



October 21, 2019

Via CFTC Portal Submissions

Mr. Christopher Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Centre
1155 21st Street, N.W.
Washington D.C. 20581

RE: Self-Certification Rule Amendments: Nadex Amends Rules 1.1 Definitions, 2.4 Emergency Rules, 3.1 Trading Members – Applications, Classifications, and Privileges, 5.5 Order Entry, and 7.1 Adjustments – Submission Pursuant to Commission Regulation §40.6(a)

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and section §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (the “Commission”) under the Act (the “Regulations”), North American Derivatives Exchange, Inc. (“Nadex”, the “Exchange”) hereby submits to the Commission its intent to amend its Rules 1.1 Definitions, 2.4 Emergency Rules, 3.1 Trading Members – Applications, Classifications, and Privileges, 5.5 Order Entry, and 7.1 Adjustments.

Nadex Rule 1.1, Definitions, sets forth the definitions for relevant terminology. Nadex is amending the definitions of “Long Variable Payout Contract” and “Short Variable Payout Contract” to provide a clearer description of how the payout for such a contract is calculated.

Nadex Rule 2.4, Emergency Rules, section (c)(iii) states that for purposes of the Rule an “emergency” is “any circumstance that may materially affect the performance of the Contracts traded on, Nadex.” Nadex Rule 2.4 was modeled from the Commission’s definition of “emergency” as described in Regulation 40.1(h). Nadex is amending its Rule 2.4 to add language from the Regulation 40.1(h)(3) in order to more closely align its Rule with the Commission Regulation. With the addition, Nadex Rule 2.4(c)(iii) will describe an emergency as including “any circumstance that may materially affect the performance of the Contracts traded on Nadex, including failure of the payment system or the bankruptcy or insolvency of any participant.”

Nadex Rule 3.1, Trading Members – Applications, Classifications, and Privileges prohibits individual Trading Members from maintaining and/or trading more than one account, and prohibits the Authorized Trader(s) of an entity Trading Member from maintaining and/or trading any Nadex account
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other than the entity Trading Member account. Nadex is amending this Rule to clarify that no officer, director, member, manager, owner, or indirect owner of an entity Trading Member may maintain and/or trade another Nadex account. Nadex is clarifying this language to prevent an individual associated with an entity Trading Member account from having control of or influence over multiple trading accounts.

Nadex Rule 5.5, Order Entry, currently allows the Exchange to limit the number of orders per second submitted to the Exchange in order to mitigate a risk of harm that could arise if Nadex received an excessive number of orders within a short timeframe. An ‘order’ is only one type of ‘message’. Other messages may include ‘amend’ or ‘cancel’ instructions, calls for market data information, among others. All such messages may present a risk of harm to the Exchange if submitted in rapid succession. Accordingly, Nadex is clarifying its Rule 5.5 to indicate that in addition to limiting the number of orders submitted to the Exchange, it may also limit the number of messages submitted to the Exchange to mitigate against a risk of harm.

Finally, Nadex is amending its Rule 7.1, Adjustments, to indicate that in the event the Underlying is unavailable or changes occur in the way the Underlying is calculated, in addition to delaying the listing of a Series or adjusting the terms of an outstanding Series, Nadex may also take other action it deems appropriate to achieve fairness to holders of Contracts of the affected Series. This change contemplates circumstances where delaying the listing of a Series or adjusting the terms of an outstanding Series are not appropriate, but the situation requires action on Nadex’s part in order to fairly settle the Contracts listed in a Series.

Core Principles

Rule 1.1 Definitions

Nadex has identified the following Designated Contract Market (“DCM”) Core Principle as potentially being impacted by this amendment: Core Principle 7 (Availability of General Information).

Core Principle 7, as implemented by Regulations 38.400 and 38.401, requires a DCM to make available to the public the terms and conditions of the contracts on the contract market, and to ensure that its Rulebook is accurate, current, and readily accessible to the public. Nadex is amending the definitions of Long and Short Variable Payout Contracts in the Nadex Rulebook to provide additional clarification as to the payout calculation to which the holders of these contracts are entitled. The Rulebook is publicly available on the Nadex website and will continue to be available on the website after the changes described herein are made. Therefore, these amendments will not negatively impact Nadex’s ability to comply with this Core Principle.

Likewise, Derivatives Clearing Organization (“DCO”) Core Principle L (Public Information), requires a DCO to publicly disclose the terms and conditions of each contract, agreement, and transaction cleared and settled by the DCO. The definitions of Long and Short Variable Payout Contracts relate to the method by which payout for those contracts is calculated and the contracts settled. The definitions are found in the Rulebook, which will continue to be made publicly available on the Nadex website. Accordingly, the amendments discussed herein will not negatively impact Nadex’s ability to comply with this Core Principle.

Rule 2.4 Emergency Rules

Nadex has identified the following DCM Core Principle as potentially being impacted by this amendment: Core Principle 6 (Emergency Authority).

Core Principle 6, as implemented by Regulation 38.350, requires a DCM to adopt rules to provide for the exercise of emergency authority. Nadex has adopted Rule 2.4 which sets forth the circumstances under which Nadex may take emergency action and the procedures to implement such emergency action. Section (c) of Rule 2.4 was modeled from the Commission's definition of "emergency" located in Regulation 40.1(h). Nadex is amending its Rule 2.4 to incorporate language from Regulation 40.1(h)(3). As Nadex is amending its Rule to further align with the Commission Regulations, the amendment will not negatively impact Nadex's ability to comply with the Core Principle.

Nadex has not identified any DCO Core Principles as potentially being impacted by this amendment.

Rule 3.1 Trading Members – Applications, Classifications, and Privileges

Nadex has identified the following DCM Core Principles as potentially being impacted by this amendment: Core Principle 2 (Compliance with Rules), Core Principle 12 (Protection of Markets and Market Participants).

Core Principle 2, as implemented by Regulation 38.151 (access requirements), requires a DCM provide access criteria that are impartial, transparent, and applied in a non-discriminatory manner. The prohibition on individuals associated with an entity Trading Member account maintaining and/or trading multiple accounts will be applied uniformly across all entity Trading Members and further enhances and clarifies Nadex's existing Rule that Members may not have an interest in more than one account. The Rule is transparent and publicly available on the Nadex website. Accordingly, the amendment will not negatively impact Nadex's ability to comply with this Core Principle.

Core Principle 12, implemented by Regulation 38.650, requires a DCM to establish and enforce rules to promote fair and equitable trading on the contract market. The amendment to Rule 3.1 further promotes fair and equitable trading on the contract market by preventing those individuals associated with an entity Trading Member from gaining an unfair advantage in the marketplace by having access to the entity Trading Member account, as well as another account under their control. Accordingly, the amendment will not negatively impact Nadex's ability to comply with this Core Principle.

Nadex has not identified any DCO Core Principles as potentially being impacted by this amendment.

Rule 5.5 Order Entry

Nadex has identified the following DCM Core Principle as potentially being impacted by this amendment: Core Principle 12 (Protection of Markets and Market Participants).

Core Principle 12, as implemented by Regulations 38.650 and 38.651, requires the DCM to have and enforce rules that are designed to promote fair and equitable trading on the contract market. Nadex is amending its Rule 5.5 to indicate that messages submitted to the Exchange may be limited in order to prevent any one trader from monopolizing the orderbook and the operational capacity of the Exchange and reducing liquidity in the market. Further, the message limiting may be used to support the system stability of the exchange by ensuring excessive messaging does not slow down or prevent member access

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to Nadex, among other things. The limit on messages will apply to all Direct Trading Members using an API. Accordingly, limiting the number of messages a trader may submit to the Exchange is further promoting fair and equitable trading on the market for all of its participants. Accordingly, Nadex's ability to comply with this Core Principle will not be negatively impacted by the amendment discussed herein.

Nadex has not identified any DCO Core Principles as potentially being impacted by this amendment.

Rule 7.1 Adjustments

Nadex has identified the following DCM Core Principle as potentially being impacted by this amendment: Core Principle 12 (Protection of Markets and Market Participants).

Core Principle 12, as implemented by Regulations 38.650 and 38.651, requires the DCM to have and enforce rules that are designed to promote fair and equitable trading on the contract market. Nadex is amending its Rule 7.1 to indicate that it may take action it deems appropriate to achieve fairness to holders of contracts affected by the absence or a change in the underlying markets upon which those contracts are based. By expanding its authority to take action beyond delaying the listing of contracts or amending the terms of a contract, Nadex is in a better position to address and resolve unforeseeable issues that arise in the underlying market in order to achieve fairness for its market participants. Therefore, Nadex's ability to comply with this Core Principle will not be negatively impacted by the amendment.

Nadex has not identified any DCO Core Principles as potentially being impacted by this amendment.

Amendments to the Rulebook have been outlined in Exhibit A. Specific amendments are set forth in Exhibit B. Any deletions are stricken out while the amendments and/or additions are underlined.

Pursuant to the 10-day filing period under Regulation 40.6(a)(3), Nadex intends to implement these new rules and amendments on trade date November 4, 2019.

Nadex hereby certifies that the additions contained herein comply with the Act, as amended, and the Commission Regulations adopted thereunder. No substantive opposing views were expressed to Nadex with respect to any of these actions. Nadex hereby certifies that notice of these events was posted on its website at the time of this filing.

Should you have any questions regarding the above, please do not hesitate to contact me by telephone at (312) 884-0927 or by email at jaime.walsh@nadex.com.

Sincerely,



Jaime M. Walsh
Legal Counsel

EXHIBIT A

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EXHIBIT A

Rule	Asset	Duration/Close Time	Action	Effective Date
1.1	Definitions	N/A	Amend description of Long and Short Variable Payout	11/4/2019
2.4	Emergency Rules	N/A	Amend language to mirror 40.1(h)(3)	11/4/2019
3.1	Trading Members – Applications, Classifications, and Privileges	N/A	Add language indicating individuals associated with entity Trading Members may not maintain or trade multiple accounts.	11/4/2019
5.5	Order Entry	N/A	Add language to limit messages submitted to the Exchange.	11/4/2019
7.1	Adjustments	N/A	Amend language to allow for other action when necessary to achieve fairness.	11/4/2019

EXHIBIT B

Amendment of Rules 1.1, 2.4, 3.1, 5.5, 7.1

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

RULE 1.1 DEFINITIONS

When used in these Rules:

“Affiliate” means any corporate affiliate of Nadex.

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

“Binary Contract” means the right to receive a fixed Settlement Value per contract, from Nadex on the Settlement Date dependent upon whether the market participant holds a long position or short position in a Binary Contract. If the market participant holds a long position in a Binary Contract, the participant has 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 the market participant holds a short position in a Binary Contract, the participant has 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.

“Calculation Time” is the time the Expiration Value is calculated.

“Call Spread Contract” is a type of Variable Payout Contract, having a fixed Expiration Date, wherein the holder of a Long Call Spread Variable Payout Contract or a Short Call Spread Variable Payout Contract may have a right to receive a variable Settlement Value. Such Variable Payout Contracts may be classified as “Call Spread(s)” or “Narrow Call Spread(s)”.

“Ceiling” 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 Ceiling at Expiration, the Ceiling will be the Expiration Value.

“Class” means all Contracts of the same Type with the same Underlying.

“Closing Trade Value” means the rate, level, amount, measure, or other value of a Binary, Call Spread, or Touch Bracket at which the Contract is closed in a Member’s or Customer’s account.

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“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.

“Contract” means a Call Spread or Touch Bracket Variable Payout Contract or a Binary Contract.

“Correspondent Account” means an account as that term is defined in 31 CFR 1010.605(c).

“Customer” means a Commodity Customer, a Cleared Swap Customer, a FCM Member or a Trading member of Nadex, as the context requires. In this regard,

(i) “Commodity Customer” has the meaning set forth in Commission Regulation 1.3(k);

(ii) “Cleared Swap Customer” has the meaning set forth in Commission regulation 22.1;

(iii) “DCO Customer” has the same meaning as the definition “customer” set forth in Commission Regulation 190.01(l) and section 761(9) of the Bankruptcy Code and includes FCM Members and Trading Members of Nadex.

“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.

“End Date” means the last day on which a delivery month will be used as the Underlying for Nadex contracts.

“Expiration” means the time on the Expiration Date established by these Rules at which a Contract expires and the Expiration Value of that Contract is determined.

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

“Expiration Value” means the rate, level, amount, measure, or other value of the Underlying at Expiration as calculated and/or published by the Source Agency.

“FCM Member” means any Member that is registered with the Commission as a Futures Commission Merchant and as a swap firm and is authorized by Nadex to intermediate orders of Commodity Customers or Cleared Swap Customers on the Market.

“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.

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“Foreign Bank” means a bank as that term is defined in 31 CFR 1010.100(u).

“Index Value”, also known as an “Indicative Index”, is a value calculated once per second throughout a Contract’s duration, which the Source Agency may release as an Expiration Value as provided for in the Contract specifications in Chapter 12, or to serve as an indication of the value of a Contract’s Underlying at a given point in time.

“Last Trading Day” means, for a particular Contract, the last date on which that Contract may be traded on the Market.

“Limit Order” means a request submitted to the Exchange to buy or sell a set number of contracts, in a particular product offered by Nadex, at a specified price or better price if a better price is available. The following are permissible Nadex Limit Order types, although certain order types may only be available on particular platforms or to particular Member types:

“Fill or Kill Order” or “FOK” is a Limit Order that will be cancelled if the Order cannot be immediately filled in its entirety.

“Immediate or Cancel Order” or “IOC” is a Limit Order that can be filled in whole or in part, with any remaining quantity cancelled.

“Good ‘Til Cancel Order” or “GTC” is a Limit Order which will remain on the market until it is filled, cancelled, or the contract expires. Any remainder of a partially filled GTC Order will stay on the market until it is filled, cancelled, or the contract expires.

“Long Variable Payout Contract” means (i) if the Expiration Value is greater than the Opening Trade Value, but does not exceed the Ceiling, the right to receive any collateral posted to establish the position plus any positive number resulting from subtracting the Opening Trade Value from the Expiration Value, and then multiplying that resulting number by the Dollar Multiplier; or (ii) if the Expiration Value is greater than the Opening Trade Value and exceeds the Ceiling, the right to receive any collateral posted to establish the position plus any positive number resulting from subtracting the Opening Trade Value from the Ceiling, and then multiplying that resulting number by the Dollar Multiplier; or (iii) if the Expiration Value is less than the Opening Trade Value, but does not exceed the Floor, the right to receive any collateral posted to establish the position minus any positive number resulting from subtracting the Expiration Value from the Opening Trade Value, and then multiplying that resulting number by the Dollar Multiplier. ~~The Expiration Value may not exceed the Ceiling or Floor;~~ or (iv) if the Expiration Value is less than the Opening Trade Value and exceeds the Floor, the right to receive any collateral posted to establish the position minus any positive number resulting from subtracting the Floor from the Opening Trade Value, and then multiplying that resulting number by the Dollar Multiplier.

“Market Order” means a request submitted to the Exchange to buy or sell a set number of contracts, in a particular product offered by Nadex, at the market price. The following are

permissible Nadex Market Order types, although certain order types may only be available on particular platforms or to particular Member types:

“Market Order With Protection” or “MOP” is a Market Order that will attempt to fill, in whole or part, at the current displayed price or better, or within a pre-determined number of points (Tolerance Protection) worse than the specified display price. The remainder of any Market Order With Protection that cannot be immediately filled either at the current displayed price or better, or within the Tolerance Protection, will be cancelled.

“Market Maker” means a Member that is granted certain 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.

“Member” means a Person who is approved by Nadex to be a Trading Member or a FCM_Member and who is bound by these Rules as they may be amended from time to time.

“Membership Agreement” is the Nadex Membership Agreement as set forth on the Nadex website, to which all Nadex Members agree to comply.

“Midpoint” is the price included in the data set used in the calculation of the Expiration Value of a foreign currency contract. A Midpoint is calculated by adding the bid price and the ask price of the relevant underlying spot currency market together and then dividing that number by two (2). For example, if the bid price is 1.3400 and the ask price is 1.3402, the two numbers are added together (totaling 2.6802) and then divided by two (2), equaling a Midpoint of 1.3401. If the spread between a particular bid price and ask price is deemed too wide (greater than ten (10) pips), those prices will not be used to calculate a Midpoint and will thus not be included within the data set used in the Expiration Value calculation.

“Modification Event” means an event as described in the Market Maker Agreement.

“Non Post-Only Order” is an Order that did not originate as a Post-Only Quote.

“Opening Trade Value” means the rate, level, amount, measure, or other value of a Binary, Call Spread, or Touch Bracket at which the Contract is opened in a Member’s or Customer’s account.

“Order” means a request submitted to the Exchange to buy or sell a set number of contracts, in a particular product offered by Nadex in accordance with the requirements established by the Exchange.

“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”.

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

“Post-Only Quote” is a quote submitted by a Market Maker, which has the potential to become a Limit Order if matched for trade execution, and which cannot be executed opposite another Post-Only Quote. Post-Only Quotes are either Post-Only (Price Adjustment) or Post-Only (Reject) Quotes.

“Post-Only (Price Adjustment) Quote” is a Post-Only Quote that will be cancelled by the Exchange in whole or in part to the extent that at the time it is submitted to the Exchange it would be immediately executable opposite another Post-Only Quote. If, some portion of such submitted Post-Only (Price Adjustment) Quote would be immediately executable opposite any resting Non-Post Only Order(s), that part of such submitted Post-Only (Price Adjustment) Quote will be matched opposite such resting Non-Post Only Order(s) by the Exchange. The remaining portion of the submitted Post-Only (Price Adjustment) Quote will be cancelled by the Exchange, leaving the opposite Post-Only Quote in the order book. Unlike a Post-Only (Reject) Quote, however, upon cancellation of the submitted Post-Only (Price Adjustment) Quote, the Exchange will automatically submit an amended quotation for the unfilled balance of the cancelled Post-Only (Price Adjustment) Quote at a price level that is adjusted (a) for Binary Contracts to four minimum tick increments, and (b) for Variable Payout Contracts to one minimum tick increment lower (for bids) or higher (for offers) than the price level of the existing opposite Post-Only Quote.

“Post-Only (Reject) Quote” is a Post-Only Quote that will be cancelled by the Exchange in whole or in part to the extent that, at the time it is submitted to the Exchange it would be immediately executable opposite another Post-Only Quote. If, however, some portion of such submitted Post-Only (Reject) Quote would be immediately executable opposite any resting Non-Post Only Order(s), that part of such submitted Post-Only (Reject) Quote will be matched opposite such resting Non-Post Only Order(s) by the Exchange. The remaining portion of the submitted Post-Only (Reject) Quote will be cancelled by the Exchange, leaving the opposite Post-Only Quote in the order book.

“Privacy Policy” is the Nadex Privacy Policy as set forth on the Nadex website, to which all Members, FCM customers, and users of the Nadex website agree to comply.

“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”).

“Reportable Level(s)” means the aggregate contract level within a product Class at which the Exchange must report certain Member and trade information to the Commission pursuant to Commission Regulations.

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“Risk Disclosure Statement” is the Nadex Risk Disclosure Statement as set forth on the Nadex website, to which all Nadex Members agree.

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

“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.

“Settlement Value” means the amount which the holder of a Contract may receive for a Contract held until Expiration. The Settlement Value of a Binary Contract is \$100. The Settlement Value of a Variable Payout Contract is determined as described in the definitions of Long and Short Variable Payout Contracts.

“Short Variable Payout Contract” means (i) if the Expiration Value is less than the Opening Trade Value, but does not exceed the Floor, the right to receive any collateral posted to establish the position plus any positive number resulting from subtracting the Expiration Value from the Opening Trade Value, and then multiplying that resulting number by the Dollar Multiplier; or (ii) if the Expiration Value is less than the Opening Trade Value and exceeds the Floor, the right to receive any collateral posted to establish the position plus any positive number resulting from subtracting the Floor from the Opening Trade Value, and then multiplying that resulting number by the Dollar Multiplier; or (iii) if the Expiration Value is greater than the Opening Trade Value, but does not exceed the Ceiling, the right to receive any collateral posted to establish the position minus any positive number resulting from subtracting the Opening Trade Value from the Expiration Value, and then multiplying that resulting number by the Dollar Multiplier; or (iv) if the Expiration Value is greater than the Opening Trade Value and exceeds the Ceiling, the right to receive any collateral posted to establish the position minus any positive number resulting from subtracting the Opening Trade Value from the Ceiling, and then multiplying that resulting number by the Dollar Multiplier. ~~.-The Expiration Value may not exceed the Ceiling or Floor.~~

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

“Speculative Position Limits,” or “Position Limit” means the maximum position, net long and net short combined, 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 Commission.

“Start Date” means the date on which a new delivery month will be used as the Underlying for Nadex contracts.

“Suspension Event” means an event as described in the Market Maker Agreement.

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“Terms of Use” are the Nadex Terms of Use as set forth on the Nadex website, to which all Nadex Members, FCM customers, and users of the Nadex website agree to comply.

“Tolerance Protection” means the defined number of points, expressed in terms of a dollar amount, away from the displayed market price that will be acceptable to fill a Market Order With Protection in whole or part, if the displayed market price or a better price is no longer available when the Exchange receives the Order.

“Touch Bracket Contract” is a type of Variable Payout Contract, having a conditional Expiration Date on the Last Trade Date established at the time of listing, but which Touch Bracket will expire prior to that stated Expiration in the event that, during the life of the Contract, the Index Value either (i) equals or is less than the Floor or (ii) equals or is greater than the Ceiling of the Touch Bracket.

“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 5.11.

“Trading Member” means a Person who has been approved by Nadex to trade directly and not through a FCM Member on the Market, and does not include any FCM Member.

“Type” means the classification of a Contract as a Variable Payout Contract or a Binary Contract.

“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.

“US Financial Institution” means a financial institution as that term is defined in 31 CFR 1010.100(t), subsections (1), (2), and (8), 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.

“Variable Payout Contract” means a category of contracts wherein the holder of a Long Variable Payout Contract or a Short Variable Payout Contract may have a right to a variable Settlement Value. Variable Payout Contracts include Call Spread Contracts and Touch Bracket Contracts.

“Volume Threshold Level” means the volume based Reportable Level as established by Commission Regulation 15.04.

“Wide Spread Surcharge” means an additional exchange fee imposed on a duly appointed Market Maker’s average per lot profit above a specified level, in a given month. Specific details pertaining to the Wide Spread Surcharge are set forth in the fee schedule on the Nadex website.

“12PM” or **“12:00 PM”** means 12:00 Noon

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RULES 2.1 – 2.3 [UNCHANGED]

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, including failure of the payment system or bankruptcy or insolvency of any participants;

(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.

RULES 2.5 – 2.10 [UNCHANGED]

RULE 3.1 TRADING MEMBERS - APPLICATIONS, CLASSIFICATIONS, AND PRIVILEGES

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

(i) An applicant who is an individual, must:

1) provide Nadex with any information or documentation Nadex deems necessary in order to verify the applicant's identity, perform a

criminal background check, or otherwise review information provided on an Application for Membership or by a third party provider¹;

2) have an account or accounts in the Trading Member's name with a US Financial Institution that the Trading Member will use to fund its Nadex account at the Nadex settlement bank, and to receive funds from its Nadex account, or, if the Trading Member is a non-United States resident, have an account or accounts in the Trading Member's name with either a US Financial Institution or a Foreign Bank capable of transacting with Nadex's settlement bank either directly, through a Correspondent Account, or other acceptable intermediary that the Trading Member will use to fund its Nadex account at the Nadex settlement bank, and to receive funds from its Nadex account via one of the acceptable methods as stated on the Nadex website²; and

3) certify that

(A) the applicant is old enough to enter into a legally enforceable contract and has reached the required age as stated on the Membership Agreement;

(B) the applicant has read, understands and agrees to comply with the Nadex Rules, Risk Disclosure Statement, Terms of Use, Privacy Policy, and Membership Agreement;

(C) the applicant agrees to be bound by these Rules; and

(D) the applicant will trade only for itself and will not trade as an intermediary for any other person or entity.

(ii) An applicant that is an entity must

(1) be organized in the United States;

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

(3) provide Nadex with a valid Legal entity Identifier as described in Commission Regulation §45.6;

¹ Required documentation may vary depending on the applicant's residential location. Specific residential locations from which Nadex may accept applications for Membership will be identified on the Nadex Membership application.

² All funds deposited into the Trading Member's Nadex account at the Nadex settlement bank shall be in U.S. dollars. All withdrawal payments from the Trading Member's Nadex account will also be made in U.S. dollars.

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(4) have an account or accounts in the Trading Member's name with a Financial Institution that the Trading Member will use to fund its Nadex account at the Nadex settlement bank, and to receive funds from its Nadex account, via one of the acceptable methods as stated on the Nadex website; and

(5) 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;

(6) 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);

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

(8) certify that

(A) the applicant is validly organized, in good standing, in the United States;

(B) the applicant is authorized by its governing body and, if relevant, documents of organization, to trade commodities, swaps, futures and options contracts, and

(C) the applicant has read, understands and agrees to comply with the Nadex Rules, Risk Disclosure Statement, Terms of Use, Privacy Policy, and Membership Agreement.

(b) In order to become a Trading Member, an applicant who is an individual must complete and submit the Nadex on-line membership application, provide Nadex with any other information Nadex may request, and fund its Nadex account by transferring to the appropriate segregated Cleared Swap Proprietary Account at Nadex's settlement bank an initial deposit of no less than \$250 in funds from its account at a Financial Institution. Nadex may return any account balance and terminate any account upon the discovery that the Membership Application was completed by anyone other than the named individual identified on the Membership Application. An applicant who is an entity must complete an Account Certification, Membership Agreement, and W-9, which collectively shall constitute the membership application, provide Nadex with any other information Nadex may request, and fund its Nadex account by transferring to the appropriate segregated Cleared Swap Proprietary Account at Nadex's settlement bank an initial deposit of no less than \$250 in funds from its account at a Financial Institution. All funds deposited by Trading Members shall constitute "Member Property" in accordance with CFTC Regulations.

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

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(d) If an application is approved by Nadex and the Nadex settlement bank confirms to Nadex that the applicant has deposited with it the funds required in paragraph (b) of this Rule, 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 its Nadex account;

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

(vi) 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) A Trading Member that is an individual, may not maintain and/or trade more than one Nadex account. ~~The~~No Authorized Trader(s), nor any officer, director, member, manager, owner, or indirect owner, of a Trading Member that is an entity, may ~~not~~ maintain a separate Nadex account and/or trade any Nadex account other than that entity’s account.

RULES 3.2 - 5.4 [UNCHANGED]

RULE 5.5 ORDER ENTRY

(a) Trading Member Orders

(i) A Trading Member, who is not engaged in activity pursuant to a Market Maker Agreement, will enter orders to trade Contracts by electronic transmission over the Internet. Order rate limiter functionality will cap the maximum number of orders that may be submitted to the Exchange per second (or per a specific time period expressed in seconds) per Trading Member or Authorized Trader of a Trading Member, in order to prevent a risk of harm to the Exchange. Similarly, Nadex may limit the number of messages submitted to the Exchange for the same purpose.

(ii) A Trading Member will enter an order to trade one or more Contracts by indicating to Nadex in the manner required by Nadex: (1) order direction (i.e., buy or sell); (2) order type (e.g., Limit Order or Market Order); (3) duration of the order (e.g., Fill or Kill, Immediate or Cancel, Good ‘Til Cancel); (4) the Series of Contract;

(5) the limit price at which the Trading Member wants to buy or sell the Contract, in the case of Limit Orders; (6) the number of Contracts the Trading Member want to buy or sell, and (7) the Tolerance Protection in the case of Market Orders With Protection.

(iii) In order to enter an order to trade one or more Contracts, a Trading Member will be required to submit the order to Nadex. Once the order is 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 Trading Member's Order Ticket and Order History account pages. The Trading Member will be responsible for any and all order entries confirmed for its account and accepted by Nadex.

(iv) Any Member submitting orders, or any other messages directly to the Exchange, including but not limited to messages related to the cancellation or amendment of an order, whether manually or via automated functionality, must ensure adequate controls are in place to prevent excessive messaging or other activity that may be deemed detrimental or disruptive to the Exchange.

(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 by Internet (SSL only), in accordance with Nadex's applicable policies and procedures.

(iii) FCM Members will submit a FCM Customer Order to trade one or more Contracts by indicating to Nadex in the manner required by Nadex: (1) order direction (i.e., buy or sell); (2) order type (e.g., Limit Order or Market Order); (3) duration of the order (e.g., Fill or Kill, Immediate or Cancel, Good 'Til Cancel); (4) the Series of Contract; (5) the limit price at which the FCM Customer wants to buy or sell the Contract, in the case of Limit Orders; (6) the number of Contracts the FCM Customer wants to buy or sell; (7) the Tolerance Protection in the case of Market Orders With Protection; (8) the FCM Customer Position Account identifier; and (8) 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. 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 accounts 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 (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.

RULES 5.6 – 6.5 [UNCHANGED]

RULE 7.1 ADJUSTMENTS

In the event that, prior to or during the term of a Series, changes beyond the control of Nadex occur in the availability of the Underlying, the way the Underlying is calculated or an Expiration Value for the Underlying is unavailable or undefined in light of intervening events, Nadex may delay listing a Series, ~~or~~ adjust the terms of an outstanding Series, or take other action 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.

RULES 7.2 – 12.65 [UNCHANGED]

End of Rulebook.