Nasdaq

POSITION LIMIT & ACCOUNTABILITY LEVELS:
FREQUENTLY ASKED QUESTIONS

Q: Where can I find NFX Rules on Position Limits and Position Accountability?

NASDAQ Futures, Inc. ("NFX") Rules at Chapter V, Section 13. Additionally, the table of Position Limits, Position Accountability Levels and Large Trader Reporting Levels (the "Table") (Rulebook Appendix B) may be found here: http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/NFX/

Q: Can Position Limits be exceeded?

No. Positions that exceed established Exchange position limits, intraday or otherwise, without an exemption are a rule violation. Without obtaining an exemption pursuant to Chapter V, Section 13(c), no Person shall own or control, separately or in combination, a net long position or a net short position in a Contract in excess of any position limit established by Commission regulations or the Exchange and as designated for a Contract. No Futures Participant shall effect a transaction in a Contract that the Futures Participant knows or has reason to believe would result in the Futures Participant, a Customer, or any other Person holding or controlling, separately or in combination, a net long position or net short position in excess of a position limit established by Commission regulations or the Exchange.

Q: How does a Customer obtain an exemption from Positon Limits?

For Position Limit Exemption for all NFX products and Conditional Position Limit Exemptions in the NFX Henry Hub Natural Gas Financial Futures - 10,000 contract (HHQ) and the NFX Henry Hub Natural Gas Financial Futures - 2,500 contract (NNQ), applications may be found here: http://business.nasdaq.com/nasdaq-futures/regulation

Q: What happens if a position exceeds position limits as a result of an options assignment?

If a position exceeds position limits as a result of an option assignment, the person owning or controlling the position shall be allowed one Business Day to liquidate the excess position before being considered in violation of the position limits. If at the close of trading a position that includes options exceeds position limits when evaluated using the delta factors as of that day's close of trading, but does not exceed the limits when evaluated using the previous day's delta factors, the position shall not be considered a violation of position limits.

Q: Are Clearing Futures Participants responsible for Customer Position Limit monitoring?

A Clearing Futures Participant shall not be in violation of Chapter V, Section 13 if it carries positions for its Customers that exceed the applicable position limits for such reasonable period of time as the firm may require to discover and to liquidate such excess positions. For purposes of NFX rules, a reasonable period of time shall generally not exceed one Business Day.

Q: What happens if a customer carries positions at multiple Futures Commission Merchants that exceed Position Limits?

A Customer who exceeds the position limits as a result of maintaining positions at more than one Clearing Futures Participant shall be deemed to have waived confidentiality regarding the Customer's positions and regarding the identity of the Clearing Futures Participant at which such positions are maintained. A Clearing Futures Participant carrying such positions shall not be in violation of this rule if, upon notification by the Exchange or the National Futures Association, it liquidates its pro-rata share of the position exceeding the limits or otherwise ensures the Customer complies with the limits within a reasonable period of time.

Q: What happens if a Customer or Clearing Futures Participant or Futures Participant exceeds Position Limits?

For the purpose of imposing fines pursuant to Rule Chapter V, Section 13, the Exchange may:

- Issue warning letters for a first offense. However, consistent with CFTC regulations, no more than one warning letter will be issued to an individual or entity for the same offense within a rolling 12-month period.
- Aggregate individual violations of particular Rules of the Exchange and treat such violations as a single offense.

Factors which may affect the amount of the sanction, pursuant to NFX Rule, Chapter VI, Section 6, include the magnitude, frequency and impact of the reporting infraction, the party's prior disciplinary history for similar infractions and remedial actions taken to correct the identified reporting issues. The Exchange, in its discretion, may refer matters that it deems egregious to the Business Conduct Committee ("BCC").

Q: Can Position Accountability levels be exceeded?

Yes. However, positions are monitored and, pursuant to Chapter V, Section 13, the Exchange may, at any time, require a person who owns or controls positions in contracts traded on or cleared by the Exchange and which are subject to position accountability rules to provide information relating to such person's position. Upon request by the Exchange, such person shall provide information relating to the positions owned or controlled by that person including, but not limited to, the nature and size of the position, the trading strategy employed with respect to the position, and hedging information, if applicable. If the person from whom such information is requested fails to provide the information as directed, the Exchange may order the reduction of such position.

Q: How are Position Limits and Accountability Levels calculated by the Exchange?

Position Limits are calculated on a net futures-equivalent basis by contract (options positions are converted to a futures-equivalent position based on options deltas), and will include contracts that aggregate into one or more base contracts as set forth in NFX Rulebook Appendix B "the Table" found here:
http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/NFX/

Position Accountability Levels are calculated three separate ways:

1. Spot Month/Single Month/All Month Accountability Levels will be calculated on a net futures-equivalent basis by contract, and will include contracts that aggregate into one or more base contracts as set forth in the Table.

2. Spot Month/Single Month/All Month Accountability Levels will be calculated on a net futures-only basis.

3. Spot Month/Single Month/All Month Accountability Levels for options will be calculated per quadrant (long call, long put, short call, short put) on a gross basis.

Q: What is the difference between Spot Month, Single Month, and All Months for purposes of position limits and position accountability levels, and when do they go into effect?

Spot Month Position Limits are effective in the front month during the last few days until contract month expiration. NFX Rulebook Appendix B details spot month effective days. For example, NFX Brent Crude Financial Futures (BFQ) has a spot month limit of 4,000 net futures-equivalent contracts that becomes effective at the close of trading three business days prior to the last trading day of the contract month.

Single Month Accountability Level is specified as a position held in any given Contract month outside of the Spot Month effective date. *For example, the NFX Brent Crude Financial Futures (BFQ) has a single month Accountability Level of 10,000 net futures-equivalent contracts prior to the spot-month effective date. If a Customer is long 10,000 September 2016 BFQ contracts and short a futures-equivalent 25,000 NFX September 2016 Call Options on NFX Brent Crude Financial Futures (BCQ), the Single Month Accountability Level is short 15,000 net futures-equivalent contracts (10,000 – 25,000 = -15,000) . The Customer would be over the Single Month Accountability Level by 5,000 contracts (15,000 net futures-equivalent contract short position versus 10,000 contract accountability level equal the absolute sum of 5,000 contracts).*

All Month Accountability Level is specified as the net open position held across all contract months of a particular product and is effective at all times. *For example, the NFX Brent Crude Financial Futures (BFQ) All Month Accountability Level is 20,000 net futures-equivalent contracts. If a Customer is long 10,000 September 2016 BFQ contracts, long 15,000 December 2016 BFQ contracts and short a futures-equivalent 2,000 March 2017 BCQ call options contracts, the All Month Accountability Level is long 23,000 net futures-equivalent contracts (10,000 + 15,000 – 2,000 = 23,000). The Customer would be over the All Month Accountability Level by 3,000 contracts (23,000 net futures-equivalent contract long position versus 20,000 contract accountability level equal the absolute sum of 3,000 contracts).*

Q: How does Futures & Options Contract Aggregation work for determining Spot Month, Single Month, and All Months position limits and position accountability levels?

Using the Spot Month as an example, for a contract that aggregates into only one base contract during the spot month, the base contract will be identified in the “Spot Month Aggregate Into Futures Equivalent Leg (1)” column and will denote a positive correlation with the base contract. The aggregation ratio for the Leg (1) base contract will be identified in the “Aggregate Into Ratio Leg (1)” column.

For contracts that aggregate into two separate base contracts during the spot month, the base contract noted in the “Spot-Month Aggregate Into Futures Equivalent Leg (1)” column will denote a positive correlation, and the aggregation ratio for the Leg (1) base contract will be identified in the “Aggregate Into Ratio Leg (1)” column. The base contract noted in the “Spot-Month Aggregate Into Futures Equivalent Leg (2)” column will denote a negative correlation with respect to the base contract, and the aggregation ratio for the Leg (2) base contract will be identified in the “Aggregate Into Ratio Leg (2)” column.

Aggregation of Option positions shall be calculated on a net futures, delta-equivalent basis by contract month. Individual option deltas can be found via the Options Clearing Corporation (“OCC”) OFRA file that is posted daily on the CME SPAN FTP website: (ftp://ftp.cmegroup.com/pub/span/data/) , or the OCC Market Data Full - Prices Non-Proprietary DDS transmission (http://www.theocc.com/components/docs/membership/dds_ref/ENCORE_DDS_Guide_Non_Proprietary_Transmissions.pdf)

Clearing Futures Participants should contact their OCC Member Services Representative regarding additional questions about accessing this information.

Q: How does aggregation of accounts work with respect to position limits and position accountability levels?

The position limit and position accountability levels established by NFX Rule, Chapter V, Section 13, shall apply to all positions held by any Person, including those positions in accounts for which such Person by power of attorney or otherwise directly or indirectly holds positions or controls trading; and in the case of positions held by two (2) or more Persons acting pursuant to an expressed or implied agreement or understanding, the same as if all of the positions were held by or the trading of the positions were done by, a single Person. An account is considered to be under common ownership or control if the Person has a 10 percent or greater financial interest (i.e., ownership or profit interest) in the account or the Person directs the trading in the account via a power of attorney or otherwise.

There are limited exceptions to aggregation for independently controlled positions. An `eligible entity', as defined in CFTC Regulation 150.1(d) need not aggregate its positions with the eligible entity's client positions or accounts carried by an authorized `independent account controller', as defined in Regulation 150.1(e), provided that the positions are not held in the spot month during such time as a notice period or spot month position limit is in effect. If an independent account controller is affiliated with an eligible entity or another independent account controller, each of the affiliated entities must comply with the requirements specified in CFTC Regulation 150.3(a)(4)(i)(A-D).

Q: What are Diminishing Balance Contracts and how does the Exchange calculate its Futures equivalent for position limits and position accountability levels?

Diminishing balance contracts are specific futures contracts whose front month volume in any given contract month diminish ratably as the contract month progresses towards expiration/month end for purposes of position limits. Diminishing Balance Contracts are generally labeled "1st Line Financial Futures". Typically, a contract diminishes each day a portion of the final settlement price is established. The number of business days can vary and, in calculating a diminishing balance, market participants should take into account trading days associated with the contract.

Diminishing balance contracts are typically those where the final settlement price is equal to the arithmetic average of a determined referenced price for each trade date that it is determined during the contract month, "Average Price Contracts"; or the balance of the month average of a determined referenced price for each business day that it is determined during the contract month, starting from the selected start date through the end of the contract month, inclusive.

Diminishing balance contracts are identified as such in the Table (Rulebook Appendix B).

Diminishing Balance Contract Example 1: NFX RBOB Gasoline 1st Line Financial Futures ("RBSQ")

Customer holds 6,600 October 2015 "RBSQ" contracts going into October 2015 and does not add or liquidate any positions during the month.

	Column A	Column B	Column C	Column D	Column E
Formula				D = B / C	E = A * D
Start of Day Position	RBSQ Futures Position	Day	October Month Day Count	VARIABLE PERCENTAGE Day/Month Day Count Ratio	RBSQ Futures Equivalent Position
10/1/2015	6,600	22	22	1.00	6,600
10/2/2015	6,600	21	22	0.95	6,300
10/5/2015	6,600	20	22	0.91	6,000
10/6/2015	6,600	19	22	0.86	5,700
10/7/2015	6,600	18	22	0.82	5,400
10/8/2015	6,600	17	22	0.77	5,100
10/9/2015	6,600	16	22	0.73	4,800
10/12/2015	6,600	15	22	0.68	4,500
10/13/2015	6,600	14	22	0.64	4,200
10/14/2015	6,600	13	22	0.59	3,900
10/15/2015	6,600	12	22	0.55	3,600
10/16/2015	6,600	11	22	0.50	3,300
10/19/2015	6,600	10	22	0.45	3,000
10/20/2015	6,600	9	22	0.41	2,700
10/21/2015	6,600	8	22	0.36	2,400
10/22/2015	6,600	7	22	0.32	2,100
10/23/2015	6,600	6	22	0.27	1,800
10/26/2015	6,600	5	22	0.23	1,500
10/27/2015	6,600	4	22	0.18	1,200
10/28/2015	6,600	3	22	0.14	900
10/29/2015	6,600	2	22	0.09	600
10/30/2015	6,600	1	22	0.05	300

NFX Example: Customer is in compliance during last 3 days of Spot Month.

As depicted in Example 1, NFX Diminishing Balance logic calculates a "VARIABLE PERCENTAGE" by dividing the number of days ("trade dates") remaining in the month by the total number of monthly trade dates, which is then applied to the open Futures position. Although the Customer holds 6,600 RBSQ October 2015 contracts on October 28, 2015, the futures-equivalent, diminished balance, for position limit and accountability levels is 900 contracts. Accordingly, the Customer is in compliance with Spot Month Position Limits of 1,000 contracts during the last three trading days.

Diminishing Balance Contract Example 2: NFX RBOB Gasoline 1st Line Financial Futures ("RBSQ")

"RBSQ" aggregates into NFX RBOB Gasoline Financial Futures ("RBQ")

Customer holds 1,000 October RBSQ contracts on October 19th and does not add or liquidate any positions during the remainder of month. Below are the Customer's futures-equivalent positions in the November 2015 NFX RBOB Gasoline Financial Futures "RBQ" contract (the assumption in this example is that the Customer may have existing positions in RBQ).

The "RBSQ" October 2015 position would be added to any other "RBQ" contracts

Customer establishes 1,000 October 2015 "RBSQ" contracts going into October 19, 2015 and does not add or liquidate any positions during the month. RBSQ aggregates into RBQ.

	Column A	Column B	Column C	Column D	Column E
Formula				**D = B / C**	**E = A * D**
Start of Day Position	**RBSQ Futures Position**	**Day**	**October Month Day Count**	**VARIABLE PERCENTAGE Day/Month Day Count Ratio**	**RBQ Futures Equivalent Position**
10/19/2015	1,000	10	10	1.00	1,000
10/20/2015	1,000	9	10	0.90	900
10/21/2015	1,000	8	10	0.80	800
10/22/2015	1,000	7	10	0.70	700
10/23/2015	1,000	6	10	0.60	600
10/26/2015	1,000	5	10	0.50	500
10/27/2015	1,000	4	10	0.40	400
10/28/2015	1,000	3	10	0.30	300
10/29/2015	1,000	2	10	0.20	200
10/30/2015	1,000	1	10	0.10	100

NFX Example: Customer is in compliance during last 3 days of Spot Month.

As depicted in Example 2, NFX Diminishing Balance logic calculates a "VARIABLE PERCENTAGE" by dividing the number of days ("trade dates") remaining in the month by the total remaining number of monthly trade dates, which is then applied to the open Futures position. Although the Customer holds 1,000 RBSQ October 2015 contracts on October 28, 2015, the futures-equivalent, diminished balance, for position limit and accountability levels is 300 contracts. Accordingly, for a standalone RBSQ position, the Customer is in compliance with Spot Month Position Limits of 1,000 contracts during the last three trade dates.

However, since RBSQ aggregates into RBQ, the RBSQ diminished balance position is added to any RBQ net futures position. Taken together, the RBSQ diminished balance position and RBQ position when added must equal or be less than 1,000 contracts during the last three trading days in order to be in compliance. In this example, on October 28th, if the Customer holds a futures-equivalent net long position of 300 RBSQ contracts and 900 RBQ contracts, when aggregated, the Spot Month Limit of RBQ 1,000 contracts is exceeded by 200 contracts.