**Rule Self-Certification**

October 6, 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**

**NFX Options on WTI and Brent 1st Line Financial Futures**

**Reference File: SR-NFX-2016-90**

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 NFX Options on NFX Brent 1st Line Financial Futures (the “Brent 1st Line Options”) and the NFX WTI 1st Line Financial Futures (the “WTI 1st Line Options”), (collectively the “1st Line Options”). The symbol for Brent 1st Line Options will be IOQ, and the symbol for the WTI 1st Line Options will be TIQ.

The new rules and terms and conditions describing the 1st Line Options are attached to this letter as Exhibits 1 and 2, which together amend (1) Rulebook Appendix A, Listed Contracts, by adding chapters 101C[[1]](#footnote-1) and 103D (2) Rulebook Appendix B, Table of Position Limits, Position Accountability Levels and Large Trader Reporting Levels (attached under separate cover).[[2]](#footnote-2) A cash market description and deliverable supply analysis for WTI and Brent crude oil is included as Exhibit 3 under separate cover, together with a request for confidential treatment of that exhibit under FOIA.

The Exchange anticipates listing the 1st Line Options beginning October 25, 2016, for trade date October 26, 2016. The amendments proposed in this submission shall be effective on the listing date.

**Concise Description of the new Options**

A put or call Brent 1st Line Option traded on the Exchange will be a European-style option to assume a short or long position in one NFX Brent 1st Line Financial Futures (symbol “IBQ”) contract, currently listed on the Exchange, of a specified contract month.[[3]](#footnote-3) The unit of trading for one Brent 1st Line Option is one IBQ futures contract, which is 1,000 barrels. Prices will be quoted in U.S. dollars and cents per barrel. The minimum trading increment will be $0.01 per barrel, or $10.00 per contract. A trade may occur however, at a price of $0.001 per barrel, or $1.00 per contract (a “cabinet trade”).

Brent 1st Line Options, like other Exchange-listed contracts, will be cleared by The Options Clearing Corporation (“OCC”). Subject to OCC rules, upon exercise the holder of a Brent 1st Line Option will have the right, in the case of a call, to have the call replaced by a long position in the underlying IBQ futures contract equal to the unit of trading for the Brent 1st Line Option and in the case of a put, to have the put replaced by a short position in the underlying IBQ futures contract equal to the unit of trading for the Brent 1st Line Option. Likewise, subject to OCC rules, a writer of the Brent 1st Line Option will have the obligation, upon assignment by OCC of an exercise in respect of the Brent 1st Line Option, in the case of a call, to have the call replaced by a short position in the underlying IBQ futures contract equal to the unit of trading for the Brent 1st Line Option and in the case of a put, to have the put replaced by a long position in the underlying IBQ futures contract equal to the unit of trading for the Brent 1st Line Option. Underlying IBQ futures contracts that are opened in settlement of exercises and assignments of Brent 1st Line Option shall be deemed to have been opened on the day of exercise and shall be deemed to be opened at the exercise price for the Brent 1st Line Option, which shall be deemed the contract price for the IBQ contract.

A put or call WTI 1st Line Option traded on the Exchange will be a European-style option to assume a short or long position in one NFX WTI 1st Line Financial Futures (symbol “RTIQ”) contract, currently listed on the Exchange, of a specified contract month.[[4]](#footnote-4) The unit of trading for one WTI 1st Line Option is one RTIQ futures contract, which is 1,000 barrels. Prices will be quoted in U.S. dollars and cents per barrel. The minimum trading increment will be $0.01 per barrel, or $10.00 per contract. A trade may occur however, at a price of $0.001 per barrel, or $1.00 per contract (a “cabinet trade”).

WTI 1st Line Options, like other Exchange-listed contracts, will be cleared by The Options Clearing Corporation (“OCC”). Subject to OCC rules, upon exercise the holder of a WTI 1st Line Option will have the right, in the case of a call, to have the call replaced by a long position in the underlying RTIQ futures contract equal to the unit of trading for the WTI 1st Line Option and in the case of a put, to have the put replaced by a short position in the underlying RTIQ futures contract equal to the unit of trading for the WTI 1st Line Option. Likewise, subject to OCC rules, a writer of the WTI 1st Line Option will have the obligation, upon assignment by OCC of an exercise in respect of the WTI 1st Line Option, in the case of a call, to have the call replaced by a short position in the underlying RTIQ futures contract equal to the unit of trading for the WTI 1st Line Option and in the case of a put, to have the put replaced by a long position in the underlying RTIQ futures contract equal to the unit of trading for the WTI 1st Line Option. Underlying RTIQ futures contracts that are opened in settlement of exercises and assignments of WTI 1st Line Option shall be deemed to have been opened on the day of exercise and shall be deemed to be opened at the exercise price for the WTI 1st Line Option, which shall be deemed the contract price for the RTIQ contract.

**Certifications**

The Exchange has reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act. Regulatory compliance of the 1st Line Options is principally addressed in the NFX Rulebook, concisely explained as follows:

Core Principle 2 - Compliance with Rules:

The terms and conditions of the 1st Line Options will be set forth in new Chapters 101C and 103D of Rulebook Appendix A. In addition, trading of the 1st Line Option 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 1st Line Options will not involve the physical delivery of commodities but instead will settle into futures contracts whose prices are derived from prices published on a well-established reference source. As with all contracts listed for trading on the Exchange, activity in the 1st Line Options 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 1st Line Options will settle into the Exchange’s existing futures contracts whose settlement prices are based on long-established and highly liquid reference contracts that are traded under the CFTC’s jurisdiction. The reference contracts themselves are based on established and liquid underlying cash markets. Because they are based on highly liquid third-party contracts, the 1st Line Options are not readily susceptible to manipulation. 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 1st Line Options 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 are settled by reference to the price of a contract or commodity traded in that reference market. The Exchange will monitor reference prices in the Brent and WTI markets against which the futures contract underlying the 1st Line Options settle.

Trading in the 1st Line Options 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 1st Line Options’ 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 NYMEX for the comparable NYMEX Brent Oil and WTI crude oil options on futures contracts. A market participant’s combined position in 1st Line Options and the underlying futures contract may not exceed the maximum position limit set for that contract. Further, positions in the Brent 1st Line and WTI 1st Line Options will aggregate into positions in the parent Brent and WTI futures contracts, respectively.

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/futures).

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 1st Line Options 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 1st Line Options 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 1st Line Options 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 new Options 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 the 1st Line Options 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 the 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 1st Line Options 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 1st Line Options 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/futures).

If you require any additional information regarding the submission, please contact Aravind Menon at (301) 978-8416 or aravind.menon@nasdaq.com. Please refer to SR-NFX-2016-90 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)

**Exhibit 1 to SR-NFX-2016-90**

New language is underlined.

**Rulebook Appendix A - Listed Contracts**

**Introduction**

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

**Exchange for Related Position**

The Exchange has designated all listed contracts in Rulebook Appendix A as eligible for Exchange for Related Position transactions subject to Chapter IV, Section 12. No EFRP transactions may be submitted to the Exchange following the termination of trading on the last trading day.

**Table of Listed Contracts**

|  |  |
| --- | --- |
| **CHAPTER** | **PRODUCT NAME AND SYMBOL** |
|  |  |
|  | **OIL AND REFINED PRODUCTS – No Change** |
| 101C | NFX Options on NFX Brent 1st Line Financial Futures (IOQ) |
| 103D | NFX Options on NFX WTI 1st Line Financial Futures (TIQ) |

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#### Chapter 101C NFX Options on NFX Brent 1st Line Financial Futures (IOQ)

**101C.01 Unit of Trading**

The unit of trading for one contract is one futures contract which equals 1000 barrels.

**101C.02 Nature of NFX Options on NFX Brent 1st Line Financial Futures**

A put or call option traded on the Exchange represents an option to assume a short or long position in one NFX Brent 1st Line Financial Futures (IBQ) contract of a specified contract month.

Subject to Clearing Corporation rules, upon exercise the holder has the right, in the case of a call, to have such call replaced by a long position in the underlying futures contract equal to the unit of trading for such option contract and in the case of a put, to have such put replaced by a short position in the underlying futures contract equal to the unit of trading for such option contract.

Subject to Clearing Corporation rules, a writer has the obligation, upon assignment by the Clearing Corporation of an exercise in respect of such contract, in the case of a call, to have such call replaced by a short position in the underlying futures contract equal to the unit of trading for such option contract and in the case of a put, to have such put replaced by a long position in the underlying futures contract equal to the unit of trading for such option contract.

Underlying futures contracts that are opened in settlement of exercises and assignments of futures option contracts shall be deemed to have been opened on the day of exercise and shall be deemed to be opened at the exercise price for such futures option, which shall be deemed the contract price for such futures contract.

**101C.03 Contract Months and Expiration Date**

The Exchange may list for trading monthly contracts for the current year and the next seven consecutive calendar years. A contract shall expire at 2:30 PM EPT on the last trading day.

**101C.04 Exercise Prices**

On the first business day of trading in an option contract month, the Exchange will list a minimum of five exercise prices in increments of $0.50 per barrel above and below the at-the-money exercise price per contract month. The at-the-money exercise price shall be the previous day's settlement price for the NFX Brent 1st Line Financial Futures (IBQ) contract in the corresponding contract month rounded to the nearest $0.50 increment strike price. Thereafter, on any business day prior to the expiration of the option: (i) new consecutive fifty-cent increment strike prices for both puts and calls will be added such that at all times there will be at least five fifty-cent increment strike prices above and below the at-the-money strike price available for trading in all options contract months.

**101C.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. Unexercised options which are out-of-the-money expire automatically.

**101C.06 Last Trading Day**

Trading for a particular contract month terminates on the last business day of trading for the underlying NFX Brent 1st Line Financial Futures (IBQ) contract. Trading ceases at 2:30 PM EPT on the last trading day.

**101C.07 Prices and Minimum Increments**

Prices are quoted in U.S. dollars and cents per barrel. The minimum trading increment is $0.01 per barrel which is equal to $10.00 per contract; provided, however, that a trade may occur at a price of $0.001 per barrel, or $1.00 per contract (a "cabinet trade").

**101C.08 Daily Settlement Prices**

Pursuant to Chapter V, Section III, the daily settlement price shall be equal to the daily settlement price for the corresponding NYMEX Brent Financial Average Price Options (BA). If the daily settlement price described in the previous sentence is unavailable the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

**101C.09 Trading Algorithm and Reporting Window**

Pursuant to Chapter IV, Section 5, the trading system shall execute orders within the trading system pursuant to the price time priority order execution algorithm.

**101C.10 Block Trade Minimum Quantity Threshold**

Pursuant to Chapter IV, Section 10, block trades shall be permitted with a minimum quantity threshold of 5 contracts and the Reporting Window shall be fifteen minutes.

**101C.11 Order Price Limit Protection**

Order Price Limit Protection under Chapter IV, Section 8, shall not apply.

**101C.12 Non-Reviewable Range**

For purposes of Chapter V, Section 5, there shall be no non-reviewable range.

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#### Chapter 103D NFX Options on NFX WTI 1st Line Financial Futures (TIQ)

**103D.01 Unit of Trading**

The unit of trading for one contract is one futures contract which equals 1000 barrels.

**103D.02 Nature of NFX Options on NFX WTI 1st Line Financial Futures**

A put or call option traded on the Exchange represents an option to assume a short or long position in one NFX WTI 1st Line Financial Futures (RTIQ) contract of a specified contract month.

Subject to Clearing Corporation rules, upon exercise the holder has the right, in the case of a call, to have such call replaced by a long position in the underlying futures contract equal to the unit of trading for such option contract and in the case of a put, to have such put replaced by a short position in the underlying futures contract equal to the unit of trading for such option contract.

Subject to Clearing Corporation rules, a writer has the obligation, upon assignment by the Clearing Corporation of an exercise in respect of such contract, in the case of a call, to have such call replaced by a short position in the underlying futures contract equal to the unit of trading for such option contract and in the case of a put, to have such put replaced by a long position in the underlying futures contract equal to the unit of trading for such option contract.

Underlying futures contracts that are opened in settlement of exercises and assignments of futures option contracts shall be deemed to have been opened on the day of exercise and shall be deemed to be opened at the exercise price for such futures option, which shall be deemed the contract price for such futures contract.

**103D.03 Contract Months and Expiration Date**

The Exchange may list for trading monthly contracts for the current year and the next seven consecutive calendar years. A contract shall expire at 2:30 PM EPT on the last trading day.

**103D.04 Exercise Prices**

On the first business day of trading in an option contract month, the Exchange will list a minimum of five exercise prices in increments of $0.50 per barrel above and below the at-the-money exercise price per contract month. The at-the-money exercise price shall be the previous day's settlement price for the NFX WTI 1st Line Financial Futures (RTIQ) contract in the corresponding contract month rounded to the nearest $0.50 increment strike price. Thereafter, on any business day prior to the expiration of the option: (i) new consecutive fifty-cent increment strike prices for both puts and calls will be added such that at all times there will be at least five fifty-cent increment strike prices above and below the at-the-money strike price available for trading in all options contract months.

**103D.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. Unexercised options which are out-of-the-money expire automatically.

**103D.06 Last Trading Day**

Trading for a particular contract month terminates on the last business day of trading for the underlying NFX WTI 1st Line Financial Futures (RTIQ) contract. Trading ceases at 2:30 PM EPT on the last trading day.

**103D.07 Prices and Minimum Increments**

Prices are quoted in U.S. dollars and cents per barrel. The minimum trading increment is $0.01 per barrel which is equal to $10.00 per contract; provided, however, that a trade may occur at a price of $0.001 per barrel, or $1.00 per contract (a "cabinet trade").

**103D.08 Daily Settlement Prices**

Pursuant to Chapter V, Section III, the daily settlement price shall be equal to the daily settlement price for the corresponding NYMEX WTI Average Price Options (AO). If the daily settlement price described in the previous sentence is unavailable the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

**103D.09 Trading Algorithm and Reporting Window**

Pursuant to Chapter IV, Section 5, the trading system shall execute orders within the trading system pursuant to the price time priority order execution algorithm.

**103D.10 Block Trade Minimum Quantity Threshold**

Pursuant to Chapter IV, Section 10, block trades shall be permitted with a minimum quantity threshold of 5 contracts and the Reporting Window shall be fifteen minutes.

**103D.11 Order Price Limit Protection**

Order Price Limit Protection under Chapter IV, Section 8, shall not apply.

**103D.12 Non-Reviewable Range**

For purposes of Chapter V, Section 5, there shall be no non-reviewable range.

1. The Exchange is also adding the 1st Line Options to the “Table of Listed Contracts” set forth in the Introduction Section of Rulebook Appendix A.

   [↑](#footnote-ref-1)
2. The Exchange is separately filing SR-NFX-2016-91, also to be effective upon listing of the 1st Line Options, which adopts provisions for the 1st Line Options relating to block trading minimum quantities and reporting times, nonreviewable ranges, trading hours and daily settlement prices in the new Appendix A chapter governing the 1st Line Options. Language appearing in the new Appendix A chapter which is not underlined in Exhibit 1 hereto is being separately proposed in SR-NFX-2016-91 pursuant to Commission Rule 40.6 [↑](#footnote-ref-2)
3. Rules, terms and conditions of the existing IBQ futures contract are set forth in Chapter 101A of Rulebook Appendix A, Listed Contracts. [↑](#footnote-ref-3)
4. Rules, terms and conditions of the existing RTIQ futures contract are set forth in Chapter 103B of Rulebook Appendix A, Listed Contracts. [↑](#footnote-ref-4)