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October 2, 2012

Via E-Mail: submissions@cftc.gov

Mr. David Stawick
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 Rule Amendments: Nadex Amends Rules to align with Dodd Frank Amendments and Adds Other Amendments– Submission Pursuant to Commission Regulation §40.6(a)

Dear Mr. Stawick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and section §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (the “Commission”) under the Act (the “Regulations”), North American Derivatives Exchange, Inc. (“Nadex”, the “Exchange”) hereby submits to the Commission its intent to amend its rules to comport with recently adopted regulations for designated contract markets, to correct cross-references that have changed due to amendments, to clarify the procedures for placing member accounts on hold and for administratively terminating inactive and other accounts, and to make certain administrative corrections to the rules.

Nadex has amended references to former Core Principle 15 in Rules 2.3(h), 2.5(c) and 2.6 to renumbered Core Principle 16. This change did not affect any Core Principles. Nadex is also amending Rules 3.3(a), 3.4(a), 5.2(g), 5.19, 5.20, 9.2 and 9.5 to ensure that those rules comport with the requirements of Commission Regulations adopted for designated contract markets and effective October 17, 2012 (“Core Principles and other Requirements for Designated Contract Markets”). Specifically, Nadex is making the following amendments to comply with the Core Principles and other Requirements for Designated Contract Markets:

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- Commission regulation 38.254 under Core Principle 4 established requirements for Members regarding recordkeeping and responding to information requests with respect to activity in underlying markets. Nadex is amending Rule 3.3(a) to comply with these provisions.
- Commission regulations 1.52 and 38.605 under Core Principle 11 established a requirement that the financial and reporting requirements for futures commission merchants that are members of a contract market be at least as stringent as the requirements of Commission Regulations 1.10 and 1.17. Nadex is amending Rule 3.4(a) to add specific references to Regulations 1.10 and 1.17 in order to comply with these provisions.
- Commission regulation 38.151 under Core Principle 2 established requirements regarding limitations on access. Nadex is amending Rule 5.2(g) to add specific references to exchange-mandated holds put on member accounts in order to comply with these provisions. In addition, Nadex is adding new Rules 3.3(f) to provide for Nadex's ability to administratively terminate a members' account and membership in the event the account has been inactive. Finally, Nadex is adding new Rule 5.19(m) to recognize the ability to summarily terminate a membership in the event that a Member's settlement account at Nadex has maintained a negative balance for 30 days or more.
- Commission regulation 38.152 under Core Principle 2 clarified the requirements concerning abusive trading practices. Nadex is amending Rule 5.19(b) and adding new Rules 5.19(r) and (s) to specifically refer to "spoofing", "money passes" and other specifically prohibited activity in order to comply with these provisions.
- Commission regulation 38.158 under Core Principle 2 limits the number of warning letters that may be issued for the same rule violations in a rolling 12-month period. Nadex is amending Rule 5.20(c) and (d) and 9.5 to clarify that only one warning letter may be issued to the same person for the same rule violation in any rolling twelve month period in order to comply with this provision.
- Commission regulation 38.707 under Core Principle 13 clarifies when documents may be withheld by a designated contract market in connection with a disciplinary proceeding. Nadex is amending Rule 9.2(d) in order to comply with this provision.
- Commission regulation 38.709 under Core Principle 13 requires that each designated contract market have rules that make it clear when a disciplinary decision is final. Nadex is amending Rule 9.2(e) and (f) in order to more fully define when decisions become final and otherwise comply with these provisions.

Finally, Nadex is amending its rule 4.4(d)(i) to omit a reference to the "Korea 200" contract, which has previously been delisted, and to correct various cross-references to rules that

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have previously been renumbered. These non-substantive changes do not impact any Core Principles.

Rule changes have been outlined in Exhibit A, and Rule amendments are attached hereto in Exhibit B. Rule amendments and additions have been underlined and deletions have been stricken out.

Pursuant to the 10-day filing period under Regulation 40.6(a)(3), Nadex intends to implement these new rules and amendments on trade date October 17, 2012.

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

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

Nadex hereby certifies that a copy of these amendments 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) 884-0171 or by email at tim.mcdermott@nadex.com.

Sincerely,



Timothy G. McDermott
General Counsel and Chief Regulatory Officer

cc: DMOSubmission@cftc.gov
Jon Hultquist – CFTC (Acting Branch Chief, DMO, Chicago)
Tom Leahy – CFTC
Riva Adriance – CFTC
Nancy Markowitz – CFTC

Yossi Beinart - Nadex

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EXHIBIT A

Rule	Asset	Duration/ Close Time	Action	Effective Date
2.3	Officers of Nadex	N/A	Amend reference to Core Principle 15 to Core Principle 16	10/17/2012
2.5	Committees and Subcommittees	N/A	Amend reference to Core Principle 15 to Core Principle 16	10/17/2012
2.6	Voting by Interested Board Members	N/A	Amend reference to Core Principle 15 to Core Principle 16	10/17/2012
3.3	Member Obligations	N/A	Establish requirements for recordkeeping wrt underlying market activity; add provisions to terminate inactive accounts	10/17/2012
3.4	FCM Member Obligations	N/A	Add specific references to Reg. 1.10 and 1.17	10/17/2012
4.4	Obligations of Market Makers	N/A	Omit reference to Korea 200 and correct Rule numbering	10/17/2012
5.2	Trading Member Access to Nadex	N/A	Add reference to exchange-mandated holds	10/17/2012
5.19	Prohibited Transactions and Activities	N/A	Add provisions to terminate account with negative balance; add reference to “spoofing”, “money passes”, and other specifically prohibited activity	10/17/2012

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5.20	Speculative Position Limits	N/A	Add language to clarify only one warning letter issued to same person for same violation in 12 month rolling period	10/17/2012
9.2	Investigations, Hearings, and Appeals	N/A	Add provision when documents may be withheld by DCM in connection with disciplinary proceeding; better clarify when disciplinary decisions are final	10/17/2012
9.5	Penalties	N/A	Add language to clarify only one warning letter issued to same person for same violation in 12 month rolling period	10/17/2012

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EXHIBIT B

Amendment of 2.3, 2.5, 2.6, 3.3, 3.4, 4.4, 5.2, 5.19, 5.20, 9.2, 9.5

(The following Rule amendments are underline and deletions are stricken out)

RULES 1.1 – 2.1 [UNCHANGED]

RULE 2.3 OFFICERS OF NADEX

(a) Nadex has a five-member board of directors elected by a majority vote of all shareholders of Nadex. Each director serves a one year term. Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

(b) Nadex has a chief executive officer, chief operating officer, secretary, chief financial officer, chief regulatory officer, and a chief compliance officer (collectively, the “Management Team”). These officers are appointed and may be dismissed (with or without cause) by majority vote of the board of directors or the shareholders.

(c) The chief executive officer of Nadex must be a member of the board of directors. In the absence of the chairman, the chief executive officer will perform the chairman’s duties. In the event of a disagreement between the chief executive officer and the board or the chairman of the board as to an exchange matter, the chairman and/or board shall control.

(d) Subject to the direction of the board of directors, the chief executive officer will manage the overall business of the exchange. In the absence of the chief executive officer, the chief operating officer will perform the chief executive officer’s duties.

(e) The chief operating officer is responsible for managing the corporation's day-to-day activities related to operations, customer service, and information technology.

(f) The chief financial officer of Nadex will be responsible for all funds and stock of Nadex and in general perform all duties incident to the office of chief financial officer and such other duties as from time to time may be assigned by the chief executive officer or the board of directors. If the function of the office of the chief financial officer is outsourced to a service provider, the chief executive officer shall be responsible for oversight of this function.

(g) The secretary of Nadex will keep the minutes of the meetings of the board and in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the chief executive officer or the board of directors.

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(h) The chief regulatory officer of Nadex will be responsible for managing the day-to-day regulatory functions of the Exchange ~~as described in~~ consistent with the Acceptable Practices for Designated Contract Markets under Core Principle 156 of Section 5(d) of the CEA.

(i) The chief compliance officer of Nadex will be responsible for fulfilling the obligations of a chief compliance officer of Derivatives Clearing Organizations under the CEA and Commission regulations, to the extent such obligations apply to Nadex. The chief compliance officer will report to the chief executive officer or such other person or entity as directed by the board of directors.

RULE 2.4 [UNCHANGED]

RULE 2.5 COMMITTEES AND SUBCOMMITTEES

(a) The Nadex board of directors may create, appoint members of the board to serve on, and delegate powers to, committees and subcommittees.

(b) A majority of any committee or subcommittee will constitute a quorum, and a majority of a quorum is necessary for committee or subcommittee action. A committee or subcommittee may act by unanimous consent in writing, including by electronic mail, without a meeting.

(c) Nadex's board of directors shall appoint a Regulatory Oversight Committee comprised of board members who are "public directors" as defined in the Acceptable Practices under Core Principle 156 in Commission Regulation Part 38, Appendix B. The ROC shall oversee Nadex's regulatory program on behalf of the board. The board shall delegate sufficient authority, dedicate sufficient resources, and allow sufficient time for the ROC to fulfill its mandate. The ROC shall:

(i) Monitor Nadex's regulatory program for sufficiency, effectiveness, and independence;

(ii) Oversee all facets of the program, including trade practice and market surveillance; audits, examinations, and other regulatory responsibilities with respect to member firms (including ensuring compliance with financial integrity, financial reporting, sales practice, recordkeeping, and other requirements); and the conduct of investigations;

(iii) Review the size and allocation of the regulatory budget and resources; and the number, hiring and termination, and compensation of regulatory personnel;

(iv) Supervise Nadex's chief regulatory officer, who will report directly to the ROC;

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(v) Prepare an annual report assessing Nadex's self-regulatory program for the board of directors and the Commission, which sets forth the regulatory program's expenses, describes its staffing and structure, catalogues disciplinary actions taken during the year, and reviews the performance of disciplinary committees and panels;

(vi) Recommend changes that would ensure fair, vigorous, and effective regulation; and

(vii) Review significant regulatory proposals and advise the board as to whether and how such changes may impact regulation.

RULE 2.6 VOTING BY INTERESTED BOARD MEMBERS

Core Principle 156 of Section 5(d) of the CEA requires that contract markets have adequate procedures to prevent conflicts of interest. In this regard, Nadex has adopted provisions of Commission Regulation 1.69 as a Rule of Nadex. Commission Regulation 1.69 prohibits a member of the Nadex board of directors or any disciplinary or oversight committee or subcommittee from taking part in any deliberations or voting on any matter in which the board, committee, or subcommittee member has an interest or has a relationship with a named party in interest. Regulation 1.69 also requires disclosure by board, committee, or subcommittee members of interests and relationships in certain circumstances. Nadex board, committee, and subcommittee members shall not deliberate or vote on any matter in which the board, committee, or subcommittee member has an interest or has a relationship with a named party in interest and shall disclose such interests in accordance with Regulation 1.69. See also Chapter 11 of these Rules.

RULE 2.7 – 3.2 [UNCHANGED]

RULE 3.3 MEMBER OBLIGATIONS

(a) Each Member and any Authorized Trader(s) thereof, must comply with these Rules, applicable provisions of the Commodity Exchange Act, and relevant Commission regulations. Each Member and any Authorized Trader(s) thereof must also cooperate promptly and fully with Nadex, its agents, and/or the Commission in any investigation, call for information, inquiry, audit, examination, or proceeding. Such cooperation shall include 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. Additionally, each Member must update its e-mail address within 24 hours after any change and update all other information provided in its application for membership within five days after that information has changed. If any Member or Authorized Trader(s) thereof fail to satisfy these obligations, Nadex may revoke or suspend the Member's privileges in full or in part. Each Member may also be subject to civil or criminal prosecution.

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(b) Each Member consents to allow Nadex to provide all information Nadex has about the Member, including the Member's trading activity, to the Commission or any other Regulatory Agency, law enforcement authority, or judicial tribunal, including (as may be required by information sharing agreements or other contractual, regulatory, or legal provisions) foreign regulatory or self-regulatory bodies, law enforcement authorities, or judicial tribunals.

(c) Each Member and each Member's Authorized Trader(s) are required to review the "Exchange Notices" section of the Nadex website to make itself aware of material changes to these Rules or other notices that may affect your rights and obligations as a Member of Nadex.

(d) Each Member must immediately notify Nadex in writing upon becoming aware:

(i) that the Member, any of the Member's officers or any of the Member's Authorized Traders has had trading privileges suspended, access to, or membership or clearing membership in, any Regulatory Agency denied;

(ii) that the Member, any of the Member's officers or any of the Member's Authorized Traders has been convicted of, pled guilty or no contest to, or entered a plea agreement to, any felony in any domestic, foreign or military court;

(iii) that the Member, any of the Member's officers or any of the Member's Authorized Traders has been convicted of, plead guilty or no contest to, or entered a plea agreement to a misdemeanor in any domestic, foreign or military court which involves:

(1) embezzlement, theft, extortion, fraud, fraudulent conversion, forgery, counterfeiting, false pretenses, bribery, gambling, racketeering, or misappropriation of funds, securities or properties; or

(2) any transaction in or advice concerning futures, options on futures, leveraged transactions or securities;

(iv) that the Member, any of the Member's officers or any of the Member's Authorized Traders has been subject to, or associated with a firm that was subject to regulatory proceedings before any Regulatory Agency;

(v) that the Member, any of the Member's officers or any of the Member's Authorized Traders is currently a party to any investigation or proceeding, the resolution of which could result in an event described in Rule 3.3(d)(i)-(iv);

(vi) of any other material change in any information contained in the Member's membership application;

(vii) of any failure to maintain segregated funds as required by the Commission when the Member is a FCM Member;

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(viii) of becoming subject to early warning reporting under Commission Regulation 1.12;

(ix) of becoming the subject of a bankruptcy petition, receivership proceeding, or the equivalent, or being unable to meet any financial obligation as it becomes due; or

(x) of information that concerns any financial or business developments that may materially affect the Members' ability to continue to comply with participation requirements.

(e) Each Member must diligently supervise all activities of the Member's employees and/or agents, including all Authorized Traders, relating to transactions effected on Nadex. Any violation of these Rules by any employee of a Member may constitute a violation of the Rules by such Member.

(f) A Member is not required to engage in trading activity or maintain a minimum balance in its account after initial funding. If a Member does not engage in any trading activity or maintain a positive balance for a period of one year, however, that Member's account and membership will be terminated. A Person whose membership is terminated pursuant to this provision may re-apply for membership at any time following such termination.

RULE 3.4 FCM MEMBER OBLIGATIONS

In addition to the obligations applicable to all Members, FCM Members shall have the following obligations:

(a) Each FCM Member must at all times maintain the financial resources at or in excess of the amount prescribed by Nadex from time to time as a FCM Member of Nadex. FCM Members may maintain two settlement accounts at Nadex. One settlement account will contain customer funds and will be segregated in accordance with CFTC regulations ("Segregated Funds Settlement Account"), while the other settlement account will be non-segregated ("House Funds Settlement Account").

(i) As futures commission merchants, all FCM Members must comply with the financial and reporting requirements set forth by the Commission and the National Futures Association, including the requirements contained in Commission Regulations 1.10 and 1.17.

(ii) Segregated Funds Settlement Account

(1) The Segregated Funds Settlement Account will contain separate position accounts for each FCM Member Customer.

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(2) Each FCM Member shall be required to make an initial deposit of at least \$100,000 of funds into its FCM Member Segregated Funds Settlement Account for excess collateral with Nadex.

(3) If the available balance of the FCM Member's Segregated Funds Settlement Account falls below \$50,000, the FCM Member must promptly deposit additional funds into the account to increase the available balance to at least \$100,000.

(iii) House Funds Settlement Account

(1) The House Funds Settlement Account will contain separate position accounts for any error accounts and test accounts of the FCM Member and/or any personal trading accounts of APs/employees. For the purposes of this Rule 3.4, "APs/employees" includes all associated persons ("APs") and employees of the FCM Member, as well as those of the FCM Member's guaranteed introducing brokers ("GIBs").

(2) Except as set forth herein, a FCM Member shall treat an account of an AP/employee like an account of a FCM Member Customer. An AP/employee shall deposit funds with the FCM Member sufficient to fully collateralize all orders given by the AP/employee to the FCM Member prior to submission of such orders to the Exchange. Such funds, if and when transferred to Nadex, will be held by Nadex in the House Funds Settlement Account. A FCM Member will be required to ensure that the AP/employee has on deposit with the FCM Member enough funds to fully collateralize the AP's/employee's orders before any such order is submitted to Nadex.

(b) Each FCM Member must submit statements of financial condition at such times and in such manner as shall be prescribed from time to time.

(c) Each FCM Member must maintain a separately identifiable position account for each Customer and provide the identifier for such account with every order submitted to Nadex.

(d) Each FCM Member must use due diligence in receiving and handling orders from Customers, submitting such orders onto Nadex on behalf of such Customers, responding to inquiries from Customers about their orders and reporting back to Customers the execution of such orders.

(e) Each FCM Member must maintain policies and procedures acceptable to Nadex that:

(i) with respect to each FCM Customer who is an individual, restricts access to any system through which such individual Customer submits orders to the FCM Member for transmission to Nadex to that individual Customer; and

(ii) with respect to each FCM Customer who is not an individual:

(1) restricts access to any system through which the Customer's orders may be submitted to the FCM Member for transmission to Nadex to such individuals authorized to enter orders on behalf of such Customer;

(2) identifies each individual authorized to enter orders on behalf of such Customer by a distinct user identification code, which user identification code shall be provided to the FCM Member and Nadex with each order message submitted by such Person; and

(3) requires the customer to maintain and provide to the FCM Member or Nadex upon request by the FCM Member or Nadex information identifying any individual who has entered orders on behalf of such Customer's account, including but not limited to the individual's name, taxpayer or other identification number, affiliation to the Customer, address and contact information.

(f) No FCM Member may maintain a proprietary trading account for Nadex contracts. Notwithstanding the foregoing, a FCM Member may maintain error accounts and/or test accounts.

(g) An AP/employee may trade Nadex contracts for his or her personal account under the following circumstances:

(i) All such trading of Nadex contracts by an AP/employee shall occur in a trading account held by the FCM Member with which he or she is registered or employed (or, in the case of an AP or an employee of a GIB, the FCM Member who guarantees that IB). No AP/employee may be a direct (i.e., non-intermediated) Trading Member of Nadex or maintain an interest in or control the trading in the account of any direct Trading Member of Nadex.

(ii) The FCM Member must notify Nadex in writing, prior to permitting the FCM Member's AP/employee to submit orders to the Exchange, of the AP's/employee's name and account identifier.

(iii) The FCM Member must notify Nadex immediately, in writing, in the event that the FCM Member's AP/employee is no longer registered and/or employed by the FCM Member.

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(h) Prior to a FCM Member accepting any orders from a Customer for submission to Nadex, a FCM Member must first have provided such Customer with the Nadex Risk Disclosure Statement.

(i) Prior to a FCM Member accepting any orders from a Customer for submission to Nadex, Nadex will require certification by the FCM Member to Nadex that its system has the capacity to block customer funds in accordance with the requirements of Rule 5.5(b) and demonstrate that capacity to Nadex. In addition, on an annual basis or as otherwise required by Nadex, each FCM Member must represent to Nadex that the portion of the FCM Member's system that blocks customer funds has not been changed in any material respect or, if the system has been changed, the FCM Member must identify any such changes and recertify the system's capacity to block customer funds in accordance with the requirements of Rule 5.5(b). Finally, each FCM Member agrees to submit to any compliance review by Nadex of its systems in this regard.

(j) With respect to the APs/employees of a FCM Member:

(i) Each FCM Member shall be responsible for diligently supervising the FCM Member's AP's/employee's compliance with all Exchange rules.

(ii) Each FCM Member must maintain a complete and accurate list of all APs/employees of the FCM Member. Such list shall be promptly provided to the Exchange upon request.

(iii) APs/employees must comply with Exchange rules. Each AP/employee shall be bound by Exchange rules to the same extent as if such person were a member.

(iv) Each FCM Member shall be responsible for the acts or omissions of the FCM Member's APs/employees, and may be liable for any fines imposed upon such APs/employees by the Exchange. Any violation of an Exchange rule by any such AP/employee may be considered a violation by the FCM Member.

(k) Each FCM Member must make and file reports in accordance with Commission Regulations in a manner and form and at such times as may be prescribed by the Commission.

(l) Each FCM Member must make and file reports with Nadex at such times, in such manner and form, and containing such information as Nadex may prescribe from time to time.

(m) Each FCM Member, upon a request of Nadex or any Regulatory Agency, must promptly respond to any requests for information.

(n) Each FCM Member may invest Customer Funds only in accordance with Commission Regulation 1.25.

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(o) Each FCM Member must prepare, maintain and keep current those books and records required by the rules of Nadex, the CEA and/or the Commission's Regulations. Such books and records shall be open to inspection and promptly provided to Nadex, its Designated Self Regulatory Organization ("DSRO"), the Commission and/or the U.S. Department of Justice, upon request.

RULES 3.5 – 4.3 [UNCHANGED]

RULE 4.4 OBLIGATIONS OF MARKET MAKERS

(a) General – Transactions of Market Makers should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers shall not make bids or offers or enter into transactions that are inconsistent with such a course of dealings. Ordinarily, Market Makers shall be obligated to do the following:

- (i) trade for the proprietary account of the Market Maker only;
- (ii) maintain at least the minimum capital on deposit with Nadex in accordance with the terms of the applicable Market Maker Agreement;
- (iii) comply with all other terms of the applicable Market Maker Agreement; and
- (iv) maintain two-sided displayed quotes of a minimum designated quantity ("Size") within a predefined spread ("Bid/Ask Spread") for a Series of Contracts for a certain period of time throughout the trading day in accordance with the terms of the applicable Market Maker Agreement.

(1) In ordinary market conditions, quotes must be made within a maximum Bid/Ask Spread.

(2) In fast market conditions, Market Makers will be permitted to reduce their size or widen their Bid/Ask Spreads.

(3) Market Makers also will be permitted to reduce their size or widen their Bid/Ask Spreads:

(A) in any Binary Contract within a Designated Class that is so deep in-the-money as to be valued at \$100 offer or so deep out-of-the-money as to be valued at zero bid and

(B) in any Variable Payout Contract within a Designated Class when the underlying for that Variable Payout Contract is outside the range of the Variable Payout Contract.

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(b) A Market Maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for the account of the Market Maker when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity or a temporary disparity between the supply of and demand for quotations in a Series of a Designated Class to which the Market Maker is appointed. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market;

(i) To post bid and ask quotations in all Designated Classes to which the Market Maker is appointed that, absent changed market conditions, will be honored by the Market Maker.

(ii) To update quotations in response to changed market conditions in all Designated Classes to which the Market Maker is appointed.

(iii) All such Market Maker quotations shall be submitted as "Post-Only orders". In the event a Market Maker has built of position size equal to or greater than 90% of any applicable position limit in a particular Class or Contract, then that Market Maker may submit non-Post-Only orders (that is, traditional limit orders) for such Class or Contract until the Market Maker's position in such Class or Contract has been reduced to 75% of the applicable position limit, at which point the Market Maker's obligation to submit Post-Only orders will resume.

(c) Like other Members of Nadex, a Market Maker may not place an order to buy or sell a Contract in a Designated Class for which it has not been appointed a Market Maker unless it has the excess funds in its Nadex account necessary to fulfill its obligations under that order.

(d) Alternative Position Limits for Certain Binary Contracts

(i) Approved market makers who are engaged in bona fide market-making activity shall be exempt from the position limits for those Binary Contracts defined in

(1) Rules 12.55 (Japan 225), ~~12.57 (Korea 200)~~, ~~12.89~~65 (Wall Street 30), ~~12.90~~63 (US Tech 100), ~~12.91~~59 (US 500) and ~~12.99~~61 (US SmallCap 2000) of these Rules. Instead, such market makers shall be subject to Alternative Position Limits of twice the limit identified for such Binary Contract in Chapter 12. In addition, such Alternative Position Limits shall apply not to the entire class of Binary Contracts, but to each Binary Contract in that Class (i.e., per strike).

(2) Rules 12.3 (Copper), 12.5 (Gold), 12.7 (Silver), 12.9 (Crude Oil), 12.11 (Natural Gas), 12.49 (FTSE 100) and 12.51 (Germany 30) of these

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Rules. Instead, such market makers shall be subject to Alternative Position Limits of the limit identified for such Binary Contract in Chapter 12, which limit shall apply not to the entire class of Binary Contracts, but to each Binary Contract in that Class (i.e., per strike).

(ii) A market maker taking advantage of this exemption and an Alternative Position Limit must, within 1 business day following a request by Nadex's Compliance Department, provide the Nadex Compliance Department with a trade register detailing all futures trading activity in any account owned or controlled by the market maker in the futures contract underlying a Binary Contract during the 15 minutes immediately before and after any expiration time identified by Nadex's Compliance Department in the request.

RULE 5.1 [UNCHANGED]

RULE 5.2 TRADING MEMBER ACCESS TO NADEX

(a) During the Nadex membership application process, an applicant to become a Trading Member will be required to choose a user identification ("ID") and password. The applicant will be required to enter the ID and password to log onto and access secure portions of the Nadex website. Each time the applicant submits its unique user ID and password to Nadex in order to log onto Nadex, the applicant affirms that it understands and agrees to be bound by these Rules and other policies of Nadex, as amended.

(b) After an applicant's membership application has been approved by Nadex and the applicant has deposited the requisite amount of funds into its account as specified under Rule 3.1(b), the applicant becomes a Trading Member. As a Trading Member, such Person will be able to access the Market, execute trades, and otherwise access information regarding, or perform functions in, such Person's account using its ID and unique password.

(c) For account security and audit trail purposes, each Trading Member agrees that Nadex may maintain logs of its IP address when it is are logged into the Nadex website.

(d) Each Trading Member will be responsible for protecting its ID and password, and with respect to an entity Trading Member, the ID(s) and password(s) of its Authorized Trader(s), from improper disclosure. In addition, a Trading Member may not knowingly or negligently permit any Person not authorized by Nadex and by the Trading Member to use the ID and password to access the secure portion of the Nadex website. Each Trading Member is required to immediately notify Nadex if it knows, or has reason to believe, that its ID or the ID and/or password of any Authorized Trader have been disclosed to any Person not authorized by Nadex and the Trading Member to use such ID and/or password. Under any circumstances, the Trading Member will be deemed to know that such ID and/or password have been disclosed to an

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unauthorized person 12 hours after any order is entered by that unauthorized person in your account

(e) Each Trading Member will be liable for all costs and any losses that it may incur from transactions executed on Nadex by any person, authorized or not, using its ID and password or the ID and/or password of any Authorized Trader. Nadex will not be responsible in any way for unauthorized transactions in a Trading Member's account.

(f) Each Trading Member is responsible for contracting with an Internet service provider through which it will access the Nadex website and for having a backup service provider if the Trading Member thinks it is necessary. Each Trading Member is also responsible for maintaining an Internet connection speed adequate for its needs. Nadex will not be responsible in any way for any orders delayed or trades missed or not executed in a timely fashion because of failure of the Trading Member's Internet service provider or slowness of its Internet connection speed. No communication from a Trading Member will be deemed to have been received by Nadex until that communication is logged by the Nadex server.

(g) Nadex in its discretion may place a Trading Member's account on hold (prohibiting any order activity) or on hold-liquidation only (allowing only orders to liquidate existing positions). In such circumstances, Nadex will promptly notify the affected Trading Member of the nature of and reason for the action.

RULE 5.3 – 5.18 [UNCHANGED]

RULE 5.19 PROHIBITED TRANSACTIONS AND ACTIVITIES

(a) Members are prohibited from entering orders on the Market if there are insufficient funds or Contracts in the Member's settlement account to satisfy such orders if they are executed. Subject to the conditions set forth in Rule 9.2(f) and Rule 9.6, if you violate this Rule, the following penalties may apply:

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Number of Per Incident Violations Within a Calendar Year	Penalty
1.	\$10 fee deducted from the Member's settlement account.
2.	\$10 fee deducted from the Member's settlement account, and the Member will be required to re-certify that it has read and agree to be bound by this Rule 5.13(a).
3.	\$15 fee deducted from the Member's settlement account, and the Member will be required to give a satisfactory explanation as to why the Rule violation occurred, or (in the case of Trading Members) trading privileges may be suspended for 30 days.
4.	\$20 fee deducted from the Member's settlement account and (in the case of Trading Members) suspension of trading privileges for 30 days (regardless of explanation).
5.	\$25 fee deducted from the Member's settlement account and (in the case of Trading Members) suspension of trading privileges for 6 months (regardless of explanation).
6.	\$30 fee and revocation of trading privileges (regardless of explanation).

Nadex may, in its discretion, take such other action against a Member or market participant if the circumstances warrant, subject to Rule 9.2(f) and Rule 9.6.

(b) No Person shall enter into or attempt to enter into any non-competitive trade on the Market, including any accommodation trade or any trade that has been directly or indirectly prearranged. ~~In other words~~ For example, a Member may not agree in advance with another Member that one of the Members will enter an order trade and the other Member will attempt to trade against that order by timing the submission of orders or otherwise.

(c) No Person shall enter into or attempt to enter into any trade on the Market that does not result in a change in beneficial ownership, that is designed to unnaturally inflate trading volume, that in any way attempts to circumvent the Market's order processing, trade ordering, and trade execution systems, or otherwise to circumvent exposure of the order to open and competitive bidding on the Market, or that has some other illegitimate purpose.

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(d) No Person shall enter into any trade designed or used to cause any price for a Contract other than a true and bona fide price to be reported, registered, or recorded by the Market.

(e) No Person shall trade in, transfer, assign, or otherwise dispose of Contracts other than as provided for in these Rules.

(f) No Person shall enter into or agree to transfer or transfer the benefit of any position in any Contract to another person other than through a transaction executed through the Market.

(g) No individual Trading Member shall trade for a person or entity other than itself and no Authorized Trader of an entity Trading Member shall trade for a person or entity other than the entity Trading Member for whom that Person is an Authorized Trader.

(h) No Person shall engage in any activity that presents a risk of harm to Nadex, its Members, or the public.

(i) No Person shall engage in any activity that adversely affects the integrity of the Market or its underlying systems.

(j) No Person subject to arbitration under these rules shall fail to abide by an arbitration decision or award handed down under Chapter 10 of these Rules.

(k) No Person shall intentionally provide erroneous or fraudulent information to Nadex on a membership application or otherwise.

(l) No Person shall engage in any activity that is intended to, or has the effect of, manipulating the market in violation of Sections 6(c) and 9(a)(2) of the CEA and no Person shall engage in any other activity that would violate the CEA or the Commission's Regulations.

(m) No Member shall allow its settlement account balance to become negative by any means. In the event that a Member's settlement account balance becomes negative, the Member must immediately deposit additional funds to correct the deficiency. Any Member whose settlement account carries a negative balance for 30 days or more is subject to summary termination of Membership. Nadex may, in its discretion, take such other action against a Member or market participant if the circumstances warrant, subject to Rule 9.2(f) and Rule 9.6

~~(nn)~~ No FCM Member shall enter any bids, offers or transactions on the Market if it knows or should know that it is subject to early warning reporting requirements under Commission Regulation 1.12, is subject to a proceeding in bankruptcy or is otherwise unable to pay its obligations as they become due, without the prior written approval of Nadex.

~~(oo)~~ No FCM Member shall knowingly carry an account, enter an order or effecting any transactions for any employee of Nadex without the prior written consent of the employer.

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(op) No Member shall engage in conduct or practices inconsistent with just and equitable principles of trade or conduct or practices detrimental to the best interests of the Exchange, its Members and/or FCM Customers.

(pq) No FCM Member that receives an order to buy or sell a Contract for execution on Nadex shall directly or indirectly guarantee the execution of the order or any of its terms, including quantity or price. A Clearing Member may only report to a FCM Customer a trade that has been executed or reported on the Nadex Market.

(qr) If a Member is an Insider of any public company that has access to material non-public information that is the subject of an Underlying of any Contract, that Member is prohibited from attempting to enter into any trade or entering into any trade, either directly or indirectly, on the market in such Contracts. An "Insider" means any person who has access to or is in a position to have access to material non-public information before such information is made publicly available. Without limiting the generality of the foregoing restriction, an Insider includes any officer or director of a public company, any employee who works in the company's financial or accounting department, and any employee of the company's accounting firm who performs services for the public company.

(s) No Person shall engage in any activity that constitutes fraudulent or abusive trading, including but not limited to spoofing.

(t) No Person shall engage in any trading activity intended to accomplish a "money pass".

RULE 5.20 SPECULATIVE POSITION LIMITS

(a) Nadex has imposed Speculative Position Limits on certain Classes of Contracts as defined in Chapter 12 of these Rules, subject to the exemption and Alternative Position Limits for certain Market Makers defined in Rule 4.4(d). Any Trading Member or FCM Customer who exceeds a Speculative Position Limit or, if applicable, an Alternative Position Limit shall be deemed in violation of this Rule 5.20. In addition, any Trading Member (except for approved Market Makers) or FCM Customer entering bids or offers, if accepted, which would cause that Trading Member or FCM Customer to exceed the applicable Speculative Position Limit shall be in violation of this Rule. In the case of any violation of this Rule by a FCM Customer, that Customer's FCM Member shall be held directly responsible for such violation.

(b) If a Member fails to reduce any position in a manner and time as directed by Nadex, Nadex shall have the authority to liquidate the applicable position to a level below the defined Speculative Position Limit stipulated under the relevant Class of Contracts in Chapter 12 of these Rules or, if applicable, the Alternative Position Limit pursuant to Rule 4.4(d).

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(c) In addition to the restrictions and requirements imposed in Section 5.20(a) and (b), the first violation of a Speculative Position Limit or Alternative Position Limit by a Member or FCM Customer ~~shall~~may result in a letter of warning to be issued by the Nadex Compliance Department to the Trading Member or FCM Customer and its FCM Member or the initiation of proceedings in accordance with Chapter 9 of these rules.

(d) In addition to the restrictions and requirements placed in Section 5.20(c), any subsequent violation of a Speculative Position Limit or Alternative Position Limit ~~within the preceding 12 months~~ by a Trading Member or FCM Customer within 12 months after a violation that resulted in a letter of warning shall result in the issuance of a second letter of warning to the Trading Member or FCM Customer and its FCM Member and the suspension or revocation of membership privileges initiate proceedings in accordance with Chapter 9 of these Rules.

(e) Position limits shall apply to i) all positions in accounts for which any Person by power of attorney or otherwise, directly or indirectly holds positions or controls trading, and ii) positions held by two or more Persons acting pursuant to an express or implied agreement or understanding the same as if the positions were held by, or the trading of the position were done by, a single individual.

RULE 6.1 – 9.1 [UNCHANGED]

RULE 9.2 INVESTIGATIONS, HEARINGS, AND APPEALS

(a) Nadex has a compliance department consisting of one or more compliance staff. The Chief Regulatory Officer is responsible for overseeing the compliance department. The Compliance Department shall investigate unusual trading activity or other activity that the Compliance Department has reasonable cause to believe could constitute a violation of these Rules. Nadex retains hearing officers, who adjudicate findings by the Compliance Department that are disputed by Members. Hearing officers and the Compliance Department may not communicate regarding the merits of a matter brought before the hearing officer without informing the Member who is the subject of the communication of its substance and allowing the Member an opportunity to respond. The Compliance Department and hearing officers may compel testimony, subpoena documents, and require statements under oath from any Member or its authorized representative. Hearing officers, Compliance Department staff and other employees or agents of Nadex working under their supervision, may not be a Member or an authorized representative of a Member or trade, directly or indirectly, in any commodity interest traded on or subject to the rules of any registered contract market.

(b) The Compliance Department will endeavor to complete any investigation within four months, unless there exists significant reason to extend it beyond such period. Upon the conclusion of any investigation, the Compliance Department will draft a document detailing the facts that led to the opening of the investigation, the facts that were found during the investigation, and the Compliance Department's analysis and conclusion. If the Compliance

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Department concludes that there is reasonable cause to believe a Member has violated Nadex's Rules or other applicable statutes or regulations, the Compliance Department will submit by electronic mail to the Member whose activity is the subject of the investigation a report that will include:

- (i) the reason the investigation was begun;
- (ii) the charges or a summary of the charges, including the rule or rules alleged to have been violated;
- (iii) the response, if any, or a summary of the response;
- (iv) a summary of the investigation conducted;
- (v) findings of fact and the Compliance Department's conclusions as to each charge, including which of these Rules the Member or its authorized representative violated, if any; ~~and~~
- (vi) A summary of the Member's, and any relevant authorized representative's, disciplinary history, if any; and
- (vii) the penalty, if any, proposed by the Compliance Department.

(c) If the Compliance Department institutes an investigation in which any affiliate of Nadex is a subject, Nadex's Chief Regulatory Officer shall notify the Commission's Division of Market Oversight of that fact. At the conclusion any such investigation, the Chief Regulatory Officer shall provide the Commission's Division of Market Oversight with a copy of the documentation specified in subparagraph (b) of this Rule.

(d) The Member whose activity is the subject of the investigation may contest the Compliance Department's findings by forwarding a response to those findings by electronic mail to the Compliance Department within 15 days. The Member has a right to examine all relevant books, documents, or other evidence in the possession or under the control of Nadex, except that Nadex may withhold from inspection any documents that (i) are privileged or that constitute attorney work product, (ii) were prepared by any employee of Nadex but which will not be offered in evidence in the disciplinary proceedings, (iii) may disclose a technique or guideline used in examinations, investigations, or enforcement proceedings, or (iv) disclose the identity of a confidential source.~~the evidence relied upon by the Compliance Department.~~ The Member's response must contain a detailed response to the findings and conclusions as to each charge and any other information the Member thinks is relevant.

(e) If the findings of the Compliance Department are not contested by the Member, Nadex will deem those findings admitted by the Member, the findings of fact and the

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Compliance Department's conclusions as to each charge shall become final and the Compliance Department shall impose the penalty (if any) proposed by the Compliance Department. The Member will be notified of the imposition of any penalty by electronic mail.

(f) If the findings of the Compliance Department are contested, the Compliance Department's report and the Member's response will be submitted to a Nadex hearing officer. The hearing officer may not have a financial, personal or other direct interest in the matter under consideration.

(i) The hearing officer will conduct a ~~telephonic~~ hearing with the Compliance Department and the Member within 20 business days of receipt of the Member's response contesting the compliance officer's finding and/or proposed sanction which the parties may attend telephonically. The formal rules of evidence shall not apply, but the hearing must be fair.

(ii) Prior to the hearing, the parties may (but need not) submit proposed findings, briefs, and exhibits (including affidavits), and during the hearing the parties may present witnesses.

~~(iii) and, w~~ Within 20 business days after that hearing, the hearing officer will issue findings, which will be delivered to the Member by electronic mail. Prior to the hearing, the parties may (but need not) submit proposed findings, briefs, and exhibits (including affidavits), and during the hearing the parties may present witnesses. The telephonic hearing will be recorded, and all information submitted by the parties (including the Compliance Department's report and the Member's response) as well as the recording of the hearing, will be preserved by the Compliance Department, along with the hearing officer's findings, as the record of the proceedings (the "hearing record"). The findings of the hearing officer will contain the following information:

- (1) a brief description summary of the allegations charges and any answer to the charges;
- (2) a ~~brief~~ summary of the evidence received;
- (3) findings and conclusions with respect to each charge;
- (4) an indication of each specific rule that the member was found to have violated;
- (5) a declaration of any penalty to be imposed on the Member as the result of the findings and conclusions;
- (6) the effective date and duration of that penalty; and

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(7) a statement that the Member has the right to appeal any adverse decision by the hearing officer to the Nadex board of directors, but must do so within 15 days.

(iv) The hearing officer's decision shall be final on the date it is signed by the hearing officer. The hearing officer's decision shall become the final decision of Nadex after the appeal period has lapsed.

(v)The hearing will be recorded, and all information submitted by the parties (including the Compliance Department's report and the Member's response) as well as the recording of the hearing, will be preserved by the Compliance Department, along with the hearing officer's findings, as the record of the proceedings (the "hearing record").

(g) Either the Member or the Compliance Department may appeal the decision of the hearing officer within 15 days by filing an appeal by electronic mail with the Nadex board of directors and forwarding a copy to the other parties to the appeal. Any penalties will be stayed pending appeal unless the hearing officer determines that a stay pending appeal would likely be detrimental to the exchange, other Members, or the public. The board of directors will review the hearing record and any information submitted by the Compliance Department and the Member on appeal and issue its decision, which shall be final on the date of such issuance. The member shall be notified of the decision by electronic mail. The hearing record, any information submitted on appeal, and the board's decisions shall be preserved as the record on appeal. The decision will contain the information listed in paragraph (f) of this Rule, except for (f)(vi), and will also contain:

(i)a statement that any person aggrieved by the action may have a right to appeal the action pursuant to Part 9 of the Commission's Regulations, within 30 days of service; and

(ii)a statement that any person aggrieved by the action may petition the Commission for a stay pursuant to Part 9 of the Commission's Regulations, within 10 days of service.

RULES 9.3 – 9.4 [UNCHANGED]

RULE 9.5 PENALTIES

As a result of a disciplinary proceeding or as part of a settlement, Nadex may impose one or more of the following penalties:

(a) a letter of warning, censure, or reprimand (although no more than one such letter may be issued to the same Person found to have committed the same rule violation within a rolling twelve month period);

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(b) a fine or penalty fee;

(c) suspension of membership status or privileges for a specified period, including partial suspension of such privileges (for example, suspension of trading privileges in particular types of Contracts or of placement of certain types of orders); and

(d) revocation of membership status or privileges, including partial revocation of such privileges (for example, revocation of trading privileges in particular types of Contracts or of placement of certain types of orders).

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