MARKET REGULATION ADVISORY NOTICE

From	*NEX SEF Limited ("NEX SEF")*
To	*All EBS NDF Platform Participants*
Subject	*Disruptive Trading Practices*
Rule References	*406*
Effective Date	*May 1, 2018*
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NEX SEF | Trading Standards and Prohibited Trading Practices

It is important to NEX SEF that all Participants have a rewarding experience on the NEX SEF platform. It benefits the market to have the liquidity and price discovery that comes from as many Participants as possible that are able and willing to transact with each other. Accordingly, NEX SEF is issuing this Market Regulation Advisory Notice ("**MRAN**") to provide additional guidance on compliance with NEX SEF's Trading Standards by clarifying certain prohibited trading practices.

In particular, this MRAN provides guidance on the application of Chapter 4 (Trading Standards) of the NEX SEF Rulebook. Chapter 4 sets out trading standards and general rules of conduct that must be observed by all Participants at all times when trading on NEX SEF.

NEX SEF Rule 406 sets out types of disruptive Bid/Offer entry and trading practices that the Operator would find to be abusive and/or disruptive to the orderly conduct of trading or the fair execution of Transactions.

The text of Rule 406 is set out below. This list is not exhaustive.

Rule 406 Disruptive Trading Practices

(a) No Participant or Customer shall enter or cause to be entered any Bid/Offer or Pre Arranged Cross or other message with the intent to, or with reckless disregard for the adverse impact on, the orderly conduct of trading or the fair execution of transactions.

(b) No Participant or Customer shall enter or cause to be entered any Bid/Offer or Pre Arranged Cross or other message with the intent to:

(1) mislead other Participants;
(2) overload, delay, or disrupt the Order Book, any Trading Platform or any other systems of the Facility or other Participants; and
(3) cancel any Bid/Offer before execution or to modify the Bid/Offer to avoid execution.

(c) No Participant or Customer shall engage in any trading, practice or conduct on the Facility or subject to the Rules that (i) violates Bids/Offers; (ii) demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; (iii) is, is of the character of, or is commonly known to the trade as, "spoofing" (entering a Bid/Offer with the intent to cancel the Bid/Offer before execution); or (iv) is any other manipulative or disruptive trading practice prohibited by the Act or Commission Regulations.

NEX SEF will take into account a number of factors in determining whether an orderly market exists. An orderly market may be characterised 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 and accurate relationships between the price of a derivative and the underlying. 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.

Examples of prohibited activity

Examples of prohibited activity include, but are not limited to:

Pulsing

Pulsing results from Bid/Offer submissions followed by immediate interrupts (*e.g.* <1000msecs) repeatedly at the same price level or between two price levels, for an extended period of time. The Bids/Offers are short in duration and do not result in a Deal.

Flashing

a) Flashing at top of book results when a Bid/Offer:

  i. Is submitted at ‘flash height’ (configurable by the Facility) or more (pips) better than the Order Book best price on the same side of the market,

  ii. Is interrupted within ‘flash time’ (configurable by the Facility),

  iii. Is not involved in any Deals, and

  iv. The Order Book best price at interruption is not better than the Bid/Offer price

b) The criteria for monitoring flashing are:

  i. Flash height (varies by pair), e.g. >= 0.1 pip, 0.5 pips, 1.0 pips

  ii. Flash time (varies by pair), e.g. <= 500ms / <=750ms / <=1000ms

c) Premature Quote Interrupts (PQIs) result from any Quote submission which is:

  i. Interrupted within a ‘flash time’, and

  ii. Not involved in any Deals

Passive hits inside the spread / Pinging / Firing in the dark

These types of behaviour involve the speculative entry of multiple hit submits within the spread at multiple price points in order to ascertain the presence and level of hidden Bids/Offers.

Passive hits outside the spread / Warming up / Priming / Quote stuffing

These types of behaviour involve the entry of multiple Bids/Offers or hit submits outside of the spread and without genuine intent to trade to seek to gain technological advantage and/or to obfuscate the market view of other Participants.

Spoofing

Spoofing is typically defined as the entry of relatively short-lived Bids/Offers at or near the top of the Order Book in an attempt to affect the execution of opposite interest.

An example of spoofing is where a Participant places buy (or sell) Bids/Offers that it does not intend to have executed, and then immediately enters numerous sell (or buy) Bids/Offers for the purpose of attracting interest to the resting Bids/Offers. The Participant placed these subsequent Bids/Offers to induce, or trick, other Participants to execute against the initial, Bid/Offer. Immediately after the execution against the resting Bid/Offer, the Participant cancels the open Bids/Offers.

Order Book Shaping/Layering

Similar to spoofing, these types of behaviour are characterised by the entry of multiple Bids/Offers which are designed to give a false impression of liquidity and depth and which do not have genuine intent to trade.

Laddering / Price stepping / Price topping / Momentum ignition

These types of behaviours involve the submission of a sequence of Bids/Offers and/or executions to create actual or apparent active trading with the intent to raise or depress the price to induce a sale or purchase by other Participants.

Shadow Pipping

Shadow Pipping is defined as placing new Bids/Offers at the top of the Order Book within a short timeframe of the previous Bid/Offer appearing in the Order Book and only keeping the “pipping order” in the market while the price immediately behind remains in the Order Book.

In practice, this activity is demonstrated by the shadow Bid/Offer going to the top of the Order Book and being retracted immediately or within a short period of time if the preceding Bid/Offer is retracted.

Factors the Facility will consider in determining whether behaviour constitutes shadow pipping include:

i. the frequency of such Bids/Offers;
ii. the ratio of such Bids/Offers to the volume of “make” trades being executed;
iii. the duration for which the Bid/Offer is exposed to the market; and
iv. the overall market use of such behaviour (e.g. Participants utilising pipping 3% of the time versus single Participant utilising pipping 50% of the time in comparison to overall trading activity).

Entering Bids/Offers to achieve queue position at certain price levels and, given changing market conditions, modification or cancellation of those Bids/Offers is acceptable practice in the absence of other contradictory indicators such as frequency of such behaviour compared to the overall market or clear market forces in play such as volatility etc.

Enforcement/penalties for non-compliance:

The Facility will typically regard as more serious a breach which is deliberately or recklessly committed, giving consideration to factors such as whether the Participant has given no apparent consideration to the consequences of the behaviour that constitutes the breach.

Chapter 5 of the Facility Rulebook sets out the sanctions that the Facility may impose in consequence of a breach of NEX SEF Rule 406, which include fines, restitution orders, suspensions and revocation of Trading Privileges, and summary fines. Failure to co-operate with the Facility is a Violation of NEX SEF Rule 206.