**Rule Self-Certification**

October 13, 2016

Christopher J. Kirkpatrick

Office of the Secretariat

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Re: **Rule Certification for an**

**Amendment to the Quote Liquidity Provisioning Program**

**Reference File: SR-NFX-2016-95**

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”) submits this self-certification to amend the Exchange’s quote liquidity provisioning program (the “QLP Program”) for energy contracts that the Exchange has listed pursuant to Appendix A of the Exchange Rulebook (the “Energy Contracts”), as may be amended from time to time.[[1]](#footnote-1) The Program became effective on August 1, 2016 and will terminate on July 31, 2017.[[2]](#footnote-2) The amendments attached hereto will become effective on November 1, 2016.

The amendments are in response to market feedback, and aim to better differentiate the QLP Program from the Exchange’s Energy DMM Program.

Participants in the QLP Program are selected by Exchange staff using the process described in the Quote Liquidity Provisioning Solicitation for Appointment in Energy Futures and Options Products (the “Solicitation”) attached hereto as Exhibit A. This amendment does not make any changes to Exhibit A. NFX aims to have up to 30 QLPs participating at any particular time. The confidential details of the QLP Program, as amended, are set forth in Confidential Appendix 1, attached under separate cover.

The QLP Program is intended to be a complement to the Exchange’s Energy DMM Program[[3]](#footnote-3), but differs in its sourcing of liquidity provisioning. NFX has selected around 25 Designated Market Makers (“DMMs”) for the Energy DMM Program from among the Futures Participants and Authorized Customers who submitted proposals in response to a Designated Market Maker Solicitation for Appointment in Energy Futures and Options Products (the “DMM Solicitation”). The DMM Solicitation yielded interest in continuous quoting market making in the Exchange’s Order Book.

In contrast, the purpose of the QLP Program is to support liquidity in the Energy Contracts by recruiting QLPs to respond to Request for Quotes (“RFQ”) either in the Exchange’s Order Book or via off-Exchange brokered markets. A RFQ means an indication of intent to buy or sell a specified quantity of an Energy Contract. A RFQ in the Order Book must specify whether it is a buy or sell and the quantity interest in the Energy Contract. A RFQ is not an Order. A RFQ in the off-Exchange market (Block Trade) does not have the requirement to specify whether it is a buy or sell and the quantity interest in the Energy Contract. QLPs may respond at will to RFQs. NFX intends to select up to 15 QLP Program participants by permitting traditional (Proprietary Trading) and non-traditional liquidity providers (Institutional Customers) to actively participate in initiating the price discovery process in this QLP Program.

The Exchange believes that the Program complies with Core Principle 4 (Monitoring of Trading), Core Principle 9 (Execution of Transactions) and Core Principle 12 (Protection of Market Participants). The QLP Program will not impact order execution priority or otherwise give participants any execution preference or advantage. The QLP Program will not impact the Exchange’s ability to perform its trade practice and market surveillance obligations under the Act and Exchange staff will monitor trading in the Program’s products to prevent manipulative trading and market abuse. Additionally, the Exchange has systems to track QLP Program participants’ volume to ensure proper distribution of earned incentives. Finally, NFX rules include prohibitions against fraudulent, non-competitive, unfair or abusive practices.

The Exchange has reviewed the designated contract market 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/futures).

**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/futures).

If you require any additional information regarding this submission, please contact

Stephen Matthews at (301) 978-8458. Please refer to SR-NFX-2016-95 in any related correspondence.



Regards,

Daniel R. Carrigan

President

Attachment:

Exhibit A: Quote Liquidity Provisioning Solicitation

**Exhibit A**



Futures

**August 1, 2016**

NFX quote liquidity provisioning PROGRAM tender for appointment in Energy futures and options Products

**Introduction**

Nasdaq Futures, Inc. (NFX or the Exchange), the designated contract market owned by Nasdaq, is establishing a new Quote Liquidity Provisioning (QLP) program which will commence on August 1, 2016 for NFX Energy Futures and Options Products (Energy Products)[[4]](#footnote-4) and will continue until July 31, 2017.

The purpose of the program is to support liquidity in the Energy Products by recruiting QLPs to respond to Request for Quotes either in the Exchange Order Book or via off-Exchange brokered markets during critical global business hours. A "Request for Quote" or "RFQ" means an indication of intent to buy or sell a specified quantity of a Contract. An RFQ in the Order Book must specify whether it is a buy or sell and the quantity interest in a Contract. A Request for Quote is not an Order. An RFQ in the off-Exchange market (Block Trade) does not have the requirement to specify whether it is a buy or sell and the quantity interest in a Contract. QLPs may respond at will to RFQs in its respective and appointed business hours block.

The Exchange seeks to maintain competitive bid/ask spreads across all forward Contract curves, in Intra-Commodity (Time) Spreads, and in Inter-Commodity Spreads. The QLP program will enhance price discovery in the less liquid Energy Products by permitting traditional (Proprietary Trading) and non-traditional liquidity providers (Institutional Customers) to actively participate in initiating the price discovery process in a Request for Quotes process for either on or off-Exchange transactions.

During the QLP program term, the Exchange will assess Base Transaction Fees for the QLP Program Products at $0.05. The Block Trade/EFRP surcharge will not be waived. Appointed QLPs may receive a monthly or quarterly stipend in an amount to be determined by each QLP and the Exchange.

**NFX invites Futures Participants, Authorized Customers, and Customers to apply for QLP appointments in the Energy Products. NFX will assess tender applications received based upon several qualitative metrics, including each applicants proposed capabilities to engage in both on and off-Exchange transactions during respective global business hours. Applicants may request a monthly or quarterly financial stipend, which the Exchange will evaluate in light of their proposed capabilities to respond to RFQs.**

**QLP Program Design**

The NFX Designated Quote Liquidity Provisioning program objectives are:

1. To facilitate competitive, deep, and liquid responses to RFQs in the most liquid Contracts and expiries (front 4 months);
2. To facilitate competitive, deep, and liquid responses to RFQs in the most liquid Contracts and expiries for the subsequent 8 months (i.e., months 5 through 12) on the forward curve;
3. To facilitate competitive, deep, and liquid responses to RFQs in less liquid Futures and Options across the forward curve (up to 60 months).

Applicants may only propose to respond to Request for Quotes during blocks of, or all global business hours.

1. **US Business Day Liquidity Provisioning (USQLP)** is responding at will to Request for Quotes during the hours of 08:00-17:00 EPT.
2. **ASIA Business Day Liquidity Provisioning (ASQLP)** is responding at will to Request for Quotes during the hours of 17:00-01:00 EPT.
3. **EUROPEAN Business Day Liquidity Provisioning (EUQLP)** is responding at will to Request for Quotes during the hours of 03:00-13:00 EPT.

NFX acknowledges that QLPs might have different areas of focus along the forward curve, as well as different capabilities to respond to RFQs. Applications shall be made by the following Product Groups: Crude Oil Futures, Fuel Futures, Crude Oil Options, Natural Gas Futures, Natural Gas Options, Power Futures, and Power Options.

1. **QLP Program Products**

A QLP may apply for any combination of Energy Products listed below:

|  |  |  |  |
| --- | --- | --- | --- |
| Contract Name | NFX Symbol | Contract Size | Unit of Trading |
| NFX Henry Hub Natural Gas Financial Futures – 10,000 | HHQ | 10,000 | MMBtu |
| NFX Henry Hub Natural Gas Financial Futures – 2,500 | NNQ | 2,500 | MMBtu |
| NFX Henry Hub Penultimate Financial Futures – 2,500 | NPQ | 2,500 | MMBtu |
| NFX Henry Hub Penultimate Financial Futures – 10,000 | HPQ | 10,000 | MMBtu |
| NFX Options on NFX Henry Hub Penultimate Financial Futures - 10,000 | LNQ | 10,000 | MMBtu |
| NFX Brent Crude Financial Futures | BFQ | 1,000 | Barrels |
| NFX Low Sulphur Gasoil Financial Futures | GOQ | 100 | Metric tons |
| NFX Options on Brent Crude Financial Futures | BCQ | 1,000 | Barrels |
| NFX Options on NFX WTI Crude Penultimate Financial Futures | TOQ | 1,000 | Barrels |
| NFX WTI Crude Penultimate Financial Futures | TQ | 1,000 | Barrels |
| NFX Brent 1st Line Financial Futures | IBQ | 1,000 | Barrels |
| NFX Brent 1st Line Mini Financial Futures | IMMQ | 100 | Barrels |
| NFX WTI 1st Line Financial Futures | RTIQ | 1,000 | Barrels |
| NFX WTI 1st Line Mini Financial Futures | RMMQ | 100 | Barrels |
| NFX Low Sulphur Gasoil 1st Line Financial Futures | ULAQ | 100 | Metric tons |
| NFX Gasoil Crack Financial Futures (in BBLS) - Low Sulphur Gasoil 1st Line vs Brent 1st Line | GZQ | 1000 | Barrels |
| NFX Heating Oil Penultimate Financial Futures | OQ | 42,000 | Gallons |
| NFX Heating Oil 1st Line Financial Futures | HOFQ | 42,000 | Gallons |
| NFX RBOB Gasoline Penultimate Financial Futures | RQ | 42,000 | Gallons |
| NFX RBOB Gasoline 1st Line Financial Futures | RBSQ | 42,000 | Gallons |
| NFX Gasoline Crack Financial Futures (in BBLS) - RBOB Gasoline 1st Line vs Brent 1st Line | RBRQ | 42,000 | Gallons |
| NFX Power Financial Futures & Options | ALL | Various | Mwh |

In addition to the outright Contracts listed above, NFX wants to incentivize RFQ response in Intra-Commodity (Time) Spreads and Inter-Commodity Spreads. QLPs may apply to provision liquidity at will in Combination Strategies (an Order to simultaneously buy and/or sell at least two contracts in one or more Contracts) of the above listed Energy Products (e.g. NFX WTI Crude Financial Futures / NFX Brent Crude Financial Futures). The Exchange seeks QLP proposals that include, but are not limited to, respective global business hours of the following examples:

**Oil Complex**

* NFX Brent Crude Financial Futures: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4) up to 12 months
* NFX WTI Crude Penultimate Financial Futures: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4) up to 12 months
* NFX WTI Crude Penultimate Financial Futures / NFX Brent Crude Financial Futures: Inter-Commodity Spread (e.g. same month for most liquid expiries)

**Natural Gas**

* NFX Henry Hub Natural Gas Financial Futures – 10,000: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)
* NFX Henry Hub Natural Gas Financial Futures – 2,500: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)

**Power**

* NFX CAISO, ISO-NE, MISO, PJM, and ERCOT Financial Futures – All MWh: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)
* NFX CAISO, ISO-NE, MISO, PJM, and ERCOT Financial Futures – All MWh: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)

1. **QLP Benefits**

Appointed QLPs may receive a nominal monthly or quarterly stipend to contribute towards the direct costs associated with providing the QLP service. In addition, as mentioned above, the Exchange will assess Base Transaction Fees for the QLP Program Products at $0.05 for the Energy Products during the one year program. However, the Block Trade/EFRP surcharge will not be waived.

Appointed QLPs will be able to use all functionality in the NFX Trading System. The QLP will be able to use both Orders as well as Quotes. Mass Quotes, Mass Quote Protection (MQP) and Self-Match Prevention functionality is also available. An explanatory reference guide for these key concepts and services provided by NFX may be found here: [business.nasdaq.com/futures](file:///C:\Users\ShieldsS\AppData\Local\Microsoft\Windows\Temporary%20Internet%20Files\Content.Outlook\HL8FUUUH\business.nasdaq.com\futures).

1. **QLP Obligations and Assessment Metrics**

QLPs must be NFX Futures Participants, NFX Futures Participant’s Authorized Customer, or an NFX Futures Participant’s Customer capable of responding to RFQs on the commencement date of the program. Applications received in response to this solicitation will be evaluated with respect to the following criteria:

**Global Business Hours Concentration**

1. **US Business Day Liquidity Provisioning (USQLP)** is responding at will to Request for Quotes during the hours of 08:00-17:00 EPT.
2. **ASIA Business Day Liquidity Provisioning (ASQLP)** is responding at will to Request for Quotes during the hours of 17:00-01:00 EPT.
3. **EUROPEAN Business Day Liquidity Provisioning (EUQLP)** is responding at will to Request for Quotes during the hours of 03:00-13:00 EPT.
4. **Supervision of QLP Performance**

NFX shall monitor QLP activity in respective global business hours participation.

NFX reserves the right to suspend or terminate the benefits under this QLP Program with immediate effect if the QLP fails to respond to RFQs.

1. **QLP Selection Process and Appointment**

**Invitation**

Futures Participants, Authorized Customers, and Customers are invited to submit competitive tender applications via [steve.sladoje@nasdaq.com](mailto:steve.sladoje@nasdaq.com). Applications should be submitted to NFX no later than the close of business (17:00 EPT) on August 1, 2016.

**Eligibility**

Applications for this QLP program are invited from all NFX Futures Participants, and its Authorized Customers and Customers.

**Applicant Commitment**

The application should contain the following information for each Energy Product which the applicant wishes to submit a tender:

1. **US Business Day Liquidity Provisioning (USQLP)** is responding at will to Request for Quotes during the hours of 08:00-17:00 EPT.
2. **ASIA Business Day Liquidity Provisioning (ASQLP)** is responding at will to Request for Quotes during the hours of 17:00-01:00 EPT.
3. **EUROPEAN Business Day Liquidity Provisioning (EUQLP)** is responding at will to Request for Quotes during the hours of 03:00-13:00 EPT.
4. **RFQ Indicative Sizes** to facilitate competitive, deep and liquid responses in the most liquid Contracts and expiries (front 4 months);
5. **RFQ Indicative Sizes** to facilitate competitive, deep, and liquid responses to RFQs in the most liquid Contracts and expiries for the subsequent 8 months (i.e., months 5 through 12) on the forward curve;
6. **RFQ Indicative Sizes t**o facilitate competitive, deep, and liquid responses to RFQs in less liquid Futures and Options across the forward curve (up to 60 months).

**Trader List**

An appointed QLP will be required to provide a list of the Authorized Traders who will be responsible for quoting and executing trades under this QLP program.

**Appointment**

Selected QLPs will be appointed by NFX following assessment of all applications submitted under this tender. NFX’s selection and appointment of QLPs shall be final. NFX will maintain a reserve list (Reserve QLPs) that will be used to replace appointed QLPs in the case appointed QLPs fail to meet their obligations. Appointed QLPs and Reserve QLPs shall be notified of their appointment status on or around one week after the application deadline. Appointed QLPs will be engaged by NFX subject to its Rules, this tender, and the applicants’ accepted proposals. QLP benefits and obligations will commence on August 1, 2016 for the Energy Products, which will be communicated by NFX and continue for the term of the QLP program.

1. **Qualifying Business**

If a QLP participant makes any changes to its trading or clearing arrangements, its Authorized Traders, Clearing Futures Participant, Customer, or any other aspects of its operations reasonably required by NFX to manage this QLP program, then it is the responsibility of the QLP to notify NFX of those changes in advance in order to ensure continuity of the QLP’s benefits.

1. **Administration of Exchange Transaction Fee Charges and Stipend Payments**

As stated above, during the QLP program term, the Exchange will assess Base Transaction Fees for the QLP Program Products at $0.05 for the Energy Products during the one year program. However, the Block Trade/EFRP surcharge will not be waived.

NFX shall monitor each QLP’s performance, and subsequently calculate any stipend due in accordance with this QLP program in the following month. Upon request, NFX will provide an invoice breakdown at the Authorized Trader level but will not settle stipend payments directly with Authorized Traders.

NFX reserves the right in its absolute discretion to terminate this QLP program by way of a Futures Trader Alert announcing it has filed with the CFTC for termination of the program, and may announce another market maker program in the future that may include the Energy Products that are the subject of this QLP program.

1. [See](http://nasdaqphlx.cchwallstreet.com/NASDAQPHLXTools/PlatformViewer.asp?selectednode=chp_1_1_1_9&manual=%2Fnasdaqomxphlx%2Fnfx%2Fphlx-brdtrade-rules%2F) [NFX Rulebook Appendix A – Listed Contracts](http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/NFX/) [↑](#footnote-ref-1)
2. See SR-NFX-2016-78 [↑](#footnote-ref-2)
3. [See](http://nasdaqphlx.cchwallstreet.com/NASDAQPHLX/pdf/nfx-filings/2015/SR-NFX-2015-43.pdf) SR-NFX-2016-41 [↑](#footnote-ref-3)
4. [See NFX Rulebook Appendix A – Listed Contracts](http://nasdaqphlx.cchwallstreet.com/NASDAQPHLXTools/PlatformViewer.asp?selectednode=chp_1_1_1_9&manual=%2Fnasdaqomxphlx%2Fnfx%2Fphlx-brdtrade-rules%2F) [↑](#footnote-ref-4)