

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 19-150 (2 of 4)

Organization: New York Mercantile Exchange, Inc. ("NYMEX")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 04/10/19

Filing Description: Issuance of CME Group Market Regulation Advisory Notices RA1903-5 Regarding Rule 573. ("Globex Opening"), RA1904-5 Regarding Rule 575. ("Disruptive Practices Prohibited") and RA1905-5 Regarding Rule 534. ("Wash Trades Prohibited").

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: See Filing.

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Official Product Name:

Product Terms and Conditions (product related Rules and Rule Amendments)

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|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected:

Rule Numbers:

April 10, 2019

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: CFTC Regulation 40.6(a) Certification. Issuance of CME Group Market Regulation Advisory Notices RA1903-5 Regarding Rule 573. (“Globex Opening”), RA1904-5 Regarding Rule 575. (“Disruptive Practices Prohibited”) and RA1905-5 Regarding Rule 534. (“Wash Trades Prohibited”). NYMEX Submission No. 19-150 (2 of 4)

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”), The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”) and Commodity Exchange, Inc. (“COMEX”) (collectively, the “Exchanges”) hereby notify the Commission that they are self-certifying the issuance of CME Group Market Regulation Advisory Notices RA1903-5 (“RA1903-5”) concerning Rule 573. (“Globex Opening”), RA1904-5 Regarding Rule 575. (“Disruptive Practices Prohibited”) and RA1905-5 Regarding Rule 534. (“Wash Trades Prohibited”) (collectively the “MRANs”) to provide additional regulatory guidance attendant to activity during the CME Globex electronic trading platform (“Globex”) pre-open period effective on trade date Thursday, April 25, 2019.

The Exchanges provide regulatory guidance regarding activity during the Globex pre-open period in the MRANs. The revisions to the MRANs will provide enhanced clarity by connecting the information contained therein regarding all relevant guidance and rules associated with all facets of Globex trading during the pre-open period.

Specifically, RA1903-5 codifies what is considered disruptive practices prohibited during the pre-open period, the prohibition of market-on-open (“MOO”) orders, the prohibition of orders entered to negate or strictly limit market risk during the pre-open period, reminders of appropriate use of automated trading systems during the pre-open period and the prohibition of test orders in non-test products during the pre-open. Additionally, RA1903-5 incorporates a Frequently Asked Question (“FAQ”) section and a list of examples of prohibited activity during the pre-open period.

RA1904-5 regarding disruptive practices prohibited is being issued to eliminate references in the FAQ and Examples sections of the Advisory Notice concerning activity during the pre-open period and replace them with a reference to the more comprehensive RA1903-5.

RA1905-5 regarding wash trades is being issued to eliminate the answer to FAQ 18 in the Advisory Notice concerning activity during the pre-open period and will also replace it with a reference to RA1903-5.

The Exchanges reviewed the designated contract market core principles (“DCM Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the issuance of the MRANs may have some bearing on the following Core Principle:

Compliance with Rules: RA1903-5 provides additional and more comprehensive guidance for compliance with various Exchange Rules during the pre-open period. RA1904-5 and RA1905-5 eliminate duplicative guidance to RA1903-5 and replace it with a reference to RA1903-5 on appropriate order entry during the pre-open period.

Availability of General Information: The MRANs will be posted publicly on the CME Group website in satisfaction of this core principle.

There were no substantive opposing views to this proposal.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchanges certify that the issuance of the MRANs complies with the Act and regulations thereunder.

The Exchanges certify that this submission has been concurrently posted on the Exchanges' website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact the undersigned at 212.299.2200 or via email at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: CME Group Market Regulation Advisory Notice RA1903-5
Exhibit B: CME Group Market Regulation Advisory Notice RA1904-5
Exhibit C: CME Group Market Regulation Advisory Notice RA1905-5

EXHIBIT A

MARKET REGULATION ADVISORY NOTICE

Exchange	CME, CBOT, NYMEX & COMEX
Subject	CME Globex Pre-Open Guidance
Rule References	Various
Advisory Date	April 11, 2019
Advisory Number	CME Group RA1903-5
Effective Date	April 25, 2019

Effective on trade date Thursday, April 25, 2019, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME Group Market Regulation Advisory Notice RA1715-5 from October 18, 2017. This Advisory Notice provides additional regulatory guidance attendant to activity during the CME Globex electronic trading platform (“Globex”) pre-open period.

Rule 573 (“Globex Opening”) states that prior to the opening of each Globex session, Globex will provide an indicative opening price (“IOP”) or prices. The IOP reflects the price between the buying and selling pressure at which the largest volume of trading can occur based on the Globex equilibrium price algorithm, taking into consideration all pending orders that could be executed on the Globex opening. The IOP is broadcast to all Globex users and to the CME Group market data/ticker feed. During the 30-second period prior to the opening (referred to as the “lockdown” or “no cancel” period), new orders may be entered, although no previously entered order may be modified or cancelled.

CME Group markets observe U.S. holidays with amended opening times and extended pre-open periods several times a year. The relevant schedules are accessible [here](#).

This Advisory Notice and the accompanying Frequently Asked Questions (“FAQ”) section provide a non-exhaustive list of order messaging practices during the pre-open period that violate or may be deemed to violate Exchange rules.

1. Disruptive Practices During the Pre-Open Period

[Rule 575 \(“Disruptive Practices Prohibited”\)](#) requires that all orders be entered for the purpose of executing bona fide transactions and requires that all actionable and non-actionable messages be entered in good faith for legitimate purposes, including during the pre-open period. Pursuant to Rule 575, no person shall enter or cause to be entered an order with the intent, at the time of order entry, to cancel the order before execution or to modify the order to avoid execution. Rule 575 further provides that no person shall enter or cause to be entered orders with the intent to disrupt, or with reckless disregard for the adverse impact on, the orderly conduct of trading or the fair execution of transactions.

The entry, modification or cancellation of orders during the pre-open period for the purpose of manipulating the IOP, causing artificial fluctuations in the IOP or identifying liquidity in the order book violates Rule 575 and may be deemed to violate other Exchange rules. Further, the intentional or reckless entry of orders priced through the then existing IOP that cause a market disruption on the open may be deemed to violate Rule 575 or other Exchange rules.

2. Market-on-Open Orders

Globex does not support the entry of market-on-open (“MOO”) orders. Accordingly, market participants may not place MOO orders for entry with brokers or other parties eligible to handle customer orders, and no party may accept MOO orders. As such, brokers or other parties eligible to handle customer orders may not guarantee a fill to their customer at the opening price.

Information on eligible order types for entry into Globex may be found using the following link:

<https://www.cmegroup.com/confluence/display/EPICSANDBOX/Order+Types+for+Futures+and+Options>

Market participants wishing to place an order with a broker or other party eligible to handle customer orders prior to the time that Globex opens must either indicate a specific limit price for the order or place a DRT (disregard time or not-held order) order. A DRT order gives the party handling the order complete discretion over price and time in execution of the order, including discretion to execute all, some or none of the order.

Any market participant entering orders or causing orders to be entered during the pre-open period at prices significantly above and/or below the displayed IOP (or best bid/offer) must be cognizant of the potential for such orders to cause aberrant price movement during the pre-open period. Market participants are reminded that if such aberrant price movement occurs, the activity may be deemed to violate Rule 575. Additionally, market participants must be capable of handling the financial obligations attendant to the full execution of their orders at the prices that are entered into Globex.

3. Orders Intended to Negate or Strictly Limit Market Risk

Opposing orders for accounts with the same or common beneficial ownership entered during the pre-open period which match upon the opening of the market that a market participant knew or should have known would match violate [Rule 534 \(“Wash Trades Prohibited”\)](#). Market participants should have a reasonable expectation that resting buy and sell orders may match when the market opens if buy orders are priced at or above the price of the market participant’s resting sell orders or sell orders are priced at or below the price of the market participant’s resting buy orders.

Market participants need not trade against themselves on the opening match to violate Rule 534. A purchase (sale) opposite a counterparty followed by a sale (purchase) at the same price opposite the same or different counterparties may be deemed an “indirect wash trade” in violation of Rule 534 if the orders were entered with the intent to negate or strictly limit market risk.

It is a violation of Rule 534 for a market participant to attempt to circumvent the “no cancel” period by entering an order that could trade opposite a pending order from the same market participant or a pending order from an account with the same or common beneficial ownership.

4. Automated Trading System Order Entry

Market participants are permitted to deploy an algorithmic or automated trading system (“ATS”) during the pre-open period. Market participants must ensure the logic or other configurations of the ATS are suitable for deployment during the pre-open period.

Rule 432.W. requires parties to diligently supervise their employees and agents, including ATSS, in the conduct of their business relating to the Exchange. All market participants are expected to monitor their ATSS and prevent aberrant order messaging, which may be disruptive to the IOP.

5. Testing

Pursuant to Rule 575, market participants are prohibited from entering test orders in non-test products during the pre-open period for any reason.

Entering an order(s) in a non-test product without the intent to execute a bona fide transaction is prohibited under Rule 575.

CME Group offers test products to facilitate connectivity and messaging testing on CME Globex. For more information please visit:

<http://www.cmegroup.com/confluence/display/EPICSANDBOX/CME+Globex+Test+Products>.

Questions regarding this Advisory Notice may be directed to the following individuals in Market Regulation:

Natasha Selkov, Lead Investigator, 312.341.7623

Colin Garvey, Manager, Investigations, 312.435.3656

Erin Middleton, Manager, Rules & Regulatory Outreach, 312.341.3286

Robert Sniegowski, Executive Director, Rules & Regulatory Outreach, 312.341.5991

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434.

FAQ Related to Activity During the Globex Pre-Open Period

Q1: What factors does Market Regulation consider in assessing a potential violation of Rule 575 as it relates to activity during the pre-open period?

A1: In addition to the factors listed in the Market Regulation Advisory Notice on prohibited disruptive practices, Market Regulation considers the following non-exhaustive list of factors in assessing whether conduct during the pre-open period violates Rule 575:

- the percentage of orders/volume a market participant canceled during a particular pre-open period, or the cancellation percentage during multiple pre-open periods over a period of time;
- the cancellation percentage of a market participant's orders/volume during multiple pre-open periods over a period of time compared to such market participant's cancellation percentage of orders/volume during active trading hours;
- the size (quantity) of a market participant's orders during the pre-open period compared to the size (quantity) during active trading hours;
- impact on the IOP;
- order activity by a market participant in concurrent pre-open periods in related Exchange markets;
- whether a market participant entered crossed-market orders (see Q&A 2) during the pre-open period, whether the crossed-market orders remained in the order book at the market open; the timing of crossed-market order placement; the length of time the crossed-market orders remained in the order book; whether crossed-market orders were entered on both sides of the market; and
- the percentage of a market participant's orders entered during multiple pre-open periods that remained in the market at the market open.

Q2: What is considered a crossed-market order during the pre-open period?

A2: A crossed-market order is a bid entered at a price above the currently displayed IOP or best offer, or an offer entered at a price below the currently displayed IOP or best bid.

Q3: Is a market participant prohibited from cancelling orders during the pre-open period?

A3: No. Market participants are not prohibited from cancelling an order during the pre-open period if the order is cancelled for legitimate purposes, including but not limited to mitigating risk due to changing market conditions, a shift in market outlook, or a modification in trading strategy.

Q4: Is a market participant allowed to enter a crossed-market order during the pre-open period?

A4: Yes, there are several reasons a market participant may wish to enter a crossed-market order during the pre-open period including to secure queue position or increase the likelihood of getting filled at the market open. However, frequent modifications or cancellations of crossed-market orders may demonstrate that the market participant does not intend for the orders to be filled at the market open, which may be deemed to violate Rule 575 or other Exchange rules.

Furthermore, if the crossed-market order entries, modifications, and/or cancellations cause undue fluctuations to the IOP, the conduct may be deemed to violate Rule 575 or other Exchange rules.

Q5: Is it a violation of Rule 534 if opposing orders entered during the Globex pre-open period for accounts with the same or common beneficial ownership match opposite each other once the market opens?

A5: Yes. Market participants should have a reasonable expectation that their resting buy and sell orders may match opposite each other when the market opens if the buy orders are priced at or above the price of their resting sell orders or the sell orders are priced at or below the price of their resting buy orders. If a market participant's buy and sell orders match opposite one another when the market opens as a result of orders entered during the Globex pre-open period that a party knew or should have known would match, the party has violated Rule 534.

Furthermore, market participants need not trade against themselves on the opening match to violate Rule 534. A purchase (sale) opposite a counterparty followed by a sale (purchase) at the same price opposite the same or different counterparties may be deemed an "indirect wash trade" in violation of Rule 534 if the orders were entered with the intent to negate or strictly limit market risk.

Q6: Is a market participant allowed to switch sides of the market when entering orders during the pre-open period?

A6: Yes, provided that all orders are entered for bona fide trading purposes. Market Regulation recognizes that market participants may change their trading strategy based on many factors, including changing market conditions and/or a shift in market outlook.

Q7: What is the appropriate order entry method during the pre-open period for a party wishing to increase the likelihood of being filled on the open?

A7: Crossed-market orders increase the likelihood of being filled on the market open. Market participants are reminded, however, that they must be willing and able to trade the full quantity of their orders at the prices entered on such orders. Additionally, market participants must be cognizant that crossed-market orders may cause aberrant price movement during the pre-open period, particularly in instances where the order quantity is large relative to the market depth at the time of order entry. If an aberrant price movement occurs, the activity may be deemed to violate Rule 575.

Q8: May a market participant enter orders during the pre-open period in markets eligible for Trading at Settlement ("TAS"), Trading at Market ("TAM"), Basis Trade at Index Close ("BTIC"), or Basis Trade at Cash Open ("TACO") pricing?

A8: Yes, however any market participant who initiates the entry of a [TAS, TAM, BTIC, or TACO](#) order prior to receipt of the security status message indicating that market has transitioned to the pre-open period will be subject to disciplinary action by a panel of the Business Conduct Committee, notwithstanding that the order may have been rejected by the CME Globex system.

Q9: Are automated trading systems allowed to operate during the pre-open period?

A9: Yes, market participants may utilize an automated trading system ("ATS") during any pre-open period. If an ATS is enabled during the pre-open period, the algorithm should contain logic to account for its unique characteristics, such as the recognition that trade matches do not occur until the market opens, in order to avoid causing undue fluctuations to the IOP.

Q10: Do orders entered during the pre-open period need to be entered at prices consistent with the contract's settlement price from the prior trading session?

A10: No, orders may be entered at any price level provided the order has been entered with an intent to trade and the order's price does not cause an undue fluctuation to the IOP.

Q11: How may market participants receive advance notifications regarding upcoming extended pre-open periods in observance of U.S. Holidays?

A11: Market participants may subscribe to receive advance e-mail notifications of upcoming holidays by selecting the "Globex Notices" checkbox in the CME Group Subscription Center via the following link: <http://pages.cmegroup.com/subscription-center-sign-in.html>

Examples of Prohibited Activity During the Pre-Open Period

- **Scanning the Book for Hidden Orders:** A market participant places a crossed-market buy order (i.e. an order to buy priced above the existing IOP or best offer) for the purpose of ascertaining whether there are stop or iceberg orders (i.e. non-displayed liquidity) on the sell side of the order book. Then, after learning the state of the sell side of the market, the market participant cancels that bid and places an order or orders to sell. The original buy order was non-bona fide, as its purpose was not to engage in a transaction in the market but to identify hidden liquidity on the opposite side of the market. Further, the market participant's intent at the time of order entry was to cancel the order prior to execution. This type of conduct violates Rule 575.
- **Market Depth Testing:** To determine the maximum quantity the market participant can purchase on the open at the then existing IOP, the market participant enters a series of crossed-market buy orders until one of the crossed-market buy orders causes the IOP to shift up. Having ascertained the maximum buy quantity that could be entered without shifting the IOP, the market participant cancels all buy orders. Typically, then, during the lockdown period, the market participant enters buy orders with quantities the participant believes, based on the previous non-bona fide activity, will not cause the IOP to shift. The original series of buy orders were non-bona fide, as their purpose was not to engage in a transaction in the market but to identify the depth of the market. Further, the market participant's intent at the time of entering the orders was to cancel them prior to execution. This type of conduct violates Rule 575.
- **Lockdown Circumvention, Negating Market Risk:** Prior to the lockdown period, a market participant enters a crossed-market buy order. After the pre-open period transitions to the lockdown period, other market participants' activity causes the IOP to shift up. No longer wanting to buy at the new (higher) IOP and unable to cancel or modify his resting buy order, the market participant enters a crossed-market sell order to offset or "scratch" the original buy order. During the opening match, the market participant's buy and sell orders trade at the opening price. With the entry of the crossed-market offer, the market participant did not intend to take a bona fide market position and intended to negate market risk and price competition. This type of conduct violates Rule 534.
- **IOP Manipulation:** A market participant places large quantity orders at the beginning of the pre-opening period in an effort to artificially increase or decrease the IOP with the intent to attract other market participants. Once others join the market participant's bid or offer, the market participant cancels his orders shortly before the lockdown period. Consequently, those other market participants did not have an opportunity to react to the cancelled bids or offers prior to the open when their orders became executable.

EXHIBIT B

MARKET REGULATION ADVISORY NOTICE

Exchange	CME, CBOT, NYMEX & COMEX
Subject	Disruptive Practices Prohibited
Rule References	Rule 575
Advisory Date	April 11, 2019
Advisory Number	CME Group RA1904-5
Effective Date	April 25, 2019

Effective on trade date Thursday, April 25, 2019, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME Group Market Regulation Advisory Notice RA1807-5 from June 26, 2018. It is being issued to eliminate references in the FAQ and Examples sections of this Advisory Notice concerning activity during the CME Globex pre-open period and replace them with a reference to the newly issued and more comprehensive CME Group Market Regulation Advisory Notice on order entry during the CME Globex electronic trading platform (“Globex”) pre-open period.

No other substantive changes have been made to this Advisory Notice.

Rule 575 and the accompanying Questions & Answers and examples in this Advisory Notice codify particular types of disruptive order entry and trading practices that the CME Group Exchanges find to be abusive to the orderly conduct of trading or the fair execution of transactions. Such practices have historically been prohibited by and prosecuted under other Exchange rules, including, but not limited to, Rules 432.T. (“to engage in dishonorable or uncommercial conduct”), 432.B.2. (“to engage in conduct or proceedings inconsistent with just and equitable principles of trade”), and 432.Q. (“to commit an act which is detrimental to the interest or welfare of the Exchange or to engage in any conduct which tends to impair the dignity or good name of the Exchange”). Other disruptive practices not covered by this Rule 575 may continue to be prosecuted under other Exchange rules including, but not limited to, 432.B.2, 432.Q and 432.T.

Among other disruptive practices, Rule 575 prohibits certain of the disruptive practices added to Section 4c(a) of the Commodity Exchange Act as subparagraph (5) by Section 747 of the Dodd-Frank Act. Subparagraph (5) provides:

- (5) **DISRUPTIVE PRACTICES** – It shall be unlawful for any person to engage in any trading, practice, or conduct on or subject to the rules of a registered entity that –
- (A) violates bids or offers;
 - (B) demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or
 - (C) is, is of the character of, or is commonly known to the trade as, “spoofing” (bidding or offering with the intent to cancel the bid or offer before execution).

On May 28, 2013, the Commodity Futures Trading Commission (“CFTC”) made effective its “interpretive guidance and policy statement” respecting subparagraph (5). Rule 575 prohibits the type of activity identified by the Commission as “spoofing,” including submitting or cancelling multiple bids or offers to create a misleading appearance of market depth and submitting or cancelling bids or offers with intent to

create artificial price movements upwards or downwards. The Rule also prohibits “quote stuffing practices,” which includes submitting or cancelling bids or offers to overload the quotation system of a registered entity, and submitting or cancelling bids or offers to delay another person's execution of trades. Rule 575 further encompasses subparagraph (5)'s prohibition against the disorderly execution of transactions during the closing period.

The text of Rule 575 appears below:

Text of Rule 575 – (“Disruptive Practices Prohibited”)

All orders must be entered for the purpose of executing bona fide transactions. Additionally, all non-actionable messages must be entered in good faith for legitimate purposes.

- A. No person shall enter or cause to be entered an order with the intent, at the time of order entry, to cancel the order before execution or to modify the order to avoid execution;
- B. No Person shall enter or cause to be entered an actionable or non-actionable message or messages with intent to mislead other market participants;
- C. No Person shall enter or cause to be entered an actionable or non-actionable message or messages with intent to overload, delay, or disrupt the systems of the Exchange or other market participants; and
- D. No person shall enter or cause to be entered an actionable or non-actionable message with intent to disrupt, or with reckless disregard for the adverse impact on, the orderly conduct of trading or the fair execution of transactions.

To the extent applicable, the provisions of this Rule apply to open outcry trading as well as electronic trading activity. Further, the provisions of this Rule apply to all market states, including the pre-opening period, the closing period and all trading sessions.

Questions regarding this Advisory Notice may be directed to the following individuals in Market Regulation:

Steven Schwartz, Executive Director, Global Enforcement, 212.299.2853

Robert Sniegowski, Executive Director, Global Rules & Regulatory Outreach, 312.341.5991

Andrew Vrabel, Executive Director, Global Investigations, 312.435.3622

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.

FAQ Related to Rule 575
Disruptive Practices Prohibited

Q1: What factors may Market Regulation consider in assessing a potential violation of Rule 575?

A1: Market Regulation may consider a variety of factors in assessing whether conduct violates Rule 575, including, but not limited to:

- whether the market participant's intent was to induce others to trade when they otherwise would not;
- whether the market participant's intent was to affect a price rather than to change his position;
- whether the market participant's intent was to create misleading market conditions;
- market conditions in the impacted market(s) and related markets;
- the effect on other market participants;
- the market participant's historical pattern of activity;
- the market participant's order entry and cancellation activity;
- the size of the order(s) relative to market conditions at the time the order(s) was placed;
- the size of the order(s) relative to the market participant's position and/or capitalization;
- the number of orders;
- the ability of the market participant to manage the risk associated with the order(s) if fully executed;
- the duration for which the order(s) is exposed to the market;
- the duration between, and frequency of, non-actionable messages;
- the queue position or priority of the order in the order book;
- the prices of preceding and succeeding bids, offers, and trades;
- the change in the best offer price, best bid price, last sale price, or Indicative Opening Price ("IOP") that results from the entry of the order; and
- the market participant's activity in related markets.

Q2: What does "misleading" mean in the context of Rule 575.B.?

A2: The language is intended to be a more specific statement of the general requirement that market participants are not permitted to act in violation of just and equitable principles of trade. This section of the Rule prohibits a market participant from entering orders or messages with the intent of creating the false impression of market depth or market interest. Market Regulation generally will

find the requisite intent where the purpose of the participant's conduct was, for example, to induce another market participant to engage in market activity.

Q3: Is there a specific amount of time an order should be exposed to the market to demonstrate that it does not constitute a disruptive practice?

A3: Although the amount of time an order is exposed to the market may be a factor that is considered when determining whether the order constituted a disruptive trading practice, there is no prescribed safe harbor. Market Regulation will consider a variety of factors, including exposure time, to determine whether an order or orders constitute a disruptive practice.

Q4: Is it a violation of Rule 575 to modify or cancel an order once it has been entered?

A4: An order, entered with the intent to execute a bona fide transaction, that is subsequently modified or cancelled due to a perceived change in circumstances does not constitute a violation of Rule 575.

Q5: Will orders that are entered by mistake constitute a violation of Rule 575?

A5: An unintentional, accidental, or "fat-finger" order will not constitute a violation of Rule 575, but such activity may be violative of other Exchange rules, including, but not limited to, Rule 432.Q. ("Acts Detrimental to the Welfare of the Exchange").

Q6: Does a partial fill of an order demonstrate that the order did not violate Rule 575?

A6: While execution of an order, in part or in full, may be one indication that an order was entered in good faith, an execution does not automatically cause the order to be considered compliant with Rule 575. Orders must be entered in an attempt to consummate a trade. A variety of factors may lead to a violative order ultimately achieving an execution. Market Regulation will consider a multitude of factors in assessing whether Rule 575 has been violated.

Q7: Under this rule, is a market participant prohibited from making a two-sided market with unequal quantities (e.g., 100 bid at 10 offered)?

A7: No. Market participants are not precluded from making unequal markets as long as the orders are entered for the purpose of executing bona fide transactions. If either (or both) order(s) are entered with prohibited intent, including recklessness, such activity will constitute a violation of Rule 575.

Q8: Are stop orders entered for purposes of protecting a position prohibited by Rule 575?

A8: Market participants may enter stop orders as a means of minimizing potential losses with the hope that the order will not be triggered. However, it must be the intent of the market participant that the order will be executed if the specified condition is met. Such an order entry is not prohibited by this Rule.

Q9: Is the use of iceberg orders considered misleading under Rule 575.B.?

A9: No. The use of iceberg orders, in and of itself, is not considered a violation of Rule 575. However, a violation may exist if an iceberg order is used as part of a scheme to mislead other participants, for example, if a market participant pre-positions an iceberg on the bid and then layers larger quantities on the offer to create artificial downward pressure that results in the iceberg being filled.

Q10: Is a market participant allowed to enter order(s) at various price levels throughout the order book in order to gain queue position, but subsequently cancel those orders as the market changes?

A10: It is understood that market participants may want to achieve queue position at certain price levels, and given changing market conditions may wish to modify or cancel those orders. In the absence of other indicia that the orders were entered for disruptive or misleading purposes, or with reckless disregard for the adverse impact on the orderly conduct of trading or the fair execution of transactions, they would not constitute a violation of Rule 575.

Q11: Is it prohibited to enter an order for a quantity larger than a market participant expects to trade in electronic markets subject to a pro-rata matching algorithm?

A11: Orders entered for the purpose of achieving an execution are permitted. Accordingly, orders entered into markets subject to a pro-rata matching algorithm that are intended to maximize execution of those orders are permitted. However, it is considered an act detrimental to the welfare of the Exchange and may be a violation of other Exchange rules for a market participant to enter an order without the ability to satisfy, by any means, the financial obligations attendant to the transaction that would result from full execution of the order. Participants should be prepared to, and capable of, handling the financial obligations attendant to the full execution of their orders.

Q12: What are “actionable” and “non-actionable” messages in relation to Rule 575.B., C. and D.?

A12: Actionable messages are messages that can be accepted by another party or otherwise lead to the execution of a trade. An example of an actionable message is an order message. Non-actionable messages are those messages submitted to the Exchange that relate to a non-actionable event. Examples of non-actionable messages include Requests for Quotes, creation of User Defined Spreads (UDS) or User Defined Instruments (UDI), entry of orders in test products and administrative messages.

Q13: How does Market Regulation define “orderly conduct of trading or the fair execution of transactions?”

A13: Whether a market participant intends to disrupt the orderly conduct of trading or the fair execution of transactions or demonstrates a reckless disregard for the orderly conduct of trading or the fair

execution of transactions may be evaluated only in the context of the specific instrument, market conditions, and other circumstances present at the time in question. Some of the factors that may be considered in determining whether there was orderly conduct or the fair execution of transactions were described by the CFTC as follows: “[A]n orderly market may be characterized by, among other things, parameters such as a rational relationship between consecutive prices, a strong correlation between price changes and the volume of trades, levels of volatility that do not dramatically reduce liquidity, accurate relationships between the price of a derivative and the underlying such as a physical commodity or financial instrument, and reasonable spreads between contracts for near months and for remote months.” Antidisruptive Practices Authority, 78 Fed. Reg. at 31,895-96. Volatility alone, however, will not be presumptively interpreted as disorderly or disruptive as market volatility can be consistent with markets performing their price discovery function.

Q14: Is a market participant precluded from entering orders that may be considered large for a particular market, and thus may have a potential impact on the market?

A14: The size of an order or cumulative orders may be deemed to violate Rule 575 if the entry results in disorderliness in the markets, including, but not limited to, price or volume aberrations. Market participants should further be aware that the size of an order may be deemed to violate Rule 575 if that order distorts the integrity of the settlement prices. Accordingly, market participants should be cognizant of the market characteristics of the products they trade and ensure that their order entry activity does not result in market disruptions. Exigent circumstances may be considered in determining whether a violation of Rule 575 has occurred and, if so, what the appropriate sanction should be for such violation.

Q15: What is meant by “the closing period” in Rule 575?

A15: “Closing period” typically refers to the period during which transactions, bids, and offers are reviewed for purposes of informing settlement price determinations. The “closing period” may also refer to the period when various cash instruments close, commonly referred to as the “Cash Close.”

Q16: What factors will Market Regulation consider in determining if an act was done with the prohibited intent or reckless disregard of the consequences?

A16: Proof of intent is not limited to instances in which a market participant admits its state of mind. Where the conduct was such that it more likely than not was intended to produce a prohibited disruptive consequence, intent may be found. Claims of ignorance, or lack of knowledge, are not acceptable defenses to intentional or reckless conduct. Recklessness has been commonly defined as conduct that “departs so far from the standards of ordinary care that it is very difficult to believe the actor was not aware of what he or she was doing.” See Drexel Burnham Lambert, Inc. v. CFTC, 850 F.2d 742, 748 (D.C. Cir. 1988).

Q17: Are orders entered for the purpose of igniting momentum in the market prohibited by Rule 575?

A17: A “momentum ignition” strategy occurs when a market participant initiates a series of orders or trades in an attempt to ignite a price movement in that market or a related market.

This conduct may be deemed to violate Rule 575 if it is determined the intent was to disrupt the orderly conduct of trading or the fair execution of transactions, if the conduct was reckless, or if the conduct distorted the integrity of the determination of settlement prices. Further, this activity may violate Rule 575.A. if the momentum igniting orders were intended to be canceled before execution, or if the orders were intended to mislead others. If the conduct was intended to create artificially high or low prices, this may also constitute a violation of Rule 432.H.

Q18: Are “flipping” orders prohibited by Rule 575?

A18: Flipping is defined as the entry of orders or trades for the purpose of causing turns of the market and the creation of volatility and/or instability.

A “flip” order typically has two main characteristics. First, it is an aggressor order. Second, shortly before the entry of the order, the market participant cancels an order(s) on the opposite side of the market, typically at the same price as the aggressor order. The market participant, for example, has flipped from offering to bidding at the same price. Market Regulation recognizes there are many variables that can cause a market participant to change his perspective of the market. This Rule, therefore, does not prohibit a market participant from changing his bias from short (long) to long (short).

Flipping activity may, however, be disruptive to the marketplace. For example, repeated instances of a market participant entering flipping orders that are each large enough to turn the market (i.e., being of a sufficient quantity to sweep the entire quantity on the book at the particular price level and create a new best bid or best offer price with any remaining quantity from the aggressor flipping order) can be disruptive to the orderly conduct of trading or the fair execution of transactions. In considering whether this conduct violates Rule 575, Market Regulation would consider, among other factors:

- the impact on other market participants;
- price fluctuations;
- market conditions in the impacted market(s) and related markets;
- the participant’s activity in related markets;
- whether the flip involved the cancellation of a large sized order(s) relative to the existing bid or offer depth; and
- whether repeated flipping turns the market back and forth (e.g., the first flip turns the market in favor of the offer (bid) and the second flip turns the market in favor of the bid (offer)).

Q19: Does Market Regulation consider cancelling an order via CME Group’s Self-Match Prevention functionality or other self-match prevention technology indicative of an order being in violation of Rule 575?

A19: The means by which an order is cancelled, in and of itself, is not an indicator of whether an order violates Rule 575. The use of self-match prevention functionality in a manner that causes a disruption to the market may constitute a violation of Rule 575. Further, if the resting order that was cancelled was non-bona fide *ab initio*, it would be considered to have been entered in violation of Rule 575.

Q20: What type of pre-open activity is prohibited by Rule 575?

A20: Please see the [CME Group Market Regulation Advisory Notice on order entry during the CME Globex pre-open period](#).

Q21: May orders be entered into CME Globex for the purpose of testing, such as to verify a connection to Globex or a data feed from Globex?

A21: CME Group offers test products in the production environment to facilitate connectivity and messaging testing on CME Globex. For more information please visit <http://www.cmegroup.com/confluence/display/EPICSANDBOX/CME+Globex+Test+Products>.

The entering of an order(s) in a non-test product without the intent to execute a bona fide transaction, including for the purpose of verifying connectivity or checking a data feed, is not permissible. The aforementioned prohibition does not preclude a market participant from entering a bona fide order into CME Globex that is intended to be executed and where such execution may also serve some other risk management purpose, such as verifying the flow of the executed trades through the firm’s back-office systems.

Q22: Is the creation or execution of User Defined Spreads (“UDS”) for the purposes of deceiving or disadvantaging other market participants a violation of Rule 575?

A22: Yes. Although the CME Globex system provides certain protections such as reasonability checks with respect to option deltas and the futures price on covered instruments, the UDS functionality requires users to exercise diligence and care in the creation of option spread instruments, including the creation of covered option strategies.

Market participants are reminded that knowingly creating and/or trading UDS instruments in a manner intended to deceive or unfairly disadvantage other market participants is considered a violation of Rule 575. Additionally, the Global Command Center may price adjust or cancel trades that are deemed to negatively impact the integrity of the market pursuant to the provisions of Rule 588 (“Trade Cancellations and Price Adjustments”).

Examples of Prohibited Activity

The following is a non-exhaustive list of various examples of conduct that may be found to violate Rule 575.

- A market participant enters one or more orders to generate selling or buying interest in a specific contract. By entering the orders, often in substantial size relative to the contracts' overall pending order volume, the market participant creates a misleading and artificial appearance of buy- or sell-side pressure. The market participant places these large orders at or near the best bid and offer prevailing in the market at the time. The market participant benefits from the market's reaction by either receiving an execution on an already resting order on the opposite side of the book from the larger order(s) or by obtaining an execution by entering an opposing side order subsequent to the market's reaction. Once the smaller orders are filled, the market participant cancels the large orders that had been designed to create the false appearance of market activity. Placing a bona fide order on one side of the market while entering order(s) on the other side of the market without intention to trade those orders violates Rule 575.
- A market participant places buy (or sell) orders that he intends to have executed, and then immediately enters numerous sell (or buy) orders for the purpose of attracting interest to the resting orders. The market participant placed these subsequent orders to induce, or trick, other market participants to execute against the initial, order. Immediately after the execution against the resting order, the market participant cancels the open orders.
- A market participant enters one or more orders in a particular market (Market A) to identify algorithmic activity in a related market (Market B). Knowing how the algorithm will react to order activity in Market A, the participant first enters an order or orders in Market B that he anticipates would be filled opposite the algorithm when ignited. The participant then enters an order or orders in Market A for the purpose of igniting the algorithm and creating momentum in Market B. This results in the participant's order(s) in Market B being filled opposite the algorithm. This conduct violates Rule 575.A., as the orders in Market A were not intended to be executed, and Rule 575.B., as the orders in Market A were intended to mislead participants in related markets. If the conduct resulted in a disruption to the orderly execution of transactions, it may also violate Rule 575.D.
- A market participant enters a large number of orders and/or cancellations/updates for the purpose of overloading the quotation systems of other market participants with excessive market data messages to create "information arbitrage."
- A market participant enters order(s) or other messages for the purpose of creating latencies in the market or in information dissemination by the Exchanges for the purpose of disrupting the orderly functioning of the market.
- A market participant enters a large aggressor buy (sell) order at the best offer (bid) price, trading opposite the resting sell (buy) orders in the book, which results in the remainder of the original aggressor order resting first in the queue at the new best bid (offer). As the market participant anticipated and intended, other participants join his best bid (offer) behind him in the queue. The market participant then enters a large aggressor sell (buy) order into his now resting buy (sell)

order at the top of the book. The market participant's use of CME Group's Self-Match Prevention functionality or other wash blocking functionality cancels the market participant's resting buy (sell) order, such that market participant's aggressor sell (buy) order then trades opposite the orders that joined and were behind the market participant's best bid (offer) in the book.

EXHIBIT C

MARKET REGULATION ADVISORY NOTICE

Exchange	CME, CBOT, NYMEX & COMEX
Subject	Wash Trades Prohibited
Rule References	Rule 534
Advisory Date	April 11, 2019
Advisory Number	CME Group RA1905-5
Effective Date	April 25, 2019

Effective on trade date Thursday, April 25, 2019, and pending all relevant CFTC regulatory review periods, this Advisory Notice will supersede CME Group Market Regulation Advisory Notice RA1712-5 from September 18, 2018. It is being issued to eliminate the answer to FAQ 18 in this Advisory Notice concerning activity during the CME Globex electronic trading platform (“Globex”) pre-open period and replace it with a reference to the newly issued and more comprehensive CME Group Market Regulation Advisory Notice on order entry during the Globex pre-open period.

Rule 534, set forth below, has not changed, and this Advisory Notice is being issued to provide updated guidance regarding compliance with Rule 534. Member firms are strongly encouraged to ensure that all firm employees and customers are fully informed regarding Rule 534 and the guidance in this Advisory Notice.

Rule 534 (“Wash Trades Prohibited”)

No person shall place or accept buy and sell orders in the same product and expiration month, and, for a put or call option, the same strike price, where the person knows or reasonably should know that the purpose of the orders is to avoid taking a bona fide market position exposed to market risk (transactions commonly known or referred to as wash trades or wash sales). Buy and sell orders for different accounts with common beneficial ownership that are entered with the intent to negate market risk or price competition shall also be deemed to violate the prohibition on wash trades. Additionally, no person shall knowingly execute or accommodate the execution of such orders by direct or indirect means.

Questions regarding this Advisory Notice may be directed to the following individuals in Market Regulation:

Erin Middleton, Lead Rules & Regulatory Outreach Specialist, 312.341.3286

Robert Snięowski, Executive Director, Rules & Regulatory Outreach, 312.341.5991

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434.

Frequently Asked Questions (“FAQ”) Related to Rule 534 (“Wash Trades Prohibited”)

Q1: What is the definition of a wash trade?

A1: A wash trade is a form of fictitious trade in which a transaction or a series of transactions give the appearance that bona fide purchases and sales have been made, but where the trades have been entered into without the intent to take a bona fide market position or without the intent to execute bona fide transactions subject to market risk or price competition. Parties who initiate, execute or accommodate transactions which they know, or reasonably should know, will achieve a wash result shall be in violation of Rule 534.

A wash trade requires:

- a) that the transaction or series of transactions produces a wash result - meaning the purchase and sale of the same instrument at the same price, or a similar price, for accounts with the same beneficial ownership or for accounts with common beneficial ownership; and
- b) that the party(ies) intended to achieve a wash result. Intent may be inferred from evidence of prearrangement or from evidence that the orders or trade(s) were structured, entered or executed in a manner that the party(ies) knew, or reasonably should have known, would produce a wash result.

The prearrangement, execution or structuring of transactions in CME Group markets with the intent of negating market risk, independent of whether such transactions are entered and/or executed in compliance with other rules which permit prearrangement such as Rule 539.C. ("Pre-Execution Communications Regarding Globex Trades") may be deemed to violate Rule 534.

Q2: What does it mean to have accounts "with the same beneficial ownership" or "with common beneficial ownership" in the context of Rule 534's prohibition on wash trades?

A2: Accounts with the "same beneficial ownership" include accounts with identical ownership as well as accounts of different entities that are 100% wholly-owned by the same parent.

"Common beneficial ownership" is more inclusive and includes not only accounts with the same beneficial ownership, but also accounts with common beneficial ownership that is less than 100%.

Q3: May a market participant place, accept or execute simultaneous buy and sell orders for accounts with common beneficial ownership in the same product and expiration month, or option series?

A3: Any market participant who places or accepts buy and sell orders for simultaneous execution that are for accounts with common beneficial ownership, and any market participant who executes such orders, will be in violation of Rule 534 if the execution of the orders yields a wash result and the party knew, or reasonably should have known, that the trades were entered into without the intent to execute bona fide transactions subject to market risk or price competition.

Q4: When receiving simultaneous buy and sell orders placed by another party, does the market participant receiving the orders have any independent obligation to determine whether the orders are bona fide?

A4: Yes. The CFTC has held (see, for example, *In the Matter of Three Eight Corporation*) that market participants, including account executives and floor brokers, who accept simultaneous buy and sell orders for execution have an independent "duty to inquire" about the propriety of such orders. In the absence of such inquiry, the market participant accepting the orders may be found to have engaged in wash trades if the execution of the orders produces a wash result.

Market participants receiving simultaneous buy and sell orders for execution must make inquiry sufficient to ascertain whether the orders are for accounts with common beneficial ownership. If the buy and sell orders are for an omnibus account, the market participant has a duty to inquire as to whether the orders are for different account owners within the omnibus account.

If a market participant cannot assure himself that buy and sell orders received for simultaneous execution are for accounts that do not have common beneficial ownership, the market participant may refuse to accept the orders. Accepting or executing simultaneous buy and sell orders without such assurance creates potential regulatory exposure if the execution of the orders yields a wash result.

Q5: In the event buy and sell orders for accounts with common beneficial ownership are simultaneously entered for a legitimate purpose, how should such orders be executed to comply with Rule 534?

A5: In the electronic venue, one of the orders should be entered on the electronic trading platform and executed in full prior to the entry of the second order. This will ensure that the orders are not executed opposite each other and will provide a clear audit trail with respect to the entry and execution of the orders. In this circumstance, a written and timestamped record must be made of any order that is not entered on the electronic platform immediately upon receipt.

In the open outcry venue, the buy and sell orders should be timestamped immediately upon receipt. One of the orders should be entered into the pit, executed and timestamped out prior to submitting the second order to the pit for execution. The second order should be timestamped again when it is submitted to the pit. This methodology will ensure that the orders are not executed opposite each other and the accurate timestamping will provide evidence that the orders were not entered for simultaneous execution.

In either the electronic or open outcry venue, simply ensuring that there is a delay between the entry of the buy and sell orders may not, depending on the terms of the orders, preclude the orders from trading in whole or in part against each other. To the extent that the orders trade opposite each other either directly or indirectly through a common third party, the trade may be deemed an illegal wash trade notwithstanding the fact that the orders were entered at different times.

Additionally, in certain circumstances, simultaneous buy and sell orders for accounts with common beneficial ownership that are contemporaneously executed at nearly the same price, rather than at precisely the same price, may violate the prohibition on wash trades if it is demonstrated that the orders were structured to negate market risk, for example, by requiring that the price difference between the two orders be strictly limited.

Q6: Is it acceptable to contemporaneously enter buy and sell orders for accounts with common beneficial ownership if the buy and sell orders are given to different FCMs or to different floor brokers for execution?

A6: The potential for regulatory exposure in this situation is significant. If the orders trade against each other in whole or in part, or if both orders are executed opposite the same third party, an inference may be drawn that orders were structured with the intent to execute a prohibited wash trade. The fact that the orders were competitively executed without prearrangement may not protect the party entering the orders from liability if the execution of the orders produces a wash result.

Q7: Is it acceptable to enter simultaneous buy and the sell orders for accounts with common beneficial ownership for execution on a discretionary (“DRT”) basis?

A7: The entry of simultaneous buy and sell orders for accounts with common beneficial ownership that are entered with instructions giving the executing party discretion over the price and/or time of execution may be viewed, depending on the circumstances, as an implicit request to the executing party to negate market risk. Should the execution of the orders produce a wash result, the parties placing, accepting and executing the orders may be liable for having engaged in an illegal wash trade.

Q8: Are market participants permitted to “freshen” position dates (i.e. liquidating and re-establishing a position) without violating the prohibition on wash trades?

A8: In those products settled via physical delivery against the oldest open long position, CME and CBOT Rule 807 (“Open Long Positions During the Delivery Month”) allow for the intraday freshening of position dates. However, trades executed to liquidate and re-establish a position in order to freshen the position’s date must be competitively executed and must be clearly independent transactions subject to market risk. Purchases and sales to freshen a position date that are prearranged or otherwise executed pursuant to an express or implied agreement will be deemed to violate the prohibition on wash trades.

Q9: Do block trades between different accounts with common beneficial ownership violate the wash trading prohibition?

A9: Block trades between different accounts with **common beneficial ownership** are prohibited unless:

- a) each party’s decision to enter into the block trade is made by an independent decision-maker;
- b) each party has a legal and independent bona fide business purpose for engaging in the block trade; and
- c) the block trade is executed at a fair and reasonable price.

In the absence of satisfying all of the aforementioned requirements, the transaction may constitute an illegal wash trade prohibited by Rule 534.

Q10: If buy and sell orders for accounts with common beneficial ownership are independently initiated by independent decision makers and coincidentally cross in the market, will the trade violate the wash trade prohibition?

A10: Buy and sell orders for accounts with common beneficial ownership that are independently initiated for legitimate and separate business purposes by independent decision makers and which coincidentally cross with each other in the competitive market are not considered wash trades provided that the trade was not prearranged and neither party had knowledge of the other’s order or otherwise intended for their order to trade against the other’s order. Market participants should be aware, however, that trades between accounts with common beneficial ownership may draw additional regulatory scrutiny and should be prepared to demonstrate that such trades are bona fide. (See also Q12, Q13 and Q14.)

Q11: Under what circumstances does trading opposite one’s own order on the electronic platform violate Rule 534?

A11: It is a violation of Rule 534 for an individual to enter an order on the electronic platform that the individual knew or reasonably should have known would trade against his own order resting on the opposite side of the market. The unintentional and incidental matching of buy and sell orders entered by an individual trader on the electronic platform generally will not be considered a

violation of Rule 534. However, if such self-matching occurs on more than an incidental basis in the context of the trader's activity or in the context of the particular market's activity, such trades may be deemed to violate the prohibition on wash trades.

It is recommended that individual traders who frequently enter orders on opposing sides of the market that have a tendency to self-match on more than an incidental basis employ functionality that will minimize the potential for their buy and sell orders to match with each other. When employed, CME Group's optional self-match prevention ("SMP") functionality automatically blocks the matching of buy and sell orders for commonly owned accounts that are submitted to Globex with the same SMP ID. Should you have any questions on the registration or operation of [CME Group's SMP functionality](#), please contact CME Global Account Management in the U.S. at (312) 634-8700, in Europe at 44 203 379 3754, or in Asia at 65 6593 5574.

Q12: Is it a violation of Rule 534 if independently initiated orders originating from different proprietary traders within the same firm match against each other?

A12: It is recognized that many firms have proprietary trading operations in which multiple traders making fully independent trading decisions enter orders for a commonly owned account (the firm's proprietary account) that may unintentionally and coincidentally match with each other on the electronic platform. Provided that the respective orders of each independent trader are entered in good faith for the purpose of executing bona fide transactions, are entered without prearrangement, and are entered without the knowledge of the other trader's order, then such trades shall not be considered to violate the prohibition on wash trades.

Similarly, orders generated by algorithms operated and controlled by fully independent traders in different trading groups that unintentionally and coincidentally match with each other will not be considered to be wash trades provided that the orders are initiated in good faith for the purpose of executing bona fide transactions, that the algorithms operate independently of one another, and that the respective trading groups do not have knowledge of one another's orders.

Firms have an obligation to supervise the trading by their employees and algorithms, must be able to demonstrate the independence of the traders/trading groups/algorithms, and should have and enforce policies and procedures that preclude the traders from having access to or knowledge of one another's orders.

Additionally, the operator ID (also called a Tag 50 ID) that is tied to the individual or team of individuals (ATS Team) responsible for the entry of the orders must be uniquely identified in accordance with Rule 576 ("Identification of Globex Terminal Operators") and associated Market Regulation Advisory Notices.

Q13: Is it a violation of Rule 534 if orders initiated by one or more automated trading systems that are operated and/or controlled by the same individual or the same trading group match against each other?

A13: If a particular algorithm generates buy and sell orders that would potentially match against each other and such trades occur on more than an incidental basis in the context of the algorithm's activity or in the context of the particular market's activity, the trades may be deemed to violate the prohibition on wash trades. It is recommended in this circumstance that the party(ies) responsible for the operation of the algorithm employ functionality that will minimize the potential for the algorithm's buy and sell orders to match with each other.

If otherwise independent algorithms are operated and/or controlled by the same individual or team of individuals and the algorithms trade against one another on more than an incidental basis in the context of the algorithms' activity or the particular market's activity, then the trading between the algorithms may be deemed to violate the prohibition on wash trades. Where multiple

algorithms operated or controlled by the same individual or team of individuals may generate self-match events on more than an incidental basis, it is recommended that the individual or team employ functionality to minimize or eliminate such occurrences.

Q14: Are there unique considerations with respect to Rule 534 in the context of exchange-sponsored volume incentive programs?

A14: Market participants who participate in exchange-sponsored programs with incentives tied in whole or in part to meeting specific volume thresholds should take proactive steps to prevent transactions between accounts with common beneficial ownership. These trades will draw additional regulatory scrutiny and it is recommended that participants in these types of incentive programs employ functionality to mitigate the potential for such trades to occur.

Q15: In circumstances where “more than incidental” self-matching may be deemed to violate the prohibition on wash trades, is there a prescribed threshold?

A15: In these circumstances, market participants are responsible for monitoring their trading, whether that trading is manual or automated, and are responsible for minimizing the potential for, and the occurrence of, self-match events.

The incidence of self-matching in these circumstances will be evaluated in the context of the activity of the trader, trading group, or algorithm(s), and relative to the trades and volume in the instrument traded. More than de minimis self-matching in this context will result in additional regulatory scrutiny and may be deemed to violate the prohibition on wash trades; if there is the potential for more than de minimis self-match events, market participants are expected to either adjust their trading strategies or employ functionality to mitigate the occurrence of self-match events.

Q16: Is the use of CME Group’s Self-Match Prevention functionality mandatory?

A16: Use of CME Group’s SMP functionality is optional. Each firm has the flexibility to tailor its application of the functionality and its use of SMP IDs in ways that are suitable for its particular business model and trading strategies. Contact CME Global Account Management for more information regarding SMP ID configuration. CME Group SMP frequently asked questions and answers can be found here: <http://www.cmegroup.com/globex/trade-on-cme-globex/self-match-faq.html>

Market participants are reminded, however, that the rules of all CME Group Exchanges, as well as the Commodity Exchange Act, prohibit illegal wash trades. Firms and market participants should carefully review their operations and the guidance in this Advisory Notice, and, where appropriate, take steps necessary to minimize the potential for such trades either through the use of SMP functionality or by alternative means.

Q17: Does employing CME Group Self-Match Prevention functionality prevent all potential self-match events?

A17: CME Group’s SMP functionality will not prevent self-matches in markets operating with implied spread functionality if the trade involves an implied order. Absent evidence to the contrary, self-match events involving implied orders will be deemed unintentional by the CME Group Exchanges. Additionally, CME Group’s SMP functionality does not operate during the Globex pre-open nor does it prevent self-matches of orders entered during the pre-open state when the market opens.

Q18: Is it a violation of Rule 534 if resting orders in the order book entered during the Globex pre-open match opposite one another once the market opens?

A18: Please see the [CME Group Market Regulation Advisory Notice on order entry during the CME Globex pre-open period](#).

Q19: What is an indirect wash trade?

A19: One or more purchases (sales) opposite a counterparty followed by a sale (purchase) at the same or similar price opposite the same or different counterparties may be deemed an “indirect wash trade” in violation of Rule 534 if the orders are entered with the intent to negate or strictly limit market risk. Such intent exists if the party knew or should have known that the orders would negate or strictly limit market risk. Additionally, no person is permitted to accept, execute or accommodate the execution of such orders with knowledge of their character. For additional information on indirect wash trades, please see the examples following the answer to FAQ 21 at the end of this Advisory Notice.

Q20: Does an indirect wash trade have to be prearranged in order to constitute a violation of Rule 534?

A20: No. An indirect wash trade does not require prearrangement to constitute a violation of Rule 534 if the person knows or reasonably should know that the purpose of the orders is to avoid taking a bona fide market position exposed to market risk.

Q21: What are serial indirect wash trades and do such trades violate Rule 534?

A21: A series of trades executed among a group of market participants where order entry and trade activity is concentrated in discrete and limited periods of time may be deemed “serial indirect wash transactions” in violation of Rule 534 to the extent that the parties know or reasonably should know that the purpose of the trades is to avoid taking a bona fide market position exposed to market risk.

Examples of Prohibited Indirect Wash Activity

- Participant A and B hold open long positions in the same physically deliverable commodity in the delivery month where delivery takes place against the oldest open long position. To reduce the risk of being stopped for delivery, Participant A and B pre-arrange the execution of transactions that have the effect of offsetting and re-establishing one or both of their long positions, thus freshening the position dates. For example, in an initial transaction, Participants A and B knowingly trade opposite each other in the market. In a subsequent transaction, typically close in time to the initial transaction, Participants A and B knowingly execute an offsetting transaction opposite each other at or near the same price as the initial transaction. In this transaction set, the sells had the effect of offsetting the pre-existing long positions and the buys had the effect of re-establishing the long positions with newer position dates. Due to the manner in which the transactions were orchestrated, Participants A and B negated or strictly limited market risk. This set of transactions constitutes an indirect wash in violation of Rule 534.
- Participants A, B, and C participate in an incentive or rebate program where terms or conditions of the program require each participant to meet a volume threshold (e.g. average daily volume; monthly volume; passively traded volume; etc.). *With or without pre-arrangement*, Participants A, B, and/or C execute a series of transactions, typically in close time proximity, where they buy and sell similar quantities at the same or similar prices opposite each other and where, at the conclusion of the transaction series, the participants had no net change in position. Based on factors including, but not limited to, prior trading activity, market circumstances, market knowledge, or prearrangement the participants know or have reason to know the transactions would not be exposed to price competition or the positions exposed to market risk. Transactions executed for the purpose of increasing volume,

while knowing or having reason to know the transactions would not be exposed to price competition or the positions exposed to market risk, are considered indirect wash trades in violation of Rule 534.