

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 39

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-7

File No.* SR - 2015 - * 005

Amendment No. (req. for Amendments *)

Proposed Rule Change by * CBOE Futures Exchange

Pursuant to Rule 19b-7 under the Securities Exchange Act of 1934

Initial *



Amendment *



Withdrawal



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Proposed rule change regarding disruptive trading practices.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Jenny

Last Name * Golding

Title * Assistant Secretary

E-mail * golding@cboe.com

Telephone * (312) 786-7466

Fax

SRO Governing Body Action

Describe action on the proposed rule change taken by the members or board of directors or other governing body of the SRO (limit 250 characters, required *).

CFE's Senior Managing Director approved the proposed rule change on July 16, 2015 pursuant to delegated authority.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 07/16/2015

Assistant Secretary

By Jenny L. Golding

(Name *)

(Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Persona Not Validated - 1414080207870,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-7 instructions please refer to the EFFT website.

Exhibit 1- Notice of Proposed Rule Change (required when Initial)

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal.

The Notice section of this Form 19b-7 must comply with the guidelines for publication in the Federal Register, as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC and CFTC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases and Commodities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2- Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction E, they shall be filed in accordance with Instruction F.

Exhibit Sent As Paper Document

☐

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. If such documents cannot be filed electronically in accordance with Instruction E, they shall be filed in accordance with Instruction F.

Exhibit Sent As Paper Document

☐

Exhibit 4 - Proposed Rule Text

Add Remove View

The self-regulatory organization must attach as Exhibit 4 proposed changes to rule text. Exhibit 4 shall be considered part of the proposed rule change.

Exhibit 5 - Date of Effectiveness of Proposed Rule Change (required when Initial)

The self-regulatory organization must attach one of the following:

- ☒ CFTC Certification
- ☐ CFTC Request that Review of Proposed Rule Change is not Necessary
- ☐ Request for CFTC Approval of Proposed Rule Change
- ☐ CFTC Determination that Review of Proposed Rule Change is not Necessary
- ☐ Indication of CFTC Approval of Proposed Rule Change

CFTC Certification: Attach a copy of the certification submitted to the CFTC pursuant to section 5c(c) of the Commodity Exchange Act.

Add Remove View

Exhibit Sent As Paper Document

☐

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission staff's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CFE-2015-005)

Self-Regulatory Organizations; CBOE Futures Exchange, LLC; Proposed Rule Change
Regarding Disruptive Trading Practices

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934 (“Act”),¹ notice is hereby given that on July 16, 2015 CBOE Futures Exchange, LLC (“CFE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change described in Items I, II, and III below, which Items have been prepared by CFE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. CFE also has filed this proposed rule change with the Commodity Futures Trading Commission (“CFTC”). CFE filed a written certification with the CFTC under Section 5c(c) of the Commodity Exchange Act (“CEA”)² on July 16, 2015.

I. Self-Regulatory Organization's Description of the Proposed Rule Change

The Exchange proposes to amend its rules related to disruptive trading practices. The scope of this filing is limited solely to the application of the rule amendments to security futures that are permitted for trading on CFE. The only security futures that previously traded on CFE were traded under Chapter 16 of CFE's Rulebook, which is applicable to Individual Stock Based and Exchange-Traded Fund Based Volatility Index security futures. No security futures are currently listed for trading on CFE. The text of the proposed rule change is attached as Exhibit 4 to the filing but is not attached to the publication of this notice.

¹ 15 U.S.C. 78s(b)(7).

² 7 U.S.C. 7a-2(c).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CFE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CFE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, Proposed Rule Change

1. Purpose

The purpose of the proposed CFE rule amendments included as part of this rule change is to amend CFE Rule 620 (Disruptive Practices) and add CFE Policy and Procedure XVIII (Disruptive Trading Practices (Rule 620)) to provide further guidance on prohibited disruptive trading practices. The rule amendments included as part of this rule change are to apply to all products traded on CFE. As previously noted, no security futures are currently listed for trading on the Exchange.

CFE Rule 620 currently prohibits the disruptive practices enumerated in Section 4c(a)(5) of the CEA,³ which were added to the CEA by Section 747 of the Dodd-Frank Act.⁴ Specifically, Section 4c(a)(5) and Rule 620 prohibit any trading, practice, or conduct 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).” Additionally, on May 28,

³ 7 U.S.C. 6c(a)(5).

⁴ Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, 124 Stat. 1376, 1739, Sec. 747 (2010).

2013, the CFTC made effective an interpretive guidance and policy statement regarding the scope and application of these prohibitions.⁵ The amendments amend CFE Rule 620 and add CFE Policy and Procedure XVIII to the Policies and Procedures section of the CFE Rulebook to provide greater detail regarding the type of activity that is prohibited under Rule 620.

Amendments to CFE Rule 620

The amendments add new paragraph (b) to Rule 620, which sets forth particular types of disruptive order entry and trading practices that CFE considers to be abusive to the orderly conduct of trading or the fair execution of transactions. Specifically, the amendments add the following language as new subsection (b) to Rule 620:

(b) 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.

(i) No Person shall enter or cause to be entered an Order or quote with the intent, at the time of entry, to cancel the Order or quote before execution or to modify the Order or quote to avoid execution;

(ii) No Person shall enter or cause to be entered an actionable or non-actionable message or messages with intent to mislead other market participants;

(iii) 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

(iv) 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.

⁵ Antidisruptive Practices Authority, 78 FR 31890 (May 28, 2013), available at <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2013-12365a.pdf>.

The provisions of this Rule apply to all market states, including the pre-opening period, the closing period, and all trading sessions.

These amendments are consistent with similar rules and guidance established and provided by other designated contract markets (“DCMs”) regarding disruptive practices.⁶

New CFE Policy and Procedure XVIII

The amendments add new CFE Policy and Procedure XVIII, which lists various factors that the Exchange may consider in assessing whether conduct violates CFE Rule 620 and provides a non-exhaustive list of examples of activity considered by CFE to be in violation of Rule 620. Specifically, the amendments provide the following as new Policy and Procedure XVIII:

Rule 620 prohibits disruptive trading practices as described by the Rule. The following are a non-exclusive list of factors that the Exchange may consider in assessing whether conduct violates Rule 620.

A. Factors the Exchange may consider in assessing whether conduct violates Rule 620

The Exchange may consider a variety of factors in assessing whether conduct violates Rule 620, 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 the market participant’s position;

⁶ These DCMs are the Chicago Mercantile Exchange, Inc. and its affiliated DCMs (“CME”), ICE Futures U.S., Inc. (“ICE”) and NASDAQ Futures, Inc. (“NFX”), which each submitted self-certification rule filings to the CFTC pursuant to CFTC Regulation §40.6(a) to effectuate their respective changes. Copies of these filings ([CME Submission No. 14-367](#) (August 28, 2014); [ICE Submission No. 14-144](#) (December 29, 2014); and [NFX Submission No. 15-16](#) (April 6, 2015)) may be accessed at the CFTC’s website. CME amended its filing and submitted [CME Submission No. 14-367R](#) on September 12, 2014. That filing may be accessed at the CME’s website.

The Exchange understands that there is a desire by many market participants for uniformity and consistency among DCMs to have similar rules and interpretations regarding disruptive trading practices. CFE states that this current filing closely tracks the provisions adopted by CME, ICE and NFX and deviates as needed when issues or topics addressed by the other DCMs do not apply to CFE, e.g., CFE does not have all of the same order types as some of the other DCMs.

- 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 Order⁷ 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 other price (such as the Expected Opening Price ("EOP")) that results from the entry of the Order; and
- the market participant's activity in related markets.

B. Meaning of the term "misleading" in the context of Rule 620(b)(ii)

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.

⁷

For purposes of this Policy and Procedure, all references to Orders include Orders and quotes.

The Exchange 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.

C. Specific amount of time an Order should be exposed to the market

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. The Exchange will consider a variety of factors, including exposure time, to determine whether an Order or Orders constitute a disruptive practice.

D. Modification or cancellation of an Order once it has been entered

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 620.

E. Orders entered by mistake

An unintentional, accidental, or "fat-finger" Order will not constitute a violation of Rule 620, but such activity may be a violation of other Exchange rules, including, but not limited to, Rule 608 (Acts Detrimental to the Exchange; Acts Inconsistent with Just and Equitable Principles of Trade; Abusive Practices). Market participants are expected to take steps to mitigate the occurrence of errors, and their impact on the market. This is particularly true for entities that run algorithmic trading applications, or otherwise submit large numbers of automated Orders to the market.

F. Partial fill of an Order

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 620. 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. The Exchange will consider a multitude of factors in assessing whether Rule 620 has been violated.

G. Making a two-sided market with unequal quantities (e.g., 100 bid at 10 offered)

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 620.

H. Stop Limit Orders entered for purposes of protecting a position

Market participants may enter Stop Limit 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.

I. Entering Order(s) at various price levels throughout the order book in order to gain queue position and subsequently canceling those Orders as the market changes

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 purposes, they would not constitute a violation of Rule 620.

J. “Actionable” and “non-actionable messages in relation to Rule 620(b)(ii), (iii), and (iv)

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. An example of a non-actionable message is a Request for Quote.

K. The Exchange’s definition of “orderly conduct of trading or the fair execution of transactions”

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 Commission 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.

L. Entering Orders that may be considered large for a particular market, and thus may have a potential impact on the market

The size of an Order or cumulative Orders may be deemed to violate Rule 620 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 620 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 620 has occurred and, if so, what the appropriate sanction should be for such violation.

M. Meaning of the “closing period” in Rule 620

“Closing period” typically refers to the period during which transactions, bids, and offers are reviewed for purposes of informing settlement price determinations.

N. Factors the Exchange will consider in determining if an act was done with the prohibited intent or reckless disregard of the consequences

Proof of intent is not limited to instances in which a market participant admits the market participant’s 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).

O. Orders entered for the purpose of igniting momentum in the market

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 620 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 620(b)(i) 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 603 (Market Manipulation).

P. “Flipping” Orders

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 (i.e., an Order that takes liquidity). 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. The Exchange recognizes there are many variables that can cause a market participant to change that market participant’s perspective of the market. This Rule, therefore, does not prohibit a market participant from changing that market participant’s 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 620, the Exchange 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)).

Q. Cancelling an Order via the Exchange's Self-Trade Prevention functionality or other self-match prevention technology

The means by which an Order is cancelled, in and of itself, is not an indicator of whether an Order violates Rule 620. The use of self-trade prevention functionality in a manner that causes a disruption to the market may constitute a violation of Rule 620. 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 620.

R. Type of pre-open activity prohibited by Rule 620

Orders entered during the pre-opening period and opening rotation period must be entered for the purpose of executing bona fide transactions upon the opening of the market.

The entry and cancellation of Orders during the pre-opening period and opening rotation period for the purpose of either manipulating the EOP or attempting to identify the depth of the order book at different price levels is prohibited and may be deemed a violation of Rule 620 or other rules.

Other activity related to the pre-opening period may also be considered disruptive, including but not limited to the entry of orders prior to the commencement of the pre-opening period in an attempt to "time" the price-time priority queue for Trade at Settlement ("TAS") transactions, or other similar purposes.

S. Orders entered into the CBOE System for the purpose of testing, such as to verify a connection to the CBOE System or a data feed from the CBOE System

The entering of an Order(s) without the intent to execute a bona fide transaction, including for the purpose of verifying connectivity or checking a data feed, is not permissible. CFE provides a testing environment and test symbols in CBOE Command for TPHs to use for the purpose of testing.

T. Creation or execution of user-defined spreads for the purposes of deceiving or disadvantaging other market participants

Trading Privilege Holders are not permitted to attempt to create any user-defined spreads (i.e., spreads created by Trading Privilege Holders on their own) in the CBOE System. If a Trading Privilege Holder would like a type of CFE spread to be created that is not already available in the CBOE System, the Trading Privilege Holder should contact the Help Desk to request creation of the spread.

Market participants are reminded that knowingly creating and/or trading spreads in a manner intended to deceive or unfairly disadvantage other market participants is considered a violation of Rule 620.

U. Examples of Prohibited Activity

The following is a non-exhaustive list of various examples of conduct that may be found to violate Rule 620.

- 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 contract's 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 620.

- A market participant places buy (or sell) Orders that the market participant 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 the market participant 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 market participant's Order(s) in Market B being filled opposite the algorithm. This conduct violates Rule 620(b)(i), as the Orders in Market A were not intended to be executed, and Rule 620(b)(ii), 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 620(b)(iv).
- 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 the market participant's best bid (offer) behind the market participant in the queue. The market participant then enters a large aggressor sell (buy) Order into the market participant's now resting buy (sell) Order at the top of the book. The market participant's use of CFE's Self-Trade 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 places large quantity Orders during the pre-opening period in an effort to artificially increase or decrease the EOP with the intent to attract other market participants. Once others join the market participant's bid or offer, the market participant cancels the market participant's Orders shortly before the opening.

- During the pre-opening period, a market participant enters a large Order priced at a bid higher than the existing best bid or at an offer lower than the existing best offer, and continues to systematically enter successive Orders priced further through the book until it causes a movement in the best bid or best offer. These Orders are subsequently cancelled. The market participant continues to employ this strategy on both sides of the market for the purpose of determining the depth of support at a specific price level for the product before the market opens.
- A market participant enters a large number of messages 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 messages for the purpose of creating latencies in the market or in information dissemination by the Exchange for the purpose of disrupting the orderly functioning of the market.

As with the amendments to CFE Rule 620, these amendments are consistent with similar rules and guidance established and provided by other DCMs regarding disruptive practices.⁸

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(5)¹⁰ and 6(b)(7)¹¹ in particular in that it is designed:

- to prevent fraudulent and manipulative acts and practices,
- to promote just and equitable principles of trade,
- to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and

⁸ See supra note 6.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78f(b)(7).

- to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change would strengthen its ability to carry out its responsibilities as a self-regulatory organization by providing further guidance regarding the type of activity that is prohibited under CFE Rule 620. CFE Rule 620 currently prohibits the disruptive trading practices that were added to the CEA by the Dodd-Frank Act and are codified under Section 4c(a)(5) of the CEA. The proposed rule change sets forth particular types of disruptive order entry and trading practices that are prohibited under Rule 620, lists various factors that the Exchange may consider in assessing whether conduct violates Rule 620, and provides a non-exhaustive list of examples of activity considered by CFE to be in violation of Rule 620. By providing this further guidance, the proposed rule change not only will provide greater clarity to market participants regarding prohibited disruptive trading practices but also will strengthen the Exchange's disciplinary program for these types of violative behavior. As a result, the Exchange believes that the proposed rule change is equitable and not unfairly discriminatory because the amendments regarding disruptive trading practices will apply equally to all market participants. In addition, the proposed rule change will promote consistency in guidance for market participants regarding disruptive trading practices by paralleling similar guidance provided by other DCMs.

B. Self-Regulatory Organization's Statement on Burden on Competition

CFE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, in that

the rule change will enhance CFE's ability to carry out its responsibilities as a self-regulatory organization. The proposed rule change is not designed to address any aspect of competition, whether between the Exchange and its competitors, or among market participants. Instead, the proposed rule change is designed to make CFE's disruptive trading practice rules consistent with the existing rules and guidance published by other DCMs.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The proposed rule change will become effective on July 30, 2015. At any time within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act.¹²

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form <http://www.sec.gov/rules/sro.shtml>); or

¹² 15 U.S.C. 78s(b)(1).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CFE-2015-005 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CFE-2015-005. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of CBOE Futures Exchange, LLC. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CFE-2015-005 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Secretary

¹³

17 CFR 200.30-3(a)(73).

Exhibit 4

Set forth below are proposed changes to the rule text, with additions represented by underscoring and deletions represented by [bracketing].

CBOE Futures Exchange, LLC Rules

* * * * *

CFE Rule 620. Disruptive Practices

(a) No Trading Privilege Holder nor any of its Related Parties shall engage in any trading, practice or conduct on the Exchange or subject to the Rules of the Exchange that:

[(a)] (i) Violates bids or offers;

[(b)] (ii) Demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or

[(c)] (iii) 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).

(b) 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.

(i) No Person shall enter or cause to be entered an Order or quote with the intent, at the time of entry, to cancel the Order or quote before execution or to modify the Order or quote to avoid execution;

(ii) No Person shall enter or cause to be entered an actionable or non-actionable message or messages with intent to mislead other market participants;

(iii) 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

(iv) 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.

The provisions of this Rule apply to all market states, including the pre-opening period, the closing period, and all trading sessions.

* * * * *

**CBOE Futures Exchange, LLC
Policies and Procedures**

* * * * *

CFE Policy and Procedure XVIII. Disruptive Trading Practices (Rule 620)

Rule 620 prohibits disruptive trading practices as described by the Rule. The following are a non-exclusive list of factors that the Exchange may consider in assessing whether conduct violates Rule 620.

A. Factors the Exchange may consider in assessing whether conduct violates Rule 620

The Exchange may consider a variety of factors in assessing whether conduct violates Rule 620, 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 the market participant's 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 Order¹ 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;

¹ For purposes of this Policy and Procedure, all references to Orders include Orders and quotes.

- 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 other price (such as the Expected Opening Price (“EOP”)) that results from the entry of the Order; and
- the market participant’s activity in related markets.

B. Meaning of the term “misleading” in the context of Rule 620(b)(ii)

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. The Exchange 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.

C. Specific amount of time an Order should be exposed to the market

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. The Exchange will consider a variety of factors, including exposure time, to determine whether an Order or Orders constitute a disruptive practice.

D. Modification or cancellation of an Order once it has been entered

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 620.

E. Orders entered by mistake

An unintentional, accidental, or “fat-finger” Order will not constitute a violation of Rule 620, but such activity may be a violation of other Exchange rules, including, but not limited to, Rule 608 (Acts Detrimental to the Exchange; Acts Inconsistent with Just

and Equitable Principles of Trade; Abusive Practices). Market participants are expected to take steps to mitigate the occurrence of errors, and their impact on the market. This is particularly true for entities that run algorithmic trading applications, or otherwise submit large numbers of automated Orders to the market.

F. Partial fill of an Order

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 620. 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. The Exchange will consider a multitude of factors in assessing whether Rule 620 has been violated.

G. Making a two-sided market with unequal quantities (e.g., 100 bid at 10 offered)

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 620.

H. Stop Limit Orders entered for purposes of protecting a position

Market participants may enter Stop Limit 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.

I. Entering Order(s) at various price levels throughout the order book in order to gain queue position and subsequently canceling those Orders as the market changes

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 purposes, they would not constitute a violation of Rule 620.

J. “Actionable” and “non-actionable messages in relation to Rule 620(b)(ii), (iii), and (iv)

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. An example of a non-actionable message is a Request for Quote.

K. The Exchange's definition of "orderly conduct of trading or the fair execution of transactions"

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 Commission 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.

L. Entering Orders that may be considered large for a particular market, and thus may have a potential impact on the market

The size of an Order or cumulative Orders may be deemed to violate Rule 620 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 620 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 620 has occurred and, if so, what the appropriate sanction should be for such violation.

M. Meaning of the "closing period" in Rule 620

"Closing period" typically refers to the period during which transactions, bids, and offers are reviewed for purposes of informing settlement price determinations.

N. Factors the Exchange will consider in determining if an act was done with the prohibited intent or reckless disregard of the consequences

Proof of intent is not limited to instances in which a market participant admits the market participant's 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).

O. Orders entered for the purpose of igniting momentum in the market

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 620 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 620(b)(i) 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 603 (Market Manipulation).

P. “Flipping” Orders

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 (i.e., an Order that takes liquidity). 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. The Exchange recognizes there are many variables that can cause a market participant to change that market participant’s perspective of the market. This Rule, therefore, does not prohibit a market participant from changing that market participant’s 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 620, the Exchange 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)).

Q. Cancelling an Order via the Exchange's Self-Trade Prevention functionality or other self-match prevention technology

The means by which an Order is cancelled, in and of itself, is not an indicator of whether an Order violates Rule 620. The use of self-trade prevention functionality in a manner that causes a disruption to the market may constitute a violation of Rule 620. 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 620.

R. Type of pre-open activity prohibited by Rule 620

Orders entered during the pre-opening period and opening rotation period must be entered for the purpose of executing bona fide transactions upon the opening of the market.

The entry and cancellation of Orders during the pre-opening period and opening rotation period for the purpose of either manipulating the EOP or attempting to identify the depth of the order book at different price levels is prohibited and may be deemed a violation of Rule 620 or other rules.

Other activity related to the pre-opening period may also be considered disruptive, including but not limited to the entry of orders prior to the commencement of the pre-opening period in an attempt to "time" the price-time priority queue for Trade at Settlement ("TAS") transactions, or other similar purposes.

S. Orders entered into the CBOE System for the purpose of testing, such as to verify a connection to the CBOE System or a data feed from the CBOE System

The entering of an Order(s) without the intent to execute a bona fide transaction, including for the purpose of verifying connectivity or checking a data feed, is not permissible. CFE provides a testing environment and test symbols in CBOE Command for TPHs to use for the purpose of testing.

T. Creation or execution of user-defined spreads for the purposes of deceiving or disadvantaging other market participants

Trading Privilege Holders are not permitted to attempt to create any user-defined spreads (i.e., spreads created by Trading Privilege Holders on their own) in the CBOE System. If a Trading Privilege Holder would like a type of CFE spread to be created that is not already available in the CBOE System, the Trading Privilege Holder should contact the Help Desk to request creation of the spread.

Market participants are reminded that knowingly creating and/or trading spreads in a manner intended to deceive or unfairly disadvantage other market participants is considered a violation of Rule 620.

U. Examples of Prohibited Activity

The following is a non-exhaustive list of various examples of conduct that may be found to violate Rule 620.

- 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 contract's 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 620.
- A market participant places buy (or sell) Orders that the market participant 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 the market participant 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 market participant's Order(s) in Market B being filled opposite the algorithm. This conduct violates Rule 620(b)(i), as the Orders in Market A were not intended to be executed, and Rule 620(b)(ii), 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 620(b)(iv).
- 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 the market participant's best bid (offer) behind the market

participant in the queue. The market participant then enters a large aggressor sell (buy) Order into the market participant's now resting buy (sell) Order at the top of the book. The market participant's use of CFE's Self-Trade 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 places large quantity Orders during the pre-opening period in an effort to artificially increase or decrease the EOP with the intent to attract other market participants. Once others join the market participant's bid or offer, the market participant cancels the market participant's Orders shortly before the opening.
- During the pre-opening period, a market participant enters a large Order priced at a bid higher than the existing best bid or at an offer lower than the existing best offer, and continues to systematically enter successive Orders priced further through the book until it causes a movement in the best bid or best offer. These Orders are subsequently cancelled. The market participant continues to employ this strategy on both sides of the market for the purpose of determining the depth of support at a specific price level for the product before the market opens.
- A market participant enters a large number of messages 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 messages for the purpose of creating latencies in the market or in information dissemination by the Exchange for the purpose of disrupting the orderly functioning of the market.

* * * * *

Exhibit 5

A copy of the certification submitted to the CFTC pursuant to Section 5c(c) of the Commodity Exchange Act with respect to the proposed rule change.



July 16, 2015

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC Rule Certification
Submission Number CFE-2015-020

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act" or "CEA"), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission ("CFTC" or "Commission") under the Act, CBOE Futures Exchange, LLC ("CFE" or "Exchange") hereby submits a CFE rule amendment ("Amendment") to amend CFE Rule 620 (Disruptive Practices) and add CFE Policy and Procedure XVIII to provide further guidance on prohibited disruptive trading practices. The Amendment will become effective on July 30, 2015.

CFE Rule 620 currently prohibits the disruptive practices enumerated in Section 4c(a)(5) of the CEA, which were added to CEA by Section 747 of the Dodd-Frank Act. Specifically, Section 4c(a)(5) and Rule 620 prohibit any trading, practice, or conduct 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)." Additionally, on May 28, 2013, the CFTC made effective an interpretive guidance and policy statement regarding the scope and application of these prohibitions.¹

The Amendment amends CFE Rule 620 and adds CFE Policy and Procedure XVIII to the Policies and Procedures section of the CFE Rulebook to provide greater detail regarding the type of activity that is prohibited under Rule 620. Specifically, the Amendment adds new paragraph (b) to Rule 620, which sets forth particular types of disruptive order entry and trading practices that CFE considers to be abusive to the orderly conduct of trading or the fair execution of transactions. Additionally, the Amendment adds Policy and Procedure XVIII, which lists various factors that the Exchange may consider in assessing whether conduct violates Rule 620 and provides a non-exhaustive list of examples of activity considered by CFE to be in violation of Rule 620. The Amendment consistent with similar rules and guidance established and provided by other

¹ Antidisruptive Practices Authority, 78 FR 31890 (May 28, 2013), available at <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2013-12365a.pdf>.

designated contract markets (“DCMs”) regarding disruptive practices.²

CFE believes that the Amendment is consistent with Designated Contract Market Core Principles 2 (Compliance with Rules), 4 (Prevention of Market Disruption), and 12 (Protection of Markets and Market Participants) under Section 5 of the Act in that the Amendment provides additional guidance regarding disruptive trading practices that violate CFE Rule 620. Although CFE considers the disruptive practices described in Rule 620(b) and Policy and Procedure XVIII to already be prohibited by existing CFE rules, including current Rule 620 and CFE Rule 608 (Acts Detrimental to the Exchange, Acts Inconsistent with Just and Equitable Principles of trade; Abusive Practices), CFE believes that it is beneficial to provide additional guidance to market participants through the inclusion of further detail in CFE’s rules regarding prohibited disruptive practices. By including these prohibitions and guidance in CFE’s rules, Rule 620 and Policy and Procedure XVIII contribute to the protection of CFE’s market and market participants from abusive practices and the promotion of fair and equitable trading on CFE’s market.

CFE believes that the impact of the Amendment will be beneficial to the public and market participants. CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that CFE has posted a notice of pending certification with the Commission and a copy of this submission on CFE’s Web site (<http://cfe.cboe.com/aboutcfe/rules.aspx>) concurrent with the filing of this submission with the Commission.

CFE intends to file the Amendment as it may relate to security futures with the Securities and Exchange Commission pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934.

The Amendment, marked to show additions in underlined text and deletions in [bracketed] text, consists of the following:

* * * * *

CBOE Futures Exchange, LLC
Rulebook

* * * * *

CFE Rule 620. Disruptive Practices

(a) No Trading Privilege Holder nor any of its Related Parties shall engage in any trading, practice or conduct on the Exchange or subject to the Rules of the Exchange that:

[(a)] (i) Violates bids or offers;

² These DCMs are the Chicago Mercantile Exchange, Inc. and its affiliated DCMs (“CME”), ICE Futures U.S., Inc. (“ICE”) and NASDAQ Futures, Inc. (“NFX”), which each submitted self-certification rule filings to the CFTC pursuant to CFTC Regulation §40.6(a) to effectuate their respective changes. Copies of these filings ([CME Submission No. 14-367](#) (August 28, 2014); [ICE Submission No. 14-144](#) (December 29, 2014); and [NFX Submission No. 15-16](#) (April 6, 2015)) may be accessed at the CFTC’s website. CME amended its filing and submitted [CME Submission No. 14-367R](#) on September 12, 2014. That filing may be accessed at the CME’s website.

[(b)] (ii) Demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or

[(c)] (iii) 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).

(b) 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.

(i) No Person shall enter or cause to be entered an Order or quote with the intent, at the time of entry, to cancel the Order or quote before execution or to modify the Order or quote to avoid execution;

(ii) No Person shall enter or cause to be entered an actionable or non-actionable message or messages with intent to mislead other market participants;

(iii) 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

(iv) 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.

The provisions of this Rule apply to all market states, including the pre-opening period, the closing period, and all trading sessions.

* * * * *

**CBOE Futures Exchange, LLC
Policies and Procedures**

* * * * *

CFE Policy and Procedure XVIII. Disruptive Trading Practices (Rule 620)

Rule 620 prohibits disruptive trading practices as described by the Rule. The following are a non-exclusive list of factors that the Exchange may consider in assessing whether conduct violates Rule 620.

A. Factors the Exchange may consider in assessing whether conduct violates Rule 620

The Exchange may consider a variety of factors in assessing whether conduct violates Rule 620, 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 the market participant's 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 Order³ 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 other price (such as the Expected Opening Price ("EOP")) that results from the entry of the Order; and
- the market participant's activity in related markets.

B. Meaning of the term "misleading" in the context of Rule 620(b)(ii)

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. The Exchange 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.

C. Specific amount of time an Order should be exposed to the market

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

³ For purposes of this Policy and Procedure, all references to Orders include Orders and quotes.

no prescribed safe harbor. The Exchange will consider a variety of factors, including exposure time, to determine whether an Order or Orders constitute a disruptive practice.

D. Modification or cancellation of an Order once it has been entered

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 620.

E. Orders entered by mistake

An unintentional, accidental, or “fat-finger” Order will not constitute a violation of Rule 620, but such activity may be a violation of other Exchange rules, including, but not limited to, Rule 608 (Acts Detrimental to the Exchange; Acts Inconsistent with Just and Equitable Principles of Trade; Abusive Practices). Market participants are expected to take steps to mitigate the occurrence of errors, and their impact on the market. This is particularly true for entities that run algorithmic trading applications, or otherwise submit large numbers of automated Orders to the market.

F. Partial fill of an Order

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 620. 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. The Exchange will consider a multitude of factors in assessing whether Rule 620 has been violated.

G. Making a two-sided market with unequal quantities (e.g., 100 bid at 10 offered)

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 620.

H. Stop Limit Orders entered for purposes of protecting a position

Market participants may enter Stop Limit 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.

I. Entering Order(s) at various price levels throughout the order book in order to gain queue position and subsequently canceling those Orders as the market changes

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 purposes, they would not constitute a violation of Rule 620.

J. “Actionable” and “non-actionable messages in relation to Rule 620(b)(ii), (iii), and (iv)

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. An example of a non-actionable message is a Request for Quote.

K. The Exchange’s definition of “orderly conduct of trading or the fair execution of transactions”

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 Commission 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.

L. Entering Orders that may be considered large for a particular market, and thus may have a potential impact on the market

The size of an Order or cumulative Orders may be deemed to violate Rule 620 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 620 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 620 has occurred and, if so, what the appropriate sanction should be for such violation.

M. Meaning of the “closing period” in Rule 620

“Closing period” typically refers to the period during which transactions, bids, and offers are reviewed for purposes of informing settlement price determinations.

N. Factors the Exchange will consider in determining if an act was done with the prohibited intent or reckless disregard of the consequences

Proof of intent is not limited to instances in which a market participant admits the market participant’s 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).

O. Orders entered for the purpose of igniting momentum in the market

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 620 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 620(b)(i) 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 603 (Market Manipulation).

P. “Flipping” Orders

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 (i.e., an Order that takes liquidity). 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. The Exchange recognizes there are many variables that can cause a market participant to change that market participant’s perspective of the market. This Rule, therefore, does not prohibit a market participant from changing that market participant’s 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 620, the Exchange 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)).

Q. Cancelling an Order via the Exchange's Self-Trade Prevention functionality or other self-match prevention technology

The means by which an Order is cancelled, in and of itself, is not an indicator of whether an Order violates Rule 620. The use of self-trade prevention functionality in a manner that causes a disruption to the market may constitute a violation of Rule 620. 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 620.

R. Type of pre-open activity prohibited by Rule 620

Orders entered during the pre-opening period and opening rotation period must be entered for the purpose of executing bona fide transactions upon the opening of the market.

The entry and cancellation of Orders during the pre-opening period and opening rotation period for the purpose of either manipulating the EOP or attempting to identify the depth of the order book at different price levels is prohibited and may be deemed a violation of Rule 620 or other rules.

Other activity related to the pre-opening period may also be considered disruptive, including but not limited to the entry of orders prior to the commencement of the pre-opening period in an attempt to "time" the price-time priority queue for Trade at Settlement ("TAS") transactions, or other similar purposes.

S. Orders entered into the CBOE System for the purpose of testing, such as to verify a connection to the CBOE System or a data feed from the CBOE System

The entering of an Order(s) without the intent to execute a bona fide transaction, including for the purpose of verifying connectivity or checking a data feed, is not permissible. CFE provides a testing environment and test symbols in CBOE Command for TPHs to use for the purpose of testing.

T. Creation or execution of user-defined spreads for the purposes of deceiving or disadvantaging other market participants

Trading Privilege Holders are not permitted to attempt to create any user-defined spreads (i.e., spreads created by Trading Privilege Holders on their own) in the CBOE System. If a Trading Privilege Holder would like a type of CFE spread to be created that is not already available in the CBOE System, the Trading Privilege Holder should contact the Help Desk to request creation of the spread.

Market participants are reminded that knowingly creating and/or trading spreads in a manner intended to deceive or unfairly disadvantage other market participants is considered a violation of Rule 620.

U. Examples of Prohibited Activity

The following is a non-exhaustive list of various examples of conduct that may be found to violate Rule 620.

- 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 contract's 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 620.
- A market participant places buy (or sell) Orders that the market participant 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 the market participant 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 market participant's Order(s) in Market B being filled opposite the algorithm. This conduct violates Rule 620(b)(i), as the Orders in Market A were not intended to be executed, and Rule 620(b)(ii), 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 620(b)(iv).
- 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 the market participant's best bid (offer) behind the market participant in the queue. The market participant then enters a large aggressor sell (buy) Order into the market participant's now resting buy (sell) Order at the top of the book. The market participant's use of CFE's Self-Trade 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 places large quantity Orders during the pre-opening period in an effort to artificially increase or decrease the EOP with the intent to attract other market participants. Once others join the market participant's bid or offer, the market participant cancels the market participant's Orders shortly before the opening.

- During the pre-opening period, a market participant enters a large Order priced at a bid higher than the existing best bid or at an offer lower than the existing best offer, and continues to systematically enter successive Orders priced further through the book until it causes a movement in the best bid or best offer. These Orders are subsequently cancelled. The market participant continues to employ this strategy on both sides of the market for the purpose of determining the depth of support at a specific price level for the product before the market opens.
- A market participant enters a large number of messages 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 messages for the purpose of creating latencies in the market or in information dissemination by the Exchange for the purpose of disrupting the orderly functioning of the market.

* * * * *

Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Jenny Golding at (312) 786-7466. Please reference our submission number CFE-2015-020 in any related correspondence.

CBOE Futures Exchange, LLC

A handwritten signature in black ink, appearing to read "James F. Lubin". The signature is fluid and cursive, with the first name "James" and last name "Lubin" clearly distinguishable.

By: James F. Lubin
Senior Managing Director