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**Rule Self-Certification**

November 16, 2018

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Re: **U.S. 10-YR DV01 Treasury Futures (TYDK)**

**Reference File: SR-NFX-2018-59**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Section 40.2 of the Commission’s regulations thereunder, NASDAQ Futures, Inc. (“NFX” or “Exchange”) hereby submits terms and conditions for the U.S. 10-YR DV01 Treasury Futures (TYDK) futures contract. The Exchange anticipates listing the contract on December 6, 2018, for trade date December 7, 2018.

*Background*

On July 2, 2018 the Exchange filed SR-NFX-2018-18 and SR-NFX-2018-19 which together adopted rules, terms and conditions for U.S. DV01 Treasury Futures contracts in the following chapters of Rulebook Appendix A, Listed Contracts:

Chapter 2002, U.S. 2-YR DV01 Treasury Futures

Chapter 2005, U.S. 5-YR DV01 Treasury Futures

Chapter 2010, U.S. 10-YR DV01 Treasury Futures, and

Chapter 2030, U.S. 30-YR DV01 Treasury Futures.

Those rules were amended in submisstion SR-NFX-2018-46, filed with the Commission on October 11, 2018, for effectiveness October 26, 2018. Contracts listed pursuant to those rules are cash settled On-The-Run U.S. Treasury futures contracts expressed as 100 minus the yield of the corresponding U.S. Treasury security. The underlying interest is the dollar value (“DV01”), assigned by the Exchange at the time of listing for each contract, of a one basis point change in yield of the current On-The-Run U.S. Treasury security with a face value of one million dollars having fixed semi-annual coupon payments available for trading on the Nasdaq Fixed Income (“NFI”) Alternative Trading System Order Book (the “NFI Order Book”).

*New Contract Listing*

The new U.S. 10-YR DV01 Treasury Futures (TYDK) futures contract will be listed pursuant to Chapter 2010, U.S. 10-YR DV01 Treasury Futures, as amended by SR-NFX-2018-46. The DV01 for the U.S. 10-YR DV01 Treasury Futures (TYDK) futures contract will be $830. Contract specifications for the new contract are attached hereto as Exhibit 1. Rulebook Appendix B - Table of Position Limits, Position Accountability Levels and Large Trader Reporting Levels as amended, is provided as Exhibit 2 (under separate cover). Positions in U.S. 10-YR DV01 Treasury Futures (TYDK) contracts will be aggregated with positions in the currently-listed U.S. 10-YR DV01 Treasury Futures (TYDG) futures contract for position accountability and limits purposes. A Cash Market Description and Deliverable Supply Analysis is attached as Exhibit 3. Finally, the updated US DV01 Treasury Futures Contract Listings table, effective December 6, 2018 and reflecting the listing of the new U.S. 10-YR DV01 Treasury Futures (TYDK) contract, is attached as Exhibit 4.[[1]](#footnote-2)

*DCM Core Principles Analysis*

Core Principle 2 - Compliance with Rules:

The terms and conditions of the new contract are set forth in Chapter 2010 of Rulebook Appendix A, and in the US DV01 Treasury Futures Contract Listings table to be posted on the Exchange’s website. 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:

Like all U.S. 10-YR DV01 Treasury Futures contracts, final settlement of the new contract will be determined by reference to displayed bids, offers and completed transactions occurring on NFI. The new contract will be financially settled in U.S. dollars, and does not involve the physical delivery of U.S. Treasuries.

NFI is a fully electronic central limit order book which facilitates matching of client orders in U.S. Treasury securities and is operated by Execution Access, LLC (“EA”), a subsidiary of Nasdaq, Inc.[[2]](#footnote-3) EA is registered with the U.S. Securities and Exchange Commission (the “SEC”) as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and is a member organization of the Financial Industry Regulatory Authority (“FINRA”). Clients (“Subscribers”) to NFI are institutional entities, primarily banks, broker-dealers and proprietary trading firms. Orders entered by Subscribers may interact with other Subscriber orders. EA does not trade in a principal capacity, with the exception of offsetting a bona fide error position through its error account.

In the NFI Trading Manual EA acknowledges its regulatory obligation to ensure that Subscribers’ and their authorized traders’ (“Users’”) activities on NFI are conducted in compliance with federal, state and self-regulatory organization laws, rules and regulations. In accordance with these objectives, EA states that it will seek to maintain at all times a fair and orderly market to ensure that NFI is not used for any improper purpose, including but not limited to fraud, manipulation and disruptive or deceptive practices. EA has implemented both operational and compliance best practices including those as advised by industry groups, such as the Treasury Market Practices Group, to promote and maintain the integrity and efficiency of NFI and the overall U.S. Treasury market as well as a robust internal-control environment. The Trading Manual makes clear that, as a registered securities broker-dealer, EA has responsibilities under SEC and FINRA rules to surveil for market manipulation, fraud, and disruptive and deceptive activities on NFI, including giving the false impression of market price, depth or liquidity (e.g., layering or spoofing, painting the tape, and improper self-matching); inhibiting the provision of liquidity by others causing undue latency or delays in other Subscribers executions (e.g. throttling); deliberately acting to cause error trades; and causing or exacerbating settlement failures.

NFX believes that NFI is the second largest dealer to dealer institutional trading venue for U.S. Treasury securities, with market share approximating 20%. The six on the run U.S. Treasury securities are among the highest in volume and the most liquid financial instruments in the world. Price communication between NFI and its competitor venues is very rapid. The marketplace is also extremely efficient - there are over a dozen multi-billion dollar principal trading firms whose core strategy is to transfer liquidity between U.S. Treasury trading venues at ultra-high speeds.

Intermarket linkages and liquidity in U.S. Treasuries are discussed at greater length in Exhibit 3. Based on the size and liquidity of the cash market as discussed above, NFX believes that the new contract’s settlement price will be reflective of the underlying cash market, will not be readily subject to manipulation or distortion, and will be based on a cash price series that is reliable, acceptable, publicly available and timely, all in compliance with Core Principle 3.

As with all contracts listed for trading on the Exchange, activity in the new contract 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.

Core Principle 4 - Prevention of Market Disruption:

Trading in the new contract 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 contract, are settled by reference to the price of a contract or commodity traded in that reference market. The Exchange will monitor reference prices in venues that its contracts settle against.

Trading in the new contract 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 contract’s 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 the Chicago Board of Trade (“CBOT”) for Treasury Futures, adjusted for contract size.

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). Additionally, the listing date for the new contract will be announced in a Futures Trader Alert, which will also identify the trading symbol and DV01 for the new contract.

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 contract 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 (“OCC”), which is a derivatives clearing organization registered with the Commission and subject to Part 39 of the Commission’s regulations. Transactions in the new contract 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 contract 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 contract.

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.

*Certification*

There were no opposing views among the NFX’s Board of Directors, members or market participants. The Exchange hereby certifies that the new contract complies 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-2018-59 in any related correspondence.



Regards,

Daniel R. Carrigan

President

Attachments:

Exhibit 1: Contract Specifications

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

Exhibit 3: Cash Market Description and Deliverable Supply Analysis

Exhibit 4: US DV01 Treasury Futures Contract Listings table effective December 6, 2018

1. As discussed in SR-NFX-2018-46, this table will identify each currently-listed contract and will be maintained on the Exchange’s website for easy identification of the contracts that have been listed, their assigned symbols and DV01s, the Rulebook Appendix A rules to which they are subject, the trade dates of their initial listing and their expiration dates. The Exchange will update the table as new DV01 futures contracts are listed, and as expired DV01 futures contracts cease trading. Each contract identified on the U.S. DV01 Treasury Futures Contract Listings table will be subject to, and listed pursuant to, the rules set forth in Chapter 2002, 2005, 2010 or 2030 of Rulebook Appendix A, as indicated on the table. There was no trading in the U.S. 10-YR DV01 Treasury Futures (TYDX) futures contract, which expired on November 15, 2018 and is being removed from the table. The 10-YR DV01 Treasury Futures (TYDG) futures were listed on October 30, 2018, for trade date October 31, 2018, as noted on the table. As of December 6, 2018, for trade date December 7, 2018, TYDK will be listed and added to the table. [↑](#footnote-ref-2)
2. NFI, at the time known as eSpeed, was acquired by Nasdaq in 2013 from BGC Partners. [↑](#footnote-ref-3)