July 18, 2019

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

**Rule Self-Certification: Rule Certification Allowing QEPs to Execute Block Trades**

**Reference File: SR-NFX-2019-27**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Section 40.6 of the Commission’s regulations thereunder, NASDAQ Futures, Inc. (“NFX” or “Exchange”) hereby submits amendments to NFX rules and reference guides (as set forth in Exhibits A and B) expanding the market participants that may execute block trades on NFX. The Exchange anticipates the amendment going into effect on July 31, 2019 for trade date August 1, 2019.

**Exhibit A - Amendments to Rulebook Chapter IV, Section 11 – Block Trades.**

NFX is amending its rulebook at Chapter IV Trading System, Section 11 – Block Rules and the Off Exchange Transactions Reference Guide (Reference Guide) to allow certain market participants with experience in financial markets and appropriate financial resources to execute block trades. This amendment will expand the category of market participants that may trade outside the central limit order book (CLOB). Presently only Eligible Contract Participants (ECPs), as defined in §1a(18) of the Commodity Exchange Act, may execute block trades.[[1]](#footnote-1) The Exchange believes that limiting block transactions to ECPs is unnecessary and unduly restrictive. By allowing certain additional, qualified market participants to execute block trades, the Exchange is recognizing the significant disparity in market sophistication and financial resources between retail customers and ECPs. This rule amendment allows sophisticated market participants with greater financial resources than retail customers to enter into block transactions in order to effectuate their hedging and speculation strategies. The Exchange notes that the ECP standard is not mandated by the CFTC. Instead it was adopted by DCMs when block trades were first introduced to the futures market. The Exchange is making the amendment in response to marketplace feedback.

**Qualified Eligible Person**

Part 4 of the Commission’s Regulations sets out rules applicable to Commodity Pool Operators (CPO) and Commodity Trading Advisors (CTA). Section 4.7 provides for reduced regulatory burdens for CPOs or CTAs that provide advisory services to Qualified Eligible Persons (QEPs). This exclusion is appropriate as QEPs exhibit a level of market sophistication and financial resources that traditional market participants lack. As a result, certain regulatory requirements are unnecessary when dealing with QEPs. Section 4.7 defines QEPs to include among others, Futures Commission Merchants, Broker/Dealers, Trusts, accredited investors, as well as non-United States Persons. In addition to identifying specific market participants that meet financial expertise and resource requirements, §4.7 also requires certain market participants to satisfy portfolio requirements in order to qualify as a QEP. NFX is now acknowledging the market sophistication and financial resource requirements outlined in the QEP definition and amending its rules and Reference Guides to allow certain QEPs to execute block transactions. The Exchange notes that not all QEPs will be allowed to execute block trades under this new rule. The Exchange believes adoption of this standard recognizes a middle ground between retail customers and ECPs. There are a number of market participants that, while not meeting the ECP standard, still possess the expertise and financial resources to execute block transactions. The Exchange is allowing the following categories of QEPs to execute block trades.

**Accredited Investors**:

1. Any natural person that would qualify as an Accredited Investor under SEC regulation 501(a)(5). Under current SEC regulations this would require an individual’s net worth, or joint net worth with that person’s spouse, to exceed $5,000,000.
2. Any natural person that would qualify as an Accredited Investor under SEC regulation 501(a)(6). Under current SEC regulations this would require an individual’s income to exceed $200,000 in each of the two most recent years, or joint income with that person's spouse in excess of $300,000 in each of those years, and has a reasonable expectation of reaching the same income level in the current year;

**Corporation or Similar Business**:

1. A corporation, similar business trust, or partnership, limited liability company or similar business venture, other than a pool, which has total assets in excess of $5,000,000.

**Non-US Persons**: Non-US persons as defined by §4.7 of the Commission’s regulations

Each of the US-based QEPs outlined above must also satisfy one of the three portfolio requirements outlined in §4.7 in order to execute block trades in accordance with this amendment.[[2]](#footnote-2) Non-US persons will not be required to meet the portfolio requirements set out in §4.7.

The Exchange notes that futures commission merchants (FCMs) clearing block trades for QEPs will continue to conduct appropriate risk assessments when executing trades on behalf of their clients. It will continue to be the responsibility of FCMs to prohibit a QEP customer from executing block trades if the FCM determines the customer lacks the necessary financial sophistication or resources to engage in such trading activity. As a result, QEPs will not be allowed to establish excessively large positions through block trades that could pose a risk to the QEP, the FCM clearing the transactions or the broader futures marketplace.

**DCM Core Principles**

The Exchange has reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act in connection with the amendments presented herein. Consistent with Core Principle 7 - Availability of General Information, the Exchange will post general information, including the NFX Rulebook as amended herein, on its website: [business.nasdaq.com/futures](http://business.nasdaq.com/nasdaq-futures/nfx-market).

With respect to the block trade amendments set forth in Exhibits A and B, the amendments continue to satisfy Core Principle 9 - Execution of Transactions. The NFX matching engine remains unchanged and continues to provide a competitive, open and efficient market and mechanism for executing transactions that protects the price discovery process.

**Certifications**

There were no opposing views among NFX’s Board of Directors, members or market participants. The Exchange hereby certifies that the rule amendments set forth herein comply with the Act and the Commission’s regulations thereunder. The Exchange also certifies that notice of pending certification and a copy of this submission have been concurrently posted on the Exchange’s website at [business.nasdaq.com/futures](http://business.nasdaq.com/nasdaq-futures).

If you require any additional information regarding the submission, please contact Aravind Menon at (301) 978-8416 or aravind.menon@nasdaq.com. Please refer to SR-NFX-2019-27 in any related correspondence.

Regards,



Kevin Kennedy

Chief Executive Officer

Attachments:

Exhibit A – Chapter IV, Section 11 – Block Trades

Exhibit B: NFX Off-Exchange Transactions Reference Guide

1. The ECP definition covers various market participants, many of whom are either subject to the jurisdiction of a state or federal regulatory agency or have significant assets, are highly sophisticated in financial transactions and have significant financial resources. [↑](#footnote-ref-1)
2. The portfolio requirements applicable to NFX QEPs have been modified for context. [↑](#footnote-ref-2)