



NADEX

Nadex Amended Rule 3.6

Q & A

On April 7, 2017, Nadex submitted a self-certification submission to the CFTC, to amend its Rule 3.6, which will be re-titled “Rejection of Applicant and Limitations of Trading Privileges” when the changes become effective on April 25, 2017. The amended Rule would give Nadex the authority to suspend, revoke, limit, condition, restrict, or qualify the trading privileges of any account owner, or authorized trader of an account owner.

What is the purpose of this Rule amendment?

The purpose of amended Rule 3.6 is to grant Nadex the authority to limit trading privileges in instances where, although no Rule violation that could lead to disciplinary action may have occurred, Nadex has determined the action is necessary or appropriate to minimize risk, or otherwise protect the Exchange, the market, or its Members.

Nadex already has the ability to limit trading activity during an enforcement action and/or as the result of formal disciplinary action pursuant to Rule 9.2 for violation of the Nadex Rules. Why is it necessary to amend Rule 3.6?

Nadex may initiate an enforcement action in instances where it has reason to believe a violation of one or more of the Nadex Rules, as set forth in the Rulebook, has occurred. An enforcement action may result in sanctions, including the limitation of trading privileges or revocation of Exchange Membership. In the event an enforcement action results in disciplinary action, a summary of the incident and outcome will be made publicly available on the Nadex website for a period of five business days, and will also be provided to the National Futures Association (“NFA”) for inclusion in its internet accessible database of disciplinary matters pursuant to Nadex Rule 9.4. While the enforcement action process is an important and effective means of maintaining a fair and transparent marketplace, formal disciplinary action which is then made publicly available is not appropriate in all instances. Moreover, the Exchange Rules cannot set forth all possible instances where certain activities may prove detrimental to the business, or presents a risk to Nadex staff or its Members. Additionally, not all activity for which Nadex deems it necessary or appropriate to restrict trading privileges may present a risk to the industry in general, rather the detrimental activity may be specific to Nadex and may not warrant permanent public posting with the NFA, along with the ramifications that accompany such disclosure.

In what instances might this Rule be exercised?

Examples of when amended Rule 3.6 may be exercised include, but are not limited to, instances where an individual makes verbal or written threats to Nadex and/or its staff, when an individual submits an excessive number of emails or phone calls to the Exchange which consumes a disproportionate amount of Nadex's resources to the detriment of others, when an excessive number of minimal deposits or withdrawals are made throughout the trading day causing the Exchange to incur the cost of unnecessary processing of payments, or when Nadex becomes aware of facts or circumstances that would have resulted in the denial of a Member's application (or approval of an Authorized Trader) had the information been previously known.

How will I be notified in the event my trading privileges are limited?

In the event Nadex determines a limitation on trading privileges is necessary or appropriate, you will be notified by the Compliance Department by email to the email address registered with your account of the limitation and the reason such action was taken.

How long could my trading privileges potentially be limited?

Trading privileges may be limited for a period of time as determined by the Compliance Department depending on the severity of the matter.

Will my trading privileges be limited simply because I make too much money?

No. Nadex is an exchange, and merely matches buy and sell orders in a secure marketplace. Trading activity on the market occurs between participants. Nadex is not a buyer or seller on the Exchange.

How frequently will this Rule be exercised?

Nadex anticipates that the Rule will be implemented only on an occasional and infrequent basis when the specific circumstances call for such action.

How do I know this Rule will be applied fairly?

Anyone who has had trading privileges limited pursuant to Rule 3.6 may petition the CEO of Nadex to review the decision. The CEO's ruling on the matter will be final. Additionally, trading limitations imposed pursuant to Rule 3.6 will be reported to the Nadex Regulatory Oversight Committee. Nadex will also notify CFTC staff when trading privileges have been limited pursuant to this Rule.

If you have additional questions regarding Rule 3.6, please email compliance@nadex.com.