

CFE Regulatory Circular RG14-011

Date: March 26, 2014

To: CFE Trading Privilege Holders
From: Business Development Division
RE: CFE Self-Trade Prevention

On April 7, 2014, CBOE Futures Exchange, LLC (CFE) will begin offering a Self-Trade Prevention (STP) mechanism to CFE Trading Privilege Holders (TPHs) that will prevent the execution of a TPH's incoming order or quote with a resting order or quote from the same TPH. This mechanism is described in CFE Rule 406A, which will also become effective on that date. The mechanism applies to simple and spread orders and quotes and applies to all CFE products and trading sessions. Although use of the STP mechanism is not mandatory, the failure by a TPH to utilize the mechanism will be deemed an aggravating factor if the TPH is found to have engaged in wash trading that otherwise would have been prevented by using the mechanism. Below are details regarding the STP mechanism and how to activate it.

Activation of Self-Trade Prevention Mechanism

TPHs that would like to utilize the STP mechanism may do so by completing and submitting the CFE Self-Trade Prevention Request Form which is available on the CFE website at <http://cfe.cboe.com/publish/CFETradingPermitForms/CFESTPRequestForm.pdf>. Please follow the submission instructions noted on the Form. A TPH needs to elect on the Form which STP modifier the TPH would like CFE's trading system to apply to the TPH's orders and quotes. Each of the STP modifiers is further described below. Once activated, an STP election by a TPH applies to all of the TPH's current and future logins and acronym groups, except to the extent noted below, until such time that the election may be changed by the TPH.

Self-Trade Prevention Criteria

The following eligibility criteria must all be applicable in order for STP to apply to a TPH's orders and quotes.

- The STP mechanism must be activated for the TPH.
- The incoming order or quote and the resting order or quote must have been submitted through the same TPH login or through TPH logins that the TPH has designated to the same acronym group.
- The sub-account value must be the same for both the incoming order or quote and the resting order or quote.
- The CBOE account type for the incoming order or quote and for the resting order or quote must translate to an origin *other than* Customer Type Indicator (CTI) code 4 (i.e., the CBOE account type must not be C or L).

Establishing an Acronym Group

If a TPH would like to designate some or all of the TPH's logins to the same acronym group or to establish multiple acronym groups, the TPH must complete and submit the CFE New Acronym Group for Existing Logins Form which is available on the CFE website at <http://cfe.cboe.com/publish/CFETradingPermitForms/CFENewAcronymGroupExistingLogins.pdf>. Please follow the submission instructions noted on the Form. An acronym group cannot contain existing logins. As a result, a TPH needs to designate which logins it would like to assign to the acronym group. Those

logins will be terminated and new logins will be created to replace them. The replacement logins will then be placed in the acronym group. The earliest that a request to create an acronym group for already existing logins will become effective is for the following trading week. For further information regarding the process for TPHs to establish a new acronym group for already existing logins, please see the guidelines in the attachment to this circular.

A TPH will not be assessed an additional CMI or FIX Login Fee for replacement logins created in order to establish an acronym group since these logins are simply replacing existing logins. Instead, a single monthly CMI or FIX Login Fee would be assessed for the month for each existing login that is replaced by a replacement login in connection with establishing an acronym group.

Self-Trade Prevention Modifiers

The grid below describes the three different STP modifiers that may be elected by TPHs. Only one of the three STP modifiers can be chosen by a TPH, and the single modifier selected by the TPH will apply to all of the TPH's eligible orders and quotes in all CFE products and to all of the TPH's logins and acronym groups, except to the extent noted below. When a TPH is activated for STP, the modifier will automatically be applied when it is applicable and the TPH does not need to mark its orders and quotes with the modifier. The reason of "Wash_Trade_Prevention = 906" will be sent for orders that are canceled as a result of Self-Trade Prevention.

Self-Trade Prevention Modifier	Description
Cancel Incoming (Newest)	Any incoming eligible order/quote from the TPH will not execute against an opposite side resting eligible order/quote from that TPH. The incoming order/quote (or any portion thereof) will be canceled back to the TPH if it cannot trade with a non-restricted order/quote (i.e., an order/quote that is not an eligible order/quote from that TPH). The resting order/quote will remain in the order book. Prior to cancellation of the incoming order/quote, the incoming order/quote is allowed to trade with non-restricted orders/quotes at as good a price as the resting eligible order/quote but behind the resting eligible order/quote in time priority.
Cancel Resting (Oldest)	Any incoming eligible order/quote from the TPH will not execute against an opposite side resting eligible order/quote from that TPH. If the incoming eligible order/quote would trade against the resting eligible order/quote, the resting order/quote will be canceled. Prior to being booked, the incoming order/quote is allowed to trade with non-restricted orders/quotes.
Cancel Both	Any incoming eligible order/quote from the TPH will not execute against an opposite side resting eligible order/quote from that TPH. The entire size of both sides will be canceled. Prior to cancellation of both sides, the incoming order/quote is allowed to trade with non-restricted orders/quotes at as good a price as the resting eligible order/quote but behind the resting eligible order/quote in time priority.

Self-Trade Prevention Application to Quotes

- If an STP modifier causes a quote to be canceled, both sides of the quote will be canceled.
- A quote in a Contract submitted through a TPH login or through TPH logins designated to the same acronym group will always replace and not execute against any resting quote in the Contract submitted through that TPH login or acronym group irrespective of whether the STP mechanism has been activated for that TPH and regardless of which STP modifier has been elected for the login or acronym group.

Self-Trade Prevention Application to Spread Orders

- If the STP mechanism has been activated, an eligible spread order from a TPH will not trade with an opposite side eligible spread order from that TPH or with resting eligible orders/quotes for the individual legs of the spread order from that TPH.
- If the STP mechanism has been activated, a resting eligible spread order will be treated as an incoming order if the individual leg markets update and the resting spread order becomes executable.

Self-Trade Prevention Application to Opening and Re-Opening Process

While a CFE product is in a Pre-Open, Opening Rotation, or Halt state, any incoming eligible orders/quotes are allowed to route to the order book irrespective of whether there are any resting eligible opposite side orders/quotes in the order book. STP functions in the following manner in these states if the STP mechanism is activated for a TPH.

- As the product moves from an Opening Rotation to an Open state, but not before, the Cancel Resting (Oldest) STP modifier is used regardless of which STP modifier the TPH has elected.

Self-Trade Prevention Application to Request-for-Quote (RFQ) Responses

In the case of RFQ responses, any incoming eligible quotes are accepted irrespective of whether there are any previously submitted eligible opposite side quotes. STP functions in the following manner with respect to RFQ responses if the STP mechanism is activated for a TPH.

- During the completion of the RFQ process, but not before, the Cancel Resting (Oldest) STP modifier is used irrespective of which STP modifier the TPH has elected.

Additional Information

TPHs may refer to CFE Rule 406A for additional information.

Please contact the CFE Help Desk at ehelpdesk@cboe.com or (877) 226-3773 if you have any questions regarding this circular.

CFE Self-Trade Prevention Guidelines for TPHs with Existing Logins to Activate a New Acronym Group

Below is a list of steps for a TPH to designate already existing logins to a new acronym group and to apply Self-Trade Prevention to that acronym group. A current TPH login cannot be moved to a newly created acronym group. Instead, a replacement login is required and the old login will be disabled.

1. The TPH completes the CFE New Acronym Group for Existing Logins Form and the CFE Self-Trade Prevention Request Form and submits the Forms to the Registration Services Department.
2. The Registration Services Department will verify the TPH information and provide the TPH with the new acronym group and login(s).
3. In order to participate in the STP program, a TPH must certify the new functionality in the CFE API test environment. Please contact the API group at api@cboe.com or (312) 786-7300 to schedule a test.
4. A TPH using FIX must modify Tag 49 – SenderCompId – with the correct login ID. No change is necessary for a TPH using CMI2.
5. The CFE Help Desk will contact the TPH to:
 - a. request that the TPH supply a “strong password” for each new login; and
 - b. request the sub-account specific to the new acronym group.
6. The TPH must perform a production connection test for the new logins. Please contact the API group at api@cboe.com or (312) 786-7300 to schedule a test.
7. **IMPORTANT: The CFE Help Desk will contact the TPH to discuss the cancelation of resting GTC orders. Orders must be canceled while the current logins are still active.**
8. Newly created acronym groups and logins will be activated on Fridays after the close of trading. Prior to this activation, the logins that are being replaced will be disabled. This process will occur only if the above steps for new logins have been completed.
9. The TPH’s Clearing Member(s) may set CFE risk controls for the newly activated logins.

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