November 27, 2018 Nasdaq Futures, Inc.

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Christopher J. Kirkpatrick 2929 Walnut Street

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Commodity Futures Trading Commission

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**Rule Self-Certification: Product and Rule Certification**

**for New NFX Dry Freight Contracts**

**Reference File: SR-NFX-2018-63**

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 new NFX Dry Freight Contracts (“Dry Freight Contracts”). The Exchange anticipates listing the Dry Freight Contracts beginning December 6, 2018 for trade date December 7, 2018. The amendments proposed in this submission shall be effective on the listing date.

The name of each Dry Freight Contracts is listed below, followed by its symbol in parentheses:

* NFX P1A Panamax T/C Transatlantic RV Monthly Average Financial Futures (P1EQ)
* NFX P2A Panamax T/C Skaw Gibraltar - Far East Monthly Average Financial Futures (P2EQ)
* NFX P3A Panamax T/C Japan - S. Korea Trans Pacific R/V Monthly Average Financial Futures (P3EQ)

The new rules and terms and conditions describing the Dry Freight Contracts are attached to this letter as Exhibits A and B, which together amend (1) Rulebook Appendix A, Listed Contracts, by adding chapters 1313 through 1315 for each of the Dry Freight Contracts, 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 the Dry Freight Contracts is included as Exhibit C under separate cover, together with a request for confidential treatment of that exhibit under FOIA.

**Concise Description of the Dry Freight Futures Contracts**

The Dry Freight Contracts are cash settled futures contracts. The final settlement price for the contracts will be equal to the arithmetic average of the assessments published by the Baltic Exchange for the relevant route for each index day in the determination period. The terms and conditions of the new contracts are set forth in the proposed new chapters of Rulebook Appendix A.

The listing cycle for each contract is up to 120 consecutive, and non-consecutive, monthly contracts, beginning with the nearest available contract month. The block trade minimum quantity threshold and reporting window are set at 5 contracts and fifteen minutes, respectively, for each new contract. Spot month position limits for the Dry Freight Contracts, set forth in Exhibit B, are consistent with those for Freight contracts currently listed by NFX.

**Certifications**

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

Core Principle 2 - Compliance with Rules:

The terms and conditions of the Dry Freight Contracts will be set forth in Rulebook Appendix A. In addition, trading of the Dry Freight 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 Dry Freight Contracts will be financially settled, do not involve the physical delivery of commodities, and will settle to prices published on well-established reference sources. As with all contracts listed for trading on the Exchange, activity in the Dry Freight 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 Dry Freight Contracts settle to prices established on the Baltic Exchange using an index model established in 1985 and relied on by industry professionals since that time. The assessment relies on a panel of independent shipbrokers from across the globe providing their professional judgements as to the prevailing prices for dry freight shipments within the open market. 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 Dry Freight 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 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 Dry Freight 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 Dry Freight Contract reporting levels, accountability levels and position limits are set forth in Rulebook Appendix B – Table of Reporting Levels, Position Accountability Levels and Position Limits. As noted above, these levels are commensurate with the levels set by NFX for comparable existing contracts.

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 Dry Freight 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 Dry Freight 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 Dry Freight 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 Dry Freight 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 Dry Freight 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 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 Dry Freight 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 Dry Freight 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/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-2018-63 in any related correspondence.

Regards,



Kevin Kennedy

Chief Executive Officer

Attachments:

Exhibit A: Amendments to Rulebook Appendix A – Listed Contracts

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

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

1. The Exchange has separately filed SR-NFX-2018-62, also to be effective upon listing of the Dry Freight Contracts, which adopts provisions relating to block trading minimum quantities and transaction fees in the new Appendix A chapter governing the Dry Freight Contracts. [↑](#footnote-ref-1)