

## MARKET REGULATION ADVISORY NOTICE

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

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 tape 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:

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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.