**Rule Self-Certification**

March 22, 2016

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Re: **Product Certification and Rule Certification for**

**Twenty-Four New ERCOT Power Futures Contracts**

**Reference File: SR-NFX-2016-30**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Sections 40.2 and 40.6 of the Commission’s regulations thereunder, NASDAQ Futures, Inc. (“NFX” or “Exchange”) hereby submits rules, terms and conditions for twenty-four new financially settled Electric Reliability Council of Texas independent service operator (“ERCOT”) power futures contracts (together, the “New Contracts”). The Exchange anticipates listing the New Contracts beginning April 6, 2016, for trade date April 7, 2016. The amendments proposed in this submission shall be effective on the listing date.

The name of each New Contract is set forth below, followed by its symbol in parentheses:

* NFX ERCOT North 345 KV Hub Real-Time Peak Financial Futures (ERNQ)
* NFX ERCOT North 345 KV Hub Real-Time Peak Mini Financial Futures - 5MW (ENMQ)
* NFX ERCOT North 345 KV Hub Real-Time Peak Mini Financial Futures - 1MW (ENSQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Peak Financial Futures (ERHQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Peak Mini Financial Futures - 5MW (EHMQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Peak Mini Financial Futures - 1MW (EHSQ)
* NFX ERCOT South 345 KV Hub Real-Time Peak Financial Futures (ERSQ)
* NFX ERCOT South 345 KV Hub Real-Time Peak Mini Financial Futures - 5MW (ESMQ)
* NFX ERCOT South 345 KV Hub Real-Time Peak Mini Financial Futures - 1MW (ESSQ)
* NFX ERCOT West 345 KV Hub Real-Time Peak Financial Futures (ERWQ)
* NFX ERCOT West 345 KV Hub Real-Time Peak Mini Financial Futures - 5MW (EWMQ)
* NFX ERCOT West 345 KV Hub Real-Time Peak Mini Financial Futures - 1MW (EWSQ)
* NFX ERCOT North 345 KV Hub Real-Time Off-Peak Financial Futures (NEBQ)
* NFX ERCOT North 345 KV Hub Real-Time Off-Peak Mini Financial Futures - 5MWH (NHMQ)
* NFX ERCOT North 345 KV Hub Real-Time Off-Peak Mini Financial Futures – 1MWH (NHNQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Off-Peak Financial Futures (HEBQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Off-Peak Mini Financial Futures - 5MWH (HHMQ)
* NFX ERCOT Houston 345 KV Hub Real-Time Off-Peak Mini Financial Futures – 1MWH (HHNQ)
* NFX ERCOT South 345 KV Hub Real-Time Off-Peak Financial Futures (SEBQ)
* NFX ERCOT South 345 KV Hub Real-Time Off-Peak Mini Financial Futures - 5MWH (SHMQ)
* NFX ERCOT South 345 KV Hub Real-Time Off-Peak Mini Financial Futures – 1MWH (SHNQ)
* NFX ERCOT West 345 KV Hub Real-Time Off-Peak Financial Futures (WEBQ)
* NFX ERCOT West 345 KV Hub Real-Time Off-Peak Mini Financial Futures - 5MWH (WHMQ)
* NFX ERCOT West 345 KV Hub Real-Time Off-Peak Mini Financial Futures – 1MWH (WHNQ)

The new rules and terms and conditions describing the New Contracts are attached to this letter as Exhibits 1 and 2, which together amend (1) Rulebook Appendix A, Listed Contracts, by adding chapters 317 – 324B and (2) Rulebook Appendix B, Table of Position Limits, Position Accountability Levels and Large Trader Reporting Levels (attached under separate cover).[[1]](#footnote-1) A cash market description and deliverable supply analysis for power is included as Exhibit 3 under separate cover, together with a request for confidential treatment of that exhibit under FOIA.

**Concise Description of the New Contracts**

The New Contracts are monthly cash settled futures contracts based on the arithmetic average of real-time peak and off-peak settlement point prices published by ERCOT for the West, North, South and Houston 345KV Hubs, as described in the terms and conditions of the contracts set forth in Rulebook Appendix A. A settlement point price is a locational marginal price calculated for the particular settlement point (resource node, load zone, or hub) specified in the individual contract’s rules.[[2]](#footnote-2)

The listing cycle for each contract is up to 60 consecutive monthly contracts. The block trade minimum quantity threshold and reporting window of 10 contracts and fifteen minutes, as well as the spot month position limits, are consistent with those for similar power contracts currently listed by the Exchange.

The Exchange is also adding the New Contracts to the “Table of Listed Contracts” set forth in the Introduction Section of Rulebook Appendix A.

**Certifications**

The Exchange has reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act. Regulatory compliance of the New Contracts is principally addressed in the NFX Rulebook, concisely explained as follows:

Core Principle 2 - Compliance with Rules:

The terms and conditions of the New Contracts will be set forth in new Rulebook Appendix A. In addition, trading of these contracts will be subject to all relevant Exchange rules which are enforced by Exchange regulatory staff.

Core Principle 3 -Contracts not Readily Subject to Manipulation:

The New Contracts will be financially settled, do not involve the physical delivery of commodities, and will settle on prices derived from prices published on a well-established reference source. As with all contracts listed for trading on the Exchange, activity in the New Contracts will be subject to extensive monitoring and surveillance by the Exchange's regulatory staff in conjunction with the National Futures Association (“NFA”) pursuant to the provisions of a Regulatory Services Agreement. Additionally, the Exchange has the authority to exercise its investigative and enforcement power where potential rule violations are identified. The Exchange's disciplinary rules are contained in Chapter V of the Rulebook, which permits the Exchange to discipline, suspend or expel Futures Participants or market participants that violate the rules.

The Exchange’s new power futures contracts settle to power prices published by ERCOT, and are not readily subject to manipulation due to oversight of the electricity auctions by ERCOT. Moreover, as stated on its website, ERCOT is a membership-based 501(c)(4) nonprofit corporation, governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and the Texas Legislature. ERCOT states that its market rules and amendments are reviewed by the Public Utility Commission of Texas to ensure that they satisfy the public interest.[[3]](#footnote-3)

The real time peak and off-peak markets that generate the prices to which the Exchange contracts settle are directly related to the physical generation of and demand for electricity as well as the capacity constraints of the grid. The Exchange has consulted with market users to obtain their views and opinions during the contract design process.

Core Principle 4 - Prevention of Market Disruption:

Trading in the New Contracts will be subject to Chapter III, Section 24 of the Exchange Rulebook which prohibits manipulative or disruptive trading practices prohibited by the Act. Section 1(c) of Chapter III requires Authorized Traders to make available to the Exchange, upon request, information and their books and records regarding their activities in another market if the Exchange’s contracts, such as the New Contracts, are settled by reference to the price of a contract or commodity traded in that reference market. The Exchange will monitor ERCOT prices.

Trading in the new contracts will be subject to monitoring and surveillance by Exchange staff. NFX Regulation, which will handle real-time surveillance, will monitor trading activity on the Exchange with a SMARTS Surveillance Application through which the Exchange can track activity of specific Authorized Traders, monitor price and volume information and receive alerts regarding market messages. NFX Regulation, in conjunction with NFA staff that handles T+1 surveillance, utilizes data collected by the SMARTS Surveillance Application to monitor price movements, as well as market conditions and volumes to detect suspicious activity such as manipulation, disruptive trading and other abnormal market activity. The Exchange has established comprehensive audit trail processes that capture trading information to facilitate the surveillance activities described herein. Futures Participants that access the Exchange electronically are responsible for maintaining audit trail information for all electronic orders pursuant to Chapter V, Section 1. The Exchange has the ability to reconstruct all orders transacted on the trading system.

Core Principle 5 - Position Limitations or Accountability:

The Exchange's rules at Chapter V, Section 13 set forth the Exchange's policies for monitoring of positions that are owned, controlled or held by any person. The New Contracts’ reporting levels, accountability levels and position limits are set forth in amendments to Rulebook Appendix B – Table of Reporting Levels, Position Accountability Levels and Position Limits. Based on the analysis set forth in the Cash Market Description and Deliverable Supply Analysis attached as Exhibit 3, the Exchange is setting its spot month position limit and accountability levels commensurate with those established by ICE Futures US for the ICE Futures US ERCOT power futures contracts, adjusted for contract size. Further, positions in the New Contracts identified as “Mini” contracts which have a smaller unit of trading than the associated larger “parent” New Contracts (e.g. 800 MWh versus 80 MWh or 16 MWh; and, 50 MWh versus 5 MWh or 1 MWh), will aggregate into positions in the associated larger parent New Contract as indicated in Rulebook Appendix B.

Core Principle 7 - Availability of General Information:

The Exchange will post general information, including its contract specifications, Exchange fees, and the NFX Rulebook, on its website: [business.nasdaq.com/futures](http://business.nasdaq.com/nasdaq-futures/nfx-market).

Core Principle 8 - Daily Publication of Trading Information:

The Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for actively traded New Contracts on its website as required by Commission regulations. The Exchange will also publish the total quantity of block trades that are included in trading volume for each trading day.

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.

Core Principle 10 - Trade Information:

The Exchange's trading system will capture and maintain all information with respect to orders placed into the trading system. The information will include orders that were executed and those that were not executed as well as all other information relating to the trade environment that determines the matching and clearing of trades such as information related to clearing and number and types of contracts. Orders entered into the trading system can be tracked from the time they are entered into the trading system until the time they are matched, canceled or otherwise removed.

Core Principle 11 - Financial Integrity of Contracts:

All contracts traded on the Exchange’s trading system will be cleared by The Options Clearing Corporation, which is a derivatives clearing organization registered with the Commission and subject to Part 39 of the Commission’s regulations. Transactions in the New Contracts will be subject to the Exchange’s Rulebook provisions for submission to clearing. Pursuant to Commission regulations OCC will set the speculative customer initial margin requirement on the twenty-four New Contracts as it does on existing NFX contracts. CFTC regulations require OCC to set the customer initial margin requirement at an amount that is higher than OCC’s clearing member margin requirement. OCC has advised NFX that the customer initial margin requirement for NFX contracts will be set to a dollar amount that equals 110% of the greater of Value-at-Risk (VaR) level calculated using a 99% confidence interval for the daily price returns using a 2-year and 5-year look-back period (on a per contract basis). In addition, for products having an economically equivalent contract listed on another market center, OCC will not allow its rates to fall below that of the primary listing exchange. OCC has advised NFX that customer initial margin requirements are reset approximately every 90 calendar days and monitored daily, with rates being re-set should a one-day change in settlement price exceed the prevailing rate at the time. In addition, OCC has authority to update customer initial margin requirements at any time, if deemed warranted, and as dictated by market conditions. NFX has determined to adopt the result of OCC’s VaR calculation as described above as the customer maintenance margin requirement. NFX is also adopting the result of OCC’s VaR calculation as described above as the initial and maintenance margin requirement for hedge customers and Futures Participants. NFX margin rates will be available on the OCC website.

Core Principle 12 - Protection of Market Participants:

Chapter III of the Exchange’s rules protect the market and market participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. These rules will apply to all transactions in the Exchange’s listed contracts, including the New Contracts.

Core Principle 13 - Disciplinary Procedures:

The Exchange's rules at Chapter VI describe disciplinary procedures and authorize the Exchange to discipline, suspend, expel or otherwise sanction market participants for violations of the Exchange's rules.

Core Principle 14 - Dispute Resolution:

Chapter V of the Exchange Rulebook establishes rules concerning alternative dispute resolution, which provide for the resolution of disputes through the NFA arbitration program.

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-2016-30 in any related correspondence.



Regards,

Daniel R. Carrigan

President

Attachments:

Exhibit 1: Amendments to Rulebook Appendix A – Listed Contracts

Exhibit 2: Amendments to Rulebook Appendix B - Table of Position Limits, Position Accountability Levels and Large Trader Reporting Levels (under separate cover).

Confidential Exhibit 3: Cash Market Description and Deliverable Supply Analyses (under separate cover with FOIA confidentiality request)

1. The Exchange is separately filing SR-NFX-2016-31, also to be effective upon listing of the New Contracts, which adopts provisions for each New Contract relating to block trading minimum quantities and reporting times, nonreviewable ranges, trading hours and daily settlement prices in the new Appendix A chapters governing the New Contracts. Language appearing in the new Appendix A chapters which is not underlined in Exhibit 1 hereto is being separately proposed in SR-NFX-2016-31 pursuant to Commission Rule 40.6 [↑](#footnote-ref-1)
2. See http://www.ercot.com/glossary/s. [↑](#footnote-ref-2)
3. For information concerning ERCOT see <http://www.ercot.com/about>. For information concerning the PUC, see <http://www.puc.texas.gov/agency/about/mission.aspx> . [↑](#footnote-ref-3)