

November 1, 2017

## DESIGNATED MARKET MAKER TENDER

### Introduction

Nasdaq Futures, Inc. (NFX or the Exchange) is establishing a new Designated Market Maker (DMM) program which will commence on trade date November 1, 2017 through trade date October 31, 2018.

The purpose of the program is to support liquidity in the Energy Products by recruiting DMMs to maintain competitive bid/ask spreads across the forward Contract curves, in Intra-Commodity (Time) Spreads, and in Inter-Commodity Spreads. The program will also enhance price discovery in the less liquid Energy Products by establishing commitments with DMMs to participate in a Request for Quotes process.

**NFX invites Futures Participants and Authorized Customers to apply for DMM appointments in the Energy Products. NFX will assess tender applications received based upon several qualitative metrics, including each applicants proposed commitments with respect to volume and minimum bid-ask spreads. Applicants may also request a monthly financial stipend, which the Exchange will evaluate in light of their proposed market making commitments.**

### Program Design

The NFX Designated Market Maker program objectives are:

- a) To facilitate competitive bid/ask spreads in the most liquid Contracts and expiries;
- b) To provide for sufficient depth in the most liquid Contracts and expiries;
- c) To provide for competitive bid/ask spreads for Intra-Commodity (Time) Spreads up to 12 months;
- d) To facilitate price discovery in less liquid Futures and Options across the forward curve (up to 60 months).

Applicants may propose to provide either Continuous Quoting Market Making or Quote Response Market Making, or both.

- **Continuous Quoting Market Making (CQ)** is continuous quoting (using Quote or Order functionality) for a set of liquid Contracts with Quotes for a pre-defined number of expirations.
- **Quote Response Market Making (QR)** applies to less liquid contracts and requires the DMM to respond to Requests for Quote (RFQ). QR market making will be available for Options contracts and less liquid Futures contracts.

NFX acknowledges that DMMs might have different areas of focus along the forward curve, as well as different capabilities to manage physical deliveries. NFX expects a number of DMM appointments to support the provision of liquidity in the market.

Applications shall be made by the following Product Groups: Crude Oil Futures, Fuel Futures, Crude Oil Options, Natural Gas Futures, Natural Gas Options, and Power.

## 1. DMM Program Products

A DMM may apply for any combination of Energy Products listed below:

Contract Name	NFX Symbol	Size	Reference Exchange	Reference Symbol
NFX Henry Hub Natural Gas Financial Futures – 10,000	HHQ	10,000mmBtu	CME	HH
NFX Henry Hub Natural Gas Financial Futures – 2,500	NNQ	2,500mmBtu	CME	NN
NFX Henry Hub Penultimate Financial Futures – 2,500	NPQ	2,500mmBtu	CME	NP
NFX Henry Hub Penultimate Financial Futures – 10,000	HPQ	10,000mmBtu	CME	HP
NFX Options on NFX Henry Hub Penultimate Financial Futures - 10,000	LNQ	10,000mmBtu	CME	LN
NFX Brent Crude Financial Futures	BFQ	1,000bbl	ICE	B
NFX Low Sulphur Gasoil Financial Futures	GOQ	100mT	ICE	G
NFX Options on Brent Crude Financial Futures	BCQ	1,000bbl	ICE	B
NFX Options on NFX WTI Crude Penultimate Financial Futures	TOQ	1,000bbl	CME	LO
NFX WTI Crude Penultimate Financial Futures	TQ	1,000bbl	CME	CL
NFX Power Financial Futures	ALL	Various	N/A	N/A

In addition to the outright Contracts listed above, NFX wants to incentivize market making in Intra-Commodity (Time) Spreads and Inter-Commodity Spreads. DMMs may apply to make markets in Combination Strategies (an Order to simultaneously buy and/or sell at least two contracts in one or more Contracts) of the above listed Energy Products (e.g. NFX WTI Crude Financial Futures / NFX Brent Crude Financial Futures). The Exchange seeks DMM proposals that include, but are not limited to, market making commitments for:

### Oil Complex

- NFX Brent Crude Financial Futures: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4) up to 12 months
- NFX WTI Crude Penultimate Financial Futures: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4) up to 12 months
- NFX WTI Crude Penultimate Financial Futures / NFX Brent Crude Financial Futures: Inter-Commodity Spread (e.g. same month for most liquid expiries)

### Natural Gas

- NFX Henry Hub Natural Gas Financial Futures – 10,000: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)
- NFX Henry Hub Natural Gas Financial Futures – 2,500: Intra-Commodity (Time) Spreads (e.g. month 3 vs 4 and up to 12 months)

## 2. DMM Benefits

Appointed DMMs may receive a monthly stipend to contribute towards the direct costs associated with providing the DMM service. Execution and clearing fees will be charged by the Exchange or the Clearing Corporation for any transactions in Energy Products during the term of the program.

Appointed DMMs will be able to use all functionality in the NFX Trading System. The DMM will be able to use both Orders as well as Quotes. Mass Quotes, Mass Quote Protection (MQP) and Self-Match Prevention functionality is also available. An explanatory reference guide for these key concepts and services provided by NFX may be found here: [business.nasdaq.com/futures](https://business.nasdaq.com/futures).

### 3. DMM Obligations and Assessment Metrics

DMMs must be NFX Futures Participants or an NFX Futures Participant's Authorized Customer capable of executing transactions on the NFX Trading System on the commencement date of the program. Applications received in response to this solicitation will be evaluated with respect to the following criteria:

#### Continuous Quote Market Making

- Combination Orders vs. single leg Orders;
- Number of Strikes above and below At The Money (Options market making only);
- Minimum size of spread between bid and ask price;
- Minimum volume in the symmetrical bid and ask of the Quotes;
- Assessment of the stipend which offers most value to NFX for the range of market maker activities applied for; and
- Highest trading session presence, meaning the percentage of time the DMM will meet quoting obligations in specified trading sessions.

An explanatory "General Reference Guide" describing Order types may be found here: [business.nasdaq.com/futures](https://business.nasdaq.com/futures).

#### Quote Response Market Making

In addition to the metrics listed above, the Exchange will evaluate applications with respect to the following criteria:

- Request for Quotes (RFQ) in all strike prices and all expirations (for example an application might specify that at least 50% of all RFQs will be answered by the DMM on a monthly average, but only up to a maximum of 150 Quote requests per day);
- Accessibility to Nasdaq's Drop Copy functionality;
- Minimum bid / ask size (volume) of the Quotes;
- Response times (these may differ between outrights (legs) and Combinations or Strategies); and
- Minimum percent of RFQ matches (e.g. Company A's RFQ trades divided by Total RFQ trades for a period in Natural Gas Options).

### 4. Supervision of Market Maker Performance

NFX shall monitor Order Book activity to ensure that DMMs selected for the program comply with their obligations under this program. Please note the following:

- If Quote volume is asymmetrical (the volume on the bid / ask not being equal), then the lower volume will be the measured volume of the Quote.
- Time spent meeting quoting obligations will not carry over from one trading session to the next. DMM time commitments must be met on each and every trading day.

All trading in the DMM program is subject to NFX rules and applicable law. Any trading activity that appears to be in violation of either will not count towards any commitment under this program.

NFX reserves the right to suspend or terminate the benefits under this DMM Program with immediate effect if the DMM fails to meet its obligations.

## 5. DMM Selection Process and Appointment

### Invitation

Futures Participants and Authorized Customers are invited to submit competitive tender applications via tender form template attached in Exhibit 1. Applications should be submitted to NFX no later than the close of business (17:00 EPT) on October 30, 2017.

### Eligibility

Applications for this DMM program are invited from all NFX Futures Participants, as well as Authorized Customers of Futures Participants.

### Applicant Commitment

The application should contain the following information for each Energy Product which the applicant wishes to submit a tender:

- The minimum bid / ask quote spread in basis points and the associated symmetrical volumes to which the DMM will commit for the greatest percentage of time during the Open Session (the trading session);
- The number of Futures and / or Options products, outright expiries, and Combination Strategies to be quoted by the DMM.

NFX encourages tiered quoting obligations (i.e. several Orders of wider spreads and increasing volume by the DMM).

### Trading Hours

The DMM may propose to make markets during any time period within the trading session. NFX expects applicants to propose market making activity during peak trading hours and off-peak trading hours. Below are sample time periods:

*Peak Trading Hours (PTH)* – 03:30 to 14:30 EPT or 08:00 to 15:00 EPT

*Off-Peak Trading Hours (OTH)* – 15:01 to 16:59 EPT, 19:00 to 07:59 EPT

### Trader List

An appointed DMM will be required to provide a list of the Authorized Traders who will be responsible for quoting and executing trades under this DMM program.

### Appointment

Selected DMMs will be appointed by NFX following assessment of all applications submitted under this tender. NFX's selection and appointment of DMMs shall be final. NFX will maintain a reserve list (Reserve DMMs) that will be used to replace appointed DMMs in the case appointed DMMs fail to meet their obligations. Appointed DMMs and Reserve DMMs shall be notified of their appointment status after the application deadline. Appointed DMMs will be engaged by NFX subject to its Rules, this tender, and the applicants' accepted proposals. DMM benefits and obligations will commence on November 1, 2017 for the new Energy Products, which will be communicated by NFX and continue for the term of the DMM program.

## 6. Qualifying Business

Only Quotes (or Orders) in the central limit order book made by the DMM's Authorized Traders will qualify towards the DMM's quoting obligations. If a Quote is asymmetrical, then the lower volume will be used by NFX in assessing the DMM's compliance with its quoting obligations.

If a DMM fails to quote for its contracted percentage of the trading session, its stipend will be reduced by the proportion of the trading day on which it fell short of its quoting obligation. For clarity, if a DMM is contracted to quote 90% of the trading session, and managed 85% on one trading day and 95% on the next trading day, the two trading days would not average out to 90%, but the DMM would forfeit a pro-rata amount of its stipend, i.e.  $\text{forfeit} = 5/90 \times 1/22 \times \text{stipend}$  (assuming 22 trading days in the month), to reflect the 85% realized quoting on the first trading day.

If a DMM makes any changes to its trading or clearing arrangements, its Authorized Traders, Clearing Futures Participant, or any other aspects of its operations reasonably required by NFX to manage this DMM program, then it is the responsibility of the DMM to notify NFX of those changes in advance in order to ensure continuity of the DMM's benefits.

## 7. Administration of Exchange and Clearing Fee Charges, Rebates, and Stipend Payments

As stated above, execution or clearing fees will be charged by the Exchange or the Clearing Corporation for any transactions in Energy Products during the term of the program.

NFX shall monitor each DMM's performance against its obligations, and subsequently calculate any stipend due in accordance with this DMM program in the following month. Upon request, NFX will provide an invoice breakdown at the Authorized Trader level but will not settle stipend payments directly with Authorized Traders.

NFX reserves the right in its absolute discretion to terminate this DMM program by way of a Futures Trader Alert announcing it has filed with the CFTC for termination of the program, and may announce another market maker program in the future that may include the Energy Products that are the subject of this DMM program.