

SUBMISSION COVER SHEET

Confidential Treatment has not been requested

Organization Name: NASDAQ Futures, Inc.

Organization Type: DCM

Registered Entity Identifier: SR-NFX-2017-56

Submission Number: 1712-1514-2539-12

Submission Date: 12/15/17 02:25:39 PM

Submission Type: Product Terms and Conditions - 40.6(a) Rule Certification

Submission Description: Amendments to Chapter VIII, Options, of the Exchange rulebook.

Official Name(s) of Product(s) Affected: BCQ, TOQ, OOQ and ROQ



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Rule Self-Certification

December 15, 2017

Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Re: **Rule 40.6 Certification**
Option Exercise Rule Amendments
Reference File: SR-NFX-2017-56

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 Chapter VIII, Options, of the Exchange rulebook. The Exchange is also amending Rulebook Appendix A, Rules 102.05, 104A.05, 106C.05 and 107D.05, governing exercise of NFX Options on NFX Brent Crude Financial Futures (BCQ), NFX Options on NFX WTI Crude Oil Penultimate Financial Futures (TOQ), NFX Options on NFX Heating Oil Penultimate Financial Futures (OOQ), and NFX Options on NFX RBOB Gasoline Penultimate Financial Futures (ROQ). For these four contracts only, the amendments eliminate the ability of option holders to submit contrary exercise instructions and also provide for automatic exercise of at-the-money calls. The Exchange intends to implement the amendments on the later to occur of (1) the January 17, 2017 expiration, or (2) the date on which The Options Clearing Corporation (“OCC”) implements OCC rule amendments required for OCC to clear the Exchange’s BCQ, TOQ, OOQ and ROQ contracts consistent with the Exchange’s amendments set forth herein. The Exchange will issue a Futures Trading Alert notifying market participants of the implementation date.

The text of the rule amendments is set forth below. New language is underlined and deletions are struck through.

Chapter VIII Options Rules

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H. Notice of Exercise

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(6) Unless otherwise specified in the Rules applicable to a particular Option, on the last day on which an Option may be exercised, the Clearing Corporation will automatically exercise each Option held by a purchaser that is an in-the-money put Option or in-the-money call Option unless the Clearing Corporation receives written notification from the purchaser prior to the deadline established by the Clearing Corporation on the Option's expiration date that the purchaser does not want to exercise the Option, in which case the Option is deemed abandoned. The Rules applicable to a particular Option may also specify they at-the-money calls will also be automatically exercised. The Clearing Corporation will make appropriate book entries and allocations for all Options automatically exercised in accordance with subsections (3) and (5) of this Rule. The Clearing Corporation will determine whether the Option is in-the-money based on the settlement price of the underlying Futures Contract on the last day of trading in the Option.

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Rulebook Appendix A - Listed Contracts

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Chapter 102 NFX Options on NFX Brent Crude Financial Futures (BCQ)

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102.05 Exercise Style

The option contracts are American-style exercise. The buyer of the option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing Corporation by the deadline established by the Clearing Corporation. At such time as the Clearing Corporation establishes for automatic exercise on the last trading day, the Clearing Corporation will automatically exercise all options that are in-the-money and all calls that are at-the-money on behalf of the holder ~~unless instructed otherwise by the holder.~~ Contrary exercise

instructions will not be accepted. Unexercised options which are out-of-the-money expire automatically.

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Chapter 104A NFX Options on NFX WTI Crude Oil Penultimate Financial Futures (TOQ)

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104A.05 Exercise Style

The options contracts are American-style exercise. The buyer of the option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing Corporation by the deadline established by the Clearing Corporation. At such time as the Clearing Corporation establishes for automatic exercise on the last trading day, the Clearing Corporation will automatically exercise all options that are in-the-money and all calls that are at-the-money on behalf of the holder ~~unless instructed otherwise by the holder.~~ Contrary exercise instructions will not be accepted. Unexercised options which are out-of-the-money expire automatically.

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Chapter 106C NFX Options on NFX Heating Oil Penultimate Financial Futures (OOQ)

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106C.05 Exercise Style

The options contracts are American-style exercise. The buyer of the option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing Corporation by the deadline established by the Clearing Corporation. At such time as the Clearing Corporation establishes for automatic exercise on the last trading day, the Clearing Corporation will automatically exercise all options that are in-the-money and all calls that are at-the-money on behalf of the holder ~~unless instructed otherwise by the holder.~~ Contrary exercise instructions will not be accepted. Unexercised options which are out-of-the-money expire automatically.

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Chapter 107D NFX Options on NFX RBOB Gasoline Penultimate Financial Futures (ROQ)

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107D.05 Exercise Style

The options contracts are American-style exercise. The buyer of the option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing Corporation by the deadline established by the Clearing Corporation. At such time as the Clearing Corporation establishes for automatic exercise on the last trading day, the Clearing Corporation will automatically exercise all options that are in-the-money and all calls that are at-the-money on behalf of the holder ~~unless instructed otherwise by the holder~~. Contrary exercise instructions will not be accepted. Unexercised options which are out-of-the-money expire automatically.

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Concise Explanation and Analysis

On July 21, 2017, New York Mercantile Exchange, Inc. (“NYMEX”) submitted a CFTC Regulation 40.6(a) certification regarding amendments to NYMEX Rule 300.20 (“Strike Price Listing Procedures”) and its Strike Price Listing Procedures Table with respect to 29 NYMEX Option Contracts.¹ The amendments eliminated contrary exercise instructions and amended at-the-money instructions for certain NYMEX contracts effective on Sunday, August 6, 2017 for trade date Monday, August 7, 2017 and commencing with the February 2018 contract month and beyond. Among the NYMEX contracts affected by the amendments are the Light Sweet Crude Oil Option (LO), the RBOB Gasoline Option (OB) and the NY Harbor ULSD Option. The settlement prices of the NYMEX futures contracts underlying these NYMEX options are the settlement prices to which the futures contracts underlying NFX’s TOQ, ROQ and OOQ contracts settle, respectively.² The NYMEX amendments also affect the NYMEX Brent Crude Oil Option (OS). Market participants trading the OS option also trade the NFX BCQ option.

In its certification, NYMEX explained that typically, rule revisions which may change the value of a contract are not applied to existing contracts under NYMEX rules. It also explained, however, that due to consistent demand from customers to eliminate the "pin risk" and to simplify the options product suite, NYMEX contacted significant holders of open interest to determine if they would agree to NYMEX applying the "no contrary instructions" rule changes at expiration to existing contracts. According to the NYMEX certification, the majority

¹ NYMEX Submission No. 17-272.

² See NFX Rulebook Appendix A Rules 104A.02 (TOQ) and 106A.06 NFX Heating Oil Penultimate Financial Futures (OQ); 107D.02 (ROQ) and 107A.06 NFX RBOB Gasoline Penultimate Financial Futures (RQ); and 106C.02 (OOQ) and 106A.06 NFX Heating Oil Penultimate Financial Futures (OQ). See also NFX Rule 102.02 (BCQ) and 101.06 NFX Brent Crude Financial Futures (BFQ).

of the responses were "no objection." NYMEX noted that the Exchange was also providing the marketplace with an advance notice period of six months prior to the implementation of its rule amendments.

NYMEX made the changes to its options based on market feedback. NFX customers have likewise requested NFX to mirror the NYMEX changes in order to reduce operational risk across exchanges for parallel exercise of at-the-money calls and abandonment of at-the-money puts.

The Exchange is amending these contracts to eliminate pin risk which occurs where an option writer cannot be certain that the option will or will not be exercised and therefore implement an appropriate hedge. Pin risk occurs when the market price of the underlier of an option contract at the time of the contract's expiration is close to the option's strike price. In an effort to reduce pin risk, NFX is amending the automatic exercise rule of the contracts so that if the settlement price falls exactly on a strike price, the at-the-money calls will be exercised and the puts will be abandoned. At-the-money calls will therefore effectively be treated as in-the-money and exercised, while at-the-money puts will be treated as out-of-the-money and abandoned. All options that are in-the-money and have not been liquidated or exercised prior to the termination of trading are exercised automatically. As amended, the rules for the four options will effectively treat an option as in-the-money if the settlement price of the underlying futures contract at termination lies above or is equal to the exercise price in the case of a call, or lies below the exercise price in the case of a put. Essentially, at-the-money calls will be auto-exercised and at-the-money puts will be auto-abandoned.

Core Principle Analysis

NFX reviewed the designated contract market core principles ("Core Principles") as set forth in the Act and identified that the rule amendments may have some bearing on the following Core Principles:

Contracts Not Readily Susceptible to Manipulation: The contracts are not readily subject to manipulation as a result of the deep liquidity and robustness of the underlying cash and futures market.

Daily Publication of Trading Information: Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.

Availability of General Information: The Exchange will amend the NFX rulebook accordingly on the implementation date which will be publicly available on the NFX website. In addition, the Exchange will publish a Futures Trader Alert to advise the marketplace of the Rule Amendments as well as the implementation date. The Futures Trader Alert will also be posted on the NFX website.

Execution of Transactions: The NFX trading system provides a transparent, open and efficient mechanism to electronically execute trades.

Certifications

There were no opposing views among the NFX's Board of Directors, members or market participants. The Exchange hereby certifies that the amendments comply with the Commodity Exchange Act and 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 <http://business.nasdaq.com/nasdaq-futures/nfx-market>.

If you require any additional information regarding the submission, please contact Carla Behnfeldt at (215) 496-5208 or via e-mail at carla.behnfeldt@nasdaq.com. Please reference SR-NFX-2017-56 in any related correspondence.

Regards,

A handwritten signature in black ink that reads "Daniel R. Carrigan". The signature is written in a cursive style with a large, sweeping initial "D".

Daniel R. Carrigan
President