



May 6, 2020

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 New Product: Nadex Adds Currency Exchange
USD/MXN Binary Contracts - 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”) hereby submits to the Commission amendments to the Nadex Rulebook which adds new currency pair USD/MXN to the listing of binary contracts offered on the Exchange. Nadex hereby submits the terms and conditions of the new USD/MXN Binary Contracts as represented in the following new Rules:

- **RULE 12.46 CURRENCY EXCHANGE USD/MXN BINARY CONTRACTS**

The rules for the USD/MXN Binary Contracts are predominantly consistent with the rules for the ten existing forex currency rate binary options offered by Nadex¹. The Nadex

¹ Nadex currently offers the following forex currency rate binary options: AUD/USD, EUR/USD, GBP/USD, USD/CAD, USD/CHF, USD/JPY, EUR/JPY, GBP/JPY, EUR/GBP and AUD/JPY.

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USD/MXN Binary Contracts will be based on the underlying Spot USD/MXN currency rate, which is widely traded during the hours the Nadex Contracts will be available for trading. The USD/MXN Binary Contracts are cash-settled and like all Binary Contracts will have a settlement payout of either \$0 or \$100. The Nadex USD/MXN Binary Contracts will be offered with Weekly, Daily, and 2-hour Intraday durations, and will initially be tradable between the hours of 8:00am ET and 3:00pm ET.

Nadex, as the Source Agency, will calculate an Expiration Value for each USD/MXN Binary Contract using its standard calculation method whereby all midpoints between the bid/ask spread in the underlying Spot USD/MXN market (250 pips wide or less) occurring in the ten seconds leading up to the close of trading of the USD/MXN Binary contract are collected, provided at least ten midpoints are captured during the ten second period. The highest thirty percent and lowest thirty percent of midpoints are then removed from the data set, and the remaining midpoints are averaged and rounded to the fourth decimal precision point to calculate the final Expiration Value. In the event the time it takes to collect at least ten midpoints (250 pips wide or less) exceeds the ten second time period the Expiration Value is calculated by taking the last ten midpoints between the bid/ask spread in the underlying (250 pips wide or less) just prior to the close of trading in the Nadex USD/MXN Binary Contract, removing the highest three and lowest three midpoints, and averaging the remaining four midpoints rounding to the fourth decimal precision point.

The calculation methodology for the Expiration Values mitigates the possibility of manipulation or any party trading with advance knowledge of the Expiration Value prior to expiration of the Contract. The underlying Spot USD/MXN is traded in real-time; it is not possible for an “early” release of the Spot USD/MXN trade prices or the relevant Expiration Value for the Contract to occur, as trading in the Contract on the Nadex exchange ceases concurrently with the fixing of the relevant prices that will be used in calculating the Expiration Value. Nadex has at least one designated Market Maker committed to providing liquidity in the USD/MXN Binary Contracts upon the initial launch, with plans for other Market Makers to begin quoting soon thereafter.

DCM Core Principles

Nadex has identified the following Designated Contract Market (“DCM”) Core Principles as potentially being impacted by the addition of the USD/MXN Binary Contracts: Core Principle 2 Compliance with Rules (Regulation Subparts 38.156 Automated trade surveillance system, 38.157 Real-time market monitoring); Core Principle 3 Contracts Not Readily Subject to Manipulation (Regulation Subparts 38.200, 38.201 Additional sources for compliance); Core Principle 4 Prevention of Market Disruption (Regulation Subparts 38.250 Core Principle 4, 38.251 General requirements, 38.253 Additional requirements for cash-settled contracts, 38.256 Trade reconstruction); Core Principle 7 Availability of General Information (Regulation Subparts 38.400 Core Principle 7, 38.401 General requirements); Core Principle 8 Daily Publication of Trading Information (Regulation Subparts 38.450, 38.451 Reporting of trade information); and Core Principle 18 Recordkeeping (Regulation Subpart 38.951 Additional Sources for Compliance).

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Commission Regulations Subparts 38.156 and 38.157, which implement Core Principle 2, require a DCM to maintain an automated trade surveillance system capable of detecting and investigating potential trade practice violations, and to conduct real-time market monitoring of all trading activity. Nadex uses the automated SMARTS[®] surveillance system to aid in the ongoing monitoring of all trading activity, and has the capability of detecting potential trade practice violations based on the parameters set by the DCM. This surveillance system monitors all trading activity on the Exchange in real-time, and will monitor activity in the USD/MXN Binary Contracts in the same manner. The Nadex surveillance system and its staff currently monitor all trading activity, and this will not change with the addition of USD/MXN Binary Contracts. Therefore, the addition of USD/MXN Binary Contracts will not negatively impact Nadex's ability to comply with this Core Principle.

Core Principles 3 and 4 require a DCM to list only contracts that are not readily susceptible to manipulation and to prevent market disruption. Like other underlying currency pairs upon which Nadex bases its contracts, the Spot USD/MXN is traded on the foreign exchange interbank market, the largest and most liquid market in the world. The Spot USD/MXN traded in real-time, thereby eliminating the possibility of an early release of an underlying trade price. Additionally, the Expiration Value calculation method of removing the top 30% and lowest 30% of underlying midpoint prices from the collected underlying currency data set, and averaging the remaining midpoints further mitigates the possibility of manipulation in the underlying markets. Nadex has at least one Market Maker who will provide liquidity for the USD/MXN Binary Contract on its launch date, and others that have indicated a willingness to providing liquidity in these contracts, which market making activity should limit opportunities for the Nadex USD/MXN Binary Contract markets to be manipulated. As previously stated, Nadex also uses the SMARTS surveillance system to assist with market monitoring and has a staff dedicated to market surveillance to detect potential market manipulation.

Regulation 38.253 requires a DCM to have rules in place that allow the DCM access to information about the activities of its traders in a reference market if the contracts listed on the DCM are settled by reference to the price of a contract in another venue. Nadex Rule 3.3(a) specifically requires each Member and Authorized Trader to cooperate in "providing Nadex with access to information on the activities of such Member and/or Authorized Trader in any referenced market that provides the underlying prices for any Nadex market". This obligation is applicable to any contract traded on Nadex, and will therefore apply to the new USD/MXN Binary Contracts as well. In addition, Nadex is a signatory to both the International Information Sharing Memorandum of Understanding and Agreement and the Joint Compliance Committee's Agreement for Sharing Regulatory Data and Information.

Regulation 38.256 requires a DCM to have the ability to comprehensively and accurately reconstruct all trading on its trading facility. Nadex is currently able to reconstruct trading in its Contracts based on the data stored in the database, the Nadex SMARTS surveillance system, as well as the Exchange log files. Trade data will continue to be stored in this same manner following the addition of the USD/MXN Binary Contracts. Therefore, the addition of these contracts will not negatively impact Nadex's ability to comply with these Core Principles.

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Core Principles 7 and 8, implemented by Regulations Subsections 38.400, 38.401, 38.450, and 38.451, require a DCM to make available to the public accurate information regarding the contract terms and conditions, as well as daily information on contracts such as settlement price, volume, open interest, and opening and closing ranges. Nadex makes the Exchange Rulebook available on its website, as well as the Daily Bulletin which contains the preceding required 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 USD/MXN Binary Contracts will likewise be set forth in the Rulebook and on the Nadex website. Daily settlement prices, 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 addition of the USD/MXN Binary Contracts will not negatively impact Nadex's ability to comply with these Core Principles.

Finally, Core Principle 18, implemented by Regulation Subsection 38.951, requires a DCM to maintain records in accordance with part 45, Swap Data Recordkeeping and Reporting Requirements. In early 2013, Nadex and CFTC staff engaged in discussions regarding the classification of its Binary Contracts and Variable Payout Contracts following the Dodd-Frank amendments to the Act. The review resulted in the determination that Nadex Binary Contracts and Variable Payout Contracts were deemed to be "swaps" under Section 1a(47) of the Act. On June 30, 2017, Nadex was granted relief in CFTC Letter No. 17-31 (the "Letter") from Commission Regulations 38.8(b), 38.10, 38.951 (in part), 39.20(b)(2) and Parts 43 and 45. Nadex will continue to meet the requirements for which it has not been granted relief, as well as the conditional requirements set forth in the Letter, and accordingly the addition of the USD/MXN Binary Contracts will not negatively impact Nadex's ability to comply with the Core Principle.

DCO Core Principles

Nadex has identified the following Derivatives Clearing Organization ("DCO") Core Principles as potentially being impacted by the addition of the USD/MXN Binary Contracts: C Participant and Product Eligibility, E Settlement Procedures, K Recordkeeping, and L Public Information.

Core Principle C, implemented by Regulation 39.12, requires a DCO to determine the eligibility of contracts for clearing. Nadex has determined the USD/MXN Binary Contracts will be eligible for clearing as the contracts will be listed based a liquid underlying currency market, and as required by Nadex's Order of Designation, trading in the USD/MXN Binary Contracts will be conducted on a fully-collateralized basis, thereby mitigating any credit risk of a particular member to Nadex or any other market participant.

Core Principle E, implemented by Regulation 39.14, requires a DCO to effect a settlement with each member at least once each business day. Nadex's USD/MXN Binary Contracts will settle in a timely manner after expiration. Also in accordance with this Core Principle, Nadex will continue to maintain an accurate record of the flow of funds associated

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with each settlement of its USD/MXN Binary Contracts. Therefore, the amendments discussed herein will not negatively impact Nadex's ability to comply with this Core Principle.

Core Principle K, implemented by Regulation 39.20, requires a DCO that clears swaps maintain swap data in accordance with the requirements of part 45. As indicated above, Nadex has been granted relief from Commission Regulations 38.8(b), 38.10, 38.951 (in part), 39.20(b)(2) and Parts 43 and 45 in CFTC Letter No. 17-31 with respect to its binary option and spread contracts. Nadex will continue to meet the requirements for which it has not been granted relief, as well as the conditional requirements set forth in the Letter.

Core Principle L, implemented by Regulation 39.21, requires a 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 contains the contract specifications for all contracts listed on the Exchange, and is made available to the public on the Nadex website. All settlement values are listed on the Nadex website on the 'Results Page', as well as the Daily Bulletin which also shows volume and open interest. Therefore, the amendments discussed herein will not negatively impact Nadex's ability to comply with this Core Principle.

The new USD/MXN Binary Contracts will be effective for the start of business on trading day Monday, May 11, 2020.

Nadex has outlined the new Rules in Exhibit A. In Exhibit B, Nadex has set forth the text of new Rules 12.46 to reflect all of the terms and conditions of the new Contract in accordance with Commission Regulations §40.2(a).

No substantive opposing views were expressed to Nadex with respect to this addition.

Nadex hereby certifies that the revision contained herein complies with the Act, as amended, and the Commission Regulations adopted thereunder.

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,



Jaime Walsh
Legal Counsel

EXHIBIT A

Rule	Asset	Duration/ Close Time	Action	Effective Date
12.46	USD/MXN Binary Contracts	Daily: 3pm close time Weekly: 3pm close time Intraday: 10am, 11 am, 12pm, 1pm, 2pm, 3pm close time	Add new product and contract specifications.	5/11/2020

EXHIBIT B

Addition of Rules 12.46

(The following new Rule additions are underlined and deletions are stricken out)

RULES 1.1 – 12.45 [UNCHANGED]

RULE 12.46 CURRENCY EXCHANGE USD/MXN BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Currency Exchange USD/MXN (“USD/MXN”) Binary Contract issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is the US dollar/Mexican peso herein referred to as “USD/MXN” as quoted in Mexican pesos per US dollar obtained from the spot USD/MXN foreign currency market.

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

(d) TYPE – The type of Contract is a Binary Contract.

(e) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Binary Contracts are initially issued. For the USD/MXN Binary Contract, the Payout Criteria for the Contracts will be set as follows:

(i) WEEKLY USD/MXN BINARY CONTRACTS

(1) EXPIRATION TIME – 3 PM ET CLOSE

(2) STRIKE INTERVAL WIDTH – The interval width between each strike level shall be 0.1.

(3) NUMBER OF STRIKE LEVELS LISTED - Thirteen (13) strike levels will be listed for each Weekly USD/MXN Binary Contract Series.

(4) STRIKE LEVELS GENERATED - Strike levels will be generated such that Binary Contract “W” is valued ‘at-the-money’ in relation to the Underlying market as determined by the Source Agency, immediately before the issuance of these Contracts, and shall be measured in U.S. cents rounded to the nearest value ending in either 0.025 or 0.075 as reported by the Source Agency. Six (6) strike levels will be generated above Binary Contract W at an interval of 0.1, and six (6) strike levels will be generated below Binary Contract W at an interval of 0.1 (e.g. $W - 0.1$; W ; $W + 0.1$). The Contract will have a Payout Criterion of greater than the strike level value.

(ii) DAILY USD/MXN BINARY CONTRACTS

(1) EXPIRATION TIME – 3 PM ET CLOSE

(2) STRIKE INTERVAL WIDTH – The interval width between each strike level shall be 0.04.

(3) NUMBER OF STRIKE LEVELS LISTED – Twenty-one (21) strike levels will be listed for each Daily USD/MXN Binary Contract Series.

(4) STRIKE LEVELS GENERATED - Strike levels will be generated such that Binary Contract “X” is valued ‘at-the-money’ in relation to the Underlying market as determined by the Source Agency, immediately before the issuance of these Contracts, and shall be measured in U.S. cents rounded to the nearest value ending in 0.02 as reported by the Source Agency. Ten (10) strike levels will be generated above Binary Contract X at an interval of 0.04, and ten (10) strike levels will be generated below Binary Contract X at an interval of 0.04 (e.g. $X - 0.04$; X ; $X + 0.04$). The Contract will have a Payout Criterion of greater than the strike level value.

(iii) INTRADAY 2-HOUR USD/MXN BINARY CONTRACTS

(1) EXPIRATION TIME – 10 AM, 11 AM, 12 PM, PM , 2 PM, 3 PM ET CLOSE

(2) STRIKE INTERVAL WIDTH – The interval width between each strike level shall be 0.016.

(3) NUMBER OF STRIKE LEVELS LISTED – Fifteen (15) strike levels will be listed for each Intraday 2-Hour USD/MXN Binary Contract Series.

(4) STRIKE LEVELS GENERATED - Strike levels will be generated such that Binary Contract “Y” is valued ‘at-the-money’ in relation to the Underlying market as determined by the Source Agency, immediately before the issuance of these Contracts, and shall be measured in U.S. cents rounded to the nearest value ending in either 0.000, 0.002, 0.004, 0.006 or 0.008 as reported by the Source Agency. Seven (7) strike levels will be generated above Binary Contract Y at an interval of 0.016, and seven (7) strike levels will be generated below Binary Contract Y at an interval of 0.016 (e.g. $Y - 0.016$; Y ; $Y + 0.016$). The Contract will have a Payout Criterion of greater than the strike level value.

(iv) Nadex may list additional USD/MXN Binary Contracts with different ranges of Payout Criteria on a discretionary basis in accordance with the CEA and Commission Regulations.

(f) MINIMUM TICK – The Minimum Tick size for USD/MXN Binary Contracts shall be 0.25.

(g) POSITION LIMIT – There are currently no Position Limits for USD/MXN Binary Contract.

(h) LAST TRADING DATE – The Last Trading Date in a Series is the same as the Expiration Date. No trading in the USD/MXN Binary Contracts shall occur after its Last Trading Date.

(i) SETTLEMENT DATE – The Settlement Date will be the date on which the USD/MXN number as reported by the Source Agency.

(j) EXPIRATION DATE – The Expiration Date of the Contract will be the date on which the USD/MXN number is scheduled to be released.

(k) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in the money Contract on the Settlement Date. The Settlement Value of an in the money USD/MXN Binary Contract is \$100.

(l) EXPIRATION VALUE – The Expiration Value is the price or value of USD/MXN released by the Source Agency on the Expiration Date. The Expiration Value is calculated by the Source Agency by taking all Midpoints between the bid/ask spread (250 pips wide or less) occurring in the ten (10) seconds leading up to the close of trading of the USD/MXN Binary Contract, provided at least ten (10) Midpoints are captured during the ten (10) second period, removing the highest thirty (30) percent of Midpoints and the lowest thirty (30) percent of Midpoints from the data set², using the remaining USD/MXN Midpoints to calculate the Expiration Value. The calculation used is a simple average of the remaining USD/MXN Midpoints, rounded to the fourth decimal precision point. In the event the time it takes to collect at least ten (10) Midpoints (250 pips wide or less) exceeds the ten (10) second time period, the Expiration Value is calculated by the Source Agency by taking the last ten (10) Midpoints between the bid/ask spread (250 pips wide or less) just prior to the close of trading of the USD/MXN Binary Contract and removing the highest three (3) Midpoints and the lowest three (3) Midpoints, using the remaining four (4) USD/MXN Midpoints to calculate the Expiration Value. The calculation used is a simple average of all four (4) USD/MXN Midpoints, rounded to the fourth decimal precision point.

(m) CONTINGENCIES – If no level is actually announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the Settlement Date will be delayed until the Underlying number is released for that Series.

RULES 12.46—12.47 [RESERVED]

RULES 12.48 – 12.75 [UNCHANGED]

End of Rulebook.

² If 30% of the data set would result in a non-integer number of Midpoints, the number of Midpoints to be removed from the set will be rounded down. For example, if the number of Midpoints collected during the last 10 seconds prior to the close of trading was 14, 30% of the data set would be 4.2 Midpoints. As 4.2 is a non-integer number, the value will be rounded down, and the 4 highest and 4 lowest Midpoints will be removed from the data set.