



February 27, 2018

Via CFTC Portal Submissions

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

RE: Self-Certification of Rule Amendments: Nadex Adds Mini Bitcoin Variable Payout Contract – 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 §40.2(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 Rulebook which adds a new Variable Payout (otherwise known as “Spread” contracts) Contract to its current product listing. Nadex hereby submits the terms and conditions of the new Mini Bitcoin Variable Payout Contracts (the “Mini Bitcoin Contracts” or the “Contracts”) as represented in the following new Rule:

- **RULE 12.24 MINI BITCOIN VARIABLE PAYOUT CONTRACTS**

In December 2017, Nadex launched a Spread contract based on the underlying Tera[®] Bitcoin Price Index¹ (the “TeraBit Indexsm”), after having listed, and later delisted, a Bitcoin Binary Contract based on the same underlying. In both of its product certification submissions Nadex discussed the growing interest in bitcoin, particularly in the second half of 2017. In addition to Nadex, notable institutions such as the CME Group (“CME”), Cboe Futures Exchange (“CFE”), and Cantor Exchange (“Cantor”) all filed self-certification submissions with the Commission describing their intent to begin listing contracts based on bitcoin. With its recently launched Weekly Bitcoin Variable Payout Contract, Nadex sought to provide a product that not only complemented the contracts offered by CME, CFE, and Cantor, but would provide a competitive hedging option based on a reliable and accurate source.

¹ Tera[®], Tera[®] Bitcoin Price Index, and TeraBit Indexsm are service and trademarks of Tera Advanced Technologies, LLC.

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Since the listing of the Nadex Weekly Bitcoin Variable Payout contract on December 18, 2017, Nadex has received comments and requests from several members interested in the listing of additional crypto-currency products, and specifically, additional Bitcoin products. In response to these requests, Nadex plans to list a new cash-settled, fully collateralized Monthly Mini Bitcoin Variable Payout Contract based on the TeraBit Index. The Mini Bitcoin Variable Payout Contract is novel and differs from other products Nadex offers in terms of its size and duration. With the exception of event products, the longest duration for a binary or variable payout at Nadex has been one week. The new monthly contract will add to the diverse mix of product offerings. The smaller value of the Mini contract will provide Members with another option in which to further define and limit their risk, and become comfortable with the Bitcoin.

As the Commission will likely recall, the TeraBit Index is comprised of price data from a number of different bitcoin exchanges around the world, and Tera uses a volume weighted methodology to remove outlier prices. Exchanges that contribute price data enter an Information Sharing Agreement with Tera, and agree to share a real-time feed of trades, bids and offers, volume and other non-confidential information, as well as confidential information for regulatory or investigatory purposes. Tera monitors the price data to detect any possibility of market manipulation, and has enlisted the help of the National Futures Association (“NFA”) to monitor its markets. As previously stated, Nadex uses the same underlying data to create contracts and determine the expiration value in the currently listed Weekly Bitcoin Variable Payout Contract.

The new Monthly Mini Bitcoin Variable Payout Contract will be listed for the open of business on the first trading day of each new month. In order to synchronize the opening of the new Monthly Mini Bitcoin Variable Payout Contract with the Weekly Bitcoin Variable Payout Contract, which currently opens at 8:00am ET, both contracts will open for trading on Sunday evening at 6:00pm ET for Monday’s trade date. The Mini Bitcoin Contract will be tradeable at all times the Exchange is open and will expire at 3:00pm ET on the last trade date of the month.

Nadex will have at least one dedicated Market Maker who will make a two sided market up to two minutes prior to expiration in these contracts subject to the rules of the exchange. The Nadex Mini Bitcoin Spread Contracts will have an Expiration Value equal to the last TeraBit Index value immediately prior to expiration of the Contracts. It is not possible for an early release of the Contracts’ Expiration Value, as the final TeraBit Index price that will be used as the Expiration Value is unknown until the Nadex Contracts expire. If the TeraBit Index is unavailable or in the discretion of the Exchange the last available print is not appropriate for settlement, Nadex may obtain bitcoin pricing data for settlement purposes from one or more bitcoin exchanges or other data provider(s) that we deem appropriate under the circumstances, and in such circumstance the Exchange will determine the Expiration Value. On the Expiration Date, Nadex will publish on its website the Expiration Value for each listed Contract as soon as practicable after the expiration of that Contract.

Like Nadex’s current offering of Variable Payout Contracts, the new Mini Bitcoin Spread Contracts will consist of a Floor and a Cap, and the payout to the holder of a short position will be determined by subtracting the Closing Trade Value from the Opening Trade Value, as those terms are defined in the Nadex Rulebook, if the Spread Contract was closed by an offsetting transaction before Expiration, or subtracting the Expiration Value from the Opening Trade Value if the Spread Contract was held until Expiration, and multiplying the resulting number by the Dollar Multiplier. The payout to the

holder of a long position will be determined by subtracting the Opening Trade Value from the Closing Trade Value, if the Spread Contract was closed by an offsetting transaction before Expiration, or by subtracting the Opening Trade Value from the Expiration Value, if the Spread Contract was held until Expiration, and multiplying the resulting number by the Dollar Multiplier. Similar to the currently listed Bitcoin Spread Contracts, the spread between the Floor and Cap will depend on the value of the TeraBit Index just prior to the listing of the contract. The Floor and Cap will be determined using the contract specifications set forth in Rules 12.24 and the bitcoin value reported by the TeraBit Index five minutes prior to the listing of the contract. For example, if the Monthly Mini Bitcoin Spread Contract is scheduled to list at 6:00pm ET, the value of the bitcoin rounded to the nearest 500, as indicated by the TeraBit Index at 5:55pm ET will be used as "X". If X is valued at or above \$5,000, then the Spread Contract's Cap will be $X + X + \$100$, and the Floor will be \$100. If X is valued below \$5,000, then the Spread Contract's Cap will be \$10,100, and the Floor will be \$100. The Dollar Multiplier in all instances will be .01. Thus, if the TeraBit Index indicated X equaled \$6,071 at 5:55pm ET prior to the Contract's 6:00pm ET listing, the Cap would be \$12,100 ($\$6,071$ rounded to the nearest 500 is \$6,000; $\$6,000 + \$6,000 + \$100 = \$12,100$) and the Floor would be \$100. The Dollar Multiplier in all instances will be .01, making this a \$120 contract ($\$12,100 - \$100 * 0.01 = \120). If the TeraBit Index indicated X equaled \$6,491 at 5:55pm ET prior to the Contract's 6:00pm ET listing, the Cap would be \$13,100 and the Floor would be \$100. Accordingly, this contract's value is \$130 ($\$13,100 - \$100 * 0.01 = \130). Finally, if the TeraBit Index indicated X equaled \$3,899 at 5:55pm ET prior to the Contract's 6:00pm ET listing, the Cap would be \$10,100, because X is below \$5,000, and the Floor would be \$100. This contract would have a value of \$100 ($\$10,100 - \$100 * 0.01$).

The minimum tick size for the Nadex Mini Bitcoin Spread Contracts will equate to a change of 5.00 points in the underlying index, and each tick will have a value of \$0.05.

DCM CORE PRINCIPLES: MINI BITCOIN SPREAD CONTRACTS

Nadex has identified the following Designated Contract Market ("DCM") Core Principles as potentially being impacted by the addition of the Mini Bitcoin Contracts: Core Principle 2 Compliance with Rules; Core Principle 3 Contracts Not Readily Subject to Manipulation; Core Principle 4 Prevention of Market Disruption; Core Principle 5 Position Limits or Position Accountability; Core Principle 7 Availability of General Information; Core Principle 8 Daily Publication of Trading Information; Core Principle 11 Financial Integrity of Transactions.

Core Principle 2 requires the DCM to have the capacity to detect, investigate, and apply appropriate sanctions to any person that violates any rule of the contract market. Nadex has a dedicated Compliance/Regulatory staff that monitors the markets, investigates potential rule violations, and imposes sanctions against individuals who have been determined to have violated the Rules. Nadex has an automated trade surveillance system, SMARTS[®], which is capable of detecting potential trade practice violations, and also conducts real-time market monitoring of all trading activity in all contracts, at all hours the exchange is open. Nadex is able to set the parameters by which the system detects potential issues. Nadex currently lists a Weekly Bitcoin Spread contract, and monitors its market activity using these resources, and will monitor the new Monthly Mini Bitcoin Spread Contract in the same manner. Nadex has the authority to investigate and sanction Members for activity occurring in this market in violation of the Rules. Nadex has an Information Sharing Agreement with Tera, and Tera has entered

into Information Sharing Agreements with the Bitcoin exchanges from which it obtains data for use in its TeraBit Price Index. These Agreements allow for access to transaction data and trader level data. Accordingly, the listing of the Mini Bitcoin Spread Contract will not negatively impact Nadex's ability to comply with this Core Principle.

Core Principles 3 and 4 require the DCM to list only contracts that are not readily susceptible to manipulation and to prevent market disruption. Tera has proprietary method of calculation for its TeraBit Index, which makes the Index not readily susceptible to manipulation. The method uses a volume weighted compilation of prices from multiple different bitcoin exchanges² from around the world, after any anomalous prices have been filtered out. Nadex will monitor the data feed from Tera for anomalies and disproportionate moves in the index making up the settlement price, and may inquire with Tera and request trader level data in the event issues are discovered. Nadex has dedicated staff to surveil the market, and uses the SMARTS system to assist with market monitoring at all times the Mini Bitcoin Spread Contract will be listed. This Core Principle also requires a DCM to monitor the pricing of the index to which a contract will be settled and monitor the continued appropriateness of the methodology for deriving the index. It further requires a DCM that uses an index traded at another venue have agreements that allow it to access market information on the activities of the traders in the reference market. Nadex and Tera have entered into a Mutual Information Sharing Agreement whereby each will provide non-confidential information regarding trading activity and certain confidential information in the event either suspects market manipulation. Therefore, Nadex's ability to comply with these Core Principles will not be negatively impacted.

Core Principle 5 requires the DCM set position limits or position accountability to reduce the potential threat of market manipulation or congestion. Nadex has set the initial position limit for trading Members at 250 contracts, the equivalent of 25 bitcoin, reducing the motivation for an individual to manipulate the underlying market in order to affect the Nadex settlement. Market Makers will not be subject to the 250 contract position limit in order to provide sufficient liquidity to the market. Nadex does not believe its ability to comply with this Core Principle will be negatively impacted by the listing of a Mini Bitcoin Spread Contract.

Core Principles 7 and 8 require the DCM to make available to the public accurate information regarding the contract terms and conditions, as well as daily information on contracts such as expiration value, volume, open interest, and opening and closing ranges. Nadex makes available on its website the Exchange Rulebook, as well as the Daily Bulletin which contains the preceding information. The Results page on the website also publishes the Expiration Value and Settlement Value for all Nadex contracts settled during that week. Contract specifications for the Mini Bitcoin Spread Contracts will be set forth in the Rulebook and linked on the Nadex website. Settlement values, volume, open interest, and opening and closing ranges for the new contracts will be included on the Daily Bulletin and posted on the Nadex website. Therefore, the listing of the Mini Bitcoin Spread Contracts will not negatively impact Nadex's ability to comply with these Core Principles.

Core Principle 11 requires the DCM to establish and enforce rules and procedures for ensuring the financial integrity of transactions entered on the contract market. As with all contracts offered on

² At the time of this submission Tera is collecting data from several bitcoin exchanges.

Nadex, the Mini Bitcoin Spread Contracts will be fully collateralized, and Members entering a transaction will have knowledge of their maximum risk when entering that transaction. The addition of a Mini Bitcoin Spread Contract will therefore not negatively impact Nadex's ability to comply with this Core Principle.

DCO CORE PRINCIPLES: MINI BITCOIN SPREAD CONTRACTS

Nadex has identified the following Derivatives Clearing Organization ("DCO") Core Principles as potentially being impacted by the addition of the Mini Bitcoin Spread Contract: Core Principle C Participant and Product Eligibility; Core Principle L Public Information.

Core Principle C requires the DCO to establish appropriate standards for determining the eligibility of transactions submitted to it for clearing. Nadex has found that transactions in the fully-collateralized Mini Bitcoin Spread Contracts are eligible for clearing and not readily susceptible to manipulation. The Contracts will be based on the underlying TeraBit Index, which has demonstrated and been recognized by the Commission to provide a reliable value for bitcoin. Moreover, Nadex is currently listing a Weekly Bitcoin Spread Contract, also based on the TeraBit Index, and clears transactions occurring in that market. Nadex has a designated Market Maker to make a two-sided market for these Contracts, thereby supporting liquidity. Additionally, Nadex is operationally able to accept the transactions for clearing. Finally, all trading in the Contracts, like all Nadex products, will be conducted on a fully-collateralized basis, thereby mitigating any credit risk of a particular Member to Nadex or other market participant. Nadex has therefore determined that these contracts are appropriate to accept for clearing.

Core Principle L requires the DCO to make available to the public the terms and conditions of each contract, as well as the daily settlement prices, volume, and open interest of the contract. As stated previously, the Rulebook is made available to the public on the Nadex website. Settlement values for the Mini Bitcoin Spreads Contract will be listed on the Nadex website on the 'Results Page', as well as the Daily Bulletin which also shows volume and open interest. Therefore, the addition of the Contracts will not negatively impact Nadex's ability to comply with this Core Principle.

In accordance with §40.2(a)(2) of the Commission's Regulations, Nadex plans to implement these Rule changes and begin listing the Nadex Mini Bitcoin Variable Payout ("Spread") Contracts for the start of business on or after trade date March 1, 2018.

These Rule changes have been outlined in Exhibit A. The amendments to the Rulebook are set forth 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.

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.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jaime Walsh", with a stylized, cursive script.

Jaime Walsh
Legal Counsel

EXHIBIT A

Rule	Asset	Duration/Close Time	Action	Effective Date
12.24	Mini Bitcoin Variable Payout Contracts	Monthly 3:00PM ET Close Time	Add new Monthly Mini Spread Contracts based on the underlying Tera Bitcoin Price Index	3/1/2018

EXHIBIT B

Addition of Rule 12.24

(The following Rule amendments are underlined and deletions are stricken out)

RULES 1.1 – 12.23 [UNCHANGED]

RULE 12.24 MINI BITCOIN VARIABLE PAYOUT CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Mini Bitcoin Variable Payout Contracts issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is the value of the bitcoin digital currency as indicated by the Tera[®] Bitcoin Price Index, calculated by the Tera^{®3}.

(c) SOURCE AGENCY – The Source Agency is Tera.

(d) TYPE – The Type of Contract is a Variable Payout Contract.

(e) ISSUANCE – For each planned release by the Source Agency of the Underlying, Nadex will issue various Contracts, each of a different Series. A new issuance of Contracts will commence on the first trade date of the month.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Variable Payout Contracts are initially issued. For the Mini Bitcoin Variable Payout Contract, the Payout Criteria for the Contracts will be set as follows:

(i) MONTHLY MINI BITCOIN VARIABLE CONTRACTS, 3:00 PM ET – At the commencement of trading in a Monthly Mini Bitcoin Variable Payout Contract, Nadex shall list one Monthly Mini Bitcoin Variable Contract, having a total contract range and contract value based on the value of the underlying Tera Bitcoin Price Index at the time the Monthly Mini Variable Contract is created, which conforms to the Payout Criteria listed below:

(1) MONTHLY MINI VARIABLE PAYOUT CONTRACT ‘SPREAD’ – If the Tera Bitcoin Price Index is valued at \$5,000 or higher at five (5) minutes prior to the listing of the Contract, they Payout Criterion shall be as follows:

_____ (aa) CAP – The Cap shall be $X + X + \$100$.

_____ (bb) FLOOR – The Floor shall be \$100.

_____ (cc) DOLLAR MULTIPLIER – The Dollar Multiplier shall be .01.

_____ ³ Tera[®] and Tera[®] Bitcoin Price Index are service and trademarks of Tera Advanced Technologies, LLC.

(2) MONTHLY MINI VARIABLE PAYOUT CONTRACT ‘SPREAD’ – If the Tera Bitcoin Price Index is valued below \$5,000 at five (5) minutes prior to the listing of the Contract, the Payout Criterion shall be as follows:

(aa) CAP – The Cap shall be \$10,100.

(bb) FLOOR – The Floor shall be \$100.

(cc) DOLLAR MULTIPLIER – The Dollar Multiplier shall be .01.

(3) In each case, “X” equals the Tera Bitcoin Price Index price, as reported by the Source Agency prior to listing, rounded to the nearest 500.

(ii) Nadex may refrain from listing, or list additional Variable Payout Contracts at its discretion based on the value of the underlying Tera Bitcoin Price Index or existing market conditions at the time of the contract listing or throughout the life of the contract and in accordance with the CEA and Commission Regulations.

(g) MINIMUM TICK – The Minimum Tick size for the Mini Bitcoin Variable Payout Contracts shall be \$5.00.

(h) POSITION LIMIT – The Position Limit for the Mini Bitcoin Variable Payout Contracts shall be 250 contracts⁴.

(i) LAST TRADING DATE – The Last Trading Date in a Series shall be the same date as the Expiration Date. The Last Trading Date shall be the last trade date of the month.

(j) SETTLEMENT DATE – The Settlement Date of the Contract shall be the same date as the Expiration Date.

(k) EXPIRATION DATE – The Expiration Date of the Contract shall be the date on which the Mini Bitcoin Expiration Value is released by the Source Agency.

(l) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of either a Short or Long Variable Payout Contract on Settlement Date. The Settlement Value of a Variable Payout Contract is determined as described in the definition for Long and Short Variable Payout Contracts.

(m) EXPIRATION VALUE – The Expiration Value is the price or value of the Tera Bitcoin Price Index released by the Source Agency on the Expiration Date, rounded to the nearest \$0.10.

⁴ Market Makers shall not be subject to the 250 contract Position Limit. Market Makers will be relieved of their quoting obligations after reaching a position level of 2,500 contracts.

(n) CONTINGENCIES – If no Expiration Value is announced by the Source Agency on the Expiration Date, the Settlement Date will be delayed until the Expiration Value is released for that Series by the Source Agency.

RULES 12.25 – 12.78 [UNCHANGED]

End of Rulebook.

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