



# RISK DISCLOSURE STATEMENT

THE RISK OF LOSS IN TRADING INSTRUMENTS ON NADEX CAN BE SUBSTANTIAL. YOU SHOULD, THEREFORE, CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR CIRCUMSTANCES AND FINANCIAL RESOURCES. YOU SHOULD BE AWARE OF ALL THE POINTS CONTAINED WITHIN THIS RISK DISCLOSURE STATEMENT.

North American Derivatives Exchange, Inc. ("Nadex") has attempted to write this risk disclosure statement in plain English so that you have a good understanding of the risks of trading on Nadex's Internet-based, direct access, derivatives trading system and the risks in trading the instruments offered on Nadex. However, no matter how plain this statement is, it and the other information provided by Nadex in its Rules, Membership Agreement and Terms of Use cannot disclose all potential risks and considerations related to derivatives trading. Therefore, you should only trade on Nadex if you understand the nature of the transactions you are entering into and your exposure to risk. Trading in derivatives is simply not appropriate for many members of the public, and you should carefully consider whether trading derivatives is appropriate for you given your experience, objectives, financial resources, and other relevant circumstances.

There are numerous risks associated not only with the derivatives contracts traded through Nadex but also with the trading system itself. Moreover, because Nadex allows direct participation by you, you must ensure that you carefully read and understand this Risk Disclosure Statement, the description of Nadex Instruments (the "Instruments") you may trade-including when a particular Instrument expires and how Nadex determines which Instruments will be "in-the-money" at Expiration-and all other Nadex rules.

## INHERENT RISKS IN TRADING THE INSTRUMENTS OFFERED ON NADEX

The Instruments traded on Nadex have a high degree of risk. Currently, there are two types of Instrument that trade on Nadex.

- 1) The first type of Instrument is similar to a cash-settled binary European-style call option contract and is referred to as a Binary contract. Such Instruments offered through Nadex are comprised of one contract that has a defined Payout Criterion covering all possible outcomes dependent upon whether you enter into a long or short position in such Binary contract. This means that if you purchase and hold a long position in a Binary contract until expiration, and the Expiration Value of the Underlying is not within the Payout Criterion for the long position you have chosen to hold, that contract will expire worthless. Similarly, if you hold a short position in a Binary contract until expiration, and the Expiration Value of the Underlying is within the Payout Criteria, you will lose all of your original investment.
- 2) The second type of Instrument is a Variable Payout Contract and is referred to as a Spread contract. Such Instruments offered through Nadex are comprised of one contract that has a value varying between an upper and lower range which defines the Payout Criterion. This means that if you hold a long position in a Variable contract until expiration, and the Expiration Value of the Underlying is not within the Payout Criterion for the position that you have chosen to hold, you may lose all of your original investment. Similarly, if you hold a short position (which has a value that moves inversely to a long position) in a Variable contract until expiration, and the Expiration Value of the Underlying is not within the Payout Criterion for the position that you have chosen to hold, you may lose all of your original investment.

**REMEMBER: YOU MAY SUSTAIN A TOTAL LOSS OF THE FUNDS USED TO ESTABLISH A POSITION IN THE NADEX MARKET.**

The unique nature of Nadex Instruments may be confusing to many investors who are familiar with more traditional derivatives contracts. Risks associated with the unique nature of the Nadex Market include a potential lack of liquidity for Nadex Instruments. Other derivatives markets have professional traders who ensure that there are always competitive offers to buy and sell contracts. Nadex may not have such liquidity providers for some or all of its

instruments. Therefore, there is a possibility that you could hold a position in an Instrument from Nadex and be unable to liquidate your position in the Instrument or the portion of the position that you no longer want to hold in the time frame you wish to liquidate it. Additionally, there is a chance that no one will offer to sell you or bid to buy from you an Instrument you want to take a position in or to liquidate due to current market conditions or otherwise. Lack of liquidity in the market could also preclude you from selling large blocks of Instruments at once. If Nadex lacks liquidity in the Instruments you want to trade for any reason, you may be unable to trade at your desired time or price. If that occurs, you may be forced to hold them until they expire, possibly preventing you from hedging the risk to which you are exposed.

A further risk of trading in Nadex Instruments is the risk of a material change in the nature of the Underlying. For instance, you could purchase Instruments on the Nonfarm Payrolls to be published by the Bureau of Labor Statistic at a particular time in the future, but in the interim, the government could change the way the Nonfarm Payrolls is determined or cease publishing that index. In the event of a material change in the nature of any of the Underlyings, or if any of the Underlyings cease to exist, Nadex may adjust the relevant Instruments or the payments to be received under those Instruments based on its best judgment, and its decision shall be final. The decision reached by Nadex could be different than you anticipated when you took a position in the affected Instrument, and as a result, you could suffer significant losses.

Another risk inherent to trading Nadex Instruments is that the Instrument may not settle as expected. For example, the information related to the Payout Criterion may be changed in accordance with the Nadex Rules, the anticipated result may not occur on schedule, or the results of the occurrence may be ambiguous in the way Nadex initially defined the Payout Criterion.

A further risk inherent to trading Nadex Instruments involves Nadex not halting the market in accordance with the underlying market. The specific movements of any underlying market cannot be predicted with exact precision. For example, you could purchase an instrument based on gasoline prices at the pump ("Gasoline"). Prior to expiration of your instrument, the price of Gasoline could be effected by a loss of refinery capacity due to an accident or other incident or for various other reasons unforeseeable to Nadex. However, Nadex may choose not to halt the trading of the Instrument in contrast to the underlying market. This may affect the way the value of your Instrument is calculated and settled.

## RISKS INHERENT IN TRADING THROUGH THE INTERNET

Trading through the Internet involves many interrelated systems, including hardware, software, telephony, cable, and power generation, all of which are subject to failure or malfunction that may adversely affect your ability to trade. If you have spent any time at all on the Internet, you may have experienced problems with computer crashes, failure of your Internet service provider's access system, site crashes, and many other problems. Therefore, please realize that during any time which you cannot access Nadex for whatever reason, you will not be able to enter, cancel, or modify orders. Additionally, although Nadex and its systems provider(s) have taken precautions, such as redundant systems, to prevent such an occurrence, if the Nadex system suffers a catastrophic failure, there is a chance your orders and their priority in the order queue could be lost. Nadex is not responsible or liable for any effect on your ability to trade caused by any malfunction of the Internet, computing systems, or their related components.

## THIRD PARTY SERVICE PROVIDERS

Nadex will provide you with information from Third Party Service Providers ("TPSP") that relates to the instruments traded on Nadex. Such information includes, but is not limited to, website links, quotes, pricing feeds, and any other information provided on the Nadex website (collectively the "Service"). Even though Nadex is providing the Service to you via its website, Nadex does not endorse, warrant, or guarantee the accuracy or reliability of the information provided by the Service.



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Nadex is a designated contract market and registered derivatives clearing organization under the Commodity Exchange Act, as amended, and the regulations of the Commodity Futures Trading Commission. As such, Nadex is a self-regulatory organization, largely responsible for regulating its own activities, including the operation of its market, its Contracts, its sales practices (including promotional material), and its method of managing and protecting your funds and the funds of other members.

THIS BRIEF STATEMENT CANNOT OF COURSE DISCLOSE ALL THE RISKS AND OTHER ASPECTS OF THE NADEX MARKET.