



**Rule Self-Certification**

February 19, 2015

VIA ELECTRONIC PORTAL

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

Re: **Regulation §40.6 Submission Certification**  
**Trade Reporting Primer**  
**Reference File: SR-NFX-2015-05**

Dear Mr. Kirkpatrick:

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 under the Act, NASDAQ Futures, Inc. (“NFX” or “Exchange”) adopts a new primer entitled “Reporting Trades Into NASDAQ Futures.” This primer will be implemented on March 6, 2015. The primer is set forth in Exhibit A.

The Exchange is adopting this primer related to Block Trade reporting to provide further guidance to market participants with respect to the manner in which Block Trades are reported for clearing by the Exchange. This primer will be posted on the Exchange’s website to provide market participants additional information related to this type of reporting.

With respect to the designated contract market core principles (“Core Principles”) as set forth in the Act:

- *Compliance with Rules:* Today the Exchange has in place Rules which describe the manner in which Futures Participants may access and trade on NFX. Chapter II, Section I provides for the qualifications and rules of participation applicable to Futures Participants as well as Authorized Traders. This Rule states that Futures Participants must utilize the Exchange’s services in a responsible manner, comply with Rules, cooperate with Exchange investigations and inquiries and observe high standards of integrity.

In addition the Rule provides clear and transparent access criteria and requirements for Futures Participants and Authorized Traders. Chapter V, Section 18 describes prohibited activities with respect to the Trading System.

Trading will be subject to the Rules at Chapter III of the Exchange's Rulebook, which include prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading is subject to the trading procedures and standards in Chapter V of the Rulebook. Trading activity is subject to extensive monitoring and surveillance by NFX's regulatory group in conjunction with the National Futures Association pursuant to the provisions of a Regulatory Services Agreement. Additionally, the Exchange has the authority to exercise its investigatory and enforcement power where potential rule violations are identified. The Exchange's disciplinary Rules are contained in Chapter VI of the Rulebook, which permit the Exchange to discipline, suspend or expel Futures Participants or market participants that violate the Rules. Pursuant to Chapter V, Section 5, the Exchange may cancel or adjust trades when necessary to mitigate market disrupting events caused by the improper or erroneous use of the Trading System or system defects or malfunctions. The Exchange may review a trade based on its independent analysis of market conditions or upon request from a Futures Participant.

- *Prevention of Market Disruption:* The Exchange's Regulatory Department, which handles real-time surveillance, monitors 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. The Exchange's Regulatory Department, which handles real-time surveillance in conjunction with 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 in place risk controls, including the imposition of trading pauses or halts, to address risks posed by potential market disruptions pursuant to Chapter V, Section 16. The Exchange has the ability to reconstruct all Orders transacted on the Trading System.

- *Availability of Contract Information.* The Exchange has indicated within its trading Rules where specific information relates to a particular Contract. The Exchange will provide detailed information within the contract specifications for that particular Contract. The Exchange will post the terms and conditions of Exchange Contracts in its Rulebook along with trading Rules. The specifications for its Trading System will appear on the Exchange's website.

- *Publication of Information.* The Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for actively traded Contracts on its website. The Exchange's volume information will include information on the volume of Block Trades.

- *Execution of Transactions.* The Exchange operates an electronic trading facility that provides Futures Participants with the ability to execute Orders within the Exchange's Order Book and offers within a predetermined automated trade matching and execution algorithm. Orders submitted into the Trading System will be matched in either Price-Time priority or Size Pro-Rata priority order, as specified by the Exchange. The Exchange specifies the types of Orders that will be accepted by the Trading System in recently filed Chapter IV, Section 4. Finally, the Exchange separately describes its Rules for executing transactions outside of the Order Book, such as Block Trades and exchange for related positions (EFRPs), in recently filed Chapter IV, Sections 10 and 11 respectively. The Exchange recently added new Options Rules at Chapter VIII in order that both futures and options on futures may be traded on NFX.

The Exchange provides a competitive, open and efficient market and mechanism for executing transactions that protects the price discovery process and also authorizes for bona fide business purposes rules for Block Trades and Exchange for Related Positions at Chapter IV, Sections 10 and 11.<sup>1</sup>

- *Trade Information.* As previously described, the Exchange has established audit trail processes that capture trading information to facilitate the Exchange's trade practice and market surveillance activities. The audit trail program is based on original source documents that are unalterable, sequentially identified records. The audit trail contains a history of all Orders as well as other identifying information. All data gathered as part of the audit trail is maintained in accordance with the Commission's recordkeeping

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<sup>1</sup> See SR-NFX-2014-02 which amended the section numbers for these rules.

requirements and in a manner that does not allow for unauthorized alteration, erasure or other potential loss.

- *Financial Integrity of Transactions.* The Exchange's Rules provide that all matched trades generated by the Trading System, after the application of pre-trade risk parameters, will be automatically submitted to the Clearing Corporation as described in Chapter V, Section 2. Furthermore, all off-exchange transactions submitted for clearing will be subject to pre-trade risk parameters. Chapter II, Section 1 of the Exchange's Rules requires that all Futures Participants must be members of the Clearing Corporation either directly or indirectly. Futures commission merchants (FCMs) must maintain an account directly with the Clearing Corporation. Clearing Futures Participants are required to guarantee all trades transacted on NFX on behalf of itself, its Customers and Non-Clearing Futures Participants. Clearing Futures Participants must guarantee and assume financial responsibility for all Exchange Contracts of each Futures Participant guaranteed by it, and will be liable for all trades made by that Futures Participant. The Exchange requires a similar guarantee for Authorized Customers submitting trades into the Trading System via Direct Access pursuant to Chapter V, Section 4. The Exchange's Rules governing minimum financial requirements and protection of Customer funds are set forth in Chapter III.

- *Protection of market participants.* Chapter III of the Exchange's Rulebook contains prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading in all Contracts.

There were no opposing views among the Exchange's Board of Directors, members or market participants. The Exchange hereby certifies that the primer entitled "Reporting Trades Into NASDAQ Futures" complies with the Commodity Exchange Act and regulations thereunder. The Exchange also certifies that a notice of pending certification with the Commission and a copy of this submission have been concurrently posted on the Exchange's website.

If you require any additional information regarding the submission, please contact Angela S. Dunn at +1 215 496 5692 or via e-mail at [angela.dunn@nasdaq.com](mailto:angela.dunn@nasdaq.com). Please reference SR-NFX-2015-05 in any related correspondence.

Regards,



Daniel R. Carrigan  
President

cc: National Futures Association

**Exhibit A**

# REPORTING TRADES INTO NASDAQ FUTURES | PRIMER

## NFX Trade Reporting Overview

This Primer will outline the design of reporting Block Trades of Futures and Options on Nasdaq Futures (NFX or Exchange) for clearing at The Options Clearing Corporation (OCC).

The main parties in the trade reporting process are:

- Customer that is the beneficial owner of one or more trading accounts (Account) held with a Clearing Futures Participant;
- Clearing Futures Participant; and
- Brokerage firm that facilitates the execution of the trade between the clients, and is responsible for registration of the trade report.

The broker will be required to obtain permission to do trade registration by a Clearing Futures Participant and obtain trade registration permission for a specific Account(s). Most clients (trading firms) which utilize brokers rely on a variety of broker Firms to facilitate trades through permissions for a given account, which may be granted to multiple Brokerage Firms.

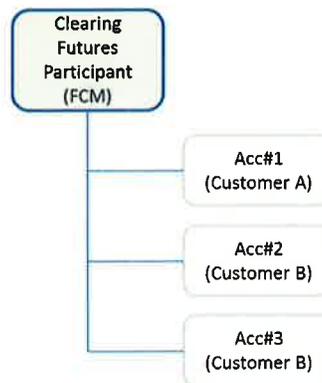
- **Customer & Account Management:** User permissions and account setup is generally managed by its respective Clearing Futures Participant or Futures Clearing Merchants (FCM). Users are generally brokers, Clearing Futures Participants, and Customers.
- **Trade Reporting Procedures:** Users may submit one-party, two-party, and third-party trades into NFX for Post-Trade and market Information purposes.
- **Reporting Interface:** Trades may be reported directly (checked by TradeGuard) into NFX via its API or Web Interface Genium INET Workstation (GIW).
- **Risk Management:** TradeGuard will provide true Pre-Trade Risk Management of all reported trades through both NFX's API and Web Interface (GIW).

## Client & Account Management

In order to submit a Block Trade to NFX, the party entering the transaction must have access to the reporting interfaces and must have been granted permission to enter the trades for the Account(s) involved in the Block Trade from the Clearing Futures Participant(s) carrying those accounts.

The following 3 steps need to be performed to submit Block Trades to the Exchange:

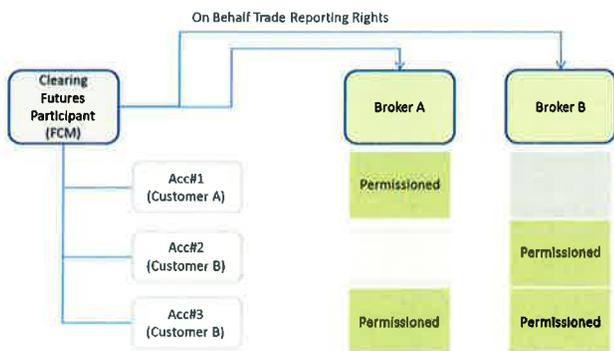
1. All Customer Accounts must be registered in the NFX trading platform as Accounts of a Clearing Futures Participant. This is required for all Customer Accounts, regardless if the Customer is going to engage in Order Book trading or Block Trading. The Account registration is electronically submitted via a request to the NFX Market Operations team. Block Trades are subject to NFX Rules at Chapter IV, Section 10..



2. A participant (e.g. a broker) is granted the generic right to register Block Trades on behalf of a Clearing Futures Participant or FCM.



3. The final step in the process of permissioning a party to submit a Block Trade report is complete when the Clearing Futures Participant provides instructions for the assignment of a participant with trade reporting rights for a specific Account (representing the Customer). The assignment is electronically submitted via the NFX Block Trade reporting interface, and any necessary modifications may be submitted and applied intra-day. Please note that no Block Trade reports can be submitted by a trade reporting participant until the respective Accounts have been approved by the Exchange. Each Account can be utilized by one or multiple Authorized Traders, each of which will have a unique Authorized Trader ID.



### Trade Reporting Procedures

When a privately negotiated Futures, Options, or Combination Order transaction has been executed, the transaction must be reported to NFX within the specified time limits in the Exchange’s Rulebook.

NFX supports submission of both principal-to-principal Block Trades, where each party reports its respective side of the trade; as well as third party Block Trades, where the broker has the obligation to register on behalf of the two principals.

When reporting a Block Trade, the following information will be required:

- Contract (including Contract month and Contract year for Futures, and, additionally for Options, strike price and put or call designation);
- Quantity of the trade or, for Combination Orders, the quantity of each respective leg;
- Price of the trade or, for Combination Orders, the price of each leg;
- Buyer’s Clearing Futures Participant and seller’s Clearing Futures Participant;
- Buyer’s Customer Account and seller’s Customer Account; and
- Execution time of the Order (i.e. the time at which the trade was consummated).

As described in the previous section, the Accounts involved in the Block Trade must have been approved by the Exchange. In the event that a Block Trade is executed for an Account(s) for which the appropriate permissions have not been completed by the Clearing Futures Participant, the Block Trade will be rejected. However, the Futures Clearing Participant may make an intra-day modification to receive approval from the Exchange to submit Block Trades.

### Reporting Interfaces

Block Trades may be submitted in the following ways:

- (1) Electronically via the NFX workstation; or
- (2) Electronically via FIX API.

### NFX Workstation

NFX provides participants with a web-enabled user interface for submission of Block Trades. The interface allows users to enter outright or Combination trades quickly.

All trades, including Block Trades, entered via the user interface will be qualified by the Pre-Trade Risk Management system, Genium INET TradeGuard PTRM (TradeGuard).

Nasdaq adheres to high information security standards and the access to the NFX Workstation is thus protected by two factor authentication using client certificates. Please contact NFX market operations to request a client certificate.

## **API Interface**

The NFX trading platform provides full trade reporting functionality via FIX for integration of ISVs and proprietary interfaces. The API supports reporting of both outright (single leg) and Combination Order transactions. Please reference the NFX FIX API specification for complete details. All trades entered via API will be qualified by the Pre-Trade Risk Management system TradeGuard.

## **Risk Management**

All Block Trades submitted to the Trading System will pass through Nasdaq's Pre-Trade Risk Management System, TradeGuard, before being accepted by the Exchange for clearing by OCC. TradeGuard checks the initiated (pending) position with all respective positions and risk metrics (as defined by the Clearing Futures Participant) before accepting Orders into the Trading System for clearing. If the proposed trade is rejected, the User (Authorized Trader or Authorized Customer) and responsible parties will be notified and provided a reason for the rejection. A Combination Order strategy and its respective legs must be qualified in its entirety by the Pre-Trade Risk Management System to avoid partial acceptance of the strategy. For more detailed information on TradeGuard please see Section 2.6.1 in the Pre-Trade Risk Management Reference Guide, which is posted on the Exchange's website.