nadex | north american derivatives exchange

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Via E-Mail: submissions@cftc.gov

Mr. David Stawick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Centre
1155 21st Street, N.W.
Washington D.C. 20581

RE: Rule Certification of New Products: Five Nadex Political Event Derivatives® (Democratic Majority in the United States House Of Representatives Binary Contracts; Republican Majority in the United States House Of Representatives Binary Contracts; Democratic Majority in the United States Senate Binary Contracts; Republican Majority in the United States Senate Binary Contracts; and United States Presidency Binary Contracts) – Submission pursuant to Commission Regulation 40.2(a) and 40.6(a)

Dear Mr. Stawick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and section 40.2(a) and 40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (the "Commission") under the Act (the "Regulations"), North American Derivatives Exchange, Inc. ("Nadex" or the "Exchange") hereby submits to the Commission its intent to add rules for certain new products and to amend other existing rules. New Rules 12.90 - 12.94[1] are being added pursuant to Regulation 40.2(a) to set forth the terms and conditions for five new Political Election Event Derivatives® based on the results of the 2012 elections:

(a) Democratic Majority in the United States House Of Representatives Binary Contracts
(b) Republican Majority in the United States House Of Representatives Binary Contracts
(c) Democratic Majority in the United States Senate Binary Contracts
(d) Republican Majority in the United States Senate Binary Contracts
(e) United States Presidency Binary Contracts

In order to implement the rules for these new products, Nadex also intends to make certain amendments to its Rules 1.1 and 4.4 pursuant to Regulation 40.6(a).

[1] Rules 12.79-12.89 are being reserved.

The aforementioned amendments are summarized in Exhibit A. The applicable rule amendments are defined in Exhibit B. Any rule deletions are stricken out while the amendments and/or additions are underlined.

Introduction

Nadex is a fully electronic designated contract market ("DCM") that also is registered as a derivatives clearing organization ("DCO") with the Commission. Nadex's members primarily are retail traders who – because Nadex offers non-intermediated trading[2] – can open accounts directly with Nadex. Moreover, all Nadex's contracts, whether traded through an intermediary or directly, are "fully collateralized". As a result, both the Nadex Exchange and clearinghouse, as well as the Exchange members take on no significant credit risk with respect to the contracts that are traded and cleared through Nadex.

The Exchange currently lists short-term Binary Options on a wide range of underlying markets, including security index, energy, metals and other futures, as well as spot currency pairs. In addition to these current offerings, Nadex has over the years listed Binary Options on events such as corporate mergers, housing prices and economic numbers such as Non-Farm Payrolls and Core CPI. A number of these offerings fall within the category of "event contracts" as described in the "Concept Release on the Appropriate Regulatory Treatment of Event Contracts", 73 FR 25669 (May 7, 2008) ("Release"), published by the Commission several years ago. Nadex intends to expand its offering of unique financial instruments to include additional event contracts, specifically contracts that have an underlying value based on certain political events, including elections ("Political Event Derivatives").

History of Political and Other Event Contracts

Although Political Event Derivatives are innovative products to be offered on a DCM and cleared through a DCO, they fall squarely within the core principles of the Act and the Regulations. In this regard, Nadex notes that the issue concerning the appropriate regulatory treatment of event markets under the Act has evolved significantly over the last several years. Clearly, contracts on events such as the results of a specific sporting match are not and will never be appropriate; just as clearly, contracts on events such as economic numbers (e.g., non-farm payroll) and weather occurrences (monthly rainfall totals in a particular location) are perfectly valid. Certainly, some "grey area" has existed with respect to the wide range of possible event markets that lies between these points. Over time, however, the grey area has become much more black and white with respect to Political Event Derivatives:

- In 1992 and 1993, the Commission issued certain No-Action Letters to the Iowa Electronic Markets ("IEM") which, over the ensuing years, has offered real-money event markets on political elections. (Release, 73 FR at 25670)

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[2] Nadex offers both non-intermediated and intermediated trading. Currently, however, only a small fraction of Nadex trading occurs through its single FCM Member firm.

- In 2007, fifteen years after IEM obtained no-action relief to offer such contracts and with the 2008 elections looming, a number of entities, including DCMs such as Nadex[3], were interested in listing event markets on those elections. See, e.g., Release, 73 FR at 25669 ("The Commission's staff has received a substantial number of requests for guidance on the propriety of trading various event contracts under the regulatory rubric of the Commodity Exchange Act").

- On May 1, 2008, the CFTC "commenced a comprehensive review of the Commodity Exchange Act's applicability to event contracts and markets", requesting comments on its Release. The CFTC received primarily supportive comments from 31 commenters, including Nadex, CME Group, various academics and others. *See* http://www.cftc.gov/LawRegulation/PublicComments/08-004.

- Although no comprehensive response has been issued by the Commission since the period for comments on the Release closed on July 7, 2008, just over two years later Congress amended the Act to identify the specific types of event contracts that "the Commission may determine ... are contrary to the public interest" and, accordingly, cannot be "listed or made available for clearing or trading by a registered entity". Dodd-Frank §745(b), amending Section 5c of the Act. As amended, the Act now provides (CEA §5c(c)(5)(C)):

  > (C) SPECIAL RULE FOR REVIEW AND APPROVAL OF EVENT CONTRACTS AND SWAPS CONTRACTS.—
  >
  > (i) EVENT CONTRACTS.—In connection with the listing of agreements, contracts, transactions, or swaps in excluded commodities that are based upon the occurrence, extent of an occurrence, or contingency (other than a change in the price, rate, value, or levels of a commodity described in section 1a(2)(i)), by a designated contract market or swap execution facility, the Commission may determine that such agreements, contracts, or transactions are contrary to the public interest if the agreements, contracts, or transactions involve—
  >
  > (I) activity that is unlawful under any Federal or State law;
  > (II) terrorism;
  > (III) assassination;
  > (IV) war;
  > (V) gaming; or
  > (VI) other similar activity determined by the Commission, by rule or regulation, to be contrary to the public interest.

[3] Then-HedgeStreet did not go forward with its efforts to list political election contracts in 2007 and, indeed, closed its operations in August 2007. The Exchange was acquired, funded with new capital and reopened for business in February 2008.

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(ii) PROHIBITION.—No agreement, contract, or transaction determined by the Commission to be contrary to the public interest under clause (i) may be listed or made available for clearing or trading on or through a registered entity.

- Following the enactment of the Dodd-Frank amendments, the Commission promulgated regulations addressing the issue of event markets. The Commission "determined to prohibit contracts based upon the activities enumerated in Section 745 of the Dodd-Frank Act and to consider individual product submissions on a case-by-case basis under § 40.2" (Provisions Common to Registered Entities, 76 FR 44776, 44785 (July 27, 2011), eff. Sept. 26, 2011). The Commission further noted that it "may, at some future time, adopt regulations that prohibit products that are based upon activities 'similar to' those enumerated in Section 745 of the Dodd-Frank Act' " (*id.* at 44786). These regulations provide as follows:

§ 40.11 Review of event contracts based upon certain excluded commodities.
(a) *Prohibition.* A registered entity shall not list for trading or accept for clearing on or through the registered entity any of the following:

(1) An agreement, contract, transaction, or swap based upon an excluded commodity, as defined in Section 1a(19)(iv) of the Act, that involves, relates to, or references terrorism, assassination, war, gaming, or an activity that is unlawful under any State or Federal law; or

(2) An agreement, contract, transaction, or swap based upon an excluded commodity, as defined in Section 1a(19)(iv) of the Act, which involves, relates to, or references an activity that is similar to an activity enumerated in § 40.11(a)(1) of this part, and that the Commission determines, by rule or regulation, to be contrary to the public interest.

Thus, political election contracts clearly are not among the event markets enumerated in the Act as contracts that "the Commission may determine ... are contrary to the public interest"; accordingly, political election contracts also are not identified as a prohibited class of event contracts by the Commission's new Regulations. That is, event markets on political elections such as the election of the United States President or the elections of the controlling party of the U.S. House of Representative or the U.S. Senate do not involve, relate to, or reference terrorism, assassination, war, gaming, or an activity that is unlawful under any State or Federal law. Moreover, such political event markets cannot be deemed to involve, relate to, or reference an activity that is similar to these specified topics.

Not only do the national elections underlying the Political Event Derivatives proposed by Nadex contrast starkly from the prohibited subject matter listed in the Act and the Regulations, contracts on such Political Event Derivatives offered on a DCM and cleared by a DCO are in the public interest. Congress made plain in its amendments to the Act in 2000 that it found the national public interest to be served by the regulated futures and option markets is to provide a means for "managing and assuming price risks, discovering prices, or disseminating pricing information through trading in liquid, fair and financially secure trading facilities". (CEA §3(a), 7 U.S.C. §5(a)). That same section of the Act provides that the Act's purpose is to provide:

a system of effective self-regulation of trading facilities, clearing systems, market participants and market professional under the oversight of the Commission ... [and] to deter and prevent price manipulation or any other disruptions to market integrity; to ensure the financial integrity of all transactions subject to this Act and the avoidance of systemic risk; to protect all market participants from fraudulent or other abusive sales practices and misuses of customer assets; and to promote responsible innovation and fair competition among boards of trade, other markets and market participants.

(CEA §3(b)). The extensive amendments of the Dodd-Frank Act left these provisions of Section 3 of the Act untouched.

The Election Contracts that Nadex wishes to offer would be consistent with Congress' finding and in furtherance of the Act's public policy purposes, especially the "promot[ion of] responsible innovation and fair competition among ... markets". *Id.* More specifically, the offer of such Political Event Derivatives can be designed to provide risk management value to the public as well as to permit price discovery and dissemination. As the Commission itself has recognized in its Concept Release (see Release, 73 FR at 25672):

"As demonstrated by the IEM, innovative event markets have the capacity to facilitate the discovery of information, and thereby provide potential benefits to the public".

These "potential benefits to the public" noted by the Commission have been widely analyzed by academics, including those who operate the IEM. See J. Berg, et al., *Results from a Dozen Years of Election Futures Markets Research*, Handbook of Experimental Economics Results Vol. 1, at 743-751 (2008). In addition to the hedging and risk management aspects previously discussed, the information aggregation that occurs and can occur in these markets provides a significant public benefit. See Comment Letter from Univ. Of Iowa Professors Berg, Gruca, Nelson, Neumann & Reitz, at 1, http://www.cftc.gov/ucm/groups/ public/@lrfederalregister/documents/frcomment/08-004c020.pdf ("The public interest that is served by Prediction Markets is primarily due to their role in information aggregation").

Currently, these "potential benefits to the public" are, for the most part, still only "potential" benefits that are not widely available to the public. Certainly, contracts on political events currently are available in the United States on IEM and Intrade. IEM operates a small, academic-focused platform for trading pursuant to CFTC no-action letters that exempt it from the regulatory oversight and protections that exist on a DCM. As the operators of IEM have noted, its academic market "occup[ies] a niche between the stylized, tightly controlled markets conducted in the laboratory and the information-rich environments of naturally occurring markets". *Results from a Dozen Years of Election Markets Research*, supra at 742. Moreover, the traders on IEM's academic market "are not a representative sample of likely voters; they are overwhelmingly male, well-educated, high income , and young (the average age is close to 30)." *Id.*

Intrade also fails to provide the full benefits of information aggregation noted by the Commission. Indeed, Intrade is an unregistered, unregulated and potentially illegal[4] internet site operating out of Dublin, Ireland. Presumably, the questions concerning the legality of trading on Intrade by United States voters can skew the information aggregation process. Even with the uncertain legal status of Intrade in the United States, however, trading information from Intrade's markets – and, in particular, Intrade's Presidential Election contracts – has been broadly disseminated to the United States voting public and other U.S.-based users. (See "What is Intrade all About?", http://www.intrade.com/v4/misc/about/aboutUs.jsp (Nov. 1, 2011) ("Predictive information generated by the Intrade community has been used by CNBC, CNN, FOX, WSJ, FT, New York Times, over 50 major universities and graduate schools in the US, the ECB, Cato, Bank of Japan, Bank of England, presidential candidates and innumerable Wall Street firms"). Despite the broad dissemination of Intrade's market data to United States citizens and the obvious national interest in its election market data, this for-profit market is not subject to any regulation comparable to the regulatory regime for DCMs. According to the "Disclaimer" on Intrade's website:

> "Intrade is not a recognised or designated investment exchange as defined by the Financial Services Act 1986 of the UK, the Stock Exchange Act, 1995 of Ireland or the Central Bank Act, 1989 of Ireland nor an investment business firm as defined by the Investment Intermediaries Act, 1995 of Ireland. Trading contracts on-line on the Intrade exchange involves risk. ..."

"About Intrade", http://www.intrade.com/v4/misc/help/disclaimer.jsp (Nov. 1, 2011). Accordingly, the Core Principles that protect the integrity of United States futures markets, including the principles prohibiting manipulation, do not apply to Intrade.

Nadex, unlike IEM and Intrade, is a DCM and DCO. Accordingly, Nadex can offer the positive economic, price discovery and information-aggregation benefits of these political election markets in compliance with the Act's Core Principles and the Commission's regulations.

Election Events are "Excluded Commodities" Subject to CFTC Jurisdiction

Significant discussion in the comments submitted in response to the Release addressed the issue of whether contracts listed on event markets would be considered "excluded commodities" or "exempt commodities" and the extent of the CFTC's jurisdiction over such products. It appears that these issues have been clearly resolved in light of the Dodd-Frank amendments to the Act, and such event markets are "excluded commodities". *See* CEA §5c(c)(5)(C)(i) ("In connection with the listing of ... contracts, transactions, or swaps in excluded commodities that are based upon ...").

[4] *See* Intrade Comment Letter (July 4, 2008), submitted by its CEO, John Delaney, at http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/frcomment/08-004c014.pdf (noting that it is "unclear as to whether Intrade, and indeed myself, are considered persona gratis by the United States").

Although renumbered from §1a(13) to §1a(19), the definition of an "excluded commodity" was not substantively changed. Section 1a(19) of the Act continues to define an "excluded commodity", in relevant part, as follows:

> "an occurrence, extent of an occurrence, or contingency... that is (I) beyond the control of the parties to the relevant contract...; and (II) associated with a financial, commercial, or economic consequence."

CEA § 1a(19). Political Event Derivatives fall squarely within the requirements of this definition. The Political Event Derivatives that Nadex contemplates offering would be binary options on an excluded commodity. The underlying commodities would be expressed as the occurrence or the extent of an occurrence of an event. For example, whether the Republican party will win the majority in the United States House of Representatives, whether the Democratic party will win the majority of the United States Senate, or whether a specified candidate or party will win the United States Presidency are each an occurrence or the extent of an occurrence. The strike conditions or payout criteria for the binary options are the occurrences of the election results for the United States House of Representatives, the United States Senate elections, and the United States Presidency.

The nature of the underlying occurrence would be "beyond the control of the parties to the relevant contract" to affect the outcome of the occurrence in each case, in accordance with the second requirement of Section 1a(19) identified above. For example, elections that will determine the President of the United States, as well as control of the House of Representatives and the Senate, are scheduled for November 6, 2012. The Presidential Election involves the registered voters in each state, who vote for a block of electors who, in turn, are pledged to vote for a particular Presidential ticket. These electors actually vote for the presidential candidate. Each state is apportioned a number of electors equal to the total number of their Congressional delegation. Given the number of voters in the United States[3] and the role of the Electoral College in the Presidential election process, it would be impossible for any one person to control the outcome of the Presidential elections. Similarly, given the large number of citizens eligible to vote in the Congressional elections, it would be impossible for any one person to control the outcome of any single Congressional election, let alone the determination of which party would control the House of Representatives or the Senate.

With respect to the final requirements of the definition of "excluded commodity" set forth above, it is self-evident that federal elections have both macroeconomic and microeconomic impacts. Elected officials set fiscal policy and influence monetary policy, thereby affecting US Treasury issuance volumes, US interest rates and the value of the US dollar in the currency markets. The President nominates and the Senate confirms the leadership ranks of the Federal Reserve Board of Governors, the Council of Economic Advisors, all the

[3] According to the United States Census Bureau, for the 2008 presidential election, 146 million people were registered to vote and 131 million people voted in that election. See *Voting and Registration in the Election of November 2008*, T. File & S. Crissey, U.S. Census Bureau, http://www.census.gov/prod/2010pubs/p20-562.pdf, issued May 2010.

Departments of the Cabinet and a range of agencies and bureaus collectively overseeing the nation's commercial and economic pursuits. The federal budget on which these elected officials eventually agree allocates vast sums among industries and individuals. Commercial winners and losers are directly created by the decisions of elected officials on the allocation of federal resources among health services, national defense, transportation and agriculture – sectors on which Presidential candidates and political parties routinely stake out competing positions. For example, a shift in national health care policy might be expected to sharply affect the profitability of health insurers, HMOs and pharmaceutical companies which collectively account for a substantial portion of the United States' GDP.

Election Contracts and the Potential for Hedging and Risk Management

Since the economic consequences of elections can be so substantial, individuals and businesses may have a strong interest in properly anticipating election-day results and, where possible, hedging against outcomes deemed to be adverse to that individual or business. For example, if a government contractor who participates in government procurement programs can reliably predict the victory of a candidate or a party opposed to those programs, it may use that information to defer or revise its business expansion plans. With the opportunity to evaluate market-based predictions, the contractor may decide to avoid expenditures for business opportunities that will not materialize or shift into other product lines more likely to be valued by the incoming administration. In any case, an accurate election forecast helps the manager to allocate resources and anticipate hiring needs; the information also helps workers in that business make plans for their personal expenditures. Similarly, Political Event Derivatives can give such a business and the individual employees of that business a vehicle to hedge the event-specific risks that they face. Although Nadex's proposed rules will, at least initially, impose relatively low position limits with respect to its Political Event Markets that will restrict the maximum hedging potential that any single party can achieve, hedging opportunities still will exist.

Election Contracts and the Potential for Manipulation

Core Principle 3 in Section 5(d) of the Act stipulates that a board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation. (CEA § 5(d)(3), 7 U.S.C. § 7(d)(3)). Nadex's Political Event Derivatives are designed to meet this Core Principle.

- First, just like an event contract based on a hurricane landfall or the announced non-farm payroll number, Political Event Derivatives have no underlying "cash market". Thus, the Political Event Derivatives will not rely upon any cash price series or cash market trading activity to determine the Expiration Value of a particular Contract or the amount of the fixed cash settlement payment. That is, there is no underlying cash market to be manipulated.
- Second, as explained above, the outcome of the underlying event – i.e., whether Republicans or Democrats win a majority in the House or Senate and whether a particular candidate is elected President – would not be within the control of any person, except, with respect to the Presidential election, perhaps the presidential

candidates themselves. Accordingly, all declared Presidential candidates are not permitted to trade Presidential Election Contracts. Moreover, as added precautions, in addition to precluding trading by the candidates for the Senate (with respect to the Senate Majority Contracts) or the House (with respect to the House Majority Contracts) and any members of the Electoral College (with respect to the Presidential Election Contracts), any individual who may have control or influence over the timing or outcome of the event underlying in any Political Event Derivative is precluded by exchange rule from trading that relevant contract.

- Third, unlike many traditional underlying cash markets, the election process itself is conducted pursuant to the Constitution of the United States, subject to oversight by an independent federal agency, the Federal Election Commission, not to mention the United States Department of Justice (see, e.g., Donsanto & Simmons, Federal Prosecution of Election Offenses (7th ed. May 2007), available at http://www.justice.gov/criminal/pin/docs/electbook-0507.pdf. Moreover, these elections are subject to intense scrutiny by the media.

Certainly, the mere potential for price manipulation is no reason to preclude the offering of Election Contracts or any other contracts by a DCM; to the contrary, that potential argues in favor of requiring these types of contracts to trade in the regulated markets with appropriate controls and oversight. DCMs and the CFTC are very familiar with the issue of potential price manipulation and steps to protect against manipulation.

Consistent with Core Principle 3, Nadex must take steps to avoid listing contracts that are readily subject to manipulation. Because event markets lack any real underlying physical cash market that can be subjected to squeezes or similar manipulative activity, the existing event markets listed by Nadex (e.g., non-farm payrolls, jobless claims and the Fed Funds rate) do not have any position limits. Although Political Election Markets similarly lack any underlying cash market that could be squeezed or manipulated, Nadex is proposing to begin listing these products with relatively low position limits – i.e., 2,500 lots for non-market-makers – to minimize the ability and potential financial incentive for a market participant even to attempt any manipulation.

<u>Retail Traders in Existing Political Election Markets Should have a DCM Alternative</u>

Offering Political Election Contracts on a DCM such as Nadex will fulfill Congress' mandate "to promote responsible innovation and fair competition among boards of trade [and] other markets." CEA §3(b). Currently, retail traders who are active in the political election markets are limited to choosing between unregulated markets such as IEM's smaller, academically focused market or Intrade's large, Dublin-based "exchange".[5] DCMs are well-

[5] Despite its acknowledgement that "Intrade is not a recognised or designated investment exchange as defined by the Financial Services Act 1986 of the UK", *supra*, Intrade also describes itself as "an exchange – like the New York or London stock exchanges for example".

suited to operate effective, efficient Election Markets. As described above, DCMs by definition have the capacity and experience to self-regulate their markets with CFTC oversight. This regulatory regime mandates, among other things, that DCMs protect against manipulation of their markets (Core Principle 3), have the capacity and structure to ensure the financial integrity of their contracts (Core Principle 11), make trading information publicly available (Core Principle 8) and protect market participants from abusive practices by their agents (Core Principle 12). Compliance with these and the other Core Principles that govern DCMs will, in the context of Election Contracts, provide a regulated market for the public that is both widely available and reliable.

Additional Matters

Pursuant to the 10-day filing period under Regulation 40.6(a)(3), Nadex intends to implement these new rules and amendments on trade date January 4, 2012.

No substantive opposing views were expressed to Nadex with respect to these amendments and deletions.

Nadex hereby certifies that the amendments contained herein comply with the Act, as amended, and the Commission Regulations adopted thereunder.

Nadex hereby certifies that a copy of these amendments is being posted on its website at the time of this filing.

"How Intrade Works", http://www.intrade.com/v4/misc/howItWorks/theBasics.jsp (Nov.10, 2011).

Should you have any questions regarding the above, please do not hesitate to contact me. Alternatively, you may contact Nadex's Chief Executive Officer, Yossi Beinart, by telephone at (312) 884-0170 or by email at yossi.beinart@nadex.com.

Sincerely,

Timothy G. McDermott

Timothy G. McDermott
General Counsel and Chief Regulatory Officer

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EXHIBIT A

Rule	Rule Heading	Action	Effective Date
1.1	Definitions	Add definition for "Event Date" and "Event Derivative"; renumber definitions	1/4/2012
4.4	Obligations of Market Makers	Include new Political Contract Binary Contracts in list of products eligible for alternative position limits for Market Makers.	1/4/2012
12.78-12.89	[RESERVED]	Reserved for future use.	
12.90	Democratic Majority in the United States House of Representatives Binary Contracts	Add new rule for Democratic Majority in the United States House of Representatives Binary Contracts.	1/4/2012
12.91	Republican Majority in the United States House of Representatives Binary Contracts	Add new rule for Republican Majority in the United States House of Representatives Binary Contracts.	1/4/2012
12.92	Democratic Majority in the United States Senate Binary Contracts	Add new rule for Democratic Majority in the United States Senate Binary Contracts.	1/4/2012
12.93	Republican Majority in the United States Senate Binary Contracts	Add new rule for Republican Majority in the United States Senate Binary Contracts.	1/4/2012
12.94	United States Presidency Binary Contracts	Add new rule for United States Presidency Binary Contracts.	1/4/2012

EXHIBIT B

Amendment of Rules 1.1, 4.4, 12.90 – 12.94
Addition of 12.79-12.89 [Reserved]

(The following new Rule additions are underlined and deletions are stricken out)

RULE 1.1 –DEFINITIONS

When used in these Rules:

(a) **"Authorized Trader"** means an individual employed by a Member who is authorized by that Member to have direct access to Nadex, provided the Member maintain supervisory authority over such individual(s) trading activities.

(b)**"Binary Contract"** means the right to receive a fixed Settlement Value per contract, from Nadex on the Settlement Date dependent upon whether you are holding a long position or short position in a Binary Contract. If you are holding a long position in a Binary Contract, you have the right to receive a fixed Settlement Value from Nadex on the Settlement Date, if, and only if, the Binary Contract's Payout Criteria encompasses the Expiration Value at Expiration. Conversely, if you are holding a short position in a Binary Contract, you have the right to receive a fixed Settlement Value if, and only if, the Binary Contract's Payout Criteria does NOT encompass the Expiration Value at Expiration.

(c)**"Cap"** means the maximum rate, level, amount, measure or other value of the Underlying of a Variable Payout Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure, or other value of the Underlying meets or exceeds the Cap at Expiration, the Cap will be the Expiration Value.

(d)**"Class"** means all Contracts of the same Type with the same Underlying.

(e)**"Closing Trade Value"** means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract at which the Contract is closed in a Member's or Customer's account.

(f)**"Commodity Futures Trading Commission" or "Commission"** means the Federal regulatory agency established by the Commodity Futures Trading act of 1974 to administer the Commodity Exchange Act.

(g)**"Contract"** means a Variable Payout Contract or a Binary Contract.

(h)**"Customer"** has the meaning set forth in Commission Regulation 1.3(k).

(i)"**Dollar Multiplier**" means the monetary amount by which the rate, level, amount, measure, or other value of an Underlying of a Variable Payout Contract is multiplied to determine the Settlement Value.

(j)"**Event Date**" means, for an Event Derivative Contract, the date of the underlying event or occurrence, as set forth in the terms and conditions for the Contract.

(k)"**Event Derivative**" means a Binary Contract that has an Underlying that is an event.

(l)~~(j)~~"**Expiration**" means the time on the Expiration Date established by these Rules at which a Contract expires and the Expiration Value of that Contract is determined.

(m)~~(k)~~"**Expiration Date**" means the date established by these Rules on which the Expiration Value of each Contract is determined.

(n)~~(l)~~"**Expiration Value**" means the rate, level, amount, measure, or other value of the Underlying at Expiration as calculated and/or published by the Source Agency.

(o)~~(m)~~"**FCM Member**" means any Member that is registered with the Commission as a Futures Commission Merchant and is authorized by Nadex to intermediate customer orders on the Market.

(p)~~(n)~~"**Financial Institution**" means a financial institution as that term is defined in 31 CFR 103.11(n) that is required to comply with the regulations issued by the United States Department of Treasury under the Bank Secrecy Act including, but not limited to, the anti-money laundering program and customer identification program rules.

(q)~~(o)~~ "**Floor**" means the minimum rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure or other value of the Underlying meets or falls below the Floor on the Expiration Date, the Floor will be the Expiration Value.

(r)~~(p)~~ "**Last Trading Day**" means, for a particular Contract, the last date on which that Contract may be traded on the Market.

(s)~~(q)~~"**Long Variable Payout Contract**" means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier and (ii) the obligation to pay at the time the contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier.

(t)~~(r)~~ **"Market Maker"** means a Member that is granted certain the privileges in exchange for assuming certain responsibilities as set forth in Chapter 4 of these Rules for the purpose of creating liquidity for certain Classes of Contracts.

(u)~~(s)~~**"Member"** means a Person who is approved by Nadex to be a Trading Member or a FCM_Member and who is bound by these Rules as they may be amended from time to time.

(v)~~(t)~~**"Opening Trade Value"** means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout Contract at which the Contract is opened in a Member's account.

(w)~~(u)~~**"Payout Criterion"** of a Contract means the Expiration Value or range of Expiration Values that will cause that Contract to pay a Settlement Value to the holder of a long position or the holder of a short position in such Contract. The holder of a long or short position in a Contract that receives a Settlement Value is considered to be "in-the-money" while the holder of either a long or short position in a Contract that does NOT receive a Settlement Value is considered to be "out-of-the-money".

(x)~~(v)~~**"Person"** means an individual, sole proprietorship, corporation, limited liability company, partnership, trust, or any other entity.

(y)~~(w)~~**"Regulatory Agency"** means any government body, including the Commission and Securities and Exchange Commission, and any organization, whether domestic or foreign, granted authority under statutory or regulatory provisions to regulate its own activities and the activities of its members, and includes Nadex, any other clearing organization or contract market, any national securities exchange or clearing agency, the National Futures Association ("NFA") and the Financial Industry Regulatory Authority ("FINRA").

(z)~~(x)~~ **"Series"** means all Contracts of the same Class having identical terms, including Payout Criterion and Expiration Date.

(aa) ~~(y)~~**"Settlement Date"** means the date on which money is paid to the account of a Member who has the right to receive money pursuant to a Variable Payout Contract or Binary Contract held until Expiration, and on which money is paid from the account of a Member who is obligated to pay money pursuant to a Variable Payout Contract held until Expiration. Unless otherwise specified in these Rules, the Settlement Date is the same day as the Expiration Date.

(bb)~~(z)~~**"Settlement Value"** means the amount paid to the holders of in-the-money Contracts. The minimum Settlement Value of a Binary Contract is $100. The Settlement Value of a Variable Payout Contract is determined as described in the definition for Long and Short Variable Payout Contracts.

(cc)~~(aa)~~**"Short Variable Payout Contract"** means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, and then multiplying the resulting figure by the Dollar

Multiplier and (ii) the obligation to pay at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout Contract was held to Expiration, then multiplying the resulting figure by the Dollar Multiplier.

(dd)~~(bb)~~"**Source Agency**" means the agency that publishes the Underlying economic indicator and/or Expiration Value for any Contract.

(ee)~~(cc)~~"**Speculative Position Limits,**" or "**Position Limit**" means the maximum position, either net long or net short, in one Series or a combination of various Series of a particular Class that may be held or controlled by one Member as prescribed by Nadex and/or the Commission.

(ff)~~(dd)~~"**Trade Day**" means the regular trading session on any given calendar date and the evening session, if any, on the immediately preceding calendar date, as specified in Rule 5.11.

(gg)~~(ee)~~"**Trading Member**" means a Person who has been approved by Nadex to trade on the Market.

(hh)~~(ff)~~"**Type**" means the classification of a Contract as a Variable Payout Contract or a Binary Contract.

(ii)~~(gg)~~"**Underlying**" means the index, rate, risk, measure, instrument, differential, indicator, value, contingency, occurrence, or extent of an occurrence the Expiration Value of which determines whether (and, in the case of a Variable Payout Contract, to what extent) a Contract is in-the-money.

(jj)~~(hh)~~"**Variable Payout Contract**" means a Long Variable Payout Contract and/or a Short Variable Payout Contract (such Variable Payout Contracts are also referred to as "Spread(s)" or "Narrow Spread(s)").

(kk)~~(ii)~~"**12PM**" or "**12:00 PM**" means 12:00 Noon

RULE 2.1 – 4.3 [Unchanged]

RULE 4.4 OBLIGATIONS OF MARKET MAKERS

(a) General – Transactions of Market Makers should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers shall not make bids or offers or enter into transactions that are inconsistent with such a course of dealings. Ordinarily, Market Makers shall be obligated to do the following:

(i)trade for the proprietary account of the Market Maker only;

(ii)maintain at least the minimum capital on deposit with Nadex in accordance with the terms of the applicable Market Maker Agreement;

(iii)comply with all other terms of the applicable Market Maker Agreement; and

(iv)maintain two-sided displayed quotes of a minimum designated quantity ("Size") within a predefined spread ("Bid/Ask Spread") for a Series of Contracts for a certain period of time throughout the trading day in accordance with the terms of the applicable Market Maker Agreement.

(1) In ordinary market conditions, quotes must be made within a maximum Bid/Ask Spread.

(2) In fast market conditions, Market Makers will be permitted to reduce their size or widen their Bid/Ask Spreads.

(3) Market Makers also will be permitted to reduce their size or widen their Bid/Ask Spreads:

(i) in any Binary Contract within a Designated Class that is so deep in-the-money as to be valued at $100 offer or so deep out-of-the-money as to be valued at zero bid and

(ii) in any Variable Payout Contract within a Designated Class when the underlying for that Variable Payout Contract is outside the range of the Variable Payout Contract.

(b)A Market Maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for the account of the Market Maker when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity or a temporary disparity between the supply of and demand for quotations in a Series of a Designated Class to which the Market Maker is appointed. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market;

(i)To post bid and ask quotations in all Designated Classes to which the Market Maker is appointed that, absent changed market conditions, will be honored by the Market Maker.

(ii)To update quotations in response to changed market conditions in all Designated Classes to which the Market Maker is appointed.

(iii)All such Market Maker quotations shall be submitted as "Post-Only orders". In the event a Market Maker has built of position size equal to or greater than 90% of any applicable position limit in a particular Class or Contract, then that Market Maker may submit non-Post-Only orders (that is, traditional limit orders) for such Class or Contract until the Market Maker's position in such Class or Contract has been reduced to 75% of the applicable position limit, at which point the Market Maker's obligation to submit Post-Only orders will resume.

(c)Like other Members of Nadex, a Market Maker may not place an order to buy or sell a Contract in a Designated Class for which it has not been appointed a Market Maker unless it has the excess funds in its Nadex account necessary to fulfill its obligations under that order.

(d) Alternative Position Limits for Certain Binary Contracts

(i) Approved market makers who are engaged in bona fide market-making activity shall be exempt from the position limits for those Binary Contracts defined in

a. Rules 12.90 (Democratic House Majority Binary Contracts), 12.91 (Republican House Majority Binary Contracts), 12.92 (Democratic Senate Majority Binary Contracts), 12.93 (Republican Senate Majority Binary Contracts), and 12.94 (United States Presidency Binary Contracts) of these Rules. Instead, such market makers shall be subject to Alternative Position Limits of four times the limit identified for such Binary Contract in Chapter 12. In addition, such Alternative Position Limits shall apply not to the entire class of Binary Contracts, but to each Binary Contract in that Class (i.e., per strike).
b. Rules 12.55 (Japan 225), 12.57 (Korea 200), 12.64 (Wall Street 30), 12.63 (US Tech 100), 12.59 (US 500), and 12.61 (US SmallCap 2000) of these Rules. Instead, such market makers shall be subject to Alternative Position Limits of twice the limit identified for such Binary Contract in Chapter 12. In addition, such Alternative Position Limits shall apply not to the entire class of Binary Contracts, but to each Binary Contract in that Class (i.e., per strike).
c. Rules 12.3 (Copper), 12.5 (Gold), 12.7 (Silver), 12.9 (Crude Oil), 12.11 (Natural Gas), 12.49 (FTSE 100) and 12.51 (Germany 30) of these Rules. Instead, such market makers shall be subject to Alternative Position Limits of the limit identified for such Binary Contract in Chapter 12, which limit shall apply not to the entire class of Binary Contracts, but to each Binary Contract in that Class (i.e., per strike).

(ii) A market maker taking advantage of this exemption and an Alternative Position Limit must, within 1 business day following a request by Nadex's Compliance Department, provide the Nadex Compliance Department with a trade register detailing all futures trading activity in any account owned or controlled by the market maker in the futures contract underlying a Binary Contract during the 15 minutes immediately before and after any expiration time identified by Nadex's Compliance Department in the request.

RULE 5.1 – 12.78 [Unchanged]

RULE 12.79 – 12.89 [RESERVED]

RULE 12.90 DEMOCRATIC MAJORITY IN THE UNITED STATES HOUSE OF REPRESENTATIVES BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Democratic Majority in the United States House of Representatives Event Derivatives® Contracts ("Democratic House Majority Contracts") issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is an event, namely whether the Democratic political party holds a majority of the seats in the United States House of Representatives[6] as of the Event Date for this Contract, as calculated by the Source Agency.

(c) SOURCE AGENCY – The Source Agency is Nadex.

(d) TYPE – The Type of Contract is a Binary Contract.

(e) ISSUANCE – For each general federal election of United States Representatives, Nadex will issue a Democratic House Majority Contract based on a future Event Date. Nadex may issue a new Democratic House Majority Contract that will commence no sooner than two (2) business days following the Expiration Date.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Contracts are initially issued. The Payout Criteria of the Contracts will be set as follows:

(i) DEMOCRATIC HOUSE MAJORITY EVENT DERIVATIVES® CONTRACT: One Contract will have a Payout Criterion based on the Number of Democratic Party House Seats >= 218 as of the Event Date.

(g) MINIMUM TICK - The Minimum Tick size for Democratic House Majority Contracts shall be $0.25.

(h) REPORTING LEVEL – The Reporting Level for the Democratic House Majority Contracts shall be 1,750 Contracts.

(i) POSITION LIMIT – The Position Limits for the Democratic House Majority Contracts shall be 2,500 Contracts.

[6] The House of Representatives currently has 435 seats, with 217.5 being the mid-point. Thus, 218 seats held by Democrats are required for a Democratic majority.

(j) LAST TRADING DATE – The Last Trading Date in a Series will be the Election Date established by law[7]. The Democratic House Majority Contracts will stop trading on the Last Trading Date at 5:00PM ET. No trading in the Democratic House Majority Contracts shall occur after the Last Trading Date.

(k) EVENT DATE – The Event Date is the date of the first meeting of the Congress that includes the newly elected Representatives. According to the 20th Amendment to the United States Constitution, the terms of Representatives begin at noon on the 3d day of January. For example, for the 2012 election cycle, the Representatives who are elected on November 6, 2012 will join the 113th Congress for its first meeting; the Event Date for this Democratic House Majority Contract will be the date of the first meeting of the 113th Congress, which is scheduled to be held on January 3, 2013.

(l) SETTLEMENT DATE – The Settlement Date of the Contract shall be the date that the Expiration Value is announced by the Source Agency.

(m) EXPIRATION DATE – The Expiration Date of the Contract shall be the same date as the Event Date.

(n) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in-the-money Contract on the Settlement Date. The Settlement Value of an in-the-money Democratic House Majority Contract is $100.

(o) EXPIRATION VALUE – The Expiration Value is the level of the Underlying – in this case, the number of Democratic Party House Seats on the Event Date -- as announced by the Source Agency on the Expiration Date. The Expiration Value is determined by the Source Agency based upon the declared party affiliation of each Representative. "House seats" refers to voting seats, with non-voting seats held by representatives from American Samoa, Puerto Rico, Guam, the U.S. Virgin Islands or the District of Columbia not being figured into the majority calculation or this contract. A "Democratic Party House Seat" is a seat held by a Representative who is a declared member of the Democratic party. For clarity, a Representative who is a declared Independent or a member of another party but who sits in the Democratic Caucus is not counted as a Democratic Party House Seat. A seat that is vacant on the Event Date is a House Seat, but is not counted as a Democratic Party House Seat.

(p) CONTINGENCIES - If no outcome is announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the Settlement Date will be delayed until the outcome is released for that Series. For example, if the first meeting of the relevant Congress is delayed until after January 3, settlement may be delayed until the first meeting is held and the outcome is determined by the Source Agency.

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[7] Pursuant to 2 U.S.C. §7 ("Time of Election"), "The Tuesday next after the 1st Monday in November, in every even numbered year, is established as the day for the election, in each of the States and Territories of the United States, of Representatives and Delegates to the Congress commencing on the 3d day of January next thereafter." For example, for the 2012 election cycle, the Election Date is November 6, 2012.

(q) INELIGIBLE MARKET PARTICIPANTS – No person who has the authority or ability to control or influence the timing or outcome of the Underlying for any Democratic House Majority Contract may enter or attempt to enter any order, either directly or indirectly, to buy or sell any such Contract. "Control" or "influence" means the ability to change the timing or outcome of the Underlying, acting alone or in concert with a small number of others. In particular, the following individuals are specifically precluded from entering or attempting to enter any order, either directly or indirectly, to buy or sell any Democratic House Majority Contract: any declared candidate for any United States House of Representative seat, any sitting United States Representative.

RULE 12.91 REPUBLICAN MAJORITY IN THE UNITED STATES HOUSE OF REPRESENTATIVES BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Republican Majority in the United States House of Representatives Event Derivatives® Contracts ("Republican House Majority Contracts") issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is an event, namely whether the Republican political party holds a majority of the seats in the United States House of Representatives[8] as of the Event Date for this Contract, as calculated by the Source Agency.

(c) SOURCE AGENCY – The Source Agency is Nadex.

(d) TYPE – The Type of Contract is a Binary Contract.

(e) ISSUANCE – For each general federal election of United States Representatives, Nadex will issue a Republican House Majority Contract based on a future Event Date. Nadex may issue a new Republican House Majority Contract that will commence no sooner than two (2) business days following the Expiration Date.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Contracts are initially issued. The Payout Criteria of the Contracts will be set as follows:

(i) REPUBLICAN HOUSE MAJORITY EVENT DERIVATIVES® CONTRACT: One Contract will have a Payout Criterion based on the Number of Republican Party House Seats >= 218 as of the Event Date.

(g) MINIMUM TICK - The Minimum Tick size for Republican House Majority Contracts shall be $0.25.

(h) REPORTING LEVEL – The Reporting Level for the Republican House Majority Contracts shall be 1,750 Contracts.

[8] The House of Representatives currently has 435 seats, with 217.5 being the mid-point. Thus, 218 seats held by Republicans are required for a Republican majority.

(i) POSITION LIMIT – The Position Limits for the Republican House Majority Contracts shall be 2,500 Contracts.

(j) LAST TRADING DATE – The Last Trading Date in a Series will be the Election Date established by law[9]. The Republican House Majority Contracts will stop trading on the Last Trading Date at 5:00PM ET. No trading in the Republican House Majority Contracts shall occur after the Last Trading Date.

(k) EVENT DATE – The Event Date is the date of the first meeting of the Congress that includes the newly elected Representatives. According to the 20th Amendment to the United States Constitution, the terms of Representatives begin at noon on the 3d day of January. For example, for the 2012 election cycle, the Representatives who are elected on November 6, 2012 will join the 113th Congress for its first meeting; the Event Date for this Republican House Majority Contract will be the date of the first meeting of the 113th Congress, which is scheduled to be held on January 3, 2013.

(l) SETTLEMENT DATE – The Settlement Date of the Contract shall be the date that the Expiration Value is announced by the Source Agency.

(m) EXPIRATION DATE – The Expiration Date of the Contract shall be the same date as the Event Date.

(n) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in-the-money Contract on the Settlement Date. The Settlement Value of an in-the-money Republican House Majority Contract is $100.

(o) EXPIRATION VALUE – The Expiration Value is the level of the Underlying – in this case, the number of Republican Party House Seats on the Event Date -- as announced by the Source Agency on the Expiration Date. The Expiration Value is determined by the Source Agency based upon the declared party affiliation of each Representative. "House seats" refers to voting seats, with non-voting seats held by representatives from American Samoa, Puerto Rico, Guam, the U.S. Virgin Islands or the District of Columbia not being figured into the majority calculation or this contract. A "Republican Party House Seat" is a seat held by a Representative who is a declared member of the Republican party. For clarity, a Representative who is a declared Independent or a member of another party but who sits in the Republican Conference is not counted as a Republican Party House Seat. A seat that is vacant on the Event Date is a House Seat, but is not counted as a Republican Party House Seat.

(p) CONTINGENCIES - If no outcome is announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the

[9] Pursuant to 2 U.S.C. §7 ("Time of Election"), "The Tuesday next after the 1st Monday in November, in every even numbered year, is established as the day for the election, in each of the States and Territories of the United States, of Representatives and Delegates to the Congress commencing on the 3d day of January next thereafter." For example, for the 2012 election cycle, the Election Date is November 6, 2012.

Settlement Date will be delayed until the outcome is released for that Series. For example, if the first meeting of the relevant Congress is delayed until after January 3, settlement may be delayed until the first meeting is held and the outcome is determined by the Source Agency.

(q) INELIGIBLE MARKET PARTICIPANTS – No person who has the authority or ability to control or influence the timing or outcome of the Underlying for any Republican House Majority Contract may enter or attempt to enter any order, either directly or indirectly, to buy or sell any such Contract. "Control" or "influence" means the ability to change the timing or outcome of the Underlying, acting alone or in concert with a small number of others. In particular, the following individuals are specifically precluded from entering or attempting to enter any order, either directly or indirectly, to buy or sell any Republican House Majority Contract: any declared candidate for any United States House of Representative seat, any sitting United States Representative.

RULE 12.92 DEMOCRATIC MAJORITY IN THE UNITED STATES SENATE BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Democratic Majority in the United States Senate Event Derivatives® Contracts ("Democratic Senate Majority Contracts") issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is an event, namely whether the Democratic political party holds a majority of the seats in the United States Senate[10] as of the Event Date for this Contract, as calculated by the Source Agency.

(c) SOURCE AGENCY – The Source Agency is Nadex.

(d) TYPE – The Type of Contract is a Binary Contract.

(e) ISSUANCE - For each general federal election of United States Senators, Nadex will issue a Democratic Senate Majority Contract based on a future Event Date. Nadex may issue a new Democratic Senate Majority Contract that will commence no sooner than two (2) business days following the Expiration Date.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Contracts are initially issued. The Payout Criteria of the Contracts will be set as follows:

[10] The Senate has 100 seats, with 50 being the mid-point. While the Vice President of the United States serves as the President of the Senate, the Vice President will not be considered in the calculation of the total number of Senate seats or the Expiration Value determination for a Senate Majority Contract. Thus, 51 seats are needed for a Senate majority with respect to a Senate Majority Contract.

(i) DEMOCRATIC SENATE MAJORITY EVENT DERIVATIVES®
CONTRACT: One Contract will have a Payout Criterion based on the Number of Democratic Party Senate Seats >= 51 as of the Event Date.

(g) MINIMUM TICK - The Minimum Tick size for Democratic Senate Majority Contracts shall be $0.25.

(h) REPORTING LEVEL – The Reporting Level for the Democratic Senate Majority Contracts shall be 1,750 Contracts.

(i) POSITION LIMIT – The Position Limits for the Democratic Senate Majority Contracts shall be 2,500 Contracts.

(j) LAST TRADING DATE – The Last Trading Date in a Series will be the Election Date established by law[11]. The Democratic Senate Majority Contracts will stop trading on the Last Trading Date at 5:00PM ET. No trading in the Democratic Senate Majority Contracts shall occur after the Last Trading Date.

(k) EVENT DATE –The Event Date is the date of the first meeting of the Congress that includes the newly elected Senators. According to the 20th Amendment to the United States Constitution, the terms of Senators begin at noon on the 3d day of January. For example, for the 2012 election cycle, the Senators who are elected on November 6, 2012 will join the 113th Congress for its first meeting; the Event Date for this Democratic Senate Majority Contract will be the date of the first meeting of the 113th Congress, which is scheduled to be held on January 3, 2013.

(l) SETTLEMENT DATE – The Settlement Date of the Contract shall be the date that the Expiration Value is announced by the Source Agency.

(m) EXPIRATION DATE – The Expiration Date of the Contract shall be the same date as the Event Date.

(n) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in-the-money Contract on the Settlement Date. The Settlement Value of an in–the-money Democratic Senate Majority Contract is $100.

(o) EXPIRATION VALUE –The Expiration Value is the level of the Underlying – in this case, the number of Democratic Party Senate Seats on the Event Date -- as announced by the Source Agency on the Expiration Date. The Expiration Value is determined by the Source Agency based upon the declared party affiliation of each Senator. "Senate Seats" refers to voting

[11] Pursuant to 2 U.S.C. §1 ("Time for Election of Senators"), "At the regular election held in any State next preceding the expiration of the term for which any Senator was elected to represent such State in Congress, at which election a Representative to Congress is regularly by law to be chosen, a United States Senator from said State shall be elected by the people thereof for the term commencing on the 3d day of January next thereafter." For example, for the 2012 election cycle, the Election Date is November 6, 2012.

seats, with non-voting seats held by "Shadow Senators" from the District of Columbia not being figured into the majority calculation for this contract. A "Democratic Party Senate Seat" is a seat held by a Senator who is a declared member of the Democratic party. For clarity, a Senator who is a declared Independent or a member of another party but who sits in the Senate Democratic Caucus is not counted as a Democratic Party Senate Seat. A seat that is vacant on the Event Date is a Senate Seat, but is not counted as a Democratic Party Senate Seat.

(p) CONTINGENCIES - If no outcome is actually announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the Settlement Date will be delayed until the outcome is released for that Series. For example, if the first meeting of the relevant Congress is delayed until after January 3, settlement may be delayed until the first meeting is held and the outcome is determined by the Source Agency.

(q) INELIGIBLE MARKET PARTICIPANTS – No person who has the authority or ability to control or influence the timing or outcome of the Underlying for any Democratic Senate Majority Contract may enter or attempt to enter any order, either directly or indirectly, to buy or sell any such Contract. "Control" or "influence" means the ability to change the timing or outcome of the Underlying, acting alone or in concert with a small number of others. In particular, the following individuals are specifically precluded from entering or attempting to enter any order, either directly or indirectly, to buy or sell any Democratic Senate Majority Contract: any declared candidate for any United States Senate seat, any sitting United States Senator.

RULE 12.93 REPUBLICAN MAJORITY IN THE UNITED STATES SENATE BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the Republican Majority in the United States Senate Event Derivatives® Contracts ("Republican Senate Majority Contracts") issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is an event, namely whether the Republican political party holds a majority of the seats in the United States Senate[12] as of the Event Date for this Contract, as calculated by the Source Agency.

(c) SOURCE AGENCY – The Source Agency is Nadex.

(d) TYPE – The Type of Contract is a Binary Contract.

(e) ISSUANCE - For each general federal election of United States Senators, Nadex will issue a Republican Senate Majority Contract based on a future Event Date. Nadex may issue a

[12] The Senate has 100 seats, with 50 being the mid-point. While the Vice President of the United States serves as the President of the Senate, the Vice President will not be considered in the calculation of the total number of Senate seats or the Expiration Value determination for a Senate Majority Contract. Thus, 51 seats are needed for a Senate majority with respect to a Senate Majority Contract.

new Republican Senate Majority Contract that will commence no sooner than two (2) business days following the Expiration Date.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Contracts are initially issued. The Payout Criteria of the Contracts will be set as follows:

(i) REPUBLICAN SENATE MAJORITY EVENT DERIVATIVES® CONTRACT: One Contract will have a Payout Criterion based on the Number of Republican Party Senate Seats>= 51 as of the Event Date.

(g) MINIMUM TICK - The Minimum Tick size for Republican Senate Majority Contracts shall be $0.25.

(h) REPORTING LEVEL – The Reporting Level for the Republican Senate Majority Contracts shall be 1,750 Contracts.

(i) POSITION LIMIT – The Position Limits for the Republican Senate Majority Contracts shall be 2,500 Contracts.

(j) LAST TRADING DATE – The Last Trading Date in a Series will be the Election Date established by law[13]. The Republican Senate Majority Contracts will stop trading on the Last Trading Date at 5:00PM ET. No trading in the Republican Senate Majority Contracts shall occur after the Last Trading Date.

(k) EVENT DATE –The Event Date is the date of the first meeting of the Congress that includes the newly elected Senators. According to the 20th Amendment to the United States Constitution, the terms of Senators begin at noon on the 3rd day of January. For example, for the 2012 election cycle, the Senators who are elected on November 6, 2012 will join the 113th Congress for its first meeting; the Event Date for this Republican Senate Majority Contract will be the date of the first meeting of the 113th Congress, which is scheduled to be held on January 3, 2013.

(l) SETTLEMENT DATE – The Settlement Date of the Contract shall be the date that the Expiration Value is announced by the Source Agency.

(m) EXPIRATION DATE – The Expiration Date of the Contract shall be the same date as the Event Date.

[13] Pursuant to 2 U.S.C. §1 ("Time for Election of Senators"), "At the regular election held in any State next preceding the expiration of the term for which any Senator was elected to represent such State in Congress, at which election a Representative to Congress is regularly by law to be chosen, a United States Senator from said State shall be elected by the people thereof for the term commencing on the 3d day of January next thereafter." For example, for the 2012 election cycle, the Election Date is November 6, 2012.

(n) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in-the-money Contract on the Settlement Date. The Settlement Value of an in-the-money Republican Senate Majority Contract is $100.

(o) EXPIRATION VALUE –The Expiration Value is the level of the Underlying – in this case, the number of Republican Party Senate Seats on the Event Date -- as announced by the Source Agency on the Expiration Date. The Expiration Value is determined by the Source Agency based upon the declared party affiliation of each Senator. "Senate Seats" refers to voting seats, with non-voting seats held by "Shadow Senators" from the District of Columbia not being figured into the majority calculation for this contract. A "Republican Party Senate Seat" is a seat held by a Senator who is a declared member of the Republican party. For clarity, a Senator who is a declared Independent or a member of another party but who sits in the Senate Republican Conference is not counted as a Republican Party Senate Seat. A seat that is vacant on the Event Date is a Senate Seat, but is not counted as a Republican Party Senate Seat.

(p) CONTINGENCIES - If no outcome is actually announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the Settlement Date will be delayed until the outcome is released for that Series. For example, if the first meeting of the relevant Congress is delayed until after January 3, settlement may be delayed until the first meeting is held and the outcome is determined by the Source Agency.

(q) INELIGIBLE MARKET PARTICIPANTS – No person who has the authority or ability to control or influence the timing or outcome of the Underlying for any Republican Senate Majority Contract may enter or attempt to enter any order, either directly or indirectly, to buy or sell any such Contract. "Control" or "influence" means the ability to change the timing or outcome of the Underlying, acting alone or in concert with a small number of others. In particular, the following individuals are specifically precluded from entering or attempting to enter any order, either directly or indirectly, to buy or sell any Republican Senate Majority Contract: any declared candidate for any United States Senate seat, any sitting United States Senator.

RULE 12.94 UNITED STATES PRESIDENCY BINARY CONTRACTS

(a) SCOPE – These Rules shall apply to the Class of Contracts referred to as the United States Presidency Event Derivatives® Contracts ("Presidential Election Contracts") issued by Nadex.

(b) UNDERLYING – The Underlying for this Class of Contracts is an event, namely whether a specified candidate wins the United States Presidency in the next presidential election, as calculated by the Source Agency.

(c) SOURCE AGENCY – The Source Agency is Nadex.

(d) TYPE – The Type of Contract is a Binary Contract.

(e) ISSUANCE - For each general federal election for the office of the President of the United States, Nadex will issue various Presidential Election Contracts, each of a different

Series. Nadex may issue new Presidential Election Contracts that will commence no sooner than two (2) business days following the Expiration Date.

(f) PAYOUT CRITERION – The Payout Criterion for each Contract will be set by Nadex at the time the Contracts are initially issued. The Payout Criteria of the Contracts will be set as follows:

(i) PRESIDENTIAL ELECTION EVENT DERIVATIVES® CONTRACTS

(1) Binary Contract 1: One Contract will have a Payout Criterion of Barack Obama = United States President-elect on the Event Date.

(2) Binary Contract 2: One Contract will have a Payout Criterion of Michele Bachman = United States President-elect on the Event Date.

(3) Binary Contract 3: One Contract will have a Payout Criterion of Newt Gingrich = United States President-elect on the Event Date.

(4) Binary Contract 4: One Contract will have a Payout Criterion of Jon Huntsman = United States President-elect on the Event Date.

(5) Binary Contract 5: One Contract will have a Payout Criterion of Gary Johnson = United States President-elect on the Event Date.

(6) Binary Contract 6: One Contract will have a Payout Criterion of Ron Paul = United States President-elect on the Event Date.

(7) Binary Contract 7: One Contract will have a Payout Criterion of Rick Perry = United States President-elect on the Event Date.

(8) Binary Contract 8: One Contract will have a Payout Criterion of Buddy Roemer = United States President-elect on the Event Date.

(9) Binary Contract 9: One Contract will have a Payout Criterion of Mitt Romney = United States President-elect on the Event Date.

(10) Binary Contract 10: One Contract will have a Payout Criterion of Rick Santorum = United States President-elect on the Event Date.

(ii) Nadex may list additional Contracts with different ranges of Payout Criteria on a discretionary basis in accordance with the CEA and Commission Regulations.

(g) MINIMUM TICK - The Minimum Tick size for Presidential Election Contracts shall be $0.25.

(h) REPORTING LEVEL – The Reporting Level for the Presidential Election Contracts shall be 1,750 Contracts.

(i) POSITION LIMIT – The Position Limits for Presidential Election Contracts shall be 2,500 Contracts.

(j) LAST TRADING DATE – The Last Trading Date in a Series will be the Election Date established by law[14]. The Presidential Election Contracts will stop trading on the Last Trading Date at 5:00PM ET. No trading in the Presidential Election Contracts shall occur after the Last Trading Date.

(k) EVENT DATE – The Event Date is the date of the announcement of the new President-elect in Congress pursuant to the Twelfth Amendment to the U.S. Constitution. For example, for the 2012 election cycle, following the November 6, 2012 election, Electoral Votes are expected to be counted in Congress on January 7, 2013.

(l) SETTLEMENT DATE – The Settlement Date of the Contract shall be the date that the Expiration Value is announced by the Source Agency.

(m) EXPIRATION DATE – The Expiration Date of the Contract shall be the same date as the Event Date.

(n) SETTLEMENT VALUE – The Settlement Value is the amount paid to the holder of the in-the-money Contract on the Settlement Date. The Settlement Value of an in-the-money Presidential Election Contract is $100.

(o) EXPIRATION VALUE – The Expiration Value is the level of the Underlying – in this case, the announced winner of the Electoral College Vote – as announced by the Source Agency on the Expiration Date. The Expiration Value is determined the Source Agency based upon the announcement by Congress of the results of the election following the counting of Electoral Votes and, if necessary, the further vote in the House of Representatives pursuant to the Twelfth Amendment to the U.S. Constitution.

(p) CONTINGENCIES - If no outcome is actually announced on the Expiration Date due to a delay, postponement or otherwise in such release announcement by the Source Agency, the Settlement Date will be delayed until the outcome is released for that Series.

(q) INELIGIBLE MARKET PARTICIPANTS – No person who has the authority or ability to control or influence the timing or outcome of the Underlying for any Presidential Election Contracts may enter or attempt to enter any order, either directly or indirectly, to buy or sell any such Contract. "Control" or "influence" means the ability to change the timing or outcome of the Underlying, acting alone or in concert with a small number of others. In

[14] Pursuant to 3 U.S.C. §1 ("Time for Appointing Electors"), "The electors of President … shall be appointed, in each State, on the Tuesday next after the first Monday in November, in every fourth year succeeding every election of a President …" For example, for the 2012 election cycle, Election Day – i.e., the time for appointing electors – is November 6, 2012.

particular, the following individuals are specifically precluded from entering or attempting to enter any order, either directly or indirectly, to buy or sell any Presidential Election Contracts: any declared candidate for the office of President, any appointed Elector (i.e., member of the Electoral College).

End of Rulebook.

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