

North American Derivatives Exchange Emergency Action

Per North American Derivatives Exchange Rule 2.4, the undersigned two members of the Management Team have authorized the adoption of a temporary emergency rule to address the emergency following emergency:

Indicate the type of emergency being addressed (as listed in Rule 2.4(c)) (check appropriate):

- (i) any activity that manipulates or attempts to manipulate the Market;
- (ii) any actual, attempted, or threatened corner, squeeze, or undue concentration of positions;
- (iii) any circumstance that may materially affect the performance of the Contracts traded on, Nadex;
- (iv) any action taken by the United States, any foreign government, any state or local governmental body, any other contract market or board of trade, or any other exchange, market, facility, or trade association (foreign or domestic) that may have a direct impact on trading on Nadex;
- (v) any circumstances that may have a severe, adverse impact upon the physical functions of Nadex including, for example, natural disasters such as fire or flood, terrorist acts such as bomb threats, physical plant breakdowns such as plumbing, heating, or air conditioning problems, system breakdowns such as power, telephony, cable, trading systems, or computer systems failures or interruptions to communications, the network, or the Internet;
- (vi) the imposition of any injunction or other restraint by any government agency, court, or arbitrator that may affect the ability of a Member to perform on Contracts;
- (vii) any circumstance in which it appears that a Nadex Member or any other person is in such operational condition, or is conducting business in such a manner, that such person cannot be permitted to continue in business without jeopardizing the safety of Nadex Members or Nadex itself; and
- (viii) any other unusual, unforeseeable, and adverse circumstance which, in the opinion of the governing board, requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of or delivery pursuant to Contracts traded on Nadex.

The reason for the emergency action is: On November 23, 2016 Nadex submitted a self-certification to the CFTC providing notice that it planned to amend its settlement procedures beginning on December 19, 2016. For FX contracts, the new settlement procedure would utilize all underlying Midpoints (calculated from the bid/ask spread 10 pips wide or less, as defined in Rule 1.1) in the last 10 seconds leading up to expiration of the Nadex contract to calculate the expiration value, provided at least 10 Midpoints are collected within those 10 seconds. The highest and lowest 30% Midpoints are then removed and the remainder averaged. During a routine review, it was discovered that for these data sets, rather than using all Midpoints in the final 10 seconds leading up to expiration of the contract, the system was using all Midpoints occurring in the 10 seconds prior to the Midpoint with the timestamp closest to expiration. This issue was discovered at approximately 8:30am ET. The problem appeared to stem from a coding error, which would affect the data sets used in calculation during periods where either no quotes occurred in the underlying markets in the few seconds just prior to expiration, or where the underlying bid/ask spread exceeded 10 pips wide and was therefore considered an unusable Midpoint.

After the issue was discovered, the settlement process was reverted back to the method used prior to December 19, 2016, whereby only the last 10 underlying Midpoints leading up to expiration of the Nadex contracts are collected for the data set, the highest and lowest 3 Midpoints are removed, and the remaining 4 Midpoints are averaged, and the resulting value rounded to one decimal point past the precision of the underlying

market. The first expiration time for which this procedure was used after reverting back was the 12:20pm ET expiration.

No Member complaints were received with respect to the issue. Pursuant to Nadex Rule 6.3(c), settlements occurring in excess of 24 hours prior to a discovered error will be considered final. Accordingly, Nadex reviewed all settlements occurring the FX contracts from 8:30am ET on February 2, 2017 through 12:20pm ET on February 3, 2017 (when the procedure was reverted to the pre-December 19 method). All expiration values for this period were reviewed, and it was discovered that nine expirations values were affected by the error. Of these, three contracts resulted in a change of the settlement payout to four non-Market Maker Members. Market Maker adjustments will be reviewed on February 6, 2017. Adjustments will be made by ledger adjustment, and the affected Members have been notified. Nadex will post a notice on its website when it returns to the new settlement procedure for FX contracts.

By: Kate Kobl

By: [Signature]

Title: Chief Regulatory Officer

Title: COO

Date: February 3, 2017