opposing views among the NFX’s Board of Directors, members or market participants. The Exchange hereby certifies that the amendments comply with the Commodity Exchange Act and 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 [http://business.nasdaq.com/nasdaq-futures/nfx-market.](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 via e-mail at [carla.behnfeldt@nasdaq.com.](mailto:carla.behnfeldt@nasdaq.com) Please reference SR-NFX-2018-53 in any related correspondence.

Regards,



Rick Beaman

Chief Executive Officer

1. Rule 316E.02. [↑](#footnote-ref-1)
2. See ICE Rule 18.E.038 Calendar One Time Option on PJM Western Hub Real-Time Peak (800 MWh) Calendar Year One Time Fixed Price Future (Contract Symbol PMX) which provides that the exercise method is automatic only, and that manual exercise or abandon is not permitted. PMQ is structured similar to PMX, although the PMQ option is half the size of PMX. [↑](#footnote-ref-2)
3. Chapter VIII, Section H, Notice of Exercise, provides that the rules applicable to a particular Option may also specify that at-the-money calls will be automatically exercised. The PMQ option rules do not contain such a provision. [↑](#footnote-ref-3)