MARKET REGULATION ADVISORY NOTICE

Exchange	**CME, CBOT, NYMEX & COMEX**
Subject	**Disruptive Practices Prohibited**
Rule References	**Rule 575**
Advisory Date	**July 19, 2021**
Advisory Number	**CME Group RA2107-5**
Effective Date	**August 2, 2021**

Effective on trade date Monday, August 2, 2021, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME Group Market Regulation Advisory Notice RA2006-5 from July 27, 2020. It is being issued based on the following amendments:

- Codify expectations in Q&A 5 with respect to reasonable controls to prevent, detect, and mitigate the occurrence of errors.
- Codify pre-existing guidance in Q&A 11 with respect to the requirement that participants be prepared to, and capable of, handling the financial obligations and risk attendant to the full execution of their orders without disrupting the market.
- Additional explanation in Q&A 13 of factors that may be considered when determining whether the activity in question is disorderly.
- Clarifying amendment to Q&A 23 regarding the prohibition of purposeful submissions of intentionally corrupted or malformed data packets.
- Additional example of prohibited activity that violates Q&A 23 and Rule 575.C.2.

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 –
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> (A) violates bids or offers;
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> (B) demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or
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> (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 nonactionable 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(s) with intent to mislead other market participants;

C.1. No person shall enter or cause to be entered an actionable or non-actionable message(s) with intent to overload or delay the systems of the Exchange or other market participants;

C.2. No person shall intentionally or recklessly submit or cause to be submitted an actionable or non-actionable message(s) that has the potential to disrupt the systems of the Exchange; and

D. No person shall enter or cause to be entered an actionable or non-actionable message(s) 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:

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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 their 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;
- the market participant's activity in related markets; and
- industry best practices regarding the design, testing, implementation, operation, change management, monitoring, and documentation of automated trading systems.

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 or error 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"). Market participants are expected to take reasonable steps or otherwise have controls to prevent, detect, and mitigate the occurrence of errors or system anomalies, and their impact on the market. Failure to take reasonable steps to prevent, detect, and mitigate such errors, anomalies, or impacts may violate Rules 575.C.2., 575.D., 432.W. ("Failure to Supervise"), or other Exchange rules.

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 and risk attendant to the full execution of their orders without disrupting the market. In no circumstance may a participant intentionally or recklessly disregard the orderliness of the market in offsetting the risk associated with a large fill event.

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, administrative messages, and network packets that are incomplete, partial, corrupt, or otherwise unable to be processed by the Exchange.

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. Additional factors that may be considered include, but are not limited to, the impact to other market participants' ability to trade, engage in price discovery, or manage risk. 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 their perspective of the market. This Rule, therefore, does not prohibit a market participant from changing their 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").

Q23: Is it a violation of Rule 575 to engage in a strategy that involves the purposeful submission of intentionally corrupted or malformed data packets to CME Globex?

A23: Yes. Purposefully submitting intentionally corrupted or malformed data packets has the potential to disrupt the systems of the Exchange. Market Regulation considers that any participant purposefully engaging in this practice as part of a trading strategy to have recklessly disregarded the potential to disrupt the systems of the Exchange in violation of Rule 575.C.2.

Q24: Are brokers and execution clerks expected to consider market conditions when executing an order on behalf of a customer or employer pursuant to their instructions?

A24: Yes. Brokers and execution clerks are considered market participants. The instructions of a customer or employer do not negate the obligation for brokers and execution clerks to comply with Rule 575.

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 they intend 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 they anticipate 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 their best bid (offer) behind them in the queue. The market participant then enters a large aggressor sell (buy) order into their 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.

- A market participant engages in a trading strategy where their trading system is designed to purposefully corrupt data sent across one or more physical connections to the Exchange. For example, prior to the occurrence of an event or signal, the participant's trading system begins transmitting to the Exchange data necessary for an order message (e.g. Ethernet frame; Internet Protocol (IP) packet; Transmission Control Protocol (TCP) packet; etc.). The trading system is designed so that if the event or signal does not occur as expected, the trading system will corrupt the partially transmitted data, for instance by invalidating the Frame Check Sequence (FCS) checksum causing the packet or Ethernet frame to be dropped by a network switch or receiving device at the logical or physical entry point to CME Globex. If the event does occur as expected, the trading system will complete the partially transmitted data so that an order message from the trading system is able to reach the Exchange trading platform. The practice of purposefully corrupting data packets submitted to the Exchange has the potential to disrupt the systems of the exchange and may violate Rule 575.C.2.

- A market participant engages in a trading strategy where their trading system is designed to purposefully send to the Exchange untradeable orders or orders that have no reasonable probability of trading. For example, prior to the occurrence of an event or signal, the participant's trading system begins transmitting to the Exchange data necessary for an order message (e.g. Ethernet frame; TCP packet; etc.). The trading system is designed so that if the event or signal does not occur as expected, the trading system will complete the partially transmitted data and successfully submit an order message to the Exchange. However, because the event or signal did not occur as expected, the trading system is designed to render the completed order message untradeable or improbable of trading. This may be accomplished, for example, by submitting the order message as a Fill and Kill or Fill or Kill order type with a price or quantity that causes the order to immediately be cancelled by the trading platform. This may also be accomplished, for example, by submitting the order message at an off-market price, deep in the order book, and intending to cancel that order prior to execution. The practice of purposefully sending untradeable orders or orders that have no reasonable probability of trading may violate Rule 575.C.2. Further, it is a violation of Rule 575.A. if the participant intends, at the time of order entry, to cancel the order prior to execution.

- A market participant engages in a trading strategy where their trading system is designed to purposefully submit malformed data across one or more physical connections to the Exchange. For example, based on information received, the participant's trading system begins constructing an order message (e.g., an Ethernet Frame, TCP or IP packet, etc.). The trading system is designed so that if further information is received during construction that negates the desire or need to trade the order being constructed, the trading system will stop construction and submit the incomplete data to the Exchange. Because the incomplete data (e.g., a TCP/IP packet missing required TCP or IP fields such as Sequence Number or Destination Port) cannot be

properly processed by a network switch or receiving device at the logical or physical entry point to CME Globex, the receiving device will discard the data. If no further information is received by the trading system during construction that would negate the desire or need to trade the order, the trading system will complete construction of, and submit, the data so that an order message from the trading system is able to reach the Exchange trading platform. The practice of submitting to the Exchange purposefully incomplete or malformed data packets has the potential to disrupt the systems of the Exchange and may violate Rule 575.C.2.