



# Commodity Futures Trading Commission

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## Interpretive Guidance and Policy Statement on Disruptive Practices

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Section 747 of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended the Commodity Exchange Act to expressly prohibit certain disruptive trading practices. Specifically, CEA section 4c(a)(5) states that it shall be unlawful for any person to engage in any trading, practice, or conduct on or subject to the rules of a registered entity 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).

The Commission is issuing this Interpretive Guidance and Policy Statement to provide market participants and the public with guidance on the scope and application of the statutory prohibitions set forth in CEA section 4c(a)(5). In accordance with the statutory language of CEA section 4c(a)(5), the Commission interprets CEA section 4c(a)(5) to apply to any trading, practices or conduct on a registered entity such as a DCM or SEF.

As a general matter, the Commission interprets CEA section 4c(a)(5)(A) as prohibiting a person from buying a contract on a registered entity at a price that is higher than the lowest available price offered for such contract or selling a contract on a registered entity at a price that is lower than the highest available price bid for such contract. The Commission interprets CEA section 4c(a)(5)(A) as a per se offense. With respect to SEFs, CEA section 4c(a)(5)(A) will only be applicable when a person is using a SEF’s “order book.”

The Commission interprets the prohibition in CEA section 4c(a)(5)(B) to apply to any trading, conduct, or practices occurring within the closing period that demonstrates an intentional or reckless disregard for the orderly execution of transactions during the closing period. The Commission believes that conduct outside the closing period may also disrupt the orderly execution of transactions during the closing period and may thus form the basis of a violation under CEA section 4c(a)(5)(B) and any other applicable CEA sections. For example, a CEA section 4c(a)(5)(B) violation may occur when a market participant accumulates a large position in a product or contract in the period immediately preceding the closing period with the intent (or reckless disregard) to disrupt the orderly execution of transactions during that product’s, or a similar product’s, defined closing period. The Commission further clarifies that CEA section 4c(a)(5)(B) violations may include not only executed orders by market participants that disrupt the orderly execution of transactions during the closing period, but also any bids and offers submitted by market participants that disrupt the orderly execution of transactions during the closing period. The Commission interprets that Congress’s inclusion of a scienter requirement in CEA section 4c(a)(5)(B) to mean that accidental, or even negligent, trading, practices, or conduct will not be a sufficient basis for the Commission to claim a violation under CEA section 4c(a)(5)(B).

A section 4c(a)(5)(C) violation occurs when the trader intends to cancel a bid or offer before execution. CEA section 4c(a)(5)(C) “spoofing” prohibition covers bid and offer activity on all products traded on all registered entities, including DCMs and SEFs. “Spoofing” includes, but is not limited to: (i) submitting or cancelling bids or offers to overload the quotation system of a registered entity, (ii) submitting or cancelling bids or offers to delay another person’s execution of trades, (iii) submitting or cancelling multiple bids or offers to create an appearance of false market depth, and (iv) submitting or canceling bids or offers with intent to create artificial price movements upwards or downwards. The Commission further interprets the CEA section 4c(a)(5)(C) prohibition to include all bids and offers in pre-open periods or during other exchange-controlled trading halts. The Commission interprets that a CEA section 4c(a)(5)(C) violation requires a market participant to act with some degree of intent, or scienter, beyond recklessness to engage in the “spoofing” trading practices prohibited by CEA section 4c(a)(5)(C). Because CEA section 4c(a)(5)(C) requires that a person intend to cancel a bid or offer before execution, the Commission believes that reckless trading, practices, or conduct will not constitute a “spoofing” violation.