

ICAP SEF Application

Exhibit R – Rules Prohibiting Trade Practice Violations

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This Exhibit R sets forth ICAP SEF (US) LLC's (the "SEF") Rules prohibiting specific trade practice violations. All capitalized terms used in this Exhibit R and not defined have the meanings ascribed thereto in the SEF Rulebook, which is included as Exhibit M to this Application. All references to "Rules" contained in this Exhibit are references to the Rules of the Rulebook.

1 Trading Standards Rules

Rule 401. Fraudulent Statements and Acts

- a) No Participant or Customer shall make any material misrepresentation of fact or omit to state any material fact necessary to prevent a statement from being misleading, in connection with or related to any transaction on or other activity related to the SEF.
- b) No Participant or Customer may engage in any fraudulent act or engage in any scheme to cheat, defraud or deceive, in connection with or related to any transaction on or other activity related to the SEF.

Rule 402. Abusive Trading Practices

- a) No Participant or Customer shall create fictitious or wash transactions on the SEF or execute any Bid/Offer for a fictitious or wash transaction with knowledge of its nature.
- b) No Participant or Customer shall engage in trading on or subject to the Rules of the SEF for the purpose of passing money or transferring equity from one account to another.
- c) No Participant trading as an Intermediary on behalf of a Customer shall engage in trading ahead of a Customer Order, trading against a Customer Order without the Customer's consent, front running a Customer Order, or accommodation trading or improper cross trading.
- d) No Participant or Customer shall engage in any trading, practice or conduct on or subject to the Rules of the SEF that (1) violates Bids/Offers; (2) demonstrates intentional or reckless disregard for the orderly execution of transactions during the closing period; or (3) 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).

Rule 403. Good Faith Bids/Offers and RFQs

- a) A Participant or Customer shall not knowingly enter, or cause to be entered, a Bid/Offer or RFQ into the SEF other than in good faith for the purpose of executing bona fide transactions.
- b) A Participant or Customer shall not knowingly enter, or cause to be entered, a Bid/Offer or RFQ unless such Participant or Customer has sufficient funds to provide the required collateral for the related Contract should the Contract be executed.

Rule 404. Pre-Execution Discussions and Pre-Arranged Transactions

No Participant or Customer shall pre-arrange or pre-negotiate or non-competitively execute any transaction on the SEF except as follows:

- a) Block Trades are not subject to this prohibition.
- b) Permitted Transactions executed pursuant to Rule 304 are not subject to this prohibition.¹
- c) Participants and Customers may engage in pre-execution discussions with regard to transactions executed on the SEF where one party wishes to be assured that a contra party will take the opposite side of the Bid/Offer, provided that one party's Bid/Offer is entered into a Trading Platform for 15 seconds, or such other time as the SEF may publish for particular Contracts, before the other party's Bid/Offer is entered; *provided, however, that:*
 - (1) A party may not engage in pre-execution communications with other market participants on behalf of another party unless the party for whose benefit the transaction is being made has previously consented to permit such communications.
 - (2) Parties to pre-execution communications shall not:
 - (i) disclose to a nonparty the details of such communications; or
 - (ii) enter a Bid/Offer to take advantage of information conveyed during such communications except in accordance with Rule 404.
 - (3) Notwithstanding paragraph (c)(2) of Rule 404, a party may disclose or use such communications if such disclosure or use is authorized in writing by the counterparty, or is necessary:
 - (i) for the effective execution of any Swap for or with the counterparty;
 - (ii) to hedge or mitigate any exposure created by such Swap; or
 - (iii) to comply with a request of the Commission, the U.S. Department of Justice, any self-regulatory organization designated by the Commission, or an applicable prudential regulator, or as otherwise required by law.

Rule 405. Manipulation and Price Distortion

Any manipulation of the market in any Contract is prohibited. Bids/Offers entered into a Trading Platform for the purpose of upsetting the equilibrium of the market in any Contract or creating a condition in which prices do not or will not reflect fair market values are prohibited and any Participant or Customer who makes or assists in entering any such Bid/Offer with knowledge of the purpose thereof or who, with such knowledge, in any way assists in carrying out any plan or scheme for the entering of any such Bid/Offer, will be deemed to have engaged in an act detrimental to the SEF.

¹ Rule 304 provides procedures for transactions to be arranged off the SEF and submitted to the SEF for execution if they are Permitted Transactions, *i.e.*, transactions not subject to the trade execution requirement of section 2h(8) of the Commodity Exchange Act.

Rule 406. Adherence to Law

No Participant or Customer may engage in conduct in violation of Applicable Law or the rules of any DCO which clears a Cleared Contract in connection with or related to any transaction on or other activity related to the SEF.

Rule 407. Acts Detrimental to the SEF or Inconsistent with Just and Equitable Principles of Trade

It will be an offense for a Participant or Customer to violate any Rule of the SEF regulating the conduct or business of a Participant or Customer or any agreement made with the SEF, or to engage in any act detrimental to the SEF or in conduct inconsistent with just and equitable principles of trade.

Rule 408. Position Limits and Position Accountability

- a) The SEF may set and enforce such Position Limits or position accountability levels with respect to each Contract as the SEF deems necessary to reduce the threat of market manipulation or congestion.
- b) The SEF has adopted the Commission's Position Limitations for any Contract for which the Commission has adopted a Position Limit. In no event will the SEF set its Position Limits at a level higher than the Commission's Position Limits.
- c) For Permitted Transactions, the SEF may set and enforce position accountability levels or send the Commission a list of the Permitted Transactions transacted on the SEF.
- d) All Participants and Customers must comply with all SEF and Commission requirements regarding Position Limits or position accountability levels.
- e) Each Participant required to file any report, statement, form or other information with the Commission pursuant to Commission Regulations concerning any Contract or commodity underlying a Contract must simultaneously file a copy of such report, statement, form or other information with the SEF. Such information shall include, for Participants who are Intermediaries, information concerning the Customers for which transactions are made on the SEF.
- f) Any Participant or Customer who exceeds a SEF or Commission Position Limit by entering into a transaction on the SEF shall be deemed in violation of the Rules of the SEF. In addition, any Participant or Customer entering bids or offers, if accepted, which would cause that Participant or Customer to exceed the applicable SEF or Commission Position Limit, shall be in violation of the Rules of the SEF.
- g) Without limiting any provision of these Rules, the SEF shall have the authority to obtain from any Participant or Customer, on request, information with respect to all positions of such Participant or Customer in Contracts which are equivalent, for purposes of SEF or Commission Position Limits, to those transacted in by the Participant on the SEF.

2 Procedures for Detecting Possible Violations of Trading Standards Rules

- 1) The following exception reports will be produced either by the SEF or its outside Regulatory Services Provider and reviewed in conjunction with Market Regulation Staff:
 - a) Report showing transactions where two Authorized Traders from the same Trading Privilege Holder are on opposite sides of the transaction. This report will be reviewed to determine whether there is an indication of fictitious, accommodation, wash or money passing transactions.
 - b) Report showing transactions where a Contract is executed on behalf of a Customer by an Authorized Trader for a Trading Privilege Holder within 15 minutes after the same Contract is executed for the proprietary account of the same Trading Privilege Holder. This report will be reviewed to determine whether there is an indication of front running or trading ahead.
 - c) Report showing all instances where the cancellation of a bid or offer by an Authorized Trader for a Trading Privilege Holder is followed by re-entry of the same bid or offer by the same or another Authorized Trader for the same Trading Privilege Holder within 15 minutes. This report will be reviewed to determine whether there is any indication of spoofing.
 - d) Report showing where there are two Bids/Offers from the same Trading Privilege Holder or its Authorized Traders which are entered within less than 15 seconds and which are executed against each other. This report will be reviewed to determine whether Bids/Offers subject to pre-execution discussions are being properly executed.
 - e) Report showing transactions which were modified. This report will be reviewed to determine whether modifications are being made for legitimate reasons, and not for improper reasons such as money passing.
 - f) Report showing cancelled transactions. The reviewer will determine whether high percentages of transactions are being cancelled by any Authorized Trader or Trading Privilege Holder, and whether the reasons for cancellation are legitimate.
 - g) Report showing bids and offers during the last 5 minutes of trading. This report will be reviewed to determine whether there was any disorderly trading during the closing period.
- 2) Either the SEF or its outside Regulatory Services Provider, in conjunction with the Market Regulation Staff, will review each exception report as described above, and will document the review. Either the SEF or its outside Regulatory Services Provider may retrieve additional information from the SEF's records, and may request additional information from

Trading Privilege Holders, including on a random sample basis, as necessary to determine whether there is information that indicates a possible basis for a finding that a violation of any of the SEF's rules has occurred or will occur.

- 3) Upon determining that there is a possible basis for finding that a violation of a SEF rule has occurred or will occur, either the SEF or its outside Regulatory Services Provider will investigate the matter, and will report the results of the investigation to the Chief Compliance Officer (“CCO”). The CCO may refer the matter to the appropriate persons for possible emergency action pursuant to SEF Rule 107, to the Chairman of the Regulatory Oversight Committee for possible summary suspension pursuant to SEF Rule 514, or to the Review Panel for possible charges pursuant to SEF Rules 502 and 503.
- 4) Procedures for resolving charges are Rule 504 (Notice of Charges), Rule 505 (Answer; Request for Hearing; Failure to Answer or Deny Charges), Rule 506 (Selection of Hearing Panel), Rule 507 (Challenge to Members of Hearing Panel), Rule 508 (Hearing on Sanctions in the Event of Failure to Deny Charges; Failure to Request Hearing Deemed Acceptance of Sanctions), Rule 509 (Settlement Prior to Commencement of Hearing), Rule 510 (Hearing Procedures), Rule 511 (Written Decision of Hearing Panel), Rule 512 (Liability for Expense), Rule 513 (Effective Date of Sanctions) and Rule 515 (Extension of Time Limits).