

NASDAQ Futures, Inc. (NFX) Off-Exchange Transactions Reference Guide

Version 1.08 | 2018-3-19



CONFIDENTIALITY/DISCLAIMER

This Reference Guide is being forwarded to you strictly for informational purposes and solely for the purpose of developing or operating systems for your use that interact with systems of NASDAQ Futures, Inc. (NFXSM) and its affiliates (collectively, NFX). This specification is proprietary to NFX.

NFX reserves the right to withdraw, modify, or replace this Reference Guide at any time, without prior notice. No obligation is made by NFX regarding the level, scope or timing of NFX's implementation of the functions or features discussed in this specification. The Reference Guide is provided "AS IS," "WITH ALL FAULTS". NFX makes no warranties to this Reference Guide or its accuracy, and disclaims all warranties, whether express, implied, or statutory related to the Reference Guide or its accuracy. This document is not intended to represent an offer of any terms by NFX. While reasonable care has been taken to ensure that the details contained herein are true and not misleading at the time of publication, no liability whatsoever is assumed by NFX for any incompleteness or inaccuracies. By using this Reference Guide you agree that you will not, without prior written permission from NFX, copy or reproduce the information in this Reference Guide except for the purposes noted above. You further agree that you will not, without prior written permission from NFX, store the information contained in this Reference Guide in a retrieval system, or transmit it in any form or by any means, whether electronic, mechanical, or otherwise except for the purposes noted above. In addition you agree that you will not, without prior written permission from NFX, permit access to the information contained herein except to those with a need-to-know for the purposes noted above.

NFXSM is a servicemark of Nasdaq Futures, Inc.

© Copyright 2016, Nasdaq Futures, Inc. All rights reserved.

TABLE OF CONTENTS

1 INTRODUCTION.....	5
2 NFX CONTACT INFORMATION	5
3 WHAT IS A BLOCK TRADE?	5
4 WHAT ARE THE ELIGIBLE CONTRACTS AND THE MINIMUM THRESHOLD QUANTITIES FOR A BLOCK TRADE?.....	6
5 WHO MAY PARTICIPATE IN BLOCK TRADES?	7
6 ARE THERE ANY PRICE RESTRICTIONS FOR BLOCK TRADES?.....	7
7 CAN ANY ORDER WHICH EXCEEDS THE MINIMUM QUANTITY THRESHOLD BE CLEARED AS A BLOCK TRADE?	8
8 WHAT RECORDKEEPING AND AUDIT TRAIL REQUIREMENTS ARE REQUIRED FOR A BLOCK TRADE?	8
9 WHAT ARE THE TRADING HOURS FOR BLOCK TRADES?	8
10 HOW ARE BLOCK TRADES REPORTED?	8
11 WHAT ARE THE REPORTING REQUIREMENTS FOR BLOCK TRADES?	8
12 WHAT ARE THE PROCEDURES FOR SUBMITTING A BLOCK TRADE?	9
13 DISSEMINATION OF BLOCK TRADE INFORMATION	11
14 HOW DO I OBTAIN ACCESS TO ENTER ORDERS DIRECTLY INTO NFX?.....	11
15 MUST BLOCK TRADES BE SUBMITTED BY AN EXCHANGE FUTURES PARTICIPANT OR CLEARING FUTURES PARTICIPANT?.....	12
16 WHO IS RESPONSIBLE FOR REPORTING THE EXECUTION TIME?	12
17 HOW SHOULD MULTI-LEG BLOCK TRADES BE SUBMITTED TO THE EXCHANGE?	12
18 MAY BLOCK TRADES BE GIVEN-UP?	13
19 CAN ORDERS BE BUNCHED TO CONSTITUTE ONE SIDE OF A BLOCK TRADE?	13
20 WHAT FEES ARE ASSOCIATED WITH BLOCK TRADES?.....	13
21 CAN TRADE AT SETTLEMENT (“TAS”) TRADES BE EXECUTED AS BLOCK TRADES?	13
22 DO BLOCK TRADES BETWEEN ACCOUNTS OF AFFILIATED PARTIES CONSTITUTE A WASH TRADE?	13
23 WHAT RESTRICTIONS ARE IN PLACE REGARDING THE DISCLOSURE OF BLOCK TRADE DETAILS?	14
24 HOW ARE BLOCK TRADES PUBLISHED?	14
25 WHAT TYPE OF DOCUMENTATION MAY BE REQUIRED BY NFX REGULATIONS REGARDING A BLOCK TRADE?	15
26 WHAT IS AN EXCHANGE FOR RELATED POSITION?	15
27 ARE THERE ANY PRICE RESTRICTIONS FOR AN EFRP?	16
28 WHAT ARE THE REPORTING REQUIREMENTS FOR AN EFRP?.....	16
29 WHAT RECORDKEEPING REQUIREMENTS ARE REQUIRED FOR AN EFRP?	17

30 DO EFRP TRANSACTIONS BETWEEN ACCOUNTS OF AFFILIATED PARTIES
CONSISTUTE A WASH TRADE?.....17

31 WHAT TYPE OF DOCUMENTATION MAY BE REQUIRED BY NFX REGULATIONS
REGARDING AN EFRP?18

1 INTRODUCTION

The Exchange’s Rules currently permit the following Off-Exchange Transactions: Block Trades and Exchange For Related Position (“EFRP”) transactions. This Reference Guides seeks to provide information and guidance on these types of Off-Exchange Transactions.

2 NFX CONTACT INFORMATION

Contact	Description	Email	Phone
Sales		futures@nasdaq.com	+1 (832) 453-2603
Onboarding Team	General questions, new customers, and onboarding support	nfxonboarding@nasdaq.com	+1 (267) 353-0032
Market Operations	Trade support for NFX production and test systems	nfxops@nasdaq.com	+1 (800) 846-0477
Technical Support	Support and questions on connectivity, FIX, andITCH for the NFX production or test systems and certification support	technicalsupport@nasdaq.com	+1 (212) 231-5990
OCC	Member services for the clearing house	memberservices@theocc.com	+1 (800) 621-6072

3 WHAT IS A BLOCK TRADE?

Block Trades are permissible, noncompetitive, privately negotiated transactions at or in excess of a minimum threshold quantity of contracts, which are executed apart and away from the public auction market (Order Book). A Block Trade may be a Futures or Options transaction. The minimum quantity threshold is designated in the contract specifications for each Contract that is eligible for Block Trades. Only Orders of a commodity trading advisor (“CTA”) or foreign Person performing a role or function to a CTA may be aggregated in order to achieve the minimum transaction size, otherwise Orders may not be aggregated. See NFX Rules at Chapter IV, Section 11.

Each party to a Block Trade must be an Eligible Contract Participant as that term is defined in Section 1a of the Commodity Exchange Act. A Futures Participant shall not execute any Order by means of a Block Trade for a Customer unless the Customer has specified that the Order be executed as a Block Trade. Block Trades may be executed at any time.

More information can be found here:

<http://business.nasdaq.com/nasdaq-futures/onboarding>

4 WHAT ARE THE ELIGIBLE CONTRACTS AND THE MINIMUM THRESHOLD QUANTITIES FOR A BLOCK TRADE?

A Block Trade must be for a quantity that is at or in excess of the applicable minimum threshold. The table below provides a sample of lists the eligible Energy Futures and Options contracts and their minimum quantity requirements for block trades. The minimum quantity requirements for block trades of eligible Energy Futures and Options contracts can be found here:

http://business.nasdaq.com/Docs//EnergyProductsListing_tcm5044-17711.pdf
http://business.nasdaq.com/media/Energy-Products-Listing_tcm5044-17711.pdf

Block Trades may be submitted to the Trading System with up to two-hundred forty legs when submitted through QPort or via email to the MarketOps desk.

Contract Name	Symbol	Block Size	Ref. Xchg	Ref. Symbol
<u>Oil and Refined Products</u>				
NFX Brent Crude Financial Futures	BFQ	25	ICE	B
NFX Options on NFX Brent Crude Financial Futures	BCQ	25	ICE	B
NFX WTI Crude Oil Financial Futures	TQ	50	CME	CL
NFX Options on NFX WTI Financial Futures	LOQ	25	CME	LO
NFX Low Sulphur Gasoil Financial Futures	GOQ	10	ICE	G
NFX Heating Oil Financial Futures	OQ	25	CME	HO
NFX RBOB Gasoline Financial Futures	RQ	25	CME	RB
<u>Natural Gas</u>				
NFX Henry Hub Natural Gas Financial Futures -2,500	NNQ	25	CME	NN
NFX Henry Hub Natural Gas Penultimate Financial Futures - 2,500	NPQ	25	CME	NP
NFX Henry Hub Natural Gas Financial Futures -10,000	HHQ	50	CME	HH
NFX Henry Hub Natural Gas Penultimate Financial Futures - 10,000	HUQ	50	CME	HP
NFX Options on NFX Henry Hub Penultimate Financial Futures - 10,000	LNQ	15	CME	LN
<u>Power</u>				
NFX CAISO NP-15 Hub Day-Ahead Off-Peak Financial Futures	ONPQ	10	ICE	ONP
NFX CAISO NP-15 Hub Day-Ahead Peak Financial Futures	NPMQ	10	ICE	NPM
NFX CAISO SP-15 Hub Day-Ahead Off-Peak Financial Futures	OFQ	10	ICE	OFQ
NFX CAISO SP-15 Hub Day-Ahead Peak Financial Futures	SPMQ	10	ICE	SPM
NFX ISO-NE Massachusetts Hub Day-Ahead Off-Peak Financial Futures	NOQ	10	ICE	NOQ
NFX ISO-NE Massachusetts Hub Day-Ahead Peak Financial Futures	NEQ	10	ICE	NEQ
NFX MISO Indiana Hub Real-Time Off-Peak Financial Futures	CPOQ	10	ICE	CPO
NFX MISO Indiana Hub Real-Time Peak Financial Futures	CINQ	10	ICE	CIN
NFX PJM AEP Dayton Hub Real-Time Off-Peak Financial Futures	AODQ	10	ICE	AOD
NFX PJM AEP Dayton Hub Real-Time Peak Financial Futures	MSOQ	10	ICE	MSO
NFX PJM Northern Illinois Hub Real-Time Off-Peak Financial Futures	NIOQ	10	ICE	NIO
NFX PJM Northern Illinois Hub Real-Time Peak Financial Futures	PNLQ	10	ICE	PNL
NFX PJM Western Hub Day-Ahead Off-Peak Financial Futures	PJDQ	10	ICE	PJD
NFX PJM Western Hub Day-Ahead Peak Financial Futures	PJCQ	10	ICE	PJC
NFX PJM Western Hub Real-Time Off-Peak Financial Futures	OPIQ	10	ICE	OPI
NFX PJM Western Hub Real-Time Peak Financial Futures	PJMQ	10	ICE	PJM

5 WHO MAY PARTICIPATE IN BLOCK TRADES?

Each party to a block trade must be an Eligible Futures Participant (“ECP”) as that term is defined in Section 1a(18) of the Commodity Exchange Act (“Act”). ECPs include, but are not limited to floor brokers, FCMs, broker/dealers, financial institutions, insurance companies, pension funds, corporations, commodity pools, investment companies and high net worth individuals which satisfy certain criteria specified in Section 1a(18) of the Act.

A Futures Participant may not execute any Order by means of a Block Trade for a Customer unless such Customer has specified that the Order be executed as a Block Trade.

Notwithstanding the foregoing, if the block trade is entered into on behalf of a Customer by a commodity trading advisor registered under the Act (“CTA”), including without limitation any investment advisor registered as such with the Securities and Exchange Commission who is exempt from regulation under the Act or CFTC regulations with total assets under management exceeding US \$25 million, or by a foreign entity performing a similar role or function to a CTA or investment advisor that is subject to foreign regulation with total assets under management exceeding US \$50 million, the individual Customer need not be an ECP.

6 ARE THERE ANY PRICE RESTRICTIONS FOR BLOCK TRADES?

The price at which a Block Trade is executed must be fair and reasonable in light of (i) the size of the Block Trade, (ii) the prices and sizes of other transactions in the same Contract at the relevant time, (iii) the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash market or related futures markets, at the relevant time, and (iv) the circumstances of the markets or the parties to the Block Trade. The price must be in accordance with the minimum tick increment for a particular Contract as specified in the contract specifications. Each leg of a transaction must be executed at a single price. Block Trades shall not trigger Orders with Time in Force Conditions or otherwise affect Orders in the Order Book.

Block Trades between the accounts of affiliated parties are permitted provided that (i) the Block Trade is executed at a fair and reasonable price; (ii) each party has a legal and independent bona fide business purpose for engaging in the Block Trade; (iii) each party’s decision to enter into the Block Trade is made by an independent decision-maker. If the above requirements are not satisfied, the Block Trade transaction may constitute an illegal wash sale prohibited by NFX Rule, Chapter III, Section 24(g).

The Exchange will cancel a Block Trade transaction, pursuant to NFX Rules at Chapter V, Section 5, in a Contract if the execution price of a transaction in a contract: (1) that has taken place outside the non-reviewable range designated for a Contract; and (2) which the Exchange determines has taken place at an unrepresentative price or when necessary to mitigate market disrupting events caused by malfunctions in its Trading System or errors in Orders submitted by Futures Participants or Authorized Customers. Exchange staff may cancel any transaction if it believes that allowing the transaction(s) to stand, as executed, could have a material, adverse effect on the integrity of the market or result in a price distortion.

7 CAN ANY ORDER WHICH EXCEEDS THE MINIMUM QUANTITY THRESHOLD BE CLEARED AS A BLOCK TRADE?

No, the Order must specifically be designated as a Block Trade. The Block Trade minimum quantity for a Contract is set forth in the rules for that particular Contract.

Block Trades may be submitted to the Trading System with up to two-hundred forty legs when submitted through QPort or via email to the MarketOps desk.

8 WHAT RECORDKEEPING AND AUDIT TRAIL REQUIREMENTS ARE REQUIRED FOR A BLOCK TRADE?

Clearing Futures Participants and Futures Participants involved in the execution of Block Trades must maintain a record of the transaction in accordance with this NFX Rule, Chapter III, Section 1.

9 WHAT ARE THE TRADING HOURS FOR BLOCK TRADES?

Block Trades for all Contracts may be executed at any time during the Exchange's Pre-Open, Open, and Close Trading Sessions.

10 HOW ARE BLOCK TRADES REPORTED?

Block Trades for all Contracts may be executed at any time during the Exchange's Pre-Open, Open, and Close Trading Sessions.

11 WHAT ARE THE REPORTING REQUIREMENTS FOR BLOCK TRADES?

Futures Participants must ensure that each Block Trade is reported to the Exchange within the number of minutes of the time of execution (the "Reporting Window") specified in the rules for the particular contract; except that Block Trades executed outside of Trading Hours must be reported within fifteen minutes of the commencement of the next Open Session of a Trading Session for that Contract. If the Block Trade includes certain legs subject to a 5 minute Reporting Window and other legs subject to a 15 minute Reporting Window, the reporting requirement for the transaction will be 15 minutes.

The Block Trade report made to the Exchange must include the following information: Contract, contract month, price, quantity of the transaction, the respective Clearing Futures Participants, the time of execution, and, for Options on Futures, strike price, put or call and expiration month. Failure to timely and accurately report Block Trades may subject the Futures Participant to disciplinary action.

Energy Futures and Options Contracts must be reported as specified in the rules for the particular Contract; except that Block Trades executed outside of Trading Hours must be reported within fifteen minutes of the commencement of the next Open Session of a Trading Session for that Contract.

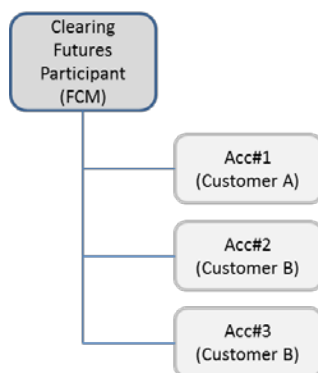
12 WHAT ARE THE PROCEDURES FOR SUBMITTING A BLOCK TRADE?

In order to submit a Block Trade into NFX, the party entering the transaction must have access to Nasdaq-Port, NFX API, or an ISV which has an NFX Block Trade reporting facility. Every trade reported into NFX is assigned to an FCM Account where all Accounts and Authorized Traders are managed through one or more of the available interfaces (NFX API, Nasdaq-Port, ISV, etc.). Each trade report must pass Pre-Trade Risk Management (TradeGuard) in whole before being accepted by the Exchange. More information can be found here:

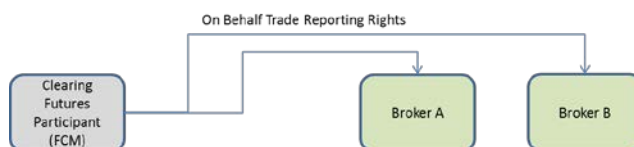
<http://business.nasdaq.com/nasdaq-futures/onboarding>

The following three steps are necessary to submit a Block Trade:

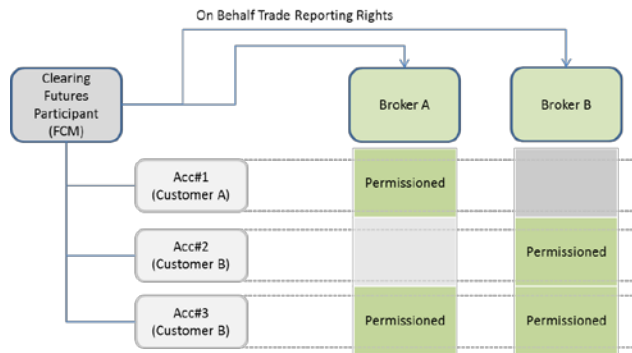
Step 1: All Customer Accounts must be registered in the NFX Trading System as Accounts of a Clearing Futures Participant. This is required for all Customer Accounts, regardless of whether the Customer is going to engage in Order Book trading or Block Trading. The Account registration is electronically submitted via a request to the NFX Market Operations. Block Trades are subject to NFX Rules at Chapter IV, Section 11.



Step 2: A Brokerage Firm is granted the generic right to register Block Trades on behalf of a Clearing Futures Participant or FCM.



Step 3: The final step in the process is completed when the Clearing Futures Participant provides instructions for the assignment of a Brokerage Firm with trade reporting rights for a specific Account (representing the Customer). The assignment is electronically submitted via the NFX Block Trade reporting interface, and any necessary modifications may be submitted and applied intra-day. Please note that no Block Trade reports can be submitted by a trade reporting Brokerage Firm until the respective Accounts have been approved by the Exchange. Each Account can be utilized by one or multiple Authorized Traders, each of which will have a unique Authorized Trader ID.



Energy Futures and Options must be entered completely within the times of execution specified above.

The party submitting the Block Trade should enter complete Block Trade details as follows:

- Single party – where the seller/buyer submits a trade details (including execution time) that are exactly equal and opposite its corresponding single party trade report (counterparty), the match must successfully happen within the respective Block Trade Reporting Window.
- Two sided, third party – where an independent party who is neither the buyer nor seller reports a trade for one or both the buyer and seller. The authorized submitter will need to be permissioned to report trades on behalf of the executing parties and FCM accounts.
- When reporting a Block Trade, the following information will be required:
 - Contract (including contract month and contract year for Futures, and, additionally for Options, strike price and put or call designation);
 - Quantity of the trade and quantity of each respective leg;
 - Price of the trade and price of each leg;
 - Buyer’s Clearing Futures Participant and seller’s Clearing Futures Participant;
 - Buyer’s Customer Account and seller’s Customer Account; and
 - Execution time of the Order (i.e. the time at which the trade was consummated).

Manual Reporting

This option will be available from 08:30 EPT through 15:30 EPT each Business Day.

If the party submitting the Report determines to submit a Block Trade manually, the party may either: (1) submit an Off-Exchange Submission Form to NFX at tradereports@nasdaq.com; (2) send an email to tradereports@nasdaq.com in lieu of the Off-Exchange Submission Form with required information; or (3) call NFX Market Operations at + 1 215 496 5409 to submit a Block Trade (collectively “Report”). The Off-Exchange Submission Form can be found at: www.nasdaqomx.com/nasdaq-futures. The telephonic feature may only be utilized if the party has completed the security guidelines required by the Exchange to submit Reports telephonically. The above-referenced information will be required prior to the Exchange accepting the Report. The submission time shall be the time of the email or phone call.

The following three steps are required to manually submit a Block Trade Report:

Step 1 - The party submitting the Block Trade must submit the Report to NFX within the number of minutes of the time of execution (the “Reporting Window”) specified in the rules for the particular contract; except that Block Trades executed outside of Trading Hours must be reported within fifteen (15)

minutes of the commencement of the next Open Session of a Trading Session for that Contract. If the Block Trade includes certain legs subject to a five (5) minute Reporting Window and other legs subject to a fifteen (15) minute Reporting Window, the reporting requirement for the transaction will be fifteen (15) minutes.

Step 2 – A confirmation will be sent within thirty (30) minutes of the submission of the Report to the submitter by NFX Market Operations. This confirmation will be sent via email. The submitter will have fifteen (15) minutes to review the email and respond to the Exchange. Once the submitter affirms the confirmation, the Report will be immediately sent to OCC. If the submitter modifies the confirmation as a result of an error caused by the Exchange in documenting the Report, the Report will be modified and immediately submitted to OCC. Reports may not otherwise be modified. If the submitter does not respond within fifteen (15) minutes, the Exchange will submit the Report to OCC as confirmed via email. If Nasdaq-Port rejects the transaction being reported, the submitter will be immediately notified.

Step 3 - NFX Market Operations will submit the Block Trade Report into Nasdaq-Port within thirty (30) minutes of a validated email or unconfirmed email that was not validated within fifteen (15) minutes. The Report must be compliant with NFX Rules at Chapter IV, Section 11.

Clearing Futures Participants and Futures Participants involved in the execution of Block Trades must maintain a record of the transaction in accordance with this NFX Rule, Chapter III, Section 1.

13 DISSEMINATION OF BLOCK TRADE INFORMATION

NFX distributes OTC trade information via the NFX API, ITCH Market Data Protocol (ISVs distribute market data), and via web.

14 HOW DO I OBTAIN ACCESS TO ENTER ORDERS DIRECTLY INTO NFX?

In order to obtain access to NFX Block Trade Reporting, Clearing Futures Participants, customers, and third parties (e.g. Brokers) must have completed or must complete: (1) an Electronic User Agreement or Off-Exchange Reporting Broker Agreement; and (2) an Enrollment Form. In addition, Customers and third parties (e.g. Brokers) must receive permission to submit a block trade report directly in to NFX via one or more of NFX's access points: NFX API, Nasdaq-Port, and an ISV from an FCM clearing the specific account(s) involved in the block trade. Such permission must be received for each individual account for which the customer or third party intends to enter a block trade and must be given by the FCM clearing the account. FCMs can permission customers and third parties to enter blocks for their accounts they clear through Nasdaq-Port.

Further information can be found here:

<http://business.nasdaq.com/nasdaq-futures/onboarding>

15 MUST BLOCK TRADES BE SUBMITTED BY AN EXCHANGE FUTURES PARTICIPANT OR CLEARING FUTURES PARTICIPANT?

No. If the Clearing Futures Participant has authorized an Authorized Customer or Off-Exchange Reporting Broker (ORB) to submit Block Trades, these transactions may be submitted by the Authorized Customer or ORB directly into the NFX Workstation.

16 WHO IS RESPONSIBLE FOR REPORTING THE EXECUTION TIME?

Either party, or broker, may report a Block Trade. The party or broker submitting the Block Trade to the Exchange is responsible for reporting the time of execution.

17 HOW SHOULD MULTI-LEG BLOCK TRADES BE SUBMITTED TO THE EXCHANGE?

Multi-leg transactions may be submitted to the Exchange as Block Trade reports as specified below.

- Multi-leg transactions must be part of a unified strategy which is controlled by an Eligible Contract Participant and executed for a single account or group of accounts that comply with Exchange Rules at Chapter IV, Section 11;
- A multi-leg strategy that was executed as a combination trade may be submitted to the Exchange as a Block Trade provided that the aggregate number of contracts for the individual legs meets the requisite minimum quantity requirements (“MQR”) as provided in the Exchange’s Rules at Chapter IV, Section 11 and the related contract specifications;
- While the individual leg of a multi-leg strategy transaction does not need to separately satisfy the requisite MQR, the leg must offset the net options position of the leg(s) and the individual leg cannot be greater or less than the number of contracts required to offset the net delta of the leg(s);

For example, a privately executed transaction between two parties, consisting of 125 lots of December 2016 LNQ \$4.00 calls and 25 November 2016 HUQ Futures contracts (a 20 delta). Since the MQR for Futures on Henry Hub Penultimate (HUQ) is 50 lots, the Options quantity complies with the MQR for the Futures portion of the multi-leg transaction; given the Options quantity of 125 lots and the 20 delta for the Options, the Future quantity of 25 lots is equal to the net delta of the Options position (calculated by multiplying the Options quantity by the delta, or $125 \times .2000 = 25$ lots (+25 Futures lots of HUQ), and therefore the Futures quantity complies with the volume requirement for the futures position of the multi-leg transaction. If the Futures quantity in this example were significantly smaller than 25 lots, it would not comply with the volume requirement for the Futures portion of a multi-leg Block Trade.

- Where a multi-leg transaction is comprised of two Contracts, such as Henry Hub Penultimate Options (“LNQ”) and Futures (“HUQ”), which have two separate MQRs, the higher MQR requirement must be met;

- A multi-leg transaction (e.g. Butterfly Spread of Options) that reflects a Standard Combination Order or Tailor Made Combination Orders on the NFX Trading System (Match Engine) (single symbol Combination Orders) must be broken up into its respective legs to be submitted to the Exchange.

- In QPort (Nasdaq's Block Trade reporting tool) these legs are kept together by a unique identifier (hexadecimal) for processing, thus equivalently containing the original multi-leg transaction; and

- Nasdaq's FIX API does not tie these component legs together after Pre-Trade Risk Management and requires the user to uniquely identify the original multi-leg transaction in the details of the trade (e.g. Agreement Time).

18 MAY BLOCK TRADES BE GIVEN-UP?

Yes. Block trades are subject to give-ups.

19 CAN ORDERS BE BUNCHED TO CONSTITUTE ONE SIDE OF A BLOCK TRADE?

The bunching of Block Trade Orders is not permitted, except in the case of eligible CTAs or foreign Persons performing a similar role.

For example, a CTA eligible to transact blocks may bunch Orders entered on behalf of multiple accounts over which the CTA exercises power of attorney, provided that the aggregate Order meets the minimum quantity requirements. Two or more traders who generally act independently with respect to accounts with different beneficial ownership may not bunch their Orders for purposes of meeting the Block Trade minimum order quantity requirements. Other than the CTA exception, brokers may not bunch Orders from otherwise autonomous Customers.

20 WHAT FEES ARE ASSOCIATED WITH BLOCK TRADES?

There are Block Trade fees. See the NFX Fee Schedule

21 CAN TRADE AT SETTLEMENT ("TAS") TRADES BE EXECUTED AS BLOCK TRADES?

Yes, TAS trades may be executed as Block Trades for certain contracts. TAS Block Trades may be executed for those products and contract months for which both TAS and Block Trades are permitted. TAS trades can be executed, and are subject to the same eligibility, minimum trade quantity and timely reporting requirements as Block Trades generally. TAS Block Trades are to be reported using the same procedures outlined above for Block Trades generally.

22 DO BLOCK TRADES BETWEEN ACCOUNTS OF AFFILIATED PARTIES CONSTITUTE A WASH TRADE?

The Exchange permits Block Trades in all Futures and Options Contracts between accounts of affiliated parties provided that each Block Trade meets all of the following requirements:

1. the Block Trade price must be executed at a fair and reasonable market price;
2. each party must have a separate and independent legal bona fide business purpose for engaging in the trades; and
3. each party's decision to enter into the Block Trade must be made by a separate and independent decision-maker.

If the Block Trade(s) does not meeting all of the requirements set forth above, the transaction may constitute an illegal wash trade prohibited by NFX Rule, Chapter III, Section 24(g).

23 WHAT RESTRICTIONS ARE IN PLACE REGARDING THE DISCLOSURE OF BLOCK TRADE DETAILS?

Parties involved in the solicitation or negotiation of a Block Trade may not disclose the details of those communications to any other party for any purpose other than to facilitate the execution of the Block Trade. Parties privy to nonpublic information regarding a consummated Block Trade may not disclose such information to any other party prior to the public report of the Block Trade by the Exchange. A broker negotiating a Block Trade on behalf of a Customer may disclose the identity of the Customer to potential counterparties, including the counterparty with which the Block trade is consummated, only with the permission of the Customer.

Pre-hedging or anticipatory hedging of any part of the Block Trade in the same Contract or a closely related contract is allowed where the parties to the block trade have a good faith belief that the block trade will be consummated. Pre-hedging or anticipatory hedging is prohibited where an intermediary takes the opposite side of a block trade with a customer. In cases where an intermediary is counterparty to a block trade with a customer, the intermediary may not establish an offsetting position prior to the consummation of the block trade in any account which is owned or controlled by, or in which an ownership interest is held, or for the proprietary account of the employer of the intermediary. The intermediary may enter into transactions to offset the position only after the block has been consummated. It shall be a violation of Chapter 3, Section 24(g)(v) of the NFX Rulebook for a person to engage in the front running of a block trade when acting on material non-public information regarding an impending transaction by another person, acting on non-public information obtained through a confidential employee/employer relationship, broker/customer relationship, or in breach of a pre-existing duty. A closely-related product is one that is highly correlated to, or serves as a substitute for, or is the functional equivalent of the product being traded as part of a Block Trade.

The Exchange may proceed with enforcement action when the facts and circumstances of pre-hedging suggest deceptive or manipulative conduct by any of the involved parties, including when an intermediary handling a Customer order acts against its Customer's best interests. This guidance only applies in the context of pre-hedging of block trades. This guidance does not affect any requirement under the CEA or Commission Regulations.

Parties solicited to provide a two-sided block market are not deemed to be in possession of nonpublic information provided that side of market interest is not disclosed in the context of the solicitation.

24 HOW ARE BLOCK TRADES PUBLISHED?

The Exchange will promptly publish Block Trade information separately from the reports of transactions in the regular market. Block trades are reported independently of transaction prices in the regular market

and are not included as part of the daily trading range (i.e. they do not impact the daily high/low prices). Block Trade volume is also identified in the daily volume reports published by the Exchange.

25 WHAT TYPE OF DOCUMENTATION MAY BE REQUIRED BY NFX REGULATIONS REGARDING A BLOCK TRADE?

Futures Participants must provide Block Trade documentation to the Exchange upon request. Documentation requested by the Exchange may include evidence that the price of the Block Trade transaction was fair and reasonable based on relevant market information, including underlying markets and independence of the parties to the transaction.

26 WHAT IS AN EXCHANGE FOR RELATED POSITION?

Generally

EFRPs are permissible, noncompetitive, privately negotiated transactions executed apart and away from the public auction market which are permitted by arrangement between only two parties in accordance with Exchange Rule located at Chapter IV, Section 12. The Exchange currently permits the following types of EFRP transactions:

Exchange of Futures for Physical (“EFP”) – the simultaneous execution of an Exchange futures contract and a corresponding physical transaction or a forward contract on a physical transaction.

Exchange of Futures for Risk (“EFR”) – the simultaneous execution of an Exchange Futures contract and a corresponding OTC swap or other OTC derivative transaction.

Exchange of Option for Option (“EOO”) – the simultaneous execution of an Exchange Option contract and a corresponding transaction in an OTC Option or other OTC instrument with similar characteristics.

The related position component of an EFRP may not be a Futures contract or an Options on a Futures contract.

Permissible EFRPs are bilaterally negotiated apart from a public auction market and subsequently novated by the Clearing Corporation, just like any other futures transaction. The cash, spot or OTC position that is traded opposite to the futures contract in the context of an EFRP must be a product that represents a legitimate economic offset. The item that is deliverable on the futures contract may always be used for the cash or OTC component of the transaction. If the commodity used to fulfill the cash or OTC component is not deliverable against the futures contract, it must be an item that is reasonably equivalent in terms of its physical and economic properties. The cash commodity or OTC component should have a reliable and demonstrable price relationship with the futures contract. It should exhibit price movement that parallels the price movement of the futures contract. A lack of consistent price relationship between the cash commodity or OTC component and the futures contract could be evidence that a party did not engage in a permissible EFRP transaction in violation of the Exchange Rules at Chapter IV, Section 12 and Section 4(a) of the Act as such transaction was not conducted subject to the rules of a contract market designated or registered with the Exchange.

An EFRP may be transacted at any time and at any price agreed upon by the two counterparties provided the Exchange has designated a Contract as eligible for EFRPs. The related position (cash, OTC swap, OTC option, or other OTC derivative) must involve the commodity underlying the Exchange Contract, or must

be a derivative, by-product, or related product of such commodity that has a reasonable degree of price correlation to the commodity underlying the Exchange Contract.

27 ARE THERE ANY PRICE RESTRICTIONS FOR AN EFRP?

An EFRP transaction may be entered into in accordance with the applicable price increments or option premium increments set forth in Contract, at such prices as are mutually agreed upon by the two parties to the transaction. The quantity covered by the related position must be approximately equivalent to the quantity covered by the Exchange Contracts.

EFRPs may not be priced to facilitate the transfer of funds between parties for any purpose other than as a consequence of legitimate commercial activity. Market participants may be required to demonstrate that EFRPs executed at prices away from prevailing market prices were executed at such prices for legitimate purposes.

The Exchange will cancel an EFRP transaction, pursuant to NFX Rules at Chapter V, Section 5, in a Contract if the execution price of a transaction in a contract: (1) that has taken place outside the non-reviewable range designated for a Contract; and (2) which the Exchange determines has taken place at an unrepresentative price or when necessary to mitigate market disrupting events caused by malfunctions in its Trading System or errors in Orders submitted by Futures Participants or Authorized Customers. Exchange staff may cancel any transaction if it believes that allowing the transaction(s) to stand, as executed, could have a material, adverse effect on the integrity of the market or result in a price distortion.

28 WHAT ARE THE REPORTING REQUIREMENTS FOR AN EFRP?

EFRP transactions must be reported to the Exchange within thirty minutes of the time of execution. The date and the time of execution of all EFRP transactions must be denoted on the record of the transaction. Futures Participants should collect and maintain the relevant documentation described above in a manner that is readily accessible to produce to the Exchange upon request.

EFRPs may be reported to the Exchange via the Participant Trade Report message in the NASDAQ Futures FIX protocol, Nasdaq-port via a web interface, or an ISV.

Manual Reporting

This option will be available from 08:30 EPT through 15:30 EPT each Business Day.

If the party submitting the Report determines to submit an EFRP manually, the party may either: (1) submit an Off-Exchange Submission Form to NFX at tradereports@nasdaq.com; (2) send an email to tradereports@nasdaq.com in lieu of the Off-Exchange Submission Form with required information; or (3) call NFX Market Operations at + 1 215 496 5409 to submit a EFRP (collectively "Report"). The Off-Exchange Submission Form can be found at: www.nasdaqomx.com/nasdaq-futures. The telephonic feature may only be utilized if the party has completed the security guidelines required by the Exchange to submit Reports telephonically. The above-referenced information will be required prior to the Exchange accepting the Report. The submission time shall be the time of the email or phone call.

The following three steps are required to manually submit an EFRP Report:

Step 1 - The party submitting the EFRP must submit the Report to NFX within thirty (30) minutes of the time of execution.

Step 2 - A confirmation will be sent within thirty (30) minutes of the submission of the Report to the submitter by NFX Market Operations. This confirmation will be sent via email. The submitter will have fifteen (15) minutes to review the email and respond to the Exchange. Once the submitter affirms the confirmation, the Report will be immediately sent to OCC. If the submitter modifies the confirmation as a result of an error caused by the Exchange in documenting the Report, the Report will be modified and immediately submitted to OCC. Reports may not otherwise be modified. If the submitter does not respond within fifteen (15) minutes, the Exchange will submit the Report to OCC as confirmed via email. If Nasdaq-Port rejects the transaction being reported, the submitter will be immediately notified.

Step 3 - NFX Market Operations will submit the EFRP Report into Nasdaq-Port within thirty (30) minutes of a validated email or unconfirmed email that was not validated within fifteen (15) minutes. The Report must be compliant with NFX Rules at Chapter IV, Section 11.

Each Clearing Futures Participant and omnibus account submitting large trader positions in accordance with this Rule must submit for each reportable account the EFRP volume bought and sold in the reportable instrument, by contract month, and additionally for EEOs, by put and call strike. The information must be included in the daily large trader report to the Exchange.

See recordkeeping below.

29 WHAT RECORDKEEPING REQUIREMENTS ARE REQUIRED FOR AN EFRP?

All records relevant to the Exchange contract and the corresponding related position transaction, including any records required to be kept pursuant to CFTC Regulation 1.35. Customer confirmations and account statements must reflect transactions which transacted as EFRP.

30 DO EFRP TRANSACTIONS BETWEEN ACCOUNTS OF AFFILIATED PARTIES CONSTITUTE A WASH TRADE?

The accounts involved in the execution of an EFRP transaction must be (i) independently controlled accounts with different beneficial ownership; or (ii) independently controlled accounts of separate legal entities with the same beneficial ownership, provided that the account controllers operate in separate business units; or (iii) independently controlled accounts within the same legal entity, provided that the account controllers operate in separate business units.

Accounts with the same beneficial ownership include accounts owned by the same person or entity, accounts of a parent and its wholly owned subsidiaries, and accounts of subsidiaries that are wholly owned by the same parent. Common beneficial ownership is more inclusive and includes not only accounts with the same beneficial ownership, but also accounts with common beneficial ownership that is less than 100%.

Parties to an EFRP transaction involving the same legal entity or common beneficial ownership must be able to demonstrate the independent control of decision making for the respective accounts and that the EFRP had economic substance for each party to the trade.

31 WHAT TYPE OF DOCUMENTATION MAY BE REQUIRED BY NFX REGULATIONS REGARDING AN EFRP?

Futures Participants and Clearing Futures Participants are responsible for exercising due diligence as to the bona fide nature of EFRP transactions submitted on behalf of Customers. Futures Participants and Clearing Futures Participants must obtain or have the right to access documentation confirming the details of the futures, cash or OTC component to an EFRP transaction. Documentation customarily generated in accordance with futures or options components of an EFRP transaction may include: account statements or order tickets.

Documentation customarily generated in accordance with cash market or other relevant market practices such as signed swap agreements, OTC contracts, cash confirmations, invoices, warehouse receipts and bills of sale, as well as documentation that demonstrates proof of payment and transfer of ownership of the related position transaction (e.g. canceled checks, bank statements, Fedwire confirms, Fixed Income Clearing Corporation documents, bills of lading etc.), which evidence title to or contract(s) to buy or sell the cash commodity involved in the transaction and a transference of ownership. Documentation must demonstrate that buyer of the futures contract is the seller of the physical or OTC component of the EFRP. EFRP documentation must be provided to the Exchange upon request.

It shall be the responsibility of the Futures Participant and the Clearing Futures Participant to demonstrate, upon the request of Exchange staff, that the EFRP transaction is bona fide and conducted by a person eligible to transact the OTC component. For the protection of the market and investors, the Exchange believes that Futures Participants and Clearing Futures Participants should know their Customers. By way of example, a Futures Participant or Clearing Participant should understand their Customer's business and with respect to EFRP transactions, this would entail knowing the relative portion of the Customer's EFRP transactions in a Customer relative to business transacted by that Customer in the underlying commodity or relevant OTC related position in addition to information concerning Customer experience. In reviewing EFRP documentation, Exchange staff considers whether the offsetting cash commodity or OTC component was an independent transaction exposed to price competition as well as the length of time between transactions. Exchange staff may request documentation concerning negotiation of a transaction to establish the bona fide nature of the transaction.



© Copyright 2016, Nasdaq, Inc. All rights reserved