



## **CFE Regulatory Circular 21-001**

**Date:** March 22, 2021

**Exchanges:** CFE

**Markets:** Futures

**To:** Market Participants

**Re:** Disruptive Trading Practices

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### **Overview**

Cboe Futures Exchange, LLC (“CFE” or “Exchange”) is issuing this Regulatory Circular to highlight certain prohibited activity related to order and quote messaging. CFE has submitted a rule certification that provides additional guidance regarding prohibited disruptive practices, including in relation to this type of activity.

CFE considers the following (among other) activity to be prohibited by current CFE rules, including CFE Rule 620 (Disruptive Practices), Policy and Procedure XVIII (Disruptive Trading Practices) of the Policies and Procedures Section of the CFE Rulebook, and CFE Rule 608 (Acts Detrimental to the Exchange, Acts Inconsistent with Just and Equitable Principles of Trade; Abusive Practices):

- engaging in a pattern and practice of submitting partial messages for the purpose of seeking to reduce latency; and/or
- purposefully corrupting or constructing malformed data packets submitted to the Exchange.

Each order or quote message that a Trading Privilege Holder (“TPH”) submits to the Exchange must contain the minimum information identified in the Exchange’s technical specifications.

CFE is making clarifying updates to CFE’s rules regarding prohibited disruptive practices, such as the type of activity described in the preceding bullets. Please refer to CFE rule certification filing [CFE-2021-010](#), which is subject to regulatory review, for further detail. A brief description of some of the key clarifying updates included in the rule certification filing (“Amendment”) is below.

### **Updates to CFE Rule 620 – Disruptive Practices**

CFE Rule 620(b)(iii) currently provides that 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. In addition to other non-substantive changes to Rule 620(b), the Amendment adds a new subparagraph (b)(iv) to Rule 620 to address disruption to the systems of the Exchange or market participants in this context and accordingly removes reference to disruption from Rule 620(b)(iii). New Rule 620(b)(iv) provides that 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 or other market participants.

### **Updates to Policy and Procedure XVIII – Partial Messages and Purposeful Corruption of Data Packets**

The Amendment adds new Section U to CFE Policy and Procedure (“P&P XVIII”) to specifically reference two examples of practices that are prohibited by new Rule 620(b)(iv). New Section U of P&P XVIII provides that engaging in a pattern and practice of submitting partial messages for the purpose of seeking to reduce latency has the potential to disrupt the systems of the Exchange and purposefully corrupting or constructing malformed data packets also has the potential to disrupt the systems of the Exchange. The Exchange considers any market participant engaging in either of these practices as part of a trading strategy to have recklessly disregarded the potential to disrupt the systems of the Exchange in violation of new Rule 620(b)(iv).

P&P XVIII also includes a non-exhaustive list of various examples of conduct that may be found to violate Rule 620. CFE is adding two examples of prohibited activity under Rule 620. The additional examples provide specific illustrations of trading strategies that may violate Rule 620, including the provisions of new Rule 620(b)(iv), which involve purposefully corrupting or constructing malformed data packets.

### **Other Updates to Policy and Procedure XVIII**

The Amendment revises Section A of P&P XVIII to specifically reference an additional factor that the Exchange may consider in assessing whether conduct violates Rule 620. Section A of P&P XVIII enumerates a non-exclusive list of factors that the Exchange may consider in assessing whether conduct violates Rule 620. The Amendment revises Section A of P&P XVIII to specifically provide that the Exchange may consider industry best practices regarding the design, testing, implementation, operation, change management, monitoring, and documentation of automated trading systems in assessing whether conduct violates Rule 620.

The Amendment also updates Section J of P&P XVIII to reference additional examples of non-actionable messages as that term is used in Rule 620 and P&P XVIII. Section J of P&P XVIII currently lists a heartbeat message transmitted to CFE’s trading system (“CFE System”) as a non-actionable message. The Amendment revises Section J of P&P XVIII to list the entry of orders in test products and network packets that are incomplete, partial, corrupt, or otherwise unable to be processed by the Exchange as additional examples of non-actionable messages.

Additionally, the Amendment adds new Section V to P&P XVIII to make clear that brokers and execution clerks are obligated to consider market conditions when executing an order on behalf of a customer or employer pursuant to their instructions and that the instructions of a customer or employer do not negate the obligation for brokers and execution clerks to comply with Rule 620.

### **Additional Information**

This Regulatory Circular is not intended to provide a comprehensive description of what constitutes disruptive trading practices. TPHs should refer to the Amendment, the [CFE Rulebook](#), and the [Policies & Procedures Section of the CFE Rulebook](#) for additional detail.

Please contact Regulatory Interpretations at [RegInterps@cboe.com](mailto:RegInterps@cboe.com) or 312.786.8141 for additional information.