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August 21, 2009

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: Request to Amend the Commission's Orders Designating HedgeStreet (now "Nadex") as a Contract Market and Registering HedgeStreet as a Derivatives Clearing Organization

Dear Mr. Stawick:

Pursuant to Section 5 and 5b of the Commodity Exchange Act, as amended (the "Act"), North American Derivatives Exchange, Inc. ("Nadex"), formerly known as HedgeStreet, requests that the Commodity Futures Trading Commission (the "Commission") amend its Order of Designation as a Contract Market ("DCM Order") and its Order of Registration as a Derivatives Clearing Organization ("DCO Order"). Nadex seeks these amendments in order to permit intermediation of customer orders on its markets on a fully collateralized basis.

The CFTC initially issued an order dated February 18, 2004, approving then-HedgeStreet's application for designation as a contract market. That initial order was amended on December 5, 2005, and Nadex's current DCM Order limits Nadex to operating a non-intermediated market and, under certain restrictions, a separate intermediated "iMarket" wherein accounts of Nadex Members could be carried by registered futures commission merchants (provided that such contracts were to be cleared by a derivatives clearing organization that was permitted to clear such intermediated contracts). Following this amendment, however, the separate iMarket was never implemented. Nadex's current request to amend its DCM Order seeks the ability to provide a single market, in which both non-intermediated members of Nadex and intermediated customers of registered futures commission merchants will be able to trade fully collateralized contracts cleared by Nadex's derivatives clearing organization.

The Commission initially issued an order dated February 18, 2004, approving Nadex's (then HedgeStreet's) application for registration as a derivatives clearing organization. That initial order, which permitted Nadex's DCO to clear "fully paid-up, cash settled binary options" was amended on December 1, 2004, to include the ability to clear fully collateralized, cash settled futures and options". Nadex's current DCO Order, however, continues to limit Nadex's ability to clear intermediated contracts. Nadex's current request to amend its DCO Order seeks the ability to clear fully collateralized, cash settled contracts listed for trading on the Nadex contract market that result from both non-intermediated transactions by members of Nadex and intermediated transactions for customers of registered futures commission merchants.

To provide the necessary context for the requested amendments to its DCM Order and DCO Order, Nadex has prepared rule amendments that will implement intermediation. Accordingly, pursuant to Section 5c(c)(1) of the Act and §40.6(a) of the regulations promulgated by the Commission under the Act, Nadex hereby submits to the Commission its intent to amend its Rules to implement intermediation, which amended Rules would be effective on the first business day of the week following the Commission's issuance of the amended DCM Order and DCO Order permitting intermediation.

The amendments to Nadex's existing rules address Chapters 1-10 of Nadex's Rulebook. The applicable rule amendments are defined in Appendix G. Any rule deletions are stricken out while the amendments and/or additions are underlined. No contracts that have open interest will be affected by these amendments, and no substantive opposing views were expressed to Nadex with respect to any of these proposed Rule amendments. Nadex hereby certifies that the proposed Rule amendments contained in Appendix G comply with the Act and the Commission Regulations adopted thereunder.

In connection with this request for amendments to its DCM Order and DCO Order, Nadex has attached the following materials:

- Appendix A: Proposed amendments to Nadex's DCO Order
- Appendix B: Proposed amendments to Nadex's DCM Order
- Appendix C: Discussion of the proposed changes to be implemented in connection with intermediation.
- Appendix D: Chart summarizing the manner in which the proposal complies with the Core Principles for DCOs per Section 5b of the Act and Appendix A to Part 39 of the Commission's regulations.
- Appendix E: Chart summarizing compliance with the Designation Criteria for Contract Markets per Section 5(b) of the Act and Appendix A to Part 38 of the Commission's regulations
- Appendix F: Chart summarizing the manner in which the proposal complies with the Core Principles for DCMs per Section 5(d) of the Act and Appendix B to Part 38 of the Commission's regulations.

- Appendix G: Proposed Amendments to Nadex's Rules to permit Intermediation (Nadex is self-certifying these proposed amendments to become effective only after approval of the requested amendments to the DCO Order and DCM Order)

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

Richard Shilts – Director DMO

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Tom Leahy – Acting Deputy Director DMO – Market and Product Review Section

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Ananda K. Radhakrishnan – Director, DCIO

Robert Wasserman – Associate Director, DCIO,

Lois J. Gregory – Special Counsel, DCIO

Yossi Beinart – CEO, Nadex, Inc.

Appendix A
Proposed Amendments to Nadex's DCO Order

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IT IS FURTHER ORDERED, that:

(1) ~~HedgeStreet~~North American Derivatives Exchange, Inc. ("Nadex") shall limit its activity as a registered DCO to clearing fully collateralized, cash-settled, futures and options contracts listed for trading on the contract market ~~HedgeStreet, Inc.~~Nadex. In this regard, ~~HedgeStreet~~Nadex's contracts will be considered to be "fully collateralized" if ~~HedgeStreet~~Nadex holds, at all times, sufficient funds of each ~~HedgeStreet~~Nadex Member to cover the maximum possible loss that may be sustained by such Member upon liquidation of any or all ~~HedgeStreet~~Nadex contracts to which such ~~M~~member or customer of such Member is a party;

(2) ~~no intermediary~~ Registered futures commission merchants that qualify as FCM Members under ~~HedgeStreet~~Nadex's rules may ~~will~~ handle participants' funds ~~or~~ and orders in connection with the purchasing or sale of ~~HedgeStreet~~Nadex contracts ~~bundles or entering orders for the sale or purchase of contracts on HedgeStreet~~;

(3) ~~HedgeStreet~~Nadex shall remain in compliance with the core principles set forth in Section 5b of the Act, and fulfill each of the various representations made in connection with its application to the Commission for DCO registration; and

(4) ~~HedgeStreet~~Nadex shall inform the Commission immediately of any information regarding any event, circumstance, or situation concerning any of its operations as a DCO that detracts from its ability to continue complying with any of the core principles set forth in Section 5b of the Act as demonstrated in its application materials submitted to the Commission for DCO registration.

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Appendix B
Proposed amendments to Nadex's DCM Order

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A. With respect to HedgeStreet's Non-intermediated Market

IT IS ORDERED THAT:

1. In place of filing clearing member reports under Commission Rule 16.00 and until further order of the Commission, HedgeStreetNorth American Derivatives Exchange, Inc. ("Nadex") shall file large trader reports and forms under Part 17 of the Commission's regulations on behalf of its clearing members; and

2. HedgeStreetNadex will comply with commitments it made to the Commission by letter dated February 9, 2004 ("February 2004 commitments") as follows:

HedgeStreetNadex and any official, agent, or other person acting on behalf of HedgeStreetNadex within the scope of his or her employment or office shall not, in or in connection with the offer or sale of HedgeStreetNadex products:

- (a) cheat or defraud or attempt to cheat or defraud any person;
- (b) willfully make or cause to be made to any person any false report or statement or caused to be entered for any person any false record; or
- (c) willfully deceive or attempt to deceive any person by any means whatsoever.

The Commission has accepted the February 2004 commitments from HedgeStreetNadex in light of the fact that HedgeStreetNadex's structure and intended manner of operation on its non-intermediated market is qualitatively different from more traditional exchanges. Even after intermediation is allowed on Nadex, Nadex will continue to HedgeStreet's non-intermediated market will have members who interact directly with the trading facility on a non-intermediated basis. More traditional markets have been intermediated markets in which the intermediaries conduct most customer solicitations. On the With respect to such non-intermediated membersmarket, any solicitation that occurs will be by HedgeStreetNadex. In these circumstances, these commitments are appropriate to ensure that HedgeStreetNadex customers receive a similar level of protection against fraudulent conduct, including fraudulent solicitation, as customers of more traditional exchanges.

3. Registered futures commission merchants who are qualified and accepted as Nadex FCM Members may carry customer accounts and intermediate orders to buy and sell Nadex contracts in accordance with Nadex's rules, provided that such contracts are collateralized for 100 percent (100%) of the maximum possible loss each participant may incur with collateral held by Nadex's Derivatives Clearing Organization prior to Nadex accepting such contracts for clearing.

B. With Respect to HedgeStreet's iMarket

~~IT IS ORDERED THAT:~~

- ~~1. HedgeStreet members' accounts may be carried by registered futures commission merchants provided that such contracts are cleared by a Derivatives Clearing Organization that is otherwise permitted to clear such contracts (the "DCO");~~
- ~~2. HedgeStreet iMarket contracts may be cleared by the DCO without the requirement of collection of prepaid collateral prior to acceptance for clearing; and~~
- ~~3. HedgeStreet is limited to offering contracts that will be collateralized for 100 percent (100%) of the maximum possible loss each participant may incur, except that the DCO may collect required collateral for HedgeStreet contracts no later than the day after accepting such contracts for clearing.~~

C. With Respect to All HedgeStreet Markets

~~IT IS ORDERED THAT:~~

~~4. In order to ensure that HedgeStreetNadex maintains sufficient liquid assets to continue to meet its obligations to comply with the Designation Criteria and Core Principles, HedgeStreetNadex shall not list for trading any contract that has an expiration date beyond the date at which HedgeStreetNadex's cash and cash equivalents are estimated to be depleted, pursuant to an analysis acceptable to the Commission.~~

* * *

Appendix C:
Discussion of the Proposed Changes to be
Implemented in Connection with Intermediation

Background

Nadex currently operates a non-intermediated marketplace with fully collateralized contracts. Nadex's current order of designation as a contract market, as amended, allows intermediation under limited circumstances, including that the intermediated contracts be cleared through a DCO (other than Nadex) that is permitted to clear intermediated contracts. Nadex's current order of registration as a derivatives clearing organization, on the other hand, currently does not permit clearing of intermediated contracts. This dichotomy results from developments in 2005 and 2006, when Nadex attempted to set up an institutional market ("iMarket") that was separate from the existing retail market.

Specifically, on December 5, 2005, Nadex's Order of Designation as a Contract Market was amended to permit a bifurcated market structure that included its regular retail market and a new "iMarket" designed for institutional members. The iMarket could accept customer orders intermediated through a registered futures commission merchant ("FCM") within the parameters of the amended order, and the resulting trades were to be cleared through the Clearing Corp (*i.e.*, not Nadex's DCO). Thus, this structure would have bifurcated liquidity in the overall market. In addition, the DCO clearing the intermediated contracts was not required to collect prepaid collateral prior to accepting a trade for clearing. The iMarket plan was never launched.

Present Request for Amended Orders

Nadex now seeks to implement a structure that permits intermediation of trading on the Nadex DCM in the same market as its existing non-intermediated trading and clearing of that intermediated trading through the same Nadex DCO that is clearing the non-intermediated trading. Specifically, Nadex seeks to continue its existing practice of listing and clearing contracts for its non-intermediated members and, in addition, (a) accept customer orders that are intermediated through FCMs into Nadex's single market (*i.e.*, with no bifurcation of liquidity) and (b) clear the resulting trades through Nadex's DCO (*i.e.*, not through a third-party DCO). Margining will not be permitted. In particular and unlike the previous iMarket plan, Nadex's rules and systems will mandate that all intermediated orders be fully collateralized at the clearinghouse at the time of execution, and Nadex will not let any contracts, whether intermediated or not, be traded or cleared without full collateralization of the trade at Nadex's DCO prior to trade match. In this regard, full collateralization will continue to be determined on a contract-by-contract basis, not a "portfolio basis" (*i.e.*, the FCM Member will not receive any offsets for long and short positions in a particular contract held by different customers of the FCM Member).

The full collateralization of intermediated orders will be accomplished at two levels. First, before submitting any customer order to the Exchange the FCM Member will be required to ensure that any such order is supported by collateral in the account of the relevant customer at the FCM. Second, Nadex's systems will ensure that any FCM Customer Order submitted through an FCM is supported by sufficient collateral at Nadex's DCO prior to execution and that no trade can occur without adequate collateral at the Exchange settlement bank to support the trade.

At the FCM Member Level:

FCM Customer Orders typically will be input electronically by the FCM Customer. These orders will be directed to the FCM, which will be required to ensure prior to submitting the order to the Exchange that the FCM Customer's account with the FCM has sufficient funds to fully collateralize any position resulting from the execution of the order.

After the FCM has ensured that the FCM Customer account can support the order, the FCM can automatically transmit the customer's order to the Exchange. Under limited circumstances, FCM Members may agree to manually submit customer orders at their customers' direction; this could potentially occur, for example, when a customer's order entry system ceases to function correctly or is otherwise unavailable. While it will be permissible for FCM Members manually to enter orders for their customers, it is unlikely that any FCM Member would regularly operate on other than an automated market access model for its customers' trading in Nadex products given the retail size of the products, related exchange fees and expected FCM commission structures.

Even when FCM Members enter their customers' orders, however, the FCM Member entering the order will continue to have an obligation to ensure prior to submitting the order to the Exchange that the FCM Customer's account with the FCM has sufficient funds to fully collateralize the order if filled. A key aspect of this process is that, whether the FCM Customer Order is submitted by the customer or by the FCM Member, every intermediated Customer Order must pass through an FCM Member for a "Cap Check" to allow the FCM Member to ensure that it has customer funds on hand to collateralize its customer's orders and any resulting execution.

At the Exchange Level:

Each FCM Member shall be required to make an initial deposit of at least \$100,000 of funds into its FCM Member segregated funds account for excess collateral with Nadex.

After the FCM Member has confirmed that the customer's account with the FCM Member has sufficient funds to fully collateralize the order, the FCM Customer Order is submitted to Nadex through the FCM Member. If, following order entry, the customer's order is matched by an opposite order, the order will be checked against

that excess collateral account to ensure that funds are available to collateralize the order (if executed) and those funds will be “blocked” by the Exchange, rendering the blocked funds unavailable for any other use by the FCM Member or its customers’ trading. If the “blocked” amount necessary to collateralize the order reduces the remaining available balance of that segregated funds account for excess collateral below a prescribed minimum level, which initially shall be set at a minimum level of \$50,000, an alert will be triggered and the FCM Member will be required to deposit additional funds into the account to “top off” the balance to the initial \$100,000 level. In addition to the alert to call for added funding as the amount of available funds declines, a system stop will prevent any transaction that would take the amount of available funds below \$0. That is, in the unlikely event that a customer attempts to execute an order for which insufficient available funds exist to block (i.e., if blocking the necessary funds to collateralize the order would reduce the amount of available funds below \$0), the trade match will be rejected by the Exchange and the order will be cancelled. If this occurs, the Exchange will also review whether the FCM Member’s required minimum should be increased to avoid such rejections in the future. Each FCM Member’s balance of available funds in the segregated funds account for excess collateral will be tracked on a real-time basis and Nadex will receive an alert if the minimum balance (e.g., the \$50,000 level) is triggered. This should ensure that no customer trade is rejected due to insufficient funds in the FCM Member’s account.

If the necessary funds to fully collateralize the FCM Customer Order are available, Nadex will match the trade and transfer funds on its books from the segregated funds account for excess collateral (i.e., the FCM Member’s settlement account) to a segregated funds account for collateral that is held for open transactions (i.e., the Nadex DCO Settlement Account). Those funds will be held as collateral until the position is liquidated or expires. Again, however, under no circumstances will an existing order – whether intermediated or not – be allowed match opposite another order – whether intermediated or not – if blocked funds are not available to fully collateralize the resulting trade.

Thus, amending Nadex’s DCM designation/DCO registration to permit intermediation will not negatively impact the fully collateralized nature of trading on Nadex. Indeed, the financial safety of the DCM and DCO will be further strengthened by the checks performed by the FCM Members on their customer orders and the excess collateral of the FCM Members available to collateralize their respective customer’s transactions.

While these proposed amendments to Nadex’s DCM Order and DCO Order will allow FCM Members to intermediate customer orders, at the same time, Nadex rules will prohibit FCM Members from maintaining proprietary trading or house accounts (although error accounts will be permitted) and their associated persons will similarly be precluded from maintaining individual member accounts or otherwise trading a personal account on the Exchange. While Nadex will, of course, conduct surveillance to detect illicit trading practices, this structure will significantly limit the opportunities for the types of customer abuse which can otherwise occur in a traditional intermediated market that permits “dual trading”.

The Anticipated Benefits to Market Participants

Nadex expects the proposed intermediated structure to provide benefits to all market participants. First and foremost, it is anticipated that intermediation will expand the breadth of participation in the market. This could improve the quality of the markets in terms of tighter bid-ask spreads and/or depth of the book. Second, Nadex believes that, by offering intermediated trading on its exchange, Nadex can offer a range of Foreign Exchange futures and other regulated futures products to retail customers who currently conduct all or most of their trading activity in the over-the-counter retail FX marketplace. Nadex believes that retail traders who have only the O-T-C foreign exchange market as an available trading option need a viable alternative in the regulated DCM space, which currently does not exist. Indeed, the Nadex intermediated market could provide the platform for the migration of this retail FX business to a regulated exchange.

In addition to the potential beneficial impacts on the quality of the market for all participants, intermediated trading on Nadex could provide additional benefits to customers of FCMs who wish to retain those relationships, and currently are reluctant to open a separate account as a direct member of Nadex. The proposed amendments could provide additional benefits in the following scenarios:

- A customer who wishes to maintain a single trading account for her futures trading activity at an FCM – assuming that FCM becomes a Nadex FCM Member – can have all of that trading activity occur in a single FCM account and appear on a single statement.
- A customer who prefers a particular FCM’s front-end would be able to use that familiar front end to trade Nadex products.
- A customer who wishes to maintain his futures trading capital in a single account can do so at the FCM Member, rather than splitting his capital between an FCM account and a separate Nadex Member account.

Finally, the permission of intermediated trading on Nadex can provide a further level of competition among FCMs who can differentiate their services to include trading on Nadex.

Regulatory Compliance

Since its original designation as a contract market, the Exchange has been responsible for regulating its markets. From 2004 through May 2009, the Exchange had day-to-day responsibility for real-time surveillance but subcontracted its trade practice surveillance function to the National Futures Association (“NFA”) per a Regulatory Services Agreement. Pursuant to this Agreement, the NFA conducted day-to-day trade practice surveillance, performing its automated analyses of the Exchange’s trade data on a T+1 basis, using a downloaded data file provided by the Exchange at the end of each day. In May 2009, the Exchange transitioned the portion of its self-regulatory activities that had been handled by the NFA to its own Compliance Department. This transition followed discussions with CFTC Staff, that resulted in the adoption of additional rules to address potential conflict of

interest issues (e.g., Rule 9.2(c) requiring notice to DMO at the commencement of any investigation involving an affiliate, Rule 2.5 (and associated corporate documentation) establishing a Regulatory Oversight Committee comprising “Public Directors” as well as the continuation of policies addressing screens to prevent unauthorized access to restricted Exchange data or systems.

To adequately perform the added trade practice surveillance functions, the Exchange added new compliance staff and expanded its compliance systems. Nadex now has a Compliance Manager and a Compliance Associate who are responsible for the day-to-day surveillance activities. Accordingly, the Exchange Compliance Staff includes the following personnel:

- Chief Regulatory Officer (an attorney with 13 years in private practice focusing on financial markets litigation, and 4 years experience as Compliance Counsel/Director for the Chicago Mercantile Exchange -- joined then-HedgeStreet in January 2008)
- Compliance Manager (experienced regulator who worked on the CME trading floor for 12 years and then joined CME Market Regulation where he worked for 10 years as an investigator and manager -- joined then-HedgeStreet in January 2009)
- Compliance Associate: (a licensed attorney -- joined then-HedgeStreet in February 2009).

Importantly, while the Compliance Staff are responsible to Nadex’s day-to-day surveillance activities, the Exchange also has multiple Operations and Customer Service personnel who monitor the markets on a regular basis.

The Exchange also licensed a new surveillance system to greatly expand its existing trade practice and market surveillance tools. These tools were demonstrated to CFTC Staff at the Exchange’s offices on April 15, 2009. The new surveillance system includes (a) surveillance reports (daily trade practice reports, market activity reports and market/participant profiling); (b) market visualization tools that allow Compliance Staff to analyze events in the market by viewing trade prices, volumes, and bid/ask spreads in real-time or historically; and (c) customizable alerts that allow for the quick detection of potential market issues, such as wash trading, money-passing, pre-arranged trading, daily settlement price manipulation; large positions and unusual price divergences. Notably, while the proposed intermediated market will not permit FCM Members to maintain proprietary trading accounts, the new surveillance system includes tools to monitor for potential instances of broker misconduct such as trading ahead of a customer order or taking the other side of a customer order. A copy of the materials presented to the Commission staff at the April 2009 demonstration were filed with the Commission’s Assistant Secretary for FOI, Privacy and Sunshine Acts Compliance with a request for confidential treatment on April 17, 2009.

No potential anticompetitive effects

The proposal to permit intermediation on Nadex does not raise potential anticompetitive effects on market participants or others and, instead, promotes competition and price discovery by expanding the pool of potential participants in Nadex’s markets.

Nadex currently has a single market maker, an affiliate, that makes markets in Nadex's products. Nadex is currently working with one other potential market maker to expand its market maker program. The addition of intermediation and the anticipated additional volume that intermediation is expected to bring to the exchange should make it easier to attract potential additional market makers, which would further improve the competition and liquidity in the market.

Nadex has worked with a separate affiliate, IG Markets, Inc., to develop the intermediated market model, and Nadex expects IG Markets to become an FCM Member of Nadex when intermediation is available. Nadex, however, intends to continue to seek other qualified FCM Members. Nadex does not anticipate that an FCM Member affiliate will create anticompetitive effects on market participants or others and, to the contrary, believes that IG Markets will bring the same benefits of added competition and price discovery that any other potential FCM Members would bring. Moreover, as described below additional protections exist with respect to any potential anticompetitive or other adverse effects due to potential conflicts of interest related to IG Market's participation in Nadex's markets.

Mitigation of Potential Conflicts of Interest with respect to Affiliates

Following the acquisition of the Exchange by IG Group in 2007 and the reopening of the Exchange in February 2008, an affiliate of Nadex, Inc. – Market Risk Management (“MRM”) – has been a market maker on the Exchange. MRM is a Delaware corporation with trading desks in London and Australia. In a February 8, 2008 submission to the Commission, Nadex identified the structure and controls in place at both Nadex and MRM in order to ensure that adequate separation exists between the two entities and that the trading activities of the affiliated market maker are objectively reviewed and investigated. When intermediation is permitted on the Exchange, it is anticipated that a separate affiliate of Nadex, Inc., IG Markets, Inc. (“IG Markets”), will become a FCM Member of the Exchange. To mitigate the potential conflicts of interest raised by the addition of IG Markets as a FCM Member, a number of systematic, procedural and logistical protections have been or will be put in place prior to intermediation.

Regulation: First, as previously noted Nadex's Compliance Department is responsible for market and trade practice surveillance on the Exchange, and the Compliance Department will have a reporting line to and be overseen by a Regulatory Oversight Committee comprised of Public Directors, in accord with the Commission's Guidance under DCM Core Principle 15. Nadex rules provide that Nadex's Compliance Department notify the CFTC in the event that an investigation is commenced with respect to the activities of any affiliate, and that Nadex provide the CFTC with documentation detailing the results of the investigation upon its completion. In addition, while IG Markets will be subject to Nadex's regulatory authority like any other member of Nadex, as an FCM Member, IG Markets will be required to be registered as futures commission merchant with the National Futures Association. IG Markets has been registered as a futures commission merchant with the NFA since November 1, 2004 (NFA ID No. 0342337). As a registered FCM, IG Markets is subject to regulation by the National Futures Association and, indeed, the National Futures Association (“NFA”) is the designated self-regulatory organization (“DSRO”) for IG

Markets, as permitted by Commission Regulation §1.52 and authorized by the Joint Audit Committee's Amended Agreement for Services. Accordingly, IG Markets will continue to be subject to auditing and monitoring by NFA in addition to the regulatory purview of Nadex. Finally, as with all other Nadex members and market makers, both IG Markets and MRM also will be subject to exchange arbitration jurisdiction. Arbitrations under the Exchange rules are administered by the National Futures Association pursuant to the NFA Arbitration Rules.

IG Markets' Controls: IG Markets has documented for Nadex that it has implemented comprehensive organizational and administrative controls to manage potential conflicts of interests so as to be reasonably confident that risks of damage to the firm's clients as a result of any conflict will be prevented. Such organizational and administrative controls include information barriers¹, physical separation of staff, and, the segregation of duties and responsibilities. In addition, employees of IG Markets are required to act in the best interests of that firm's clients and disregard any conflicts of interests in providing services. Finally, IG Markets discloses the relevant conflicts of interest in order to mitigate those conflicts. For example, IG Markets has indicated that in its customer agreement and its Conflicts Policy, IG Markets discloses the general nature and/or sources of conflicts before carrying on business for the client. This includes disclosure of its relationships to Nadex and to MRM.

Nadex's Controls: Similarly, Nadex has systematic, procedural and logistical protections against improper activity resulting from the relationships between the Exchange and its affiliated companies, IG Markets, Inc. and MRM. For example, Nadex's privacy policy requires its employees, consultants and board members to maintain the confidentiality of material, non-public information that he or she may possess and prohibits disclosure of such information to any person or entity, including, but not limited to, Market Risk Management, IG Markets, Inc. and any employees thereof. In addition, in accordance with the CFTC's original designation order Exchange employees are required to affirm that they will not, in connection with the offer or sale of Nadex products, cheat, defraud or willfully deceive, or attempt to cheat, defraud or deceive any person. Obviously, such a representation would include unlawful activities that would improperly benefit Nadex's affiliates.

Moreover, Nadex's systems and database security protect against any improper access by any non-authorized party, including IG Markets and its customers, to confidential information of the Exchange or its other market participants. IG Markets will have electronic access to only that information maintained by Nadex that is similarly available to all market participants. Also, Nadex is located in a physically separate office from IG Markets and IG Markets' employees do not have unrestricted access to the Exchange's office space. Finally, with the exception of market maker activity for the

¹ Information barriers established by IG Markets within the parent organization allow MRM only the same access to order information and market data that other members of Nadex have. In particular, these barriers restrict the ability of MRM's staff members to access data and information regarding the Futures Trading activity of IG Market's clients. A similar restriction already is in place with respect to MRM's access to non-public Exchange information.

account of Market Risk Management, Nadex's rules prohibit any employee of any affiliate of Nadex from trading, directly or indirectly, in any commodity future or option contract offered or cleared by Nadex for such person's own account and from controlling the trading of such contracts for any other account.

Proposed Amendments to Nadex's Rulebook in Connection with Intermediation

As previously discussed, Nadex is self-certifying the rule amendments to implement intermediation (see Appendix F), which rule amendments will become effective only following the issuance of an order granting the proposed amendments to Nadex's DCM Order and DCO Order. Nadex has included proposed Amendments to its rules for the Commission's consideration in connection with the requests for amendments to the DCO Order and DCM Order. It should be noted that Nadex is not seeking to materially amend any of its product rules or contract terms in connection with the proposed intermediation of its market.

Appendix D:

Chart Summarizing Compliance with the Core Principles for Derivatives Clearing Organizations

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(A) IN GENERAL.-To be registered and to maintain registration as a derivatives clearing organization, an applicant shall demonstrate to the Commission that the applicant complies with the core principles specified in this paragraph. The applicant shall have reasonable discretion in establishing the manner in which it complies with the core principles.</p>	<p>Nadex has been a DCO settling fully collateralized, non-intermediated transactions since 2004. Nadex’s contracts present little or no credit or other financial risk with respect to this settlement function. Nadex is seeking the added ability to settle fully collateralized contracts that result from intermediated transactions.</p> <p>In order to demonstrate compliance with this designation criterion, Nadex has worked with Commission staff, responded to their comments and questions, and submitted draft materials. Nadex believes its Application and the accompanying appendices meet the relevant criteria.</p>
<p>(B) FINANCIAL RESOURCES.-The applicant shall demonstrate that the applicant has adequate financial, operational, and managerial resources to discharge the responsibilities of a derivatives clearing organization.</p>	<p>As noted, Nadex’s contracts present little or no credit, default, or other financial risk with respect to settlement and this will not change with intermediation. All trades are fully collateralized when the trade is made (Rule 5.3(b), 5.4(d)) and Nadex maintains the cash collateral that secures all contracts in an appropriate segregated funds account at its settlement bank. (Rule 6.1(b)) This is the case with respect to both the non-intermediated and intermediated transactions. Accordingly, a participant default cannot occur.</p> <p>Moreover, Nadex has operated as a DCO since 2004. In late 2007, Nadex was acquired by IG Group, a UK-based, FTSE 250 company. At the time, IG Group put in place a financial support agreement whereby it agreed to maintain the Exchange’s capital at a level sufficient to support, at a minimum, the Exchange’s operations for the longer of six months or the duration of the Exchange’s longest dated contract. Nadex maintains the bulk of its capital in cash in an operating account at Nadex’s bank, and, accordingly, that capital is immediately available to Nadex.</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(C) PARTICIPANT AND PRODUCT ELIGIBILITY.- The applicant shall establish-</p> <p>(i) appropriate admission and continuing eligibility standards (including appropriate minimum financial requirements) for members of and participants in the organization; and (ii) appropriate standards for determining eligibility of agreements, contracts, or transactions submitted to the applicant.</p>	<p><u>Admission and continuing eligibility criteria:</u> Nadex has established appropriate admission and continuing eligibility standards for its members, including appropriate financial requirements, given the nature of its contracts and the Exchange. Nadex is not making any substantive change with respect to the admission or eligibility standards for its Trading Members in connection with intermediation. (Rule 3.1)</p> <p>With respect to eligibility standards for FCM Members through whom customers may trade, Nadex’s rules will set forth specific requirements to become an FCM Member, including: (a) be validly organized, in good standing, in the United States; (b) be registered as a Futures Commission Merchant by the National Futures Association; (c) have adequate financial resources and credit as determined by Nadex; (d) have an account or accounts with a Financial Institution designated as a settlement bank by Nadex; (e) designate at least one officer who is responsible for supervising all activities of its employees relating to transactions effected on Nadex or subject to Nadex Rules and provide any information Nadex may request regarding such officer(s); (f) submit to Nadex a letter confirming that the applicant will maintain all Customer funds deposited with it in appropriately labelled customer segregated funds accounts separated from funds of Non-Customers, as required by Commission regulations; (g) agree to be bound by Nadex’s Rules; and (h) meet any other criteria or complete any additional applications that Nadex may request. (Rule 3.2) In addition, Nadex is a member of the Joint Audit Committee (“JAC”) and, pursuant to the JAC Agreement, the DSRO Members of the JAC conduct audits and financial reviews of FCMs to conform with the requirements of CFTC Regulation §1.52 and to the CFTC’s Division of Trading and Markets (DCIO’s predecessor) Segregation Interpretations No. 4-1 and 4-2 and applicable amendments and any other CFTC requirements relating to audits and financial reviews.</p> <p><u>Criteria for instruments:</u> Nadex also has appropriate standards for determining instruments acceptable for trading and no change in the types of instruments it offers is contemplated in connection with intermediation. Nadex will continue to offer only those contracts that can be fully</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
	collateralized.
<p>(D) RISK MANAGEMENT. The applicant shall have the ability to manage the risks associated with discharging the responsibilities of a derivatives clearing organization through the use of appropriate tools and procedures.</p>	<p>The structure of Nadex’s contracts provide Nadex’s principal risk management tool to ensure performance of the contracts that it clears. As already noted, those contracts are structured to eliminate the risk of non-performance by a party to the trade or by Nadex. Nadex currently maintains a bank account that contains its members’ segregated funds, and Nadex separately accounts for the funds of each member in that account. (Rule 6.1) When a member trades, Nadex’s books reflect a transfer of the funds necessary to collateralize that trade from its member’s segregated funds account to the clearinghouse segregated funds account. (Rule 5.3) While the mechanics for intermediated trading are slightly different, all trading – intermediated and non-intermediated – will continue to be fully collateralized, thereby continuing to eliminate the risk of default or non performance on any contract. (Rules 5.3, 5.4)</p> <p>As has historically been the case, an individual or entity that is a Trading Member may not trade on credit; instead, the Nadex system will check the member’s account to ensure it has the funds to perform any contracts before matching that member’s order opposite another (fully funded) order. (Rule 5.3(b)(i), (iii)) Those funds are then transferred (via book entry) from the Member/Customer Segregated Funds account to the Nadex Segregated Funds account, where the funds remain until the contract expires (or until one of the parties to the transaction liquidates its position via an offsetting transaction opposite another member, in which case the funds of the new trader replace the funds of the original trader to continue to fully collateralized the contract). (Rule 5.3) Therefore, Nadex has no credit risk if a member becomes insolvent. Likewise, Nadex members face no credit risk from Nadex because Nadex’s obligation to those members is limited to the amounts those members deposit with Nadex for trading purposes, and those funds are kept in the customer segregated funds account at the settlement bank and may not be used to satisfy the obligations of Nadex.</p> <p>With intermediation, the transactions of Trading Members of the Exchange will continue to be fully collateralized and be processed as they have historically. The transactions on behalf of customers of FCM Members also will be fully</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
	<p>collateralized, but the process will be slightly different to account for intermediation. While each customer of an FCM Member will have its own position account to allow Nadex to conduct effective trade practice and market surveillance (Rules 3.4(c), 5.4(b)), the FCM Member will have a single settlement account that will fund its customers' trading activity (Rules 3.4(a), 5.4).</p> <p>Customers will maintain funds on deposit with their FCM Member. Per rule, Nadex will require FCM Members to confirm that a customer has funds on deposit with the FCM Member to fully collateralize any Nadex contract for which the customer seeks to place an order and to "block" those funds (i.e., restrict the use of those funds for any other purpose) on the FCM Member's books prior to that order being submitted to the Exchange. (Rule 5.5(b)(iv)) These customer funds would be required to remain "blocked" by the FCM Member from the time the order is placed until the order is cancelled or filled (and, if filled, the collateral would continue to be "blocked" to support the resulting position). (Rule 5.5(b)(iv)) It is anticipated the FCMs would comply with the rule by implementing an automated check to restrict orders for which sufficient funds do not exist from being submitted to the Exchange.</p> <p>In addition to complying with financial requirements applicable to all futures commission merchants, each FCM Member will also be required to have on deposit with Nadex funds sufficient to collateralize its customers' trading on Nadex. (Rule 3.4(a)) These deposited funds will be held in a segregated funds account for excess collateral in the name of the FCM Member (the "FCM Member's settlement account"). Nadex would do a system check prior to matching any FCM customer order with an opposite order in the market to ensure that the FCM Member's settlement account has sufficient funds to fully collateralize the customer's transaction. (Rule 5.4(d)) Where the appropriate funds are available, funds will be transferred from the FCM Member's settlement account to a Nadex segregated funds account that is held for open transactions. In the absence of sufficient funds in the FCM Member's settlement account, Nadex's matching engine will reject the order match and cancel the unfunded order (leaving the unmatched opposite order in the book). (Rule 5.4(d)) In the event that Nadex rejects a trade execution due to</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
	<p>insufficient funds in the FCM Member’s settlement account, Nadex will have the authority to impose a summary fine or, if the circumstances warrant, take other disciplinary action against the FCM Member or its Customer. (Rule 5.19(a)).</p>
<p>(E) SETTLEMENT PROCEDURES. The applicant shall have the ability to- (i) complete settlements on a timely basis under varying circumstances; (ii) maintain an adequate record of the flow of funds associated with each transaction that the applicant clears; and (iii) comply with the terms and conditions of any permitted netting or offset arrangements with other clearing organizations.</p>	<p>The Nadex system historically has completed settlement in real-time, and has sent daily settlement files to, and received daily settlement files from, the settlement bank for movement of funds from the customer segregated funds account to the Nadex proprietary account for the payment of trading and settlement fees. (Rule 6.1) This process will not change in substance, with respect to intermediation. The settlement of intermediated transactions will result in book entries reflecting (a) the closing of positions in the FCM Members’ customers’ individual position accounts and (b) the payment of Settlement Values from the Nadex segregated funds account to the appropriate FCM Member’s settlement account for the benefit of the FCM Members’ customers. (Rule 6.1, 6.2) In addition, Nadex will debit the FCM Member’s settlement account for the appropriate trading and settlement fees and credit that amount to the Nadex proprietary account. (Rule 6.1)</p> <p>The Nadex system will continue to generate a real-time record of the flow of funds associated with the trades settled by Nadex, send records of flows of trading fees from member accounts to the Nadex proprietary account once each settlement bank business day, and maintain, download and store that data.</p> <p>Nadex has not had netting or offset arrangements with other clearing organizations. This is not expected to change with intermediation.</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(F) TREATMENT OF FUNDS.-The applicant shall have standards and procedures designed to protect and ensure the safety of member and participant funds.</p>	<p>All funds deposited by Trading Members for credit to their Nadex accounts will continue to be segregated in accordance with the CEA and Commission Regulations, as they have in the past. (Rule 3.1(b)) FCM Members will be required to hold their customers' funds in appropriate segregated accounts in accordance with Commission regulations. (Rule 3.2(a)(vi) In turn, Nadex will hold the FCM Members' funds in an appropriate segregated account for excess collateral (i.e., the FCM Member's settlement account), pending the use of that collateral to secure a specific transaction. (Rule 3.4(a), 5.4) Funds in segregated accounts, whether held by the Exchange or by the FCM Member, will be required to be invested only in those instruments permissible under Commission Regulation 1.25, and all such instruments also will be held in segregated accounts appropriately designated as such. (Rule 3.4(k))</p> <p>Nadex's rules will not allow intermediaries or their employees to engage in proprietary trading on the exchange (Rule 3.4(f)) and, as a result, issues of commingling are minimized.</p>
<p>(G) DEFAULT RULES AND PROCEDURES.-The applicant shall have rules and procedures designed to allow for efficient, fair, and safe management of events when members or participants become insolvent or otherwise default on their obligations to the derivatives clearing organization.</p>	<p>Because Nadex does not allow members, and will not allow intermediated customers of FCM Members, to trade if their transactions are not fully collateralized, members or participants cannot "default on their obligations to" Nadex. For the same reason, insolvencies by Trading Members, FCM Members or customers of FCM Members will have little to no effect on Nadex.</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(H) RULE ENFORCEMENT.-The applicant shall (i) maintain adequate arrangements and resources for the effective monitoring and enforcement of compliance with rules of the applicant and for resolution of disputes; and (ii) have the authority and ability to discipline, limit, suspend, or terminate a member's or participant's activities for violations of rules of the applicant.</p>	<p>Nadex recently has expanded its in-house compliance staff and tools and has worked with the CFTC staff to demonstrate its trade practice and market surveillance capabilities. Nadex has had, and continues to have, procedures in place for the investigation and prosecution of violations of its rules. (Rules 9.1-9.7) Intermediation does not significantly impact this effort.</p> <p>Regarding dispute resolution, the NFA has historically provided Nadex with arbitration services. (Rules 10.1-10.6) Nadex has entered into an agreement with NFA whereby NFA has agreed to provide arbitration services for disputes that arise between Nadex members and between the Exchange and its members. In addition, Nadex's customers will have the right to bring any arbitration claim against their respective FCM Member firm pursuant to NFA rules. (Rule 10.4) Nadex rules provide that a member's failure to abide by a final arbitration decision is a rule violation and may result in disciplinary action, including suspension or revocation of membership. (Rule 10.5)</p> <p>Finally, as previously noted, Nadex is a member of the Joint Audit Committee. Nadex does not serve or anticipate serving as a Designated Self-Regulatory Organization for any FCM Member of Nadex.</p>
<p>(I) SYSTEM SAFEGUARDS.- The applicant shall demonstrate that the applicant-(i) has established and will maintain a program of oversight and risk analysis to ensure that the automated systems of the applicant function properly and have adequate capacity and security; and (ii) has established and will maintain emergency procedures and a plan for disaster recovery, and will periodically test backup facilities sufficient to ensure daily processing, clearing, and settlement of transactions.</p>	<p>Since its inception, Nadex has utilized ECS, a Commission-reviewed trading and clearance platform, as its automated exchange and clearing system pursuant to a license with onExchange, Inc. These existing systems are capable of processing the transactions that come through either an intermediated process or a non-intermediated process, and intermediation does not impact Nadex's system's safeguards. In addition, Nadex's existing disaster recovery, backup facilities, and testing procedures are not impacted by intermediation.</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(J) REPORTING.-The applicant shall provide to the Commission all information necessary for the Commission to conduct the oversight function of the applicant with respect to the activities of the derivatives clearing organization.</p>	<p>Nadex will continue to provide the Commission with the information necessary for the Commission to conduct its oversight function, and while the specific data and information provided to the Commission will expand with intermediation, Nadex’s commitment to provide the requisite information will not change.</p>
<p>(K) RECORDKEEPING.- The applicant shall maintain records of all activities related to the business of the applicant as a derivatives clearing organization in a form and manner acceptable to the Commission for a period of 5 years.</p>	<p>Nadex’s record retention practices are not expected to change in any substantive manner in connection with intermediation. (Rule 5.5(c), 9.1) The actual data that is retained, however, will be expanded to include relevant data in connection with intermediated transactions, such as the FCM Customer’s unique identifying code, the FCM Member and an identifying code for the person entering the customer’s order. (Rule 5.5(b))</p>
<p>(L) PUBLIC INFORMATION.-The applicant shall make information concerning the rules and operating procedures governing the clearing and settlement systems (including default procedures) available to market participants.</p>	<p>Nadex will post its clearing and settlement rules and procedures on the public portion of its website, along with all the other rules and procedures of Nadex.</p>

DCO CORE PRINCIPLES	NADEX COMPLIANCE
<p>(M) INFORMATION SHARING.-The applicant shall-(i) enter into and abide by the terms of all appropriate and applicable domestic and international information-sharing agreements; and (ii) use relevant information obtained from the agreements in carrying out the clearing organization’s risk management program.</p>	<p>Nadex does not believe that any of its current information sharing agreements impact or are impacted by intermediation, except insofar as they permit sharing of information concerning intermediaries. That said, in addition to its JAC membership, Nadex is a signatory to the International Information Sharing Memorandum of Understanding and Agreement and is a member of the Intermarket Surveillance Group (see http://www.isgportal.org/isgportal/public/home.htm).</p>
<p>(N) ANTITRUST CONSIDERATIONS. Unless appropriate to achieve the purposes of this Act, the derivatives clearing organization shall avoid (i) adopting any rule or taking any action that results in any unreasonable restraint of trade; or (ii) imposing any material anticompetitive burden on trading on the contract market.</p>	<p>Nadex does not have terms or conditions of access that result in any unreasonable restraint of trade or that are anti-competitive.</p>

Appendix E:

Chart Summarizing Compliance with the Designation Criteria for Contract Markets

CONTRACT MARKET DESIGNATION CRITERIA	NADEX COMPLIANCE
<p>(1) IN GENERAL. To be designated as a contract market, the board of trade shall demonstrate to the Commission that the board of trade meets the criteria specified in this subsection.</p>	<p>Nadex originally was designated as a contract market by Commission order dated February 18, 2004. That initial order was amended on December 5, 2005, and Nadex’s current DCM Order limits Nadex to operating a non-intermediated market and, under certain restrictions, a separate intermediated “iMarket” under certain restrictions. The separate iMarket was never implemented. Nadex’s current request to amend its DCM Order seeks the ability to provide a single market, in which both non-intermediated members of Nadex and intermediated customers of registered futures commission merchants will be able to trade fully collateralized contracts cleared by Nadex’s derivatives clearing organization.</p>
<p>(2) PREVENTION OF MARKET MANIPULATION—<i>The board of trade shall have the capacity to prevent market manipulation through market surveillance, compliance, and enforcement practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.</i></p>	<p>Contract Structure: Nadex’s contracts remain cash-settled and fully collateralized and Nadex lists only those contracts that have a sufficiently liquid underlying market to minimize the prospects of manipulation.</p> <p>Settlement Process: Nadex calculates its Expiration Values for contracts based on a ticking underlying (as opposed to economic event contracts based upon an announced number or level) by taking the last 25 trade prices in the underlying or, in the case of foreign exchange contracts, the last 25 midpoints, and eliminating the five low and five high prices and averaging the remaining 15 prices. (See product rules for specific contract specifications -- Rules 12.2-12.5, 12.7-12.9, 12.16, 12.19-12.25, 12.27, 12.29-12.31, 12.38-12.39, 12.41-12.42, 12.44-12.45, 12.48-12.49, 12.53, and 12.75-12.91) This settlement process further minimizes any prospect of manipulation.</p> <p>Rule 5.19(l) specifically bars price manipulation. Rule 5.19(i) specifically bars any activity that affects the integrity of the market or its underlying systems.</p>

	<p>Market Surveillance and Compliance: Nadex has expanded its compliance staff and added surveillance tools and has recently demonstrated these tools to the CFTC’s Division of Market Oversight. (See April 17, 2009 FOIA Submission) These resources give Nadex the ability to conduct effective trade practice surveillance programs.</p> <p>Enforcement: As set forth in Chapter 9 of the Nadex Rulebook (“Rule Enforcement”), Nadex will continue its existing practices and procedures to enforce its rules. If the Compliance Department institutes an investigation in which any affiliate of Nadex is a subject, Nadex shall notify DMO of that fact. (Rule 9.2(c))</p>
<p><i>(3) FAIR AND EQUITABLE TRADING—The board of trade shall establish and enforce trading rules to ensure fair and equitable trading through the facilities of the contract market, and the capacity to detect, investigate, and discipline any person that violates the rules. The rules may authorize—(A) transfer trades or office trades; (B) an exchange of—(i) futures in connection with a cash commodity transaction; (ii) futures for cash commodities; or (iii) futures for swaps; or (C) a futures commission merchant, acting as principal or agent, to enter into or confirm the execution of a contract for the purchase or sale of a commodity for future delivery if the contract is reported, recorded, or cleared in accordance with the rules of the contract market or a derivatives clearing organization.</i></p>	<p>Nadex will prohibit FCM Members from withholding orders (Rule 5.7(a)), disclosing orders (Rule 5.7(b)), trading against customer orders (Rule 5.7(c)) and engaging 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 (Rule 5.19(o)). Moreover, Nadex will require FCM Members to use due diligence in receiving and handling Customer orders (Rule 3.4(d)). Like all Members of Nadex, FCM Members also will be prohibited from engaging in prearranged trading (Rule 5.19(b)), wash trading (Rule 5.19(c)), and any activity that would violate the Act or the Commission’s regulations (Rule 5.19(l)).</p> <p>In addition, the nature of the trading system and the structure of the market limit the opportunity for such improper activity by an intermediary. Specifically, the great majority of customer orders will be input by the customers themselves, not by an FCM Member employee. Also, Nadex rules will prohibit FCM Member employees from having accounts at Nadex or trading Nadex Products. (Rule 3.4(f)) Finally, Nadex has tools in place to surveil its markets, detect trade practice abuses and protect market participants.</p> <p>Nadex accepts only limit orders (Rule 5.10) and, as an electronic exchange, displays its best bids and offers for its market participants up to five levels deep (Rule 3.1(d)(iv)). This market information will be equally available to all members and, through the FCM Members, to Customers. (Rule 3.2(d)(ii))</p> <p>Nadex rules will clearly set forth the trading rules applicable to all parties, including the manner in contracts are traded by</p>

	<p>Trading Members (Rule 5.3) and customers of FCM Members (Rule 5.4), how orders are entered by Trading Members and customers of FCM Members (Rule 5.5), how orders are matched (Rules 5.11 and 5.12), the obligations of Members generally (Rules 3.3) and FCM Members in particular (Rule 3.4), prohibited transactions and activities (Rule 5.19) and the applicable disciplinary process (Chapter 9).</p> <p>Transfer trades are permitted only when they would not result in any change of beneficial ownership or under limited circumstances such as a change of ownership due to operation of law. (Rule 5.8)</p> <p>Nadex does not permit any exchange of futures for physicals or futures for swaps; or any other non-competitive transactions, such as block trades. (Rule 5.19(b), (e)).</p>
<p><i>(4) TRADE EXECUTION FACILITY—The board of trade shall—(A) establish and enforce rules defining, or specifications detailing, the manner of operation of the trade execution facility maintained by the board of trade, including rules or specifications describing the operation of any electronic matching platform; and (B) demonstrate that the trade execution facility operates in accordance with the rules or specifications.</i></p>	<p>Since its original designation, Nadex has utilized ECS, a Commission-reviewed trading and clearance platform, as its automated exchange and clearing system pursuant to a license with onExchange, Inc. This system was again reviewed in connection with the Commission’s December 5, 2006 Order permitting intermediation for the iMarket. In connection with the acquisition of the Exchange in late 2007, Nadex acquired a perpetual license to utilize the ECS system as its trading and clearance platform, and Nadex continues to utilize this system.</p> <p>On October 16, 2008, CFTC Staff conducted an on-site visit to the Exchange to review its technical staff and systems in connection with the transition of those systems from hosting at the CBOE to new locations. This included on-site visits to the two data centers (primary and back-up sites) where the Exchange’s systems are hosted.</p> <p>The Market’s trading algorithms continue to execute all trades by matching orders according first by price and then time priority. (Rule 5.11) Moreover, the Nadex trading system continues to fill all orders to trade Contracts on an “or better” basis. (Rule 5.12)</p>
<p><i>(5) FINANCIAL INTEGRITY OF TRANSACTIONS—The board of trade shall establish and enforce rules and procedures for ensuring</i></p>	<p>The Nadex DCO has cleared all of the Exchange’s contracts since its inception. Nadex’s current DCM Order allows Nadex to offer intermediated contracts that are not fully collateralized if those contracts are cleared by a DCO</p>

the financial integrity of transactions entered into by or through the facilities of the contract market, including the clearance and settlement of the transactions with a derivatives clearing organization.

otherwise permitted to clear such contracts. Nadex is seeking to amend its DCM Order (and DCO Order) to permit the offering of intermediated trades that are fully-collateralized and cleared by Nadex's DCO. The structure of Nadex's contracts will provide Nadex's principal risk management tool to ensure performance of the contracts that it clears. Those contracts are structured to eliminate the risk of non-performance by a party to the trade or by Nadex. Nadex currently maintains a bank account that contains its members' segregated funds, and Nadex separately accounts for the funds of each member in that account. (Rule 6.1) When a member trades, Nadex's books reflect a transfer of the funds necessary to collateralize that trade from its member's segregated funds account to the clearinghouse segregated funds account. (Rule 5.3) While the mechanics for intermediated trading are slightly different, all trading – intermediated and non-intermediated – will continue to be fully collateralized, thereby continuing to eliminate the risk of default or non performance on any contract. (Rules 5.3, 5.4)

As has historically been the case, an individual or entity that is a Trading Member may not trade on credit; instead, the Nadex system will check the member's account to ensure it has the funds to perform any contracts before matching that member's order opposite another (fully funded) order. (Rule 5.3(b)(i), (iii)) Those funds are then transferred (via book entry) from the Member/Customer Segregated Funds account to the Nadex Segregated Funds account, where the funds remain until the contract expires (or until one of the parties to the transaction liquidates its position via an offsetting transaction opposite another member, in which case the funds of the new trader replace the funds of the original trader to continue to fully collateralize the contract). (Rule 5.3) Therefore, Nadex has no credit risk if a member becomes insolvent. Likewise, Nadex members face no credit risk from Nadex because Nadex's obligation to those members is limited to the amounts those members deposit with Nadex for trading purposes, and those funds are kept in the customer segregated funds account at the settlement bank and may not be used to satisfy the obligations of Nadex.

With intermediation, the transactions of Trading Members of the Exchange will continue to be fully collateralized and be processed as they have historically. The transactions on

behalf of customers of FCM Members also will be fully collateralized, but the process will be slightly different to account for intermediation. While each customer of an FCM Member will have its own position account to allow Nadex to conduct effective trade practice and market surveillance (Rules 3.4(c), 5.4(b)), the FCM Member will have a single settlement account that will fund its customers' trading activity (Rules 3.4(a), 5.4).

Customers will maintain funds on deposit with their FCM Member. Per rule, Nadex will require FCM Members to confirm that a customer has funds on deposit with the FCM Member to fully collateralize any Nadex contract for which the customer seeks to place an order and to "block" those funds (i.e., restrict the use of those funds for any other purpose) on the FCM Member's books prior to that order being submitted to the Exchange. (Rule 5.5(b)(iv)) These customer funds would be required to remain "blocked" by the FCM Member from the time the order is placed until the order is cancelled or filled (and, if filled, the collateral would continue to be "blocked" to support the resulting position). (Rule 5.5(b)(iv)) It is anticipated the FCMs would comply with the rule by implementing an automated check to restrict orders for which sufficient funds do not exist from being submitted to the Exchange.

In addition to complying with financial requirements applicable to all futures commission merchants, each FCM Member will also be required to have on deposit with Nadex funds sufficient to collateralize its customers' trading on Nadex. (Rule 3.4(a)) These deposited funds will be held in a segregated funds account for excess collateral in the name of the FCM Member (the "FCM Member's settlement account"). Nadex will do a system check prior to matching any FCM customer order with an opposite order in the market to ensure that the FCM Member's settlement account has sufficient funds to fully collateralize the customer's transaction. (Rule 5.4(d)) Where the appropriate funds are available, funds will be transferred from the FCM Member's settlement account to a Nadex segregated funds account that is held for open transactions. In the absence of sufficient funds in the FCM Member's settlement account, Nadex's matching engine will reject the order match and cancel the unfunded order (leaving the unmatched opposite order in the book). (Rule 5.4(d)) In the event that Nadex rejects a trade execution due to insufficient funds in the FCM Member's

	settlement account, Nadex will have the authority to impose a summary fine or, if the circumstances warrant, take other disciplinary action against the FCM Member or its Customer. (Rule 5.19(a)).
<i>(6) DISCIPLINARY PROCEDURES—The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.</i>	Nadex’s existing disciplinary procedures have been expanded to provide Nadex with the authority to summarily suspend or restrict the privileges of not only Members (including FCM Members), but also customers of FCM Members. (Rule 9.6)
<i>(7) PUBLIC ACCESS—The board of trade shall provide the public with access to the rules, regulations, and contract specifications of the board of trade.</i>	All such information will continue to be available on the Nadex public website.
<i>(8) ABILITY TO OBTAIN INFORMATION—The board of trade shall establish and enforce rules that will allow the board of trade to obtain any necessary information to perform any of the functions described in this appendix, including the capacity to carry out such international information-sharing agreements as the Commission may require.</i>	All Nadex Members, including FCM Members, are required to cooperate promptly and fully with Nadex and/or the Commission in any investigation, call for information, inquiry, audit, examination or proceeding. (Rule 3.3(a)) In addition, each Member consents to allow Nadex to share information with the Commission or other Regulatory Agency. (Rule 3.3(b)) Nadex also has information sharing relationships pursuant to its memberships in the Joint Audit Committee (www.wjammer.com/jac/) and the Intermarket Surveillance Group (www.isgportal.org), as well as its status as a signatory to the International Information Sharing Memorandum of Understanding and Agreement.

Appendix F:

Chart Summarizing Compliance with the Core Principles for Designated Contract Markets

DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 1: IN GENERAL—To maintain the designation of a board of trade as a contract market, the board of trade shall comply with the core principles specified in this subsection. The board of trade shall have reasonable discretion in establishing the manner in which it complies with the core principles.</p>	<p>No change due to intermediation.</p>
<p>Core Principle 2: COMPLIANCE WITH RULES—The board of trade shall monitor and enforce compliance with the rules of the contract market, including the terms and conditions of any contracts to be traded and any limitations on access to the contract market.</p>	<p>No change due to intermediation. Nadex has expanded its compliance staff and added surveillance tools and has recently demonstrated these tools to the CFTC’s Division of Market Oversight. (See April 17, 2009 FOIA Submission) These resources give Nadex the ability to conduct effective trade practice surveillance programs.</p>
<p>Core Principle 3: CONTRACTS NOT READILY SUBJECT TO MANIPULATION—The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.</p>	<p>No change due to intermediation. Nadex’s contracts remain cash-settled and fully collateralized and Nadex lists only those contracts that have a sufficiently liquid underlying market to minimize the prospects of manipulation. In addition, Nadex calculates its Expiration Values for contracts based on a ticking underlying (as opposed to economic event contracts based upon an announced number or level) by taking the last 25 trade prices or, in the case of foreign exchange contracts, the last 25 midpoints, and eliminating the five low and five high prices and averaging the remaining 15 prices. (See product rules for specific contract specifications -- Rules 12.2-12.5, 12.7-12.9, 12.16, 12.19-12.25, 12.27, 12.29-12.31, 12.38-12.39, 12.41-12.42, 12.44-12.45, 12.48-12.49, 12.53, and 12.75-12.91) This settlement process further minimizes any</p>

	prospect of manipulation.
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DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 4: MONITORING OF TRADING—The board of trade shall monitor trading to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process.</p>	<p>Nadex monitors trading to prevent manipulation, price distortion, and disruptions of the cash-settlement process. (Rule 9.1) Nadex’s compliance department is responsible for this activity. (Rule 9.2) Permitting intermediation should not impact these efforts.</p> <p>In addition, Nadex will require that each customer of an FCM Member must have a separately identifiable position account designation (Rule 3.2(c), (e)(i)) and user identification (Rule 3.2(e)(2)). Nadex will require that the FCM Member provide this information in each intermediated order message submitted to the Exchange (Rule 5.5(b)(iii)), thereby giving Nadex’s compliance staff the ability to track the trading activity of individual FCM Customers, like the trading activity of Trading Members of the Exchange, at the most basic, granular level.</p>
<p>Core Principle 5: POSITION LIMITATIONS OR ACCOUNTABILITY—To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.</p>	<p>Nadex will continue to establish and enforce applicable position limits and reportable levels for its contracts. (Rule 5.20) Currently, all products have designated reportable levels, and all contracts except foreign exchange and economic event contracts are subject to position limits. (See the specific product rules in the Nadex Rulebook)</p> <p>Nadex will require that each customer of an FCM Member must have a separately identifiable position account designation (Rule 3.2(c)), thereby giving Nadex’s compliance staff the ability to track the positions maintained in the accounts of individual FCM Customers, like the positions maintained in the accounts of Trading Members of the Exchange, at the most basic, granular level.</p>

DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 6: EMERGENCY AUTHORITY—The board of trade shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, where necessary and appropriate, including the authority to—(A) liquidate or transfer open positions in any contract; (B) suspend or curtail trading in any contract; and (C) require market participants in any contract to meet special margin requirements.</p>	<p>No change due to intermediation.</p>
<p>Core Principle 7: AVAILABILITY OF GENERAL INFORMATION—The board of trade shall make available to market authorities, market participants, and the public information concerning—(A) the terms and conditions of the contracts of the contract market; and (B) the mechanisms for executing transactions on or through the facilities of the contract market.</p>	<p>No change due to intermediation.</p>
<p>Core Principle 8: DAILY PUBLICATION OF TRADING INFORMATION—The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.</p>	<p>No change due to intermediation.</p>
<p>Core Principle 9: EXECUTION OF TRANSACTIONS— The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions.</p>	<p>No change due to intermediation.</p> <p>Since its original designation, Nadex has utilized ECS, a Commission-reviewed trading and clearance platform, as its automated exchange and clearing system pursuant to a license with onExchange, Inc. This system was again reviewed in connection with the Commission’s December 5, 2006 Order permitting intermediation for the iMarket. In connection with the acquisition of the Exchange</p>

by IG Group in late 2007, Nadex acquired a perpetual license to utilize the ECS system as its trading and clearance platform, and Nadex continues to utilize this system.

On October 16, 2008, CFTC Staff conducted an on-site visit to the Exchange to review its technical staff and systems in connection with the transition of those systems from hosting at the CBOE to new locations. This included on-site visits to the two data centers (primary and back-up sites) where the Exchange's systems are hosted. Staff was provided with the SAS-70 Report for the site in Chicago, Illinois dated April 4, 2008, and the other site, in Oak Brook, Illinois, is a Tier III data center that is in the process of becoming SAS-70 Type II certified (anticipated for 1st Quarter 2010).

In June 2009, the Exchange released a new trading front end for use by Exchange members entering trades over the internet. The changes to the front-end system provide members with expanded functionality such as charting and easier order entry but did not include substantive changes to the match engine. In the intermediated context, a customer of an FCM Member will utilize a front-end trading platform acceptable to the FCM Member, and order information will be transmitted to the Exchange via FIX connection and that information will be processed in the same manner that other information submitted via FIX Connection is processed. (Rule 5.5(b)(ii), (iii))

Intermediated orders submitted to the Exchange by a FCM Member will be executed by ECS in the same manner as non-intermediated orders submitted to the Exchange. The Market's trading algorithms continue to execute all trades by matching orders according first by price and then time priority. (Rule 5.11) Moreover, the Nadex trading system continues to fill all orders to trade Contracts on an "or better" basis. (Rule 5.12)

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DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 10: TRADE INFORMATION—The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules of the contract market.</p>	<p>No significant change due to intermediation.</p> <p>Nadex’s audit trail information will be expanded to include relevant data for intermediated trades, including a unique identifier for the FCM Member, the FCM Customer Account and, in the case of FCM Customer Accounts with multiple authorized traders, the person who inputs the intermediated order. (Rule 3.2) FCM Members will be required to provide this data to the Exchange with each Customer order submitted to the Exchange. (Rule 5.5(b)(iii))</p> <p>Nadex will continue to have the capability to electronically analyze its trade data for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules.</p> <p>Nadex will continue to safely store its transaction data in accordance with CFTC requirements.</p>
<p>Core Principle 11: FINANCIAL INTEGRITY OF CONTRACTS—The board of trade shall establish and enforce rules providing for the financial integrity of any contracts traded on the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization), and rules to ensure the financial integrity of any futures commission merchants and introducing brokers and the protection of customer funds.</p>	<p>The financial integrity of Nadex’s contracts is ensured by the fully collateralized nature of those contracts. No contracts may be executed on the Exchange unless, prior to execution, the Nadex DCO confirms that it holds 100% of the funds necessary to pay off the contract. (Rule 5.3(b), 5.4(d))</p> <p>In connection with intermediation, Nadex will continue to ensure that it holds the required collateral prior to execution of any intermediated order. (Rule 5.4(d)) In addition to these protections, Nadex’s FCM Members who intermediate any customer orders will be required to be registered futures commission merchants and to comply with all applicable rules and regulations applicable to such registered futures commission merchants. (Rules 3.2(a)(ii), 3.4(k), and 5.19(l))</p>

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DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 12: PROTECTION OF MARKET PARTICIPANTS—The board of trade shall establish and enforce rules to protect market participants from abusive practices committed by any party acting as an agent for the participants.</p>	<p>Nadex has proposed rules prohibiting conduct by intermediaries that is fraudulent, noncompetitive, unfair, or an abusive practice in connection with the execution of trades. Specifically, Nadex will prohibit FCM Members from withholding orders (Rule 5.7(a)), disclosing orders (Rule 5.7(b)), trading against customer orders (Rule 5.7(c)) and engaging 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 (Rule 5.19(o)). Moreover, Nadex will require FCM Members to use due diligence in receiving and handling Customer orders (Rule 3.4(d)). Like all Members of Nadex, FCM Members also will be prohibited from engaging in prearranged trading (Rule 5.19(b)), wash trading (Rule 5.19(c)), and any activity that would violate the Act or the Commission’s regulations (Rule 5.19(l)).</p> <p>In addition, the nature of the trading system and the structure of the market limit the opportunity for such improper activity by an intermediary. Specifically, the great majority of customer orders will be input by the customers themselves, not by an FCM Member employee. Also, Nadex rules will prohibit FCM Member employees from having accounts at Nadex or trading Nadex Products. (Rule 3.4(f)) Finally, Nadex has tools in place to surveil its markets, detect trade practice abuses and protect market participants.</p>
<p>Core Principle 13: DISPUTE RESOLUTION—The board of trade shall establish and enforce rules regarding and provide facilities for alternative dispute resolution as appropriate for market participants and any market intermediaries.</p>	<p>Nadex has entered into an agreement with National Futures Association whereby the NFA has agreed to provide arbitration services for disputes that arise between Nadex members and between the Exchange and its members. In addition, Nadex’s customers will have the right to bring any arbitration claim against their respective FCM Member firm pursuant to NFA</p>

	<p>rules. (Rule 10.4), Nadex rules provide that a member's failure to abide by a final arbitration decision is a rule violation and may result in disciplinary action, including suspension or revocation of membership. (Rule 10.5),</p>
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DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 14: GOVERNANCE FITNESS STANDARDS—The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility (including any parties affiliated with any of the persons described in this core principle).</p>	<p>With respect to fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility, there is generally no significant change due to intermediation.</p> <p>IG Markets, Inc., a registered futures commission merchant, and Nadex, Inc. are owned by a common parent corporation and, accordingly, IG Markets is an affiliate of Nadex. IG Markets is expected to become an FCM Member of Nadex. IG Markets, however, will be required to meet all applicable fitness standards for such FCM Member status. In addition, IG Markets will not have access to any market or member information that is not available to any other market participant. Finally, as a registered futures commission merchant, IG Markets is bound by the obligations and duties imposed by the CEA, Commission regulations and applicable NFA rules in the conduct of its business.</p> <p>Nadex’s rules provide that if Nadex’s Compliance Department institutes an investigation in which an affiliate of Nadex is a subject, Nadex shall notify the CFTC’s Division of Market Oversight of that fact and, at the conclusion of such investigation, Nadex shall provide the CFTC’s Division of Market Oversight with documentation of the details of that investigation and its resolution. (Nadex Rule 9.2(c)).</p>
<p>Core Principle 15: CONFLICTS OF INTEREST—The board of trade shall establish and enforce rules to minimize conflicts of interest in the decision making process of the contract market and establish a process for resolving such conflicts of interest.</p>	<p>No material change due to intermediation.</p> <p>The Exchange has previously established a board-level Regulatory Oversight Committee (“ROC”) consistent with the Commission’s guidance with respect to Core Principle 15. (Rule 2.5(c)) The purview of the ROC would simply be expanded to include oversight of regulatory issues that involve FCM Members.</p>

	(Rule 2.5(c)(ii))
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DCM CORE PRINCIPLES	NADEX COMPLIANCE
<p>Core Principle 16: COMPOSITION OF BOARDS OF MUTUALLY OWNED CONTRACT MARKETS—In the case of a mutually owned contract market, the board of trade shall ensure that the composition of the governing board reflects market participants.</p>	<p>Not applicable.</p>
<p>Core Principle 17: RECORDKEEPING — The board of trade shall maintain records of all activities related to the business of the contract market in a form and manner acceptable to the Commission for a period of 5 years.</p>	<p>Nadex’s record retention practices are not expected to change in any substantive manner in connection with intermediation. The actual data that is retained, however, will be expanded to include relevant data in connection with intermediated transactions, such as the FCM Customer’s unique identifying code, the FCM Member and an identifying code for the person entering the customer’s order. (Rule 5.5(b)(iii)) In addition, FCM Members will be required to maintain records of its customers’ orders and confirmations. (Rule 5.6)</p>
<p>Core Principle 18: ANTITRUST CONSIDERATIONS—Unless necessary or appropriate to achieve the purposes of this Act, the board of trade shall endeavor to avoid—(A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or (B) imposing any material anticompetitive burden on trading on the contract market.</p>	<p>Nadex believes the permission of intermediation in its markets will not result in any unreasonable restraints of trade or impose any material anti-competitive burden on trading on the contract market. Intermediation could expand competition on the exchange by providing greater access to market participants. Moreover, intermediation could provide participants in the retail foreign exchange OTC markets access to a viable exchange traded alternative to those markets.</p>

Appendix G:

Proposed Amendments to Nadex's Rules to permit Intermediation (to be effective only after amendments to the DCO Order and DCM Order)

**NORTH AMERICAN DERIVATIVES
EXCHANGE, INC.**

RULES

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RULES OF NORTH AMERICAN DERIVATIVES EXCHANGE, INC.

INTRODUCTION

The Commodity Exchange Act (“CEA”) requires that North American Derivatives Exchange, Inc. (“Nadex”) and other contract markets and derivatives clearing organizations adopt rules governing the way they conduct their business. Those rules generally must be filed with the Commodity Futures Trading Commission (“Commission”) and generally cannot be amended without giving notice to the Commission, which can reject proposed rules and proposed amendments to existing rules. The following rules are the rules of Nadex (“Rules”) that inform ~~you~~ Members and others of how the Nadex market (the “Market”) operates and of ~~you~~ each Member’s rights and obligations ~~as a Member of the Market~~. Please remember that these Rules may be amended in the future, and if they are amended, Members will be required to abide by the Rules as amended. Nadex will notify all Members any time there is an amendment to the Rules.

CHAPTER 1 DEFINITIONS

RULE 1.1 DEFINITIONS

When used in these Rules:

(a) **“Authorized Trader”** means an individual employed by a Member who is authorized by that Member to have direct access to Nadex, provided the Member maintain supervisory authority over such individual(s) trading activities.

(b) **“Binary Contract”** means the right to receive a fixed Settlement Value per contract, from Nadex on the Settlement Date dependent upon whether you are holding a long position or short position in a Binary Contract. If you are holding a long position in a Binary Contract, you have the right to receive a fixed Settlement Value from Nadex on the Settlement Date, if, and only if, the Binary Contract’s Payout Criteria encompasses the Expiration Value at Expiration. Conversely, if you are holding a short position in a Binary Contract, you have the right to receive a fixed Settlement Value if, and only if, the Binary Contract’s Payout Criteria does NOT encompass the Expiration Value at Expiration.

(c) **“Cap”** means the maximum rate, level, amount, measure or other value of the Underlying of a Variable Payout Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure, or other value of the Underlying meets or exceeds the Cap ~~on the~~ at Expiration Date, the Cap will be the Expiration Value.

(d) **“Class”** means all Contracts of the same Type with the same Underlying.

(e) **“Closing Trade Value”** means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract at which the Contract is closed in a Member’s or Customer’s account.

(f) **“Commodity Futures Trading Commission” or “Commission”** means the Federal regulatory agency established by the Commodity Futures Trading act of 1974 to administer the Commodity Exchange Act.

(g) **“Contract”** means a Variable Payout Contract or a Binary Contract.

(h) **“Customer”** has the meaning set forth in Commission Regulation 1.3(k).

(i) **“Dollar Multiplier”** means the monetary amount by which the rate, level, amount, measure, or other value of an Underlying of a Variable Payout Contract is multiplied to determine the Settlement Value.

(j) **“Expiration” or “Expiration Date”** means the date time on the Expiration Date established by these Rules ~~on~~ at which a Contract expires and the Expiration Value of each that Contract is determined.

(k) **“Expiration Date”** means the date established by these Rules on which the Expiration Value of each Contract is determined.

(l) **“Expiration Value”** means the rate, level, amount, measure, or other value of the Underlying at Expiration.

(m) **“FCM Member”** means any Member that is registered with the Commission as a Futures Commission Merchant and is authorized by Nadex to intermediate customer orders on the Market.

(n) **“Financial Institution”** means a financial institution as that term is defined in 31 CFR 103.11(n) that is required to comply with the regulations issued by the United States Department of Treasury under the Bank Secrecy Act including, but not limited to, the anti-money laundering program and customer identification program rules.

(o) **“Floor”** means the minimum rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure or other value of the Underlying meets or falls below the Floor on the Expiration Date, the Floor will be the Expiration Value.

(p) **“Last Trading Day”** means, for a particular Contract, the last date on which a ~~that Member may trade a~~ Contract may be traded on the Market.

(q) **“Long Variable Payout Contract”** means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier and (ii) the obligation to pay at the time the contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout

Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier.

(r) **“Market Maker”** means a Member that is granted certain the privileges in exchange for assuming certain responsibilities as set forth in Chapter 4 of these Rules for the purpose of creating liquidity for certain Classes of Contracts.

(s) **“Member”** means ~~an individual or entity which has been~~ a Person who is approved by Nadex to trade on the Market be a Trading Member or a FCM Member and which who is bound by these Rules as they may be amended from time to time.

(t) **“Opening Trade Value”** means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract at which the Contract is opened in a Member’s account.

(u) **“Payout Criterion”** of a Contract means the Expiration Value or range of Expiration Values that will cause that Contract to pay a Settlement Value to the holder of a long position or the holder of a short position in such Contract. The holder of a long or short position in a Contract that receives a Settlement Value is considered to be “in-the-money” while the holder of either a long or short position in a Contract that does NOT receive a Settlement Value is considered to be “out-of-the-money”.

(v) **“Person”** means an individual, sole proprietorship, corporation, limited liability company, partnership, trust, or any other entity.

(w) **“Regulatory Agency”** means any government body, including the Commission and Securities and Exchange Commission, and any organization, whether domestic or foreign, granted authority under statutory or regulatory provisions to regulate its own activities and the activities of its members, and includes Nadex, any other clearing organization or contract market, any national securities exchange or clearing agency, the National Futures Association (“NFA”) and the Financial Industry Regulatory Authority (“FINRA”).

(x) **“Series”** means all Contracts of the same Class having identical terms, including Payout Criterion and Expiration Date.

(y) **“Settlement Date”** means the date on which money is paid to the account of a Member who has the right to receive money pursuant to a Variable Payout Contract or Binary Contract held until Expiration, and on which money is paid from the account of a Member who is obligated to pay money pursuant to a Variable Payout Contract held until Expiration. Unless otherwise specified in these Rules, the Settlement Date is the same day as the Expiration Date.

(z) **“Settlement Value”** means the amount paid to the ~~accounts of~~ holders of in-the-money Contracts. The minimum Settlement Value of a Binary Contract is \$100. The Settlement Value of a Variable Payout Contract is determined as described in the definition for Long and Short Variable Payout Contracts.

(aa) **“Short Variable Payout Contract”** means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier and (ii) the obligation to pay at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, then multiplying the resulting figure by the Dollar Multiplier.

(bb) **“Source Agency”** means the agency that publishes the Underlying economic indicator and/or Expiration Value for any Contract.

(cc) **“Speculative Position Limits,” or “Position Limit”** means the maximum position, either net long or net short, in one Series or a combination of various Series of a particular Class that may be held or controlled by one Member as prescribed by Nadex and/or the ~~CFTC~~ Commission.

(dd) **“Trade Day”** means the regular trading session on any given calendar date and the evening session, if any, on the immediately preceding calendar date, as specified in Rule ~~5.115.18~~ 5.18.

(ee) **“Trading Member”** means a Person who has been approved by Nadex to trade on the Market.

(ff) **“Type”** means the classification of a Contract as a Variable Payout Contract or a Binary Contract.

(gg) **“Underlying”** means the index, rate, risk, measure, instrument, differential, indicator, value, contingency, occurrence, or extent of an occurrence the Expiration Value of which determines whether (and, in the case of a Variable Payout Contract, to what extent) a Contract is in-the-money.

(hh) **“Variable Payout Contract”** means a Long Variable Payout Contract and/or a Short Variable Payout Contract (such Variable Payout Contracts are also referred to as ~~“Spread(s)” Contracts~~ or “Narrow Spread(s)”).

(ii) **“12PM” or “12:00 PM”** means 12:00 Noon

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CHAPTER 2 MARKET GOVERNANCE

RULE 2.1 POWERS OF NADEX'S BOARD OF DIRECTORS

The board of directors of Nadex has the power to manage and direct Nadex including but not limited to the power to define the standards for membership in the Exchange and who may access the secure portions of Nadex's website, the power to amend, adopt, or repeal these Rules, and the power to oversee the business conduct of Members and impose penalties for violation of these Rules.

RULE 2.2 RESTRICTIONS ON WHO MAY BE MEMBERS OF THE BOARD, MEMBERS OF DISCIPLINARY COMMITTEES, MEMBERS OF ARBITRATION OR OVERSIGHT PANELS, OR TEN PERCENT OR GREATER OWNERS

Commission Regulation 1.63 prohibits certain individuals who have been charged with, or have been found to have committed, disciplinary offenses (as defined in that section) within the past three years from serving. No individual subject to disqualification under Commission Regulation 1.63(b) may serve on the Nadex board of directors, any of its disciplinary committees (including serving as compliance officer or hearing officer), oversight panels, or arbitration panels. Additionally, Nadex will not permit any individual subject to disqualification under Commission Regulation 1.63(b) to own 10% or more of Nadex or to serve as a Nadex hearing officer.

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, treasurer, and chief regulatory 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 and operations, including issues related to marketing, sales, production and personnel.

(f) The treasurer of Nadex will be responsible for all funds and stock of Nadex and in general perform all duties incident to the office of treasurer 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 treasurer 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.

(h) The chief regulatory officer of Nadex will be responsible for managing the day-to-day regulatory functions of the Exchange.

RULE 2.4 EMERGENCY RULES

(a) Nadex may adopt emergency Rules in response to the emergencies that are described in paragraph (c) of this Rule. In the event of one of those emergencies, the board of directors or at least two members of the Management Team may, without giving prior notice to, or securing prior approval from, the Commission, adopt a temporary emergency rule to address the emergency. Adoption of a temporary emergency rule by the board of directors requires the affirmative vote of two-thirds of the members of the board at a meeting of the board at which a quorum is present. Nadex may count a member of the board of directors who abstains from voting on a temporary emergency rule to determine whether a quorum exists. Adoption of a temporary emergency rule by the management team requires the written authorization and acknowledgement of two members of the management team, indicating the emergency action to be taken and the reasons for that action, before the action is taken.

(b) Any temporary emergency rule adopted under this Rule may authorize Nadex to act as the board of directors or management team deems necessary or appropriate to meet the emergency, and those actions may adversely affect the ability to trade on the Market. Therefore, the chance of an emergency is one of the risks that market participants should consider when deciding whether to trade on the Market.

(c) For the purposes of this Rule, an “emergency” is:

(i) any activity that manipulates or attempts to manipulate the Market;

(ii) any actual, attempted, or threatened corner, squeeze, or undue concentration of positions;

(iii) any circumstance that may materially affect the performance of the Contracts traded on, Nadex;

(iv) any action taken by the United States, any foreign government, any state or local governmental body, any other contract market or board of

trade, or any other exchange, market, facility, or trade association (foreign or domestic) that may have a direct impact on trading on Nadex;

(v) any circumstances that may have a severe, adverse impact upon the physical functions of Nadex including, for example, natural disasters such as fire or flood, terrorist acts such as bomb threats, physical plant breakdowns such as plumbing, heating, or air conditioning problems, system breakdowns such as power, telephony, cable, trading systems, or computer systems failures or interruptions to communications, the network, or the Internet;

(vi) the imposition of any injunction or other restraint by any government agency, court, or arbitrator that may affect the ability of a Member to perform on Contracts;

(vii) any circumstance in which it appears that a Nadex Member or any other person is in such operational condition, or is conducting business in such a manner, that such person cannot be permitted to continue in business without jeopardizing the safety of Nadex Members or Nadex itself; and

(viii) any other unusual, unforeseeable, and adverse circumstance which, in the opinion of the governing board, requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of or delivery pursuant to Contracts traded on Nadex.

(d) If deemed necessary to combat perceived market threats caused by an emergency, a Nadex official authorized to do so may suspend trading on the Market during the duration of the emergency or take any other action that the official thinks is necessary or appropriate. The official will order an end to the action taken in response to the emergency as soon as the official determines that the emergency has sufficiently abated to permit the Market to function properly.

(e) Nadex will make every effort practicable to notify the Director of the Division of Market Oversight, his delegates, and/or other persons designated by the Commission's Regulations that Nadex intends to implement, modify, or terminate a temporary emergency rule pursuant to Rule 2.4(a) or an action in response to an emergency pursuant to Rule 2.4(d) prior to the implementation, modification, or termination of the rule or action. If it is not possible to notify the Commission prior to the implementation, modification, or termination of the rule or action, Nadex will notify the Commission of the implementation, modification, or termination of the rule or action at the earliest possible time, and in no event more than 24 hours after implementation, modification, or termination.

(f) Any time that Nadex takes action in response to an emergency, either under Rule 2.4(a) or Rule 2.4(d), Nadex will document its decision-making process and reasons for taking emergency action.

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 15 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;

(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 15 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 INDEMNIFICATION OF DIRECTORS, OFFICERS, AND OTHERS

Nadex will indemnify to the full extent authorized by law any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative in nature, by reason of the fact that such person is or was a director, officer, employee, or agent of Nadex or is or was serving at the request of Nadex as a director, officer, employee, or agent of Nadex against expenses, including attorneys' fees, judgments, fines, and amounts paid in connection with such action, suit, or proceeding. Such indemnification shall not be deemed exclusive of any other rights to which a person may be entitled under any agreement or as a matter of law or otherwise. Nadex may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of Nadex against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not Nadex would have the power to indemnify such person against such liability under the provisions of this Rule. However, no person shall be indemnified from liability for fraud, bad faith, willful misconduct, or gross negligence. Further, no person shall be indemnified against a civil penalty imposed by the Commission under Section 6b of the CEA.

RULE 2.8 PROHIBITION ON USE OF MATERIAL, NON-PUBLIC INFORMATION

(a) Commission Regulation 1.59 prohibits employees and members of the board of directors of Nadex from using or disclosing material, non-public information gained through their employment or board service in certain circumstances. This Rule prohibits the use and disclosure forbidden by Commission Regulation 1.59. In this regard, Nadex has adopted provisions of Regulation 1.59 as a Rule of Nadex in Chapter 11 of these Rules.

(b) No member of the board of directors or any committee established by the board of directors or these Rules will use or disclose material, non-public information obtained as a result of participation on the board of directors or such committee for any purpose other than the performance of official duties as a board or committee member.

(c) No employee, consultant, or member of the board of directors or any committee of Nadex will disclose to any other person material, nonpublic information obtained as a result of such person's employment for purposes inconsistent with such person's official duties.

(d) No employee, consultant, or member of the board of directors or any committee of Nadex will trade for such person's account, or for or on behalf of any other account, in any commodity interest on the basis of any material, non-public information obtained through special access related to the performance of such person's duties as an employee, consultant, or member of the board of directors or committee.

(e) For purposes of this Rule, the terms "material information", "non-public information", "linked exchange", "commodity interest", and "related commodity interest" have the same meanings as they do in Commission Regulation 1.59.

(f) Any director, officer, or employee of Nadex who violates any provision of this Rule will be required to indemnify Nadex for any losses, damages, or costs caused by that violation.

RULE 2.9 LIMITATION ON TRADING BY AFFILIATES

Except for any duly authorized Market Maker, no affiliate of Nadex nor any employee thereof may trade on any Nadex Market for such affiliate's or employee's own account. This rule does not prohibit an affiliate of Nadex properly registered as a Futures Commission Merchant from becoming a FCM Member of the Exchange and acting as an intermediary for its customers on the Exchange.

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CHAPTER 3 MEMBERS

RULE 3.1 TRADING MEMBERS - APPLICATIONS, CLASSIFICATIONS, AND PRIVILEGES

(a) To be eligible to become a ~~Nadex~~Trading Member:

(i) An applicant who is an individual ~~if you are an individual, you~~ must:

- 1) reside in the United States;
- 2) provide Nadex with a valid Social Security Number;
- 3) ~~and~~ have an account or accounts in the Trading Member's name with a Financial Institution that ~~you~~ the Trading Member will use to fund ~~your~~ its Nadex account at the Nadex settlement bank and to receive funds from ~~your~~ its Nadex account; and
- 4) ~~you must~~ certify that

(i) ~~you~~ the applicant is ~~are~~ old enough to enter into a legally enforceable contract;

(ii) ~~that you have~~ the applicant has read and understands the Nadex Risk Disclosure Statement and Membership Agreement;

(iii) ~~that you~~ the applicant agrees to be bound by these Rules;

and

(iv) ~~that you~~ the applicant will trade only for ~~your~~ itself and will not trade as an intermediary for any other person or entity.

(ii) ~~if you are~~ An applicant that is an entity, ~~you~~ must

(1) be organized in the United States;

(2) provide Nadex with a valid Taxpayer Identification Number;

(3) have an account or accounts in the Trading Member's name with a Financial Institution that ~~you~~ the Trading Member will use to fund ~~your~~ its Nadex account at the Nadex settlement bank and to receive funds from ~~your~~ its Nadex account;

(4) designate Authorized Trader(s) to trade its account and agree that such Authorized Trader(s) will trade only for it and will not trade for him/herself or as an intermediary for any other entity or person;

(5) designate at least one officer who is responsible for supervising all activities of its employees relating to transactions effected on Nadex or subject to Nadex Rules and provide any information Nadex may request regarding such officer(s):

(6) agree to be bound by these Rules; and

(7) ~~and you must~~ certify that

(i) ~~you are~~ the applicant is validly organized, in good standing, in the United States;

(ii) ~~and the applicant is~~ authorized by ~~your~~ its governing body and, if relevant, documents of organization, to trade commodities, futures and options contracts; and

(iii) ~~that you have~~ the applicant has read and understands the Nadex Risk Disclosure Statement and Membership Agreement. ~~that you agree to be bound by these Rules, and that the individual(s) authorized to trade your account will trade only for you and will not trade for him/herself or as an intermediary for any other entity or person.~~

(b) In order to become a Trading Member, ~~you an applicant~~ must complete and submit the Nadex on-line membership application, provide Nadex with any other information Nadex may request, and fund ~~your~~ its Nadex account by transferring to the customer segregated funds account at Nadex's settlement bank an initial deposit of no less than \$100 in funds from ~~your~~ its account at a Financial Institution. ~~If you are a Member applicant but not an individual, you must designate an individual or individuals who are authorized to trade in your account.~~

(c) Submission of ~~your~~ a membership application to Nadex constitutes ~~your~~ the applicant's agreement to be bound by these Rules and other policies of Nadex.

(d) If ~~your~~ an application is approved by Nadex and the Nadex settlement bank confirms to Nadex that ~~you~~ the applicant ~~have~~ has deposited with it the funds required in paragraph (b) of this Rule, ~~you~~ the applicant will be a Trading Member of Nadex and will have the following privileges, which Nadex may revoke, amend, or expand in accordance with, or by amending, these Rules:

(i) to maintain a Nadex account;

(ii) to buy Contracts on the Market using the funds in ~~your~~ its Nadex account;

(iii) to sell Contracts ~~in your Nadex account~~ on the Market using the funds in its Nadex account;

(iv) to view “real-time” the same best bids to buy and offers to sell the Contracts traded on the Market as are available to all other Members;

(v) to receive access to the Market via the FIX Gateway at your request, ~~as long as you are willing to provided the Trading Member must~~ pay any and all trading and other fees or charges incurred for such access and must comply with any requirements or restrictions established by Nadex in connection with the amount of messaging traffic generated by such Trading Member;

(vi) to view the current trading volume and open interest for the Contracts traded on the Market; and

(vii) to view all non-secure parts of the Nadex website, including these Rules, and descriptions of Contracts traded on the Market as well as all secure parts of the Nadex website outlined above in Rule 3.1(d)(i) – (vi).

(e) Nadex may in its sole discretion approve, deny, or condition any Member application as Nadex deems necessary or appropriate.

(f) ~~If you are a~~ A Trading Member that is an individual, ~~you may not maintain and/or trade more than one Nadex account. If you are a~~ The Authorized Trader(s) of a Trading Member that is an entity, your authorized representative(s) may not maintain a separate Nadex account and/or trade more than one Nadex account any Nadex account other than that entity’s account.

RULE 3.2 FCM MEMBERS – APPLICATIONS, CLASSIFICATIONS, AND PRIVILEGES

(a) To be eligible to become a FCM Member, an applicant must:

(i) be validly organized, in good standing, in the United States;

(ii) be registered as a Futures Commission Merchant by the National Futures Association;

(iii) have adequate financial resources and credit as determined by Nadex;

(iv) have an account or accounts with a Financial Institution designation as a settlement bank by Nadex;

(v) designation at least one officer who is responsible for supervising all activities of its employees relating to transactions effected on the Nadex or subject to Nadex Rules and provide any information Nadex may request regarding such officer(s);

(vi) submit to Nadex a letter confirming that the applicant will maintain all Customer funds deposited with it in appropriately labeled customer segregated funds accounts separated from funds of Non-Customers, as required by Commission regulations;

(vii) agree to be bound by these Rules; and

(viii) meet any other criteria or complete any additional applications that Nadex may request.

(b) Prior to becoming a FCM Member, FCM Member applicants must submit to Nadex:

(i) a guarantee agreement on a form prescribed by Nadex defining the FCM Member's obligation to guarantee the applicant's transactions and those of the applicant's Customers, signed by the FCM Member; and

(ii) an agreement authorizing Nadex to unilaterally debit any accounts identified per Rule 3.2(a)(4) in accordance with Nadex's rules, policies and procedures and in amounts solely determined by Nadex.

(c) Nadex may in its sole discretion approve, deny, or condition any FCM Member application as Nadex deems necessary or appropriate.

(d) If an FCM Member application is approved by Nadex, the applicant will be a FCM Member of Nadex and will have the following privileges:

(i) to intermediate customer transactions on Nadex;

(ii) to distribute Nadex data to its Customers pursuant to any data distribution agreement with Nadex; and

(iii) to access Nadex's trading systems electronically via a FIX connection.

RULE 3.3 MEMBER OBLIGATIONS

(a) ~~As a~~ Each Member and any Authorized Trader(s) thereof, you and/or your authorized representative(s) must comply with these Rules, ~~applicable relevant~~ provisions of the Commodity Exchange Act, and relevant Commission regulations. ~~You~~ 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. Additionally, ~~you~~ each Member must update ~~your~~ its e-mail address within 24 hours after ~~it has changed~~ any change and update all other information provided in ~~your~~ its application for membership within five days after that information has changed. If ~~you~~ any Member or Authorized Trader(s) thereof fail to satisfy these obligations, Nadex may revoke or suspend your privileges in full or in part. ~~You~~ Each Member may also be subject to civil or criminal prosecution.

(b) ~~As a Member, you~~ 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) ~~As a Member, you and/or your~~ Each Member and each Member's Authorized Trader(s) ~~authorized representative(s)~~ are required to review the "Exchange Notices" section of the Nadex website to make ~~yourself~~ itself aware of material changes to these Rules or other notices that may affect ~~your~~ its 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;

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

(ix) of becoming the subject of a bankruptcy proceeding or being unable to meet any financial obligation as it becomes due.

(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 shall constitute a violation of the Rules by such Member.

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.

(i)As futures commission merchants, all FCM Members must comply with the financial requirements set forth by the Commission and the National Futures Association.

(ii)Each FCM Member shall be required to make an initial deposit of at least \$100,000 of funds into its FCM Member segregated funds account for excess collateral with Nadex ("FCM Member's settlement account").

(iii)If the available balance of the FCM Member's 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.

(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 and no Authorized Trader of any FCM Member may maintain a personal trading account for Nadex contracts. No FCM Member or Authorized Trader may have an interest in any trading account for Nadex contracts. Notwithstanding the foregoing, an FCM Member or Authorized Trader may maintain an error account.

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

(h) 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.

(i) 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.

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

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

(l) 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.

RULE 3.5 AUTHORIZED TRADERS

(a) A Trading Member other than a natural person must register one or more individuals who will be Authorized Trader(s) for the Trading Member’s account, which Authorized Traders are subject to approval by Nadex. The Trading Member and the Authorized Trader must provide Nadex with any information it requests in connection with this registration process. Before an Authorized Trader may enter orders or execute trades on the Market, he/she must acknowledge having read and understood these Rules and agree to comply with these Rules. Only those individuals authorized by the Trading Member and approved by Nadex may enter and execute transactions on the Market for the Trading Member’s account.

(b) Nadex may withdraw or suspend the registration of any Authorized Trader if Nadex determines that:

(i) an Authorized Trader has caused the Trading Member to fail to comply with the Rules of Nadex;

(ii) an Authorized Trader is not properly performing the responsibilities of an authorized representative of a Trading Member;

(iii) an Authorized Trader has failed to comply with the conditions set forth in paragraph (a) of this Rule; or

(iv) it is the best interests of maintaining a fair and orderly market to do so.

(c) If the Trading Member withdraws or Nadex suspends the registration of any Authorized Trader, the Trading Member must ensure that such Authorized Trader does not submit any quotes or orders into the Nadex system.

(d) The registration of an Authorized Trader will be withdrawn upon the written request of the Trading Member for which an Authorized Trader is registered. Such written request shall be submitted in a manner prescribed by Nadex. Until such written request is received and processed by Nadex, or an Authorized Trader’s registration is suspended or withdrawn pursuant to paragraph (c) of this Rule, a Trading Member will be responsible for all activity of such Authorized Trader(s) related to Nadex.

RULE 3.6 REJECTION OF APPLICANT

(a) If Nadex denies the membership application of any Person, the applicant may appeal the decision by filing with the CEO of Nadex a petition for review of such membership denial. The petition should describe in detail the reasons why the membership application should be granted. The petition must be filed within thirty (30) calendar days from the date upon which the denial of membership was received by the applicant. The

decision of the CEO will be final. A Person that has been denied membership by the CEO will not be eligible for reapplication during the six months immediately following such denial.

RULE 3.7 COMMUNICATIONS BETWEEN NADEX AND MEMBERS

~~You~~Each Member must provide Nadex with ~~you~~ its current electronic mail address and immediately (and in any event within 24 hours) update that address whenever it changes. All communications between Nadex and ~~you~~ its Members, including confirmation of all transactions executed in your account, ~~will~~ may be transmitted by electronic mail and/or posted on the Nadex website. ~~You~~ A Member is ~~will be~~ responsible for promptly reviewing and, if necessary, responding to all electronic communications from Nadex.

~~RULE 3.7 AUTHORIZED REPRESENTATIVES~~

~~Members other than natural persons must apply for authorization for all representative(s) who will access their accounts. Only Member representatives authorized by Nadex and the Member may enter and execute transactions on the Market. Before Member representative(s) may enter orders or execute trades on the Market, they must acknowledge having read and understood these Rules and agree to comply with these Rules.~~

RULE 3.8 DUES, FEES, AND EXPENSES PAYABLE BY MEMBERS

- (a) Members are not required to pay dues.
- (b) ~~Members are~~ may be charged fees ~~for~~ in connection with the trading of Contracts. ~~The fees for trading Contracts are charged~~ in an amount to be reflected from time to time on Nadex's website.
- (c) ~~Members are~~ may be charged fees for settlement of ~~all~~ Contracts at Expiration. ~~Fees for settlement of Contracts will be charged~~ in an amount to be reflected from time to time on Nadex's website.
- (d) Nadex or its settlement bank ~~will~~ may also deduct from ~~you~~ the Member's account ~~fees or~~ expenses incurred in connection with ~~you~~ the Member's trading or account activity or Nadex's administration in connection with that activity, such as fees for wire transfers, check processing via electronic check. All such fees will be charged in an amount to be reflected from time to time on Nadex's website.
- (e) If Nadex determines in the future to impose dues or additional fees, Nadex will notify ~~you~~ the Member of any dues or additional fees that will be imposed at least 30 days before they take effect.

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CHAPTER 4 MARKET MAKERS

RULE 4.1 REGISTRATION OF MARKET MAKERS

(a) Only Trading Members in good standing who are not individuals may become a Market Maker of Nadex. A Member shall file a written Market Maker Application with Nadex. Nadex shall consider such factors as business reputation, financial resources and trading activity in relevant futures, options or related cash markets in determining whether to approve a Market Maker Application.

(b) The designation of any Market Maker may be suspended or terminated by Nadex at any time and for any reason.

RULE 4.2 ~~MARKET MAKER REPRESENTATIVES~~

~~(a) Like other Members that are not natural persons, quotations and orders for entity Market Makers may be submitted to Nadex only by the Market Maker's authorized representative(s), and such authorized representative(s) may not trade for his or her own account or the account of any other Member.~~

~~(b) A Market Maker may be required to submit evidence of the authority of an authorized representative to act on behalf of the Market Maker and such other information about any authorized representative as Nadex may request. A person may be conditionally approved as an authorized representative of a Market Maker subject to any conditions Nadex may consider appropriate in the interests of promoting a fair and orderly market.~~

~~(c) Nadex may withdraw or suspend the registration of any authorized representative of any Market Maker if Nadex determines that;~~

~~(i)an authorized representative has caused the Market Maker to fail to comply with the Rules of Nadex;~~

~~(ii)an authorized representative is not properly performing the responsibilities of an authorized representative of a Market Maker;~~

~~(iii)an authorized representative has failed to comply with the conditions set forth in paragraph (b) of this Rule; or~~

~~(iv)it is the best interests of maintaining a fair and orderly market to do so.~~

~~(d) If Nadex suspends the registration of any authorized representative, the Market Maker must ensure that the suspended authorized representative or representatives do not submit any quotes or orders into the Nadex system.~~

~~(e) The registration of an authorized representative will be withdrawn upon the written request of the Market Maker for which an authorized representative is registered. Such written request shall be submitted in a manner prescribed by Nadex. Until such written~~

~~request is received and processed by Nadex, or an authorized representative's registration is suspended or withdrawn pursuant to paragraph (c) of this Rule, a Market Maker will be responsible for all order entry and trading activity of such authorized representative(s).~~

~~RULE 4.3~~ APPOINTMENT OF MARKET MAKERS

(a) Nadex shall appoint Market Makers to certain Classes of Contracts ("Designated Classes") traded on Nadex. In making such appointments, Nadex shall consider (i) the financial resources available to the Market Maker, and (ii) the Market Maker's experience in market making in futures, options and other derivative products.

(b) No appointment of a Market Maker to a Designated Class shall be made without the Market Maker's consent to such appointment, provided that refusal to accept appointment to a Designated Class may be deemed sufficient cause for denial, suspension, or termination of registration as a Market Maker.

(c) Nadex may suspend or terminate any appointment of a Market Maker to a Designated Class and may appoint more than one Market Maker to the same Designated Class.

(d) Nadex may periodically conduct an evaluation of any Market Maker to determine whether it has fulfilled performance standards relating to, among other things, quality of the markets, competitive market making, observance of ethical standards, and administrative soundness. If the Market Maker fails to meet minimum performance standards, Nadex may, among other things, (i) suspend, terminate or restrict the Market Maker's appointment to a particular Designated Class, (ii) restrict the Market Maker from appointments to additional Designated Class(es), or (iii) suspend, terminate or restrict the Market Maker's registration as such.

~~RULE 4.34~~ BENEFITS OF BECOMING A MARKET MAKER

(a) Market Makers will have access to Nadex via the FIX gateway for an additional fee to be determined by Nadex on a case-by-case basis. Nadex will provide a guaranteed throughput per day with a specified peak amount of orders that may be entered per second to all Market Makers.

(b) Market Makers may receive reduced trading fees as an incentive for fulfilling the obligations of a market maker. For example, trading fees for Market Maker transactions via the FIX gateway may be less than other Trading Member fees via the FIX gateway.

(c) Market Makers shall have access to a designated group of operational and technical specialists at Nadex who handle issues relating to Market Makers.

~~RULE 4.45~~ 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:

(i) 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

(ii) 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.

(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.

(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.

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CHAPTER 5 METHOD FOR MEMBERS TO TRADE CONTRACTS

RULE 5.1 PRIOR REVIEW OF RISK DISCLOSURE STATEMENT AND THESE RULES AND ACCEPTANCE OF TERMS OF MEMBERSHIP AGREEMENT IS REQUIRED

- (a) ~~You~~ Trading Member Applicants: No Person may become a Trading Member of Nadex or not-trade any Contracts on the Market unless such Person has until you have received, read, understood, and accepted the Nadex Risk Disclosure Statement, these Rules, and the Nadex membership agreement for Trading Members, and have has certified that you having have done so.
- (b) FCM Member Applicants: No entity may become a FCM Member of Nadex or intermediate the trading of any Contracts on the Market unless such entity has received, read, understood, and accepted these Rules and the Nadex membership agreement for FCM Members, and has certified having done so.
- (c) Customers of FCM Members: No Person may be permitted by a FCM Member to enter orders or otherwise engage in any Nadex trading activity as a customer of that FCM Member unless such FCM Member has obtained certification from the customer that the customer has received, read, understood, and accepted these Rules.

RULE 5.2 TRADING MEMBER ACCESS TO NADEX

- (a) During the Nadex membership application process, ~~you~~ an applicant to become a Trading Member will be required to choose a user identification (“ID”) and password. ~~You~~ The applicant will be required to enter the ID and password to log onto and access secure portions of the Nadex website. Each time ~~you~~ the applicant submits its ~~your~~ unique user ID and password to Nadex in order to log onto Nadex, ~~you~~ the applicant affirms that ~~you~~ it understands and agrees to be bound by these Rules and other policies of Nadex, as amended.
- (b) After ~~your~~ an applicant’s membership application has been approved by Nadex and ~~you~~ the applicant ~~have has~~ deposited the requisite amount of funds into ~~your~~ its account as specified under Rule 3.1(b), ~~you~~ the applicant becomes a Trading Member. As a Trading Member, ~~you~~ such Person will be able to access the Market, execute trades, and otherwise access information regarding, or perform functions in, ~~your~~ such Person’s account using ~~your~~ its ID and unique password.
- (c) For account security and audit trail purposes, each Trading Member agrees that Nadex ~~will~~ may maintain logs of ~~your~~ its IP address when ~~you~~ it is are logged into the Nadex website.
- (d) ~~You~~ Each Trading Member will be responsible for protecting ~~your~~ 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 and you may not knowingly or negligently permit any Person not authorized by Nadex and by ~~you~~ the Trading Member to use ~~your~~ the ID and password to access the secure portion of the Nadex website. ~~You~~ Each Trading Member is ~~are~~ required to immediately notify Nadex if ~~you~~ it

knows, or if you have has reason to believe, that your its ID and/or the ID and/or password of any Authorized Trader have been disclosed to any Person not authorized by Nadex and you the Trading Member to use your such ID and/or password. Under any circumstances, the Trading Member You will be deemed to know that such have reason to believe that your ID and/or password have been disclosed to an unauthorized person 12 hours after any order is entered trade is executed by that unauthorized person in your account

(e) Each Trading Member You will be liable for all costs and any losses that you it may incur from transactions executed on Nadex by any person, authorized or not, using your 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 your a Trading Member's account.

(f) You Each Trading Member is are responsible for contracting with an Internet service provider through which you it will access the Nadex website and for having a backup service provider if you the Trading Member thinks it is necessary. You Each Trading Member is are also responsible for maintaining an Internet connection speed adequate for your 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 your the Trading Member's Internet service provider or slowness of your its Internet connection speed. No communication from you a Trading Member will be deemed to have been received by Nadex until that communication is logged by the Nadex server.

RULE 5.3 TRADING CONTRACTS – TRADING MEMBERS

(a) You Trading Members will be able to trade (1) Variable Payout Contracts by entering bids or offers at prices based on the values or levels of the Underlying at which you they are willing to open a Long Variable Payout Contract or a Short Variable Payout Contract and (2) Binary Contracts by entering bids to purchase or offers to sell those Contracts at which you Trading Members are willing to open or close a long position in a Binary Contract or open or close a short position in a Binary Contract. After logging into the secure portion of the Nadex website, you the Trading Member will input your its orders into the Nadex trading system.

(b) When your a Trading Member's order is matched by an order from another Member(s):

(i) If your the Trading Member's order is to enter into one or more Variable Payout Contracts for which you that Trading Member does do not have an offsetting position in your its account, Nadex will check your its account to ensure you it have has enough funds to cover your its maximum loss under the Variable Payout Contract(s) you it is are attempting to enter into. If you the Trading Member does do not have the necessary funds in your its account, Nadex will cancel your its order prior to trade execution. If you the Trading member does do have the necessary funds in your its account, Nadex will execute the trade. Upon trade execution, Nadex will: (1) debit the funds from your the Trading Member's account in an amount necessary to cover the maximum loss, (2) credited that amount to the Nadex settlement account, and

(3) place the Variable Payout Contracts that were the subject of the ~~order~~ executed trade into your the Trading Member's account and (4) ~~notify you the~~ Trading Member by electronic mail that the trade has been executed. The maximum amount that ~~you the~~ Trading Member can lose under a Long Variable Payout Contract (and, therefore, the amount that will be debited from ~~your its~~ account and then paid into the Nadex settlement account) is determined by subtracting the Floor from the Opening Trade Value and then multiplying the resulting figure by the Dollar Multiplier. The maximum amount that ~~you a~~ Trading Member can lose under a Short Variable Payout Contract is determined by subtracting the Opening Trade Value from the Cap and then multiplying the resulting figure by the Dollar Multiplier.

(ii) If the transaction involves entering into one or more Variable Payout Contracts for which ~~you the Trading Member has~~ have an offsetting position in ~~your its~~ account (for example, entering into a Short Variable Payout Contract of a Series when ~~you the Trading Member has~~ have a Long Variable Payout Contract of that same Series in ~~your its~~ account), upon execution of the trade Nadex will: (1) close the offsetting position in ~~your the Trading Member's~~ account; (2) debit the Nadex settlement account in the amount of (A) any gains realized by the offsetting transaction; and (B) any funds that were debited from ~~your the Trading Member's~~ account at the time the Variable Payout Contract(s) that is being closed was entered into and that were not also used to pay any losses on such Contract(s); (3) credit those amounts to ~~your the Trading~~ Member's account; and (4) ~~notify you the~~ Trading Member by electronic mail that the trade has been executed.

(iii) If ~~your the Trading Member's~~ order is to enter into one or more Binary Contracts for which ~~you it does~~ do not have an offsetting position in ~~your its~~ account, Nadex will check ~~your the Trading Member's~~ account to ensure ~~you it has~~ have enough funds to cover ~~your its~~ maximum loss under the Binary Contract(s) ~~you are~~ it is attempting to enter into. If ~~you the Trading~~ Member does ~~do~~ not have the necessary funds in ~~your its~~ account, Nadex will cancel ~~your its~~ order prior to trade execution. If ~~you the Trading~~ Member does ~~do~~ have the necessary funds in ~~your its~~ account, Nadex will execute the trade. Upon trade execution, Nadex will: (1) debit the funds from ~~your the Trading~~ Member's account in an amount necessary to cover the maximum loss, (2) credit those funds to the Nadex settlement account, and (3) place the Binary Contracts that were the subject of the order into ~~your the Trading Member's~~ account and (4) ~~notify you the~~ Trading Member by electronic mail that the trade has been executed. The maximum amount that ~~you a~~ Trading Member can lose under a long position in a Binary Contract (and, therefore, the amount that will be debited from ~~your the Trading Member's~~ account and then paid into the Nadex settlement account) is determined by the price at which ~~you the Trading~~ Member entered into the long Binary Contract. The maximum amount that ~~you the~~ Trading Member can lose under a short position in a Binary Contract is determined by subtracting the price at which ~~you it~~ sold the position short from the Binary Contract's Settlement Value. \$10. For example, if ~~you a~~ Trading

Member enters into a short position in a Binary Contract with a \$100 settlement Value position to open at a trade price of \$40, the Trading Member's your maximum loss on that position would be \$60 (\$100- \$40 = \$60).

(iv) If the transaction involves entering into one or more Binary Contracts for which you a Trading Member has have an offsetting position in your its account (for example, selling a position in a Binary Contract of a Series when you the Trading Member is are-long a Binary Contract of that same Series in your its account), upon execution of the trade Nadex will: (1) close the offsetting position in your the Trading Member's account; (2) debit the Nadex settlement account in the amount of (A) any gains realized by the offsetting transaction; and (B) any funds that were debited from your the Trading Member's account at the time the Binary Contract(s) that is being closed was entered into and that were not also used to pay any losses on such Contract(s); (3) credit those amounts to you the Trading Member's account; and (4) notify you the Trading Member by electronic mail that the trade has been executed.

(c) If your a Trading Member's order is placed on the market and not immediately matched by an order from another Member, it will rest on the market until it is matched and executed in accordance with the procedures outlined above in this Rule, until you the Member cancels it, or until it is cancelled by Nadex upon the Expiration of the Series or otherwise in accordance with these Rules.

RULE 5.4 TRADING CONTRACTS – CUSTOMERS OF FCM MEMBERS

(a) Nonmembers of Nadex will be able to trade Nadex Contracts only as Customers of an FCM Member and all Customer orders must be transmitted to Nadex from each Customer's FCM Member. Each FCM Member shall maintain a secure connection to Nadex and comply with all technical and other requirements established by Nadex for this purpose.

(b) Each FCM Member shall maintain a separate Nadex Position Account for the positions of each of its Customers and will indicate, when submitting any orders to Nadex, the Customer Position Account for which the order is submitted, as well as any other information required by Nadex.

(c) FCM Members will be able to submit orders for their customers ("FCM Customer Orders") to trade (1) Variable Payout Contracts by submitting bids or offers at prices at which the Customer is willing to open a Long Variable Payout Contract or a Short Variable Payout Contract and (2) Binary Contracts by entering bids to purchase or offers to sell those Contracts at which the Customer is willing to open or close a long position in a Binary Contract or open or close a short position in a Binary Contract.

(d) When a FCM Customer Order is matched by an order from another Member(s):

(i) If the FCM Customer Order is to enter into one or more Variable Payout Contracts for which that Customer does not have an offsetting position in its FCM Customer Position Account, Nadex will check the FCM Member's settlement account to ensure it has enough funds to cover the maximum loss under the

Variable Payout Contract(s) that the FCM Customer is attempting to enter into. If the FCM Member's settlement account does not have the necessary funds for that trade, Nadex will cancel the FCM Customer Order prior to trade execution. If the FCM Member's settlement account does have the necessary funds, Nadex will execute the trade. Upon trade execution, Nadex will: (1) debit the funds from the FCM Member's settlement account in an amount necessary to cover the maximum loss, (2) credit that amount to the Nadex settlement account, (3) place the Variable Payout Contracts that were the subject of the executed trade into the FCM Customer Position Account, and (4) notify the FCM Member by FIX message that the trade has been executed. The maximum amount that the FCM Customer can lose under a Long Variable Payout Contract (and, therefore, the amount that will be debited from the FCM Member's settlement account and then paid into the Nadex settlement account) is determined by subtracting the Floor from the Opening Trade Value and then multiplying the resulting figure by the Dollar Multiplier. The maximum amount that the FCM Customer can lose under a Short Variable Payout Contract is determined by subtracting the Opening Trade Value from the Cap and then multiplying the resulting figure by the Dollar Multiplier.

(ii) If the transaction involves entering into one or more Variable Payout Contracts for which the FCM Customer has an offsetting position in its FCM Customer Position Account (for example, entering into a Short Variable Payout Contract of a Series when the FCM Customer has a Long Variable Payout Contract of that same Series in its FCM Customer Position Account), upon execution of the trade Nadex will: (1) close the offsetting position in the FCM Customer Position Account; (2) debit the Nadex settlement account in the amount of (A) any gains realized by the offsetting transaction; and (B) any funds that were debited from the FCM Member's settlement account at the time the Variable Payout Contract(s) that is being closed was entered into and that were not also used to pay any losses on such Contract(s); (3) credit those amounts to the FCM Member's settlement account; and (4) notify the FCM Member by FIX message that the trade has been executed.

(iii) If the FCM Customer Order is to enter into one or more Binary Contracts for which that Customer does not have an offsetting position in its FCM Customer Position Account, Nadex will check the FCM Member's settlement account to ensure it has enough funds to cover its maximum loss under the Binary Contract(s) it is attempting to enter into. If the FCM Member's settlement account does not have the necessary funds for that trade, Nadex will cancel the FCM Customer Order prior to trade execution. If the FCM Member's settlement account does have the necessary funds, Nadex will execute the trade. Upon trade execution, Nadex will: (1) debit the funds from the FCM Member's settlement account in an amount necessary to cover the maximum loss, (2) credit those funds to the Nadex settlement account, (3) place the Binary Contracts that were the subject of the order into the FCM Customer Position Account and (4) notify the FCM Member by FIX message that the trade has been executed. The maximum amount that the FCM Customer can lose under a long position in a Binary Contract (and, therefore, the amount that will be debited from the FCM Member's settlement account and then

paid into the Nadex settlement account) is determined by the price at which the FCM Customer entered into the long Binary Contract. The maximum amount that the FCM Customer can lose under a short position in a Binary Contract is determined by subtracting the price at which it sold the position short from the Binary Contract's Settlement Value. For example, if a FCM Customer enters into a short position in a Binary Contract with a \$100 Settlement Value at a trade price of \$40, the FCM Customer's maximum loss on that position would be \$60 (\$100 - \$40 = \$60).

(iv) If the transaction involves entering into one or more Binary Contracts for which that Customer has an offsetting position in its FCM Customer Position Account (for example, selling a position in a Binary Contract of a Series when the Customer is long a Binary Contract of that same Series in its FCM Customer Position Account), upon execution of the trade Nadex will: (1) close the offsetting position in the FCM Customer Position Account; (2) debit the Nadex settlement account in the amount of (A) any gains realized by the offsetting transaction; and (B) any funds that were debited from the FCM Member's settlement account at the time the Binary Contract(s) that is being closed was entered into and that were not also used to pay any losses on such Contract(s); (3) credit those amounts to the FCM Member's settlement account; and (4) notify the FCM Member by FIX Message that the trade has been executed.

(e) If a FCM Customer Order is placed on the market and not immediately matched by an order from another Member, it will rest on the market until it is matched and executed in accordance with the procedures outlined above in this Rule, until the FCM Customer cancels it, or until it is cancelled by Nadex upon the Expiration of the Series or otherwise in accordance with these Rules.

RULE 5.5 ORDER ENTRY

(a) Trading Member Orders

(i) A Trading Member will enter orders to trade Contracts by electronic transmission over the Internet., and Nadex will maintain an electronic record of your order entries. A Trading Member may elect to enter into a FIX Connection agreement with Nadex, which will provide for specific FIX Connection fees, and certain approved Entity Trading Members, such as market makers, may submit orders over a FIX Connection in accordance with Nadex's applicable policies and procedures.

(ii) A Trading Member will enter an order to trade one or more Contracts by indicating to Nadex in the manner required by Nadex: (i) order type (i.e., buy or sell); (ii) the Series of Contract; (iii) the price at which ~~you~~ the Trading Member wants to buy or sell the Contract; and (iv) the number of Contracts ~~you~~ the Trading Member want to buy or sell.

~~Upon entry of~~ In order to enter an order to trade one or more Contracts, you a Trading Member will be required to submit and confirm the order before it is sent to Nadex. Once the order is accepted by Nadex, Nadex will assign to you the order an order confirmation number. This confirmation number will appear next to the associated order on your the Trading Member's Order Ticket and Order History account pages. You The Trading Member will be responsible for any and all order entries confirmed for your its account and accepted by Nadex.

(b) FCM Customer Orders

(i) A FCM Customer may not submit orders directly to the Exchange and all such order must be submitted by that Customer's FCM Member.

(ii) FCM Members may submit FCM Customer Orders by electronic transmission over a FIX Connection, in accordance with Nadex's applicable policies and procedures.

(iii) FCM Members will submit a FCM Customer's Order to trade one or more Contracts by indicating to Nadex in the manner required by Nadex: (i) order type (i.e., buy or sell); (ii) the Series of Contract; (iii) the limit price at which the FCM Customer wants to buy or sell the Contract; (iv) the number of Contracts the FCM Customer wants to buy or sell; (v) the FCM Member identifier; (vi) the FCM Customer Position Account identifier; and (vi) the User Identifier for the person who directed the submission of the order to the Exchange.

(iv) Upon receipt of a FCM Customer Order to trade one or more Contracts, a FCM Member will be required to ensure that the FCM Customer has on deposit with the FCM Member enough funds to cover the FCM Customer's maximum loss under the Contract(s) it is attempting to enter into before the order is submitted to Nadex. The FCM Member must block those customer funds until the order is cancelled or filled and, if the order is filled, the customer funds must remain blocked to support the resulting position until that position is liquidated or expires. When the order has been submitted to and accepted by Nadex, Nadex will assign to the order an order confirmation number. This confirmation number will appear next to the associated order on the FCM Member's Order and Order History account pages. The FCM Member will be responsible for any and all order entries confirmed for its FCM Customer Position Accounts and its settlement account and accepted by Nadex.

(c) Nadex's trading system will keep an electronic record of all orders to trade Contracts, and all executed Contract trades. The records kept by Nadex will include all of the terms identified in paragraphs ~~(b)–(e)~~ (a)(ii) – (iii) and (b)(iii) – (iv) of this Rule as well as the date and time that the transaction was completed to the nearest tenth of a second, for all executed Contract trades and to the nearest second for all orders to trade Contracts.

RULE 5.6 RECORDKEEPING OF FCM CUSTOMER ORDERS

(a) FCM Members shall maintain an electronic record of all FCM Customer Orders to trade Contracts received by the FCM Member, and all order, trade and expiration confirmations received by the FCM Member regarding its customer's accounts.

(b) Other than the electronic record required in subpart (a) of this rule, no FCM Member is required to create or maintain any separate record for FCM Customer Orders received by a Member or Authorized Trader which are immediately entered onto the Nadex system, unless otherwise required by these Rules. However, if a FCM Member receives a Customer order that cannot be immediately entered into the Nadex system, such Member or Authorized Trader must prepare a written record of the order and include the account designation, date and time of receipt and order instructions, including price, quantity and order type information. The written record of the order shall be time-stamped when received and appropriately indicate when (i) the order was submitted, (ii) confirmation of execution or cancellation after expiration and/or (iii) the order was cancelled in whole or in part.

(c) All time-stamps required under this Rule 5.6(b) must show the time to the nearest minute.

(d) All written orders and any other original records pertaining to orders entered through the Nadex system must be retained by the FCM Member for no less than five years. For orders that were entered immediately upon receipt into the Nadex system, the electronic records required in subpart (a) of this rule shall be deemed the original records of the transaction.

RULE 5.7 HANDLING CUSTOMER ORDERS

(a) Withholding Orders Prohibited. No FCM Member may withhold or withdraw from the market any order or any part of an order for the benefit of any Person other than the Person placing the order.

(b) Disclosing Orders Prohibited

(i) It is a violation of this Rule ~~5.8~~ 5.7 for any Person to disclose another Person's order to buy or sell any Contracts except as may be requested by Nadex or the Commission.

(ii) It is a violation of this Rule ~~5.8~~ 5.7 for any Person to take action or direct another Person to take action based on non-public order information, however acquired.

(c) Trading Against Customer Orders Is Prohibited

(i) No FCM Member or Associated Person thereof in possession of a FCM Customer Order may knowingly enter into a transaction opposite such FCM Customer Order directly or indirectly for him/herself or any other Person with

whom such FCM Member or Associated Person has a direct or indirect financial interest.

RULE 5.8 TRANSFER TRADES

(a) A FCM Member may transfer a trade in any Contracts on the Exchange from one FCM Customer account to another account i) within the same FCM Member or ii) to another FCM Member, provided that the transfer would not result in a change in beneficial ownership in any Contract, unless the transfer is made in order to:

(i) correct an error in a previously executed transaction, in which case the FCM Member must be able to provide evidence of such error in a form prescribed by Nadex;

(ii) reflect a change in ownership occurring by operation of law due to the death or bankruptcy of a Person having an ownership interest in such Contract;
or

(iii) facilitate a merger, consolidation, disposition of a line of business, reorganization, or similar event affecting such Person.

(b) A Member that transfers a Contract trade shall notify Nadex of the transfer in a manner and form as prescribed by Nadex.

(c) Transfers of FCM Customer trades shall be made at the historic price at which such transactions were executed.

RULE 5.9 DISPUTED ORDERS

(a) If ~~you~~ a Member or a FCM Customer believes that an order to trade one or more Contracts was incorrectly executed or rejected by Nadex ~~you~~ that Member or FCM Customer may request review of the order by providing the confirmation number for the order and stating the grounds for ~~your~~ its disagreement with the handling of the order.

(b) Upon receipt of a request for review of an order and the accompanying confirmation number, Nadex will review its electronic audit trail to determine if the Nadex trading system correctly interpreted and executed ~~your~~ the order.

(c) If the review described in paragraph (b) of this Rule reveals that the Nadex trading system made a mistake, the order will be cancelled and the accounts of all Members, including any FCM Customer Position Accounts, that were party to the order will be returned to their state before the trade was executed.

(d) If the review described in paragraph (b) of this Rule reveals that the Nadex trading system did not make a mistake, Nadex will inform ~~you~~ the Person who requested the review of its determination that the order was properly handled, the evidence supporting that determination, and that an adjustment will not be made.

(e) ~~You~~ A Trading Member or an FCM Member on behalf of a Customer may appeal a determination under paragraph (d) of this Rule to a Nadex compliance officer through the electronic mail address provided on the Nadex website. ~~You~~ The Member making the appeal will be required to provide a response to the evidence described in paragraph (d) of this Rule that the order was properly handled, and ~~you~~ the Member may provide any other information ~~you~~ it wishes to disclose. If ~~you~~ the Member's appeal does not contain a response to the evidence described in paragraph (d), it will be rejected. The compliance officer will decide ~~your~~ the appeal no later than 10 days after its receipt, and that decision will be final.

(f) Nadex will document in writing all requests for review of orders received by Nadex, the time and manner in which Nadex reviewed its electronic audit trail in response to the request, the outcome of that review, and the action or actions taken by Nadex in response to that review, including the results of any appeal filed under paragraph (e) of this Rule and the review conducted by the compliance officer in deciding that appeal.

RULE 5.10 ACCEPTABLE ORDERS

(a) ~~You~~ A Member may ~~only~~ enter only limit orders to trade Contracts on the Market.

(b) For the purpose of this Rule, a “limit order” is an order to buy or sell the number of Contracts ~~you~~ specified at the price ~~you~~ specified, or a better price if a better price is available.

RULE 5.11 PRIORITY OF ORDERS

The Market’s trading algorithms execute all trades by matching orders according first by price and then time priority. This means that orders entered at different prices will be executed in order of price, from best to worst, regardless of what time they were placed on the Market, and orders placed on the Market at the same price will be executed in order of time, from oldest to most recent.

RULE 5.12 FILLING ORDERS TO TRADE CONTRACTS

The Nadex trading system will fill all orders to trade Contracts on an “or better” basis. This means that if ~~you~~ a Member places an order to buy a Contract or Contracts at a price higher than the price of the best sell offer on the market, the system will fill ~~your~~ that order to buy at the better sell offer price(s) until all available sell offers under or equal to ~~your~~ that buy order's limit price are filled or until ~~your~~ that buy order is completely filled. Likewise, if ~~you~~ a Member enters a sell order at a price lower than the price of the best ~~buy offer bid~~, the system will fill ~~your~~ that sell order at the better ~~buy offer bid~~ price(s) until all available ~~buy offers bids~~ over ~~your~~ that sell order's limit price are filled or ~~your~~ that sell order is completely filled. If ~~your~~ an order is only partially filled, the unfilled portion ~~of your~~ of that order will ~~be placed~~ remain in the order book as a resting order at the limit price ~~you~~ specified. Should an opposite order at the same price or better than the original order subsequently be placed in the system, the unfilled portion of ~~your~~ the original order will be executed opposite that new order at ~~it~~ the original order's limit price.

RULE 5.13 MODIFICATION AND CANCELLATION OF ORDERS

(a) ~~You~~ A Member can submit instructions to either cancel or modify an order you have which that Member has placed on the Market if it that order has not yet been executed. Upon submission of instructions to either cancel or modify an order that has not been executed. All your pending orders will be listed on your account page. To modify a pending order, select the order to be changed and, using the prompts, (1) cancel the order, (2) modify the order, or (3) leave the order unchanged. If you choose to cancel the order and the order has not been executed, the Nadex system will withdraw the order from the order book and confirm the cancellation of the order. ~~If you choose a Member seeks to amend the an order, you will be shown~~ Nadex will provide the Member with the details of the existing order and the Member will be allowed to decrease the quantity of the order or change any other part of the order except the Underlying. You Nadex will then provide will then be given a new order confirmation number and be informed the Member that the system will treat the modified order as a new order, causing the amended order to lose its original time priority.

(b) Nadex will attempt to modify or cancel ~~your an existing~~ order as soon as possible after you a Member enters a modification or cancellation-order instructions. However, the order may be executed before Nadex is able to cancel or modify it. ~~If your an order has been filled in whole or in part, you a Member may modify or cancel only that portion of the order (if any) that has not been executed.~~

RULE 5.14 TRADE CANCELLATIONS

(a) Nadex, in its discretion and in accordance with these Rules, may cancel a trade in a Spread Contract that has been executed on the market at a price that is inconsistent with prevailing market conditions due to improper or erroneous orders or quotes being matched on the Market (“Erroneous Trade”).

(b) Nadex may review a Spread Contract trade based on its own analysis of the Market or pursuant to a request for review by a Member or other third party. A request for a review by a Member or other third party must be received by Nadex no later than fifteen (15) minutes after the trade has been executed on the Market and before the expiration of the contract. Nadex will promptly determine whether the trade will be subject to review and then promptly post notice indicating that the trade is under review.

(c) During the review, Nadex will calculate a Fair Value for the underlying at the time of the questioned trade by utilizing the last value or price of the Underlying at the time of the trade and/or any other relevant market information obtained or presented to Nadex.

(d) Once a Fair Value has been calculated, 5 percent of the maximum contract value will be added above such Fair Value and below such Fair Value to determine the “No Bust Range”. In the event that the Fair Value is less than 5 percent above the Floor or below the Cap, the No Bust Range shall be a 10 percent range above the Floor or below the Cap. During fast market conditions, upon the release of significant news, or in other circumstances in which Nadex determines it is appropriate, Nadex may, without prior notice, temporarily double the No Bust Range.

(e) If Nadex determines that a trade has been executed within the No Bust Range, the executed trade will stand. If Nadex determines that a trade has NOT been executed within the No Bust Range, Nadex will promptly cancel the trade by busting the Erroneous Trade off the market. Once the Erroneous Trade has been cancelled, Nadex shall:

(i) notify the Members that were parties to the Erroneous Trade(s) that Nadex has cancelled the Erroneous Trade(s). Nadex will notify such Members within thirty (30) minutes from receiving notice of the Erroneous Trade unless impractical to do so within the notice period;

(ii) publish all necessary price corrections in a notification on the Nadex website.

(f) The decisions of Nadex regarding Fair Value of the underlying, the No Bust Range, the doubling of the No Bust Range, the cancellation of an Erroneous Trade, or any other determination hereunder shall be final and not subject to appeal.

RULE 5.15 INVALIDATION OF ORDERS UPON SUSPENSION OR REVOCATION OF FCM MEMBER STATUS

(a) Upon suspension or revocation of a FCM Member by Nadex, any open order on the Market for such FCM Member's Customer shall be cancelled by Nadex.

RULE 5.16 INVALIDATION OF TRADES UPON SUSPENSION OR REVOCATION OF FCM MEMBER STATUS

(a) Upon suspension or revocation of a FCM Member by Nadex, any trade subsequently executed on the Market for such FCM Member's Customer shall be invalid. Nadex shall cancel any transaction pursuant to this Rule by entering a counter transaction onto the Market at the price at which the cancelled transaction was effected.

RULE 5.17 VIEWING THE MARKET AND EXECUTED ORDERS

Nadex will allow its Members to view the current best bid and offer on the Market, as well as the depth of the order book up to the third level of prices. Nadex will also allow Members to view the last executed order to trade Contracts.

RULE 5.18 HOURS FOR TRADING CONTRACTS

The Market will be open for execution of ~~your~~ orders during specified hours in a regular evening session from 6:00 p.m. to 2:05 a.m. Eastern Time Sunday through Thursday and a regular session from 8:00 a.m. to 5:00 p.m. Eastern Time Monday through Thursday, and during a regular session from 8:00 a.m. to 4:15 p.m. Eastern Time on Friday, with the exception of Market holidays, which will be announced on the Nadex website at least 30 calendar days in advance. ~~You~~ Members may access account information and cancel any open orders while the Market is closed, but ~~you~~ may not enter or modify orders unless the Market is open.

RULE 5.19 PROHIBITED TRANSACTIONS AND ACTIVITIES

(a) ~~You~~ Members are prohibited from entering orders on the Market if there are insufficient funds or Contracts in ~~your~~ 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~~ shall apply:

Number of Per Incident Violations Within a Calendar Year	Penalty
1.	\$10 fee deducted from your <u>the Member's settlement</u> account.
2.	\$10 fee deducted from your <u>the Member's settlement</u> account, and you <u>the Member</u> will be required to re-certify that you have <u>it has</u> read and agree to be bound by this Rule 5.135.19(a) <u>5.19(a)</u> .
3.	\$15 fee deducted from your <u>the Member's settlement</u> account, and you <u>the Member</u> will be required to give a satisfactory explanation as to why the Rule violation occurred, or <u>(in the case of Trading Members)</u> your trading privileges will <u>may</u> be suspended for 30 days.
4.	\$20 fee deducted from your <u>the Member's settlement</u> account and <u>(in the case of Trading Members)</u> suspension of your trading privileges for 30 days (regardless of explanation).
5.	\$25 fee deducted from your <u>the Member's settlement</u> account and <u>(in the case of Trading Members)</u> suspension of your 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) You are prohibited from~~ No Person shall enter into or attempting to enter into any trade on the Market that has been directly or indirectly prearranged. In other words, ~~you a~~ Member may not agree with another Member that one of ~~you the Members~~ will enter a trade and the other will attempt to ~~match that trade~~ against that order by timing the submission of orders or otherwise.

~~(c) You are prohibited from~~ No Person shall enter into or attempting to enter into ~~or entering 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.

~~(d) You are prohibited from~~ No Person shall entering 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) You are prohibited from trading~~ No Person shall trade in, transferring, assigning, or otherwise disposing of Contracts other than as provided for in these Rules.

~~(f) You are prohibited from~~ No Person shall enter into or agreeing to transfer or ~~from transferring~~ the benefit of any position in any Contract to another person other than through a transaction executed through the Market.

~~(g) You are prohibited from trading~~ No individual Trading Member shall trade for a person or entity other than yourself itself and no Authorized Trader of an entity Trading Member shall trade for a person or entity other than the entity Trading ~~or the Member for whom you that Person is are an a~~ Authorized representative Trader.

~~(h) You are prohibited from~~ No Person shall engageing in any activity that presents a risk of harm to Nadex, its ~~m~~Members, or the public.

~~(i) You are prohibited from~~ No Person shall engageing in any activity that adversely affects the integrity of the Market or its underlying systems.

~~(j) You are prohibited from~~ No Person subject to arbitration under these rules shall failing to abide by an arbitration decision or award handed down under Chapter 10 of these Rules.

~~(k) You are prohibited from~~ No Person shall intentionally provideing erroneous or fraudulent information to Nadex on ~~your a~~ membership application or otherwise.

~~(l) You are prohibited from~~ No Person shall engageing 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 ~~from no Person shall engageing~~ in any other activity that would violate the CEA or the Commission's Regulations.

(m) 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.

(n) No FCM Member shall knowingly carry an account for any employee of Nadex without Nadex's prior written consent, nor shall any FCM Member enter any order or effect any transactions for such an account with respect to any Nadex contracts.

(o) 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.

(p) 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.

(q) If you are 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, you are 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.

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. Any Trading Member or FCM Customer who exceeds a Speculative Position Limit shall be deemed in violation of this Rule 5.135.20. In addition, any Trading Member (except for approved Market Makers) or FCM Customer entering bids or offers, if accepted, which would causeing that the 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.

(c) In addition to the restrictions and requirements imposed in Section 5.135.20(a) and (b), the first violation of a Speculative Position Limit by a Member or FCM Customer shall 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.

(d) In addition to the restrictions and requirements placed in Section ~~5-135.20~~(c), any subsequent violation of a Speculative Position Limit within the preceding 12 months by a Trading Member or FCM Customer 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 in accordance with Chapter 9 of these Rules.

(e) Position limits shall apply to i) all positions in accounts for which any ~~p~~Person by power of attorney or otherwise, directly or indirectly holds positions or controls trading, and ii) positions held by two or more ~~p~~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.

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CHAPTER 6 SETTLING CONTRACT TRADES, CONTRACTS AT EXPIRATION, AND MEMBER WITHDRAWAL REQUESTS

RULE 6.1 SETTLING CONTRACT TRADES

(a) Nadex will maintain, on its system, a record of (a) each Member's account balances and Contracts and (b) each FCM Member's settlement account balance and, by subaccount, the positions of each of its FCM Customers. Nadex will also maintain a "Nadex settlement account," which will reflect funds used by Members to buy and sell Contracts. Nadex will also maintain a "Nadex proprietary account," which will be credited with all fees debited from Member accounts due to trades and expiration settlements. All settlements among these accounts on the Nadex system will be instantaneous.

(b) All funds in Member accounts and in the Nadex settlement account will be maintained in an account at the Nadex settlement bank that is designated as a customer segregated funds account under the CEA and the Commission's Regulations. Because those funds will be commingled at the settlement bank, transfers among Member accounts and transfers between Member accounts and the Nadex settlement account will not be transmitted to the settlement bank. Such records will only be maintained on the Nadex system. However, once every settlement bank business day, Nadex will send to its settlement bank by batch mode electronic transmission instructions for the settlement bank to transfer fees credited by Nadex to the Nadex proprietary account on its system from the customer segregated funds account at the settlement bank to the Nadex proprietary account at the settlement bank.

(c) The settlement bank will complete the transfer in the settlement instructions described in paragraph (b) of this Rule and notify Nadex of its completion.

RULE 6.2 SETTLING CONTRACTS AT EXPIRATION

(a) When a Series of Variable Payout Contracts expires, those Contracts will settle in an amount (if any) determined by the calculations set forth in the definitions for Long and Short Variable Payout Contracts set forth in Chapter 1 of these Rules. When a Series of Binary Contracts expires and has a Payout Criterion that encompasses the Expiration Value of the Underlying, such Binary Contract will pay the a minimum Settlement Value for such Binary Contracts (e.g. \$100) of \$10 to the holders of a long positions in such Binary Contracts. Conversely, when a Series of Binary Contracts expires and has a Payout Criterion that does NOT encompass the Expiration Value of the Underlying, such Binary Contract will pay a minimum the Settlement Value for such Binary Contracts (e.g. \$100) of \$10 to the holders of a short positions in such Binary Contracts.

(b) On the Settlement Date;

(i) Nadex will notify all ~~m~~Members which Contract is going to pay a Settlement Value and which Contract will not pay a Settlement Value.

(ii) Nadex will immediately settle the Variable Payout Contracts by (A) debiting Nadex's settlement account in an amount equal to (1) any gains

realized by Members (including customers of FCM Members) plus (2) any blocked funds that were debited from Members' accounts at the time the Variable Payout Contracts that are expiring were entered into that are not used to pay any losses on such Contract(s) and (B) crediting those amounts, respectively, to the accounts of (1) Members who realized such gains, in each case in the amount of such gains realized by each Member (including Customers of FCM Members), and (2) Members from whose accounts such blocked funds were taken, in each case in the amount of such blocked funds that was not required to pay losses experienced by such accounts on such Contracts.

(iii) Nadex will immediately settle the Binary Contracts by debiting the Nadex's settlement account in an amount no less than ~~\$10.00~~ the Settlement Value for such Contracts multiplied by the total number of outstanding in-the-money Binary Contract positions and credit those funds to the settlement accounts of the Members holding the in-the-money Binary Contract positions (or, in the case of Customers of FCM Members holding the in-the-money Binary Contract positions, to the settlement account of the FCM Member).

(iv) Nadex will delete all Contracts of the expiring Series from ~~the Trading Members' accounts of Members and FCM Customer Position Accounts, as applicable.~~

(c) ~~If you~~ Any Person who believes there has been an error in settlement must report that error to Nadex immediately. ~~Your~~ Such report must state the basis for the ~~why you believe the belief that~~ there has been an error in settlement. If Nadex receives notice of a settlement error before the end of the fifth Trading Day following settlement, Nadex will review that report and will correct any error that Nadex determines has been made. If Nadex does not receive notice of an error of settlement before the end of the fifth Trading Day following settlement, then (i) settlement will be final and (ii) ~~you~~ all Members agree that Nadex shall not be responsible to you in any fashion for an uncorrected error in settlement.

RULE 6.3 SETTLING MEMBER WITHDRAWAL REQUESTS

Within one settlement bank business day of when a Member requests to withdraw funds from its Nadex account, Nadex will transmit such request to its settlement bank in electronic batch mode transmission. The settlement bank will process that request and send those funds to the account at the Financial Institution registered with Nadex by the Member (unless the Member and, in the case of FCM Members, any FCM Customer of that FCM Member has unsatisfied outstanding obligations on Nadex, in which case Nadex may retain such balances as necessary to satisfy such obligations or until the Member otherwise satisfies such obligations). ~~You~~ The Member should refer to Nadex's website under the Fee Schedule for all fees and costs associated with withdrawal of funds from ~~your~~ the Member's Nadex account.

CHAPTER 7 ADJUSTMENTS NECESSITATED BY MATERIAL CHANGES IN THE UNDERLYING

RULE 7.1 ADJUSTMENTS

In the event that, during the term of a Series, changes beyond the control of Nadex occur in the way the Underlying is calculated or an Expiration Value for the Underlying is unavailable or undefined in light of intervening events, Nadex may adjust the terms of outstanding Series as it deems appropriate in its discretion to achieve fairness to holders of Contracts of the affected Series. In addition, if the outcome of the underlying event is unclear, Nadex may, at its sole discretion, delay settlement of the Series until the outcome is clear to Nadex as determined by reasonable means. While it is impossible to provide in advance for all possible events that could require an adjustment to be made, Nadex will abide by any guidelines that may be established in this Chapter for making Contract adjustments.

RULE 7.2 GOVERNMENT ACTIONS

Any change in instructions, order, ruling, directive, or law issued or enacted by any court or agency of the Federal Government of the United States that conflicts with the Rules contained in this Chapter shall take precedence, immediately become a part of these Rules, and be effective for all currently traded and newly listed Series.

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CHAPTER 8 INVESTMENT OF MEMBER ACCOUNT FUNDS

Member funds on deposit with Nadex and funds in the Nadex settlement account (i.e., the account containing the funds paid by Members to purchase Contracts and which are to be used to pay Members holding in-the-money Contracts at expiration) will be segregated as customer funds in accordance with the Commission's Regulations. Nadex may invest such funds subject to the limitations and conditions set forth in Commission Regulation 1.25. Nadex will pay interest to Members' accounts at a floating rate to be determined by Nadex on funds in Members' Nadex accounts in excess of an amount to be determined by Nadex. Nadex will retain all profit from investment of Member funds not paid to Members in accordance with the preceding sentence.

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CHAPTER 9 RULE ENFORCEMENT

RULE 9.1 MONITORING THE MARKET

Nadex's trading system will record and store for a period of not less than 5 years in a searchable, read-only database a record of all data entered into the Nadex trading system, including the Member's identity and the information in Rule 5.45.5. Such records shall be maintained in a readily available manner during the first two years. Nadex shall conduct market surveillance and trade practice surveillance using this data with programs designed to alert Nadex when potentially unusual trading activity takes place. Nadex will initiate review and, where appropriate, investigate such unusual trading activity. Nadex will also investigate any time it has other reason to believe that inappropriate activity of any sort is taking place on the Market or its website.

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 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;
- (iii) the response, if any, or a summary of the response;
- (iv) a summary of the investigation conducted;

(v) findings and conclusions as to each charge, including which of these Rules the Member or its authorized representative violated, if any; and

(vi) 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 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 and 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 will conduct a telephonic hearing with the Compliance Department and the Member within 20 days of receipt of the Member's response contesting the compliance officer's finding and/or proposed sanction and, within 20 days after that hearing, 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:

(i) a brief description of the allegations;

(ii) a brief summary of the evidence received;

(iii) findings and conclusions;

(iv) a declaration of any penalty to be imposed on the Member as the result of the findings and conclusions;

(v) the effective date and duration of that penalty; and

(vi) 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.

(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. 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 (ef) of this Rule, except for (ef)(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.

RULE 9.3 SETTLEMENT OF INVESTIGATIONS

(a) Nadex may enter into settlements with any Member or its authorized representative who is the subject of an investigation. The Member, or its authorized representative may initiate a settlement offer. Any settlement offer shall be forwarded to a Nadex hearing officer with a recommendation by the Compliance Department that the proposed settlement be accepted, rejected, or modified. A settlement offer may be withdrawn at any time before it is accepted by the hearing officer.

(b) The hearing officer may accept or reject a proposed settlement, and the decision of the hearing officer will be final. In addition, the hearing officer may propose a modification to the proposed settlement for consideration by the Member or its authorized representative and the Compliance Department.

(c) Any settlement under this Rule will be written and will state:

(i) the charges or a summary of the charges;

(ii) the response, if any, or a summary of the response;

(iii) a summary of the investigation conducted;

(iv) findings and conclusions as to each charge, including each act the person charged was found to have committed or omitted, be committing or

omitting, or be about to commit or omit, and each of these Rules that such act or practice violated, is violating, or is about to violate; and

(v) any penalty imposed and the penalty's effective date.

(d) Failed settlement negotiations, or withdrawn settlement offers, will not prejudice a Member or otherwise affect subsequent procedures in the rule enforcement process.

RULE 9.4 NOTICE AND PUBLICATION OF DECISION

(a) Nadex will provide to the person charged and to the Commission a copy of an adverse investigation report, appeal determination, or settlement within 30 days after it becomes final in accordance with the provisions of Commission Regulation 9.11.

(b) Within 30 days after a decision becomes final, notice of any decision providing that a Member is suspended, expelled, disciplined or denied access to the Exchange shall be provided to the National Futures Association for inclusion in its internet accessible database of disciplinary matters. Additionally, Nadex will promptly report such decisions on its website.

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;

(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).

RULE 9.6 SUMMARY SUSPENSION

(a) Nadex may summarily suspend or restrict a Member (or any of its ~~a~~Authorized representative's Traders or, in the case of FCM Members, its customers) privileges if the Chief Regulatory Officer believes suspension or restriction is necessary to protect the commodity futures markets, Nadex, the public, or other Members.

(b) Whenever practicable Nadex will notify the Member whose privileges are to be summarily suspended by electronic mail before the action is taken. If prior notice is not practicable, the Member shall be served with notice by electronic mail at the earliest opportunity. This notice shall:

- (i) state the action taken or to be taken;
- (ii) briefly state the reasons for the action;
- (iii) state the time and date when the action became or becomes effective and its duration; and
- (iv) state that any person aggrieved by the action may petition the Commission for a stay of the effective date of the action pending a hearing pursuant to Part 9 of the Commission's Regulations, within 10 days of service.

(c) The Member (or Authorized Trader or customer of an FCM Member) whose privileges are to be summarily suspended shall be given an opportunity for appeal under the procedures outlined in Rule 9.2(f) of these Rules. The decision affirming, modifying, or reversing the summary suspension shall be furnished by electronic mail to the suspended Member or Authorized Trader or, with respect to a FCM Customer, to the FCM Member, and the Commission no later than one business day after it is issued. The decision shall contain:

- (i) a description of the action taken and the reasons for the action;
- (ii) a brief summary of the evidence received during the appeal process;
- (iii) findings and conclusions;
- (iv) a determination as to whether the summary action that was taken should be affirmed, modified, or reversed;
- (v) a declaration of any action to be taken against the suspended Member as the result of that determination;
- (vi) the effective date and duration of that action;
- (vii) a determination of the appropriate relief based on the findings and conclusions;
- (viii) 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
- (ix) 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.

RULE 9.7 REPRESENTATION BY COUNSEL

A Member, Authorized Trader or FCM Customer who is a subject of any proceedings under this Chapter has the right to retain and be represented by counsel during ~~any and all~~ such proceedings under this Chapter.

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**CHAPTER 10 LIMITATION OF LIABILITY; TIME PERIOD IN WHICH TO
BRING ACTIONS; GOVERNING LAW; ARBITRATION**

RULE 10.1 LIMITATION OF LIABILITY

(a) ~~AS A~~ EACH MEMBER OF NADEX ~~YOU~~ AGREES THAT NEITHER NADEX NOR ITS OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, AND/OR SOFTWARE, HARDWARE, AND SERVICE PROVIDERS (COLLECTIVELY REFERRED TO AS “NADEX PARTIES”) SHALL HAVE ANY RESPONSIBILITY FOR COMPLIANCE BY MEMBER WITH ANY LAW OR REGULATION GOVERNING MEMBER’S CONDUCT. MOREOVER, ~~YOU~~ EACH MEMBER OF NADEX ~~ALSO AGREES~~ THAT NO NADEX PARTY SHALL BE LIABLE IN ANY MANNER WHATSOEVER FOR ANY LOSS OR DAMAGE SUSTAINED BY MEMBER, INCLUDING ANY CONSEQUENTIAL LOSS, LOSS OF PROFIT OR LOSS OF TRADING OPPORTUNITY, AS A RESULT OF ANY ACTUAL OR PROPOSED TRANSACTIONS OR AS A DIRECT OR INDIRECT RESULT OF ANY SERVICES PROVIDED BY NADEX PARTIES (INCLUDING, WITHOUT LIMITATION, ANY FAILURE IN NADEX’S SYSTEMS OR ANY INACCURATE INFORMATION PROVIDED BY A NADEX PARTY), UNLESS THE RELEVANT NADEX PARTY IS DETERMINED BY FINAL RULING OF AN ARBITRATION PROCEEDING TO HAVE ACTED OR FAILED TO ACT IN A MANNER THAT IS GROSSLY NEGLIGENT, RECKLESS, OR FRAUDULENT. FOR THE AVOIDANCE OF DOUBT, NOTHING IN THIS RULE IS INTENDED TO LIMIT THE LIABILITY OF ANY PERSON AS MAY BE PROVIDED IN THE CEA, THE REGULATIONS OF THE COMMISSION, OR BY ACTS OF WILLFUL OR WANTON MISCONDUCT OR FRAUD.

(b) ~~AS A~~ EACH MEMBER OF NADEX, ~~YOU~~ AGREES THAT ~~YOU~~ IT MAY NOT BRING ANY ACTION AGAINST A NADEX PARTY UNLESS ~~YOU~~ IT BRINGS SUCH ACTION WITHIN 2 YEARS OF THE FIRST OCCURRENCE OR LACK OF OCCURRENCE OF THE ACT OR OMISSION COMPLAINED OF.

(c) ~~AS A~~ EACH MEMBER OF NADEX, ~~YOU~~ AGREES THAT ANY ACTION ~~YOU~~ IT BRINGS AGAINST A NADEX PARTY WILL BE GOVERNED BY ILLINOIS LAW, WITHOUT REGARD TO STATUTES, PRECEDENT, LEGAL DOCTRINE, OR CONTRACTUAL PROVISIONS THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A DIFFERENT JURISDICTION.

(d) ~~AS A~~ EACH MEMBER OF NADEX, ~~YOU~~ AGREES THAT ANY ACTION ~~YOU~~ IT BRINGS AGAINST A NADEX PARTY OR AGAINST ANOTHER NADEX MEMBER WILL BE RESOLVED BY BINDING ARBITRATION, IN ACCORDANCE WITH THE RULES OF THIS CHAPTER AND OTHER RULES OF NADEX, IF APPLICABLE.

RULE 10.2 ARBITRATION OF MEMBER-MEMBER DISPUTES

Any dispute, controversy, or claim between or among Members arising out of or relating to transactions on Nadex shall be submitted to binding arbitration in Cook County, Illinois

before, and according to the Member arbitration rules of, National Futures Association. The decision of the arbitrator or arbitrators will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. Unless the arbitrator or arbitrators find that one of the parties has acted in bad faith, each party will pay its own expenses.

RULE 10.3 ARBITRATION OF NADEX-MEMBER DISPUTES

Any dispute, controversy, or claim brought against Nadex by any Member shall be submitted to binding arbitration in Cook County, Illinois before, and according to the arbitration rules of, National Futures Association. The decision of the arbitrator or arbitrators will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. Unless the arbitrator or arbitrators find that one of the parties has acted in bad faith, each party will pay its own expenses. Upon request of either party the arbitrator or arbitrators will make a finding as to whether Nadex has acted in a manner that is grossly negligent, reckless, or fraudulent.

RULE 10.4 ARBITRATION OF FCM MEMBER-CUSTOMER DISPUTES

Any dispute, controversy, or claim brought against any FCM Member by a customer may be submitted to binding arbitration in Cook County, Illinois before, and according to the Customer arbitration rules of, National Futures Association. The decision of the arbitrator or arbitrators will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. Unless the arbitrator or arbitrators find that one of the parties has acted in bad faith, each party will pay its own expenses.

RULE 10.5 FAILURE TO ABIDE BY ARBITRATION DECISION

It will be a violation of the Nadex Rules for a Member to fail to pay an award or otherwise satisfy or abide by a judgment in arbitration, and Nadex may take disciplinary action against any such Member, including suspension or revocation of Membership.

RULE 10.6 CHANGE IN ARBITRATION PROCEDURE

Nadex will file all changes to its arbitration procedure with the Commission.

CHAPTERS 11-12 [No Change]

[End Rulebook]