ICE

Atlanta Calgary Chicago Houston London New York Singapore

<u>BY ELECTRONIC TRANSMISSION</u>

Submission No. 13-81
September 24, 2013

Ms. Melissa Jurgens
Assistant Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: New Self-Trade Prevention Functionality, Policy and FAQ
<u>Submission Pursuant to Section 5c(c)(1) of the Act and Regulation 40.6(a)</u>

Dear Ms. Jurgens:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended, and Commission Regulation 40.6(a), ICE Futures U.S., Inc. ("Exchange") hereby self certifies the Exchange's new Self-Trade Prevention Functionality ("STPF"), which is described in the new Self-Trade Prevention Policy ("Policy") set forth in Appendix III to Chapter 27 and attached hereto as Exhibit A. In addition, the Exchange is self certifying the STPF FAQ, attached hereto as Exhibit B, which addresses anticipated questions concerning the functionality and the Policy.

As described in detail in the Policy, the STPF is designed to assist firms and individuals engaged in proprietary trading in preventing violations of wash trading prohibitions. The functionality resides within the ICE trading engine and provides various automated configurations to prevent self-trading of orders entered by the same firm or related firms; under the same Authorized Trader ID or the same account; or within the same Authorized Group ID. It will prevent outright-to-outright orders and spread to same spread orders from self-trading.[1]

The functionality will initially be available on or about October 11, 2013, and market participants are being encouraged to utilize STPF at a level that is appropriate to the nature of their trading operations and organizational structure. Beginning on November 1, 2013, the use of STPF will be mandatory at the Authorized Trader ID level for certain Proprietary Traders[2] with direct market access who utilize algorithmic trading applications. Individuals and firms required to use STPF at the Authorized Trader ID level may not opt out or otherwise override the use of STPF at this level. The Exchange intends to expand the mandatory use of STPF at the Authorized Trader ID level over time to cover all Proprietary Traders and commercial/merchant entities other than those which trade for customer/client accounts.

---

[1] The STPF does not apply to derived orders and will nor prevent spreads or other strategies from trading against outright orders.

[2] For the purposes of this Policy, "Proprietary Trader" means: an entity (company or individual) that trades solely for its own account, and which does not trade for customer/client accounts.

In addition, the Policy expressly makes it incumbent upon market participants to be able to demonstrate compliance with the rules that prohibit wash trading. The failure to utilize the STPF will be deemed an aggravating factor if such market participant is found to have engaged in wash trading that otherwise would have been prevented by using the STPF.

As stated above, the STPF will be available beginning on or about October 11, 2013. The Policy and STPF FAQ will become effective on November 1, 2013. The Exchange is not aware of any opposing views with respect to the amendments. The Exchange certifies that the amendments to the Program comply with the requirements of the Commodity Exchange Act and the rules and regulations promulgated thereunder. The Exchange has reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act and has determined that the STPF complies with the Core Principles 4 (Prevention of Market Disruption), 9 (Execution of Transactions) and 12 (Protection of Markets and Market Participants). The STPF is designed to protect against self-trading that violates the Exchange's wash trading prohibitions, making contracts less susceptible to manipulation, price distortion and disruption. The Exchange further certifies that, concurrent with this filing, a copy of this submission was posted on the Exchange's website at (https://www.theice.com/notices/RegulatoryFilings.shtml).

If you have any questions or need further information, please contact me at 212-748-4021 or at jason.fusco@theice.com.

Sincerely,

Jason V. Fusco
Assistant General Counsel
Market Regulation

Enc.
cc: Division of Market Oversight
New York Regional Office

EXHIBIT A

CHAPTER 27

ELECTRONIC TRADING RULES

*   *   *

APPENDIX III

Self-Trade Prevention Policy

All market participants engaging in proprietary trading are required to implement procedures to protect against self-trading that violates the Exchange's wash trading prohibition set out in Rule 4.02(c).

The ICE Platform has functionality, called the "Self Trade Prevention Functionality" ("STPF") that can assist participants in preventing violations of wash trading prohibitions. As set out below, certain participant categories are required to utilize the STPF.

Description of Functionality

The STPF resides within the ICE trading engine and provides various automated configurations to prevent self-trading of orders entered by the same firm or related firms; under the same Authorized Trader ID or the same account; or within the same Authorized Group ID. The functionality has the ability to be applied at any of the following levels:

> <u>Company ID</u> – At this level, STPF can be employed on an inter-company or intra-company basis. The inter-company STPF prevents self-trading by different companies with common ownership (ie, under a common parent company) whereas intra-company STPF prevents self-trading within a single company. Firms wishing to use this type of STPF must ensure that Company IDs, are properly populated for all orders.
>
> <u>Authorized Group ID</u> – At this level, a company can create Group IDs for the purpose of preventing self-trading by members of a group (within a single entity or related entities) that have access to or knowledge of each other's orders. The Authorized Group ID (Fix Tag 144/right side) is created by the participant and is passed to the Exchange on each order message. Firms are responsible for ensuring that Authorized Group IDs are sufficiently comprehensive to include all relevant traders. Those firms that have traders utilizing WebICE IDs will need to provide the ICE User Administration team with the names and WebICE IDs of the users they want grouped together and the ICE User Administration team will create and assign the Authorized Group IDs as requested by the firm.
>
> <u>Authorized Trader ID</u> – At this level, STPF prohibits self-trading under the same Authorized Trader ID. For WebICE users, this would be the unique User ID assigned by ICE. For orders submitted to the Exchange through a FIX connection, the Authorized Trader ID is submitted in Tag 116 to the right of the pipe deliminator.

Account – At this level, STPF prohibits self-trading for the same account. The account must be an exact match.

Note that STPF does not apply to derived orders from spreads or other strategies that trade across outright orders. Only outright-to-outright orders and spread to same spread orders will be prevented from self-trading.

The STPF permits selection of any one of the following actions to occur when the matching engine detects a potential self- trade:

Reject Taking Order (RTO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, the incoming bid/offer (or "Taking Order") will be automatically rejected.

Reject Resting Order (RRO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, the resting bid/offer (or "Resting Order") will be automatically cancelled.

Reject Both Orders (RBO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, both the Taking Order and Resting Order will be automatically cancelled.

If the resting order has the top priority in the order book, and would result in a self-trade against the entire quantity of the inbound opposing order, then the appropriate RTO, RRO, or RBO functionality will be employed, and the relevant order (RTO; RRO) or orders (RBO) will be cancelled entirely. However, if the resting order is not the top priority order for the full volume of the inbound order, then any partial fills across unrelated parties will be permitted to occur prior to cancellation of the balance of the inbound order.

All prevention criteria configurations are set up by ICE User Administration upon request.

Mandatory Use of STPF

The STPF has been implemented to assist firms and individuals conducting proprietary trading with their wash trade compliance procedures.

The use of STPF is mandatory at the Authorized Trader ID level for Proprietary Traders with direct market access who utilize algorithmic trading applications. For the purposes of this Policy, "Proprietary Trader" means: an entity (company or individual) that trades for its own account, and which does not trade for customer/client accounts.

The Exchange intends that the mandatory use of STPF at Authorized Trader ID level will be extended over time to cover all Proprietary Traders and commercial/merchant entities other than those which trade for customer/client accounts.

Those who are required to utilize STPF to prohibit self-trading under the same Authorized Trader ID level may not opt out or otherwise override the use of STPF at this level.

Other market participants are encouraged to utilize STPF at a level that is appropriate to the nature of their trading operations and organizational structure.

It is incumbent upon all market participants to be able to demonstrate compliance with the rules that prohibit wash trading. The failure to utilize the STPF will be deemed an aggravating factor if such market participant is found to have engaged in wash trading, that would have been prevented by the STPF.

Further information is set out in the FAQ on Self Trade Prevention Functionality, located at [link to be inserted].

EXHIBIT B

SELF - TRADE PREVENTION FUNCTIONALITY (STPF)

FAQs

September, 2013

1) What is Self -Trade Prevention Functionality (STPF)?

STPF resides within the ICE trading engine and provides various automated configurations to prevent self-trading of orders entered by the same firm or related firms; under the same Authorized Trader ID or the same account ID; or within the same Authorized Group ID. Further description of the STPF is contained within the Self-Trade Prevention Policy in the ICE Futures US Rulebook in Appendix III of Chapter 27.

The functionality has the ability to be applied at any of the following levels:

Authorized Trader ID – At this level, STPF prohibits self-trading under the same Authorized Trader ID. For WebICE users, this would be the unique User ID assigned by ICE. For orders submitted to the Exchange through a FIX connection, the Authorized Trader ID is submitted in Tag 116 to the right of the pipe delimiter.

Company ID – At this level, STPF can be employed on an inter-company or intra-company basis. The inter-company STPF prevents self-trading by different companies with common ownership (common parent company) whereas intra-company STPF prevents self-trading within a single company. Firms wishing to use this type of STPF must ensure that Company IDs, are properly populated for all orders.

Authorized Group ID – At this level, a company can create Group IDs for the purpose of preventing self-trading by members of a group (within a single entity or related entities) that have access to or knowledge of each other’s orders. The Authorized Group ID (Fix Tag 144/right side) is created by the participant and is passed to the Exchange on each order message. Firms are responsible for ensuring that Authorized Group IDs are sufficiently comprehensive to include all relevant traders. Those firms that have traders utilizing WebICE IDs will need to provide the ICE User Administration team with the names and WebICE IDs of the users they want grouped together, and the ICE User Administration team will create and assign the Authorized Group IDs as requested by the firm.

Account ID – At this level, STPF prohibits self-trading for the same account. The account must be an exact match.

The STPF permits selection of any one of the following actions to occur when the matching engine detects a potential self- trade:

Reject Taking Order (RTO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, the incoming bid/offer (or “Taking Order”) will be automatically rejected.

Reject Resting Order (RRO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, the resting bid/offer (or “Resting Order”) will be automatically cancelled.

Reject Both Orders (RBO) – If a new incoming bid/offer would result in a self-trade match with a resting offer/bid, both the Taking Order and Resting Order will be automatically cancelled.

2) Who is required to use the STPF?

Proprietary Traders with direct market access who utilize algorithmic trading applications will be required to utilize STPF to prohibit self-trading under the same Authorized Trader ID. Proprietary Traders are defined as any entities or individuals that trade for their own account, or their company’s account. The Exchange may make the STPF mandatory at the Authorized Trader ID level for other Proprietary Traders at a future date.

Those who are required to utilize STPF cannot opt out or otherwise override the use of the STPF at the Authorized Trader ID level. Furthermore, entities within the scope of the term “Proprietary Trader” are encouraged to utilize the other elements of STPF at a level that is appropriate to the nature of their trading operations and organizational structure if they have not otherwise established their own systems and procedures to preclude self-trading.

Note, while firms and individuals that trade for client accounts, or for managed client money are not required to use the STPF, the functionality is available and may be utilized by all Market Participants.

3) How is the STPF set-up and administered?

Participants are required to contact ICE User Administration at iceuseradministration@theice.com to set up the self-trade prevention functions.

4) Will the use of the STPF create any delay while checking for potentially matching orders?

No. Since the functionality operates at the trading engine level, there is no latency introduced, regardless of whether the functionality is active or not.

5) **Will the STPF prevent outright orders from matching spread orders?**

No, the STPF does not apply to derived orders from spreads or other strategies that trade against outright orders. Only outright-to-outright orders and spread to same spread orders will be prevented from self-trading.

6) **How do I assign Authorized Group IDs for groups of WebICE users that share an order book or otherwise have knowledge of each other's orders?**

Firms should email the ICE User Administration team at iceuseradministration@theice.com with the names and WebICE IDs of the users they want grouped together, and the Administration team will create and assign the Authorized Trader Group IDs as requested by the Firm.

7) **Will the self-trade prevention functionality pertain to orders entered as Crossing Orders (COs) or permitted, off-exchange transactions entered through ICEBlock?**

No, the self trade prevention functionality is only applicable to orders that are entered separately and directly in the electronic central limit order book market. However, the Exchange will continue to review transactions resulting from COs and off-exchange transactions for evidence of wash trading.

8) **Will a modification of the terms of an existing order be recognized and treated as a new order for purposes of the self trade prevention functionality?**

Yes. For example, assume the self trade prevention is set to prevent orders for the same account from matching. Also assume an order to buy 1 August WTI @ 95.20 is submitted for account #123 and an hour later, an order to sell 1 August WTI @ 95.25 is submitted for account #123. If the price of the Buy order is later modified to 95.25, the system will recognize the price modification as a new bid. If such modification results in the new bid matching the existing offer for account #123, the functionality will prohibit those orders from matching. In this scenario, the modified bid is treated as the Taking Order for purposes of determining which order will be cancelled by the system.

9) If a bid/offer is submitted to the trading engine at the same price as a resting offer/bid that would result in a self trade if matched, would one or both of the orders be automatically cancelled?

If the resting order has the top priority in the order book, and would result in a self-trade against the entire quantity of the inbound opposing order, then the appropriate RTO, RRO, or RBO functionality will be employed, and the relevant order (RTO; RRO) or orders (RBO) will be cancelled entirely. However, if the resting order is not the top priority order for the full volume of the inbound order, then any partial fills against unrelated parties will be permitted to occur prior to cancellation of the balance of the inbound order.

For example:
Assume best bids are: $39.50 (10) – oldest in FIFO queue – Authorized Trader JSMITH
$39.50 (5) – second oldest in FIFO queue – Authorized Trader JDOE

Scenario 1:
JDOE enters an order to sell **5** at $39.50. This order is accepted, as it will trade entirely with JSMITH's buy order. JDOE's buy order remains in the order book, at the same FIFO priority.

Scenario 2:

JDOE enters an order to sell **12** at $39.50. The STPF functionality is employed (RTO, RRO, or RBO), because a portion of the sell order would otherwise cross with JDOE's buy order.

The specific outcomes would be as follows:

RTO: 10 lots of the sell order from JDOE would execute vs JSMITH and the 2-lot balance would be rejected. Buy order from JDOE remains in the order book, at the same FIFO priority.

RRO: 10 lots of the sell order from JDOE would execute vs JSMITH. The entire resting JDOE buy order of 5 contracts would be cancelled and the 2-lot balance of the JDOE sell order would rest in the book.

RBO: 10 lots of the sell order from JDOE would execute vs JSMITH, and then both the entire resting bid of 5 lots (JDOE) and the remaining 2 lot offer (JDOE) would be withdrawn.

10) **Will a firm conducting proprietary trading be required to utilize STPF if it has its own internal system**?

Yes, Proprietary Traders (as defined) are required to use STPF regardless of any internal systems they may have. Additionally, firms may continue to employ their own internal systems for preventing self-trading activity, if they choose.

11) Will I be provided a report of my firm's orders that were cancelled due to the STPF?

The Exchange is <u>not</u> providing any STPF reporting at this time. However, firms should continue to monitor their order activity and identify ways to reduce self-trading activity in compliance with Exchange rules. Users will receive order cancellation notifications when their orders are cancelled as a result of the STPF. Examples of this notification are below:

RTO	Trader receives the STPF rejection notice regarding their new (taking) order. If the resting order is from a different trader, that trader does not receive a separate notice that their order caused a new order to be rejected.
RRO	Trader receives the STPF removal notice regarding their existing (resting) order. If the new (taking) order is from a different trader, that trader does not receive a separate notice that their order caused a resting order to be removed.
RBO	Trader receives a STPF rejection notice on the new (taking) order, and a STPF removal notice for the existing (resting) order. If the orders are from different traders, each one only receives the notice that is applicable to their order.