
NORTH AMERICAN DERIVATIVES EXCHANGE, INC.
NOTICE OF DISCIPLINARY ACTION

FILE NO.: TPI_2019_037(f)

MEMBER: Yi Zhao

NADEX RULES:

NADEX MEMBERSHIP AGREEMENT

Member Acknowledgements and Authorizations, Section (h):

You acknowledge and agree that You will, following a request by Nadex, promptly provide to Nadex financial or other information as Nadex may reasonably request or as may be required for Nadex to respond to a request for information from the Commodity Futures Trading Commission (“CFTC”) or other regulatory or judicial bodies.

Member Representations, Section (d):

You and, if relevant, Your employees and agents will not trade or otherwise act on behalf of any other person or entity (whether or not a Member) in placing orders on the Nadex System, including by allowing any person not disclosed on the Membership Application to have an economic interest in the trades placed by the Member

RULE 3.3 MEMBER OBLIGATIONS

- (a) Each Member and any Authorized Trader(s) thereof, must comply with these Rules, applicable provisions of the Commodity Exchange Act, and relevant Commission regulations. Each Member and any Authorized Trader(s) thereof must also cooperate promptly and fully with Nadex, its agents, and/or the Commission in any investigation, call for information, inquiry, audit, examination, or proceeding. Such cooperation shall include providing Nadex with access to information on the activities of such Member and/or Authorized Trader in any referenced market that provides the underlying prices for any Nadex market. . . .

RULE 3.1 TRADING MEMBERS – APPLICATIONS, CLASSIFICATIONS, AND PRIVILEGES

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

RULE 5.19 PROHIBITED TRANSACTIONS AND ACTIVITIES

- (h) No Person shall engage in any activity that presents a risk of harm to Nadex, its Members, or the public.
- (i) No Person shall engage in any activity that adversely affects the integrity of the Market or its underlying systems.
- (k) No Person shall intentionally provide misleading, erroneous, or fraudulent information to Nadex on a membership application or otherwise.
- (n) No Person shall engage in any activity that is intended to, or has the effect of, manipulating the market in violation of Sections 6(c) and 9(a)(2) of the CEA and no Person shall engage in any other activity that would violate the CEA or the Commission's Regulations.
- (t) No Member shall engage in conduct or practices inconsistent with just and equitable principles of trade or conduct or practices detrimental to the best interests of the Exchange, its Members and/or FCM Customers.

FINDINGS: On August 13, 2019, the Compliance Department sent Yi Zhao ("Zhao") an Account Inquiry Letter requesting, among other things, general background information, source of funds information and details regarding his order and trading activity. The Compliance Department acknowledges that Zhao responded to certain inquiries and requests for information. However, after several follow up inquiries Zhao did not adequately respond to requests for her banking and trading activity, among other things. The Compliance Department also found that Zhao allowed another Nadex Member to fund his Nadex account by transferring funds into his bank account which were subsequently transferred to Nadex, thus providing the other Member with a direct economic interest in the activity and trading in his Nadex account. Additionally, during the course of this investigation it became evident that Zhao funded another Nadex Member's trading account via bank transfers, thus resulting in him having a direct economic interest in the activity and trading in the other Member's account. Further, Zhao provided misleading information to the Compliance Department relative to his connections with other Nadex Members and source of funding.

During the course of its investigation, the Compliance Department analyzed the order and trading activity throughout the life of Zhao's Nadex account. Through this review, the Compliance Department discovered that Zhao engaged in or attempted to engage in a manipulative scheme to defraud Nadex markets in at least 11 binary option contracts between August 12, 2019 and August 21, 2019.

Accordingly, the Compliance Department concluded that Zhao violated Exchange Rule 5.19(k) when he provided false and/or incomplete information related to his connections with other Nadex Members and source of funding. Additionally, the Compliance Department has concluded that Zhao violated Member Acknowledgements and Authorizations, Section (h) of the Nadex Membership Agreement and Exchange Rule 3.3(a) by failing to fully cooperate with this investigation. Additionally, Zhao violated the Nadex Membership Agreement, Member Representations Section (d), when he allowed another Nadex Member to have a direct

economic interest in the activity and trading in his Nadex account. Furthermore, Nadex Compliance concluded that Zhao violated Nadex Rule 3.1(f) when he utilized another Nadex Member's account as a second account on Nadex traded for his benefit. Finally, Zhao's manipulative activity was to the detriment of other market participants. Engaging or attempting to engage in conduct and practices that are manipulative and inconsistent with just and equitable principles of trade, and that pose a risk to the Exchange, its members, and/or to the public, is in contravention of Nadex Rules 5.19(h), 5.19(i), 5.19(n) and 5.19(t). Accordingly, the Compliance Department has concluded that Zhao violated Nadex Rules 5.19(h), 5.19(i), 5.19(n) and 5.19(t).

PENALTY: By settlement agreement, in which Yi Zhao neither admitted nor denied the findings or conclusions of the investigation, Zhao has been assessed a \$2,500.00 fine. Additionally, Yi Zhao's Nadex Membership has been revoked, his account terminated, and he has been permanently banned from trading on Nadex markets, either directly for his own account, through an intermediary, or as an authorized trader on behalf of any other account.

EFFECTIVE DATE: February 22, 2022