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**NORTH AMERICAN DERIVATIVES EXCHANGE, INC.**  
**NOTICE OF DISCIPLINARY ACTION**

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**FILE NO.:** TPI\_2019\_037(h)

**MEMBER:** Shenghang Cao

**NADEX RULES:**

**NADEX MEMBERSHIP AGREEMENT**

Member Acknowledgements and Authorizations, Section (a):

You authorize Nadex to take whatever actions are necessary to execute, clear, and settle orders entered into the Nadex System for Your Account. You authorize Nadex to rely upon any instruction received through use of Your Access Materials without further inquiry, and Nadex shall not be liable to You even if such orders were not authorized by You. You accept full responsibility for monitoring Your Account to ensure that trades have been executed correctly and to ensure that no unauthorized trading is occurring in Your Account. Nadex is not responsible for any Member errors or negligent use of the Nadex System and will not cover losses relating to such improper or negligent use. You may not give control over Your account to any other person or entity and You may not control the account of any other Member. You shall maintain the confidentiality of Your Access Materials and prevent the unauthorized use of Your Access Materials at all times. If You become aware of any deliberate or inadvertent disclosure, loss, theft or unauthorized use of Your Access Materials, You must notify Nadex immediately and request a new password. You may not access or attempt to access the Nadex System using the Access Materials of any other Member, or permit any other person or entity to access or attempt to access the Nadex System using Your Access Materials. Any and all materials that Nadex provides to You in connection with the Nadex System are the property of Nadex and are intended for Your sole and individual use.

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.

**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 5.2 TRADING MEMBER AND AUTHORIZED TRADER ACCESS TO NADEX**

- (e) Each Trading Member will be responsible for protecting its ID and password, and with respect to an entity Trading Member, the ID(s) and password(s) of its Authorized Trader(s), from improper disclosure. In addition, a Trading Member may not knowingly or negligently permit any Person not authorized by Nadex and by the Trading Member to use the ID and password to access the secure portion of the Nadex website. A Trading Member that is an entity, and its Authorized Trader(s) are prohibited from allowing any other person or entity from using these credentials to access the Nadex markets. Each Trading Member is required to immediately notify Nadex if it knows, or has reason to believe, that its ID or the ID and/or password of any Authorized Trader have been disclosed to any Person not authorized by Nadex and the Trading Member to use such ID and/or password. Under any circumstances, the Trading Member will be deemed to know that such ID and/or password have been disclosed to an unauthorized person 12 hours after any order is entered by that unauthorized person in your 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 Shenghang Cao ("Cao") 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 Cao responded to certain inquiries and requests for information. However, after several follow up inquiries Cao did not adequately respond to requests for his banking and trading activity, among other things. The Compliance

Department also found that Cao allowed a third party to access his Nadex account. Further, during the course of this investigation, Cao provided misleading information to the Compliance Department relative to his connections with other Nadex Members.

During the course of its investigation, the Compliance Department analyzed the order and trading activity throughout the life of Cao's Nadex account. Through this review, the Compliance Department discovered that Cao engaged in or attempted to engage in a manipulative scheme to defraud Nadex markets in several FX binary option contracts between August 8, 2019 and August 13, 2019.

Accordingly, the Compliance Department concluded that Cao violated Exchange Rule 5.19(k) when he provided false and/or incomplete information related to his connections with other Nadex Members. Additionally, the Compliance Department has concluded that Cao 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. Also, Cao violated Nadex Rule 5.2(e) and the Nadex Membership Agreement, Member Acknowledgements and Authorizations, Section (a) by allowing a third party to access his account and failing to protect his username and password, or knowingly permitting third party access. Finally, Cao'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 Cao violated Nadex Rules 5.19(h), 5.19(i), 5.19(n) and 5.19(t).

**PENALTY:** As a result of the aforementioned violations, the Nadex Compliance Department has deemed it appropriate to assess Shenghang Cao a fine of \$34,000.00 and order him to pay disgorgement in the amount of \$46,867.24. Additionally, Shenghang Cao'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 or through an intermediary, or as an authorized trader on behalf of any other account.

**EFFECTIVE DATE:** October 26, 2021