

## **APPENDIX 1- ELECTRONIC TRADING ERROR TRADE POLICY**

### **1. Regulatory Considerations**

The Exchange considers appropriate systems and controls to be important in reducing the likelihood of orders being entered in error, preventing the execution of trades at unrepresentative prices and reducing the market impact of such trades. Such systems and controls should be present at both the Exchange level (on the trading system itself and within the Exchange Regulations) and at the Clearing Member level. These include:

1. ETS configuration facilities:
  - i. price reasonability limits, set by the Exchange, which prevent the execution of trades outside of these limits;
  - ii. volume reasonability limits, set by the Exchange, which prevent volumes above a certain level to be either designated for trading or traded;
  - iii. optional pre-confirmation messages which appear before the execution of all orders; and
  - iv. an option to designate the quantity that a user may wish to expose to the market at one time rather than trading the total quantity that is available to be traded at a specified price.
2. The Rules which provide the Exchange with absolute discretion to delete orders, cancel trades or suspend the market in the interests of maintaining a fair and orderly market.

### **2. Main Components of Policy**

**A.** In normal circumstances, the Exchange will only cancel trades on the basis that the price traded is not representative of market value. Any trade where the only error is the number of contracts traded and not the price at which they are traded, will not be subject to cancellation. The Exchange will make the final decision on whether a trade is cancelled or is allowed to stand. In determining whether a trade has taken place at an unrepresentative price, certain factors will be taken into account. They may include, but not be limited to:

- ◆ price movement in other delivery months of the same contract;
- ◆ current market conditions, including levels of activity and volatility;
- ◆ time period between different quotes and between quoted and traded prices;
- ◆ information regarding price movement in related contracts, the release of economic data or other relevant news just before or during electronic trading hours;
- ◆ manifest error;
- ◆ whether there is any indication that the trade in question triggered stops or resulted in the execution of spread trades;
- ◆ whether another market user or client relied on the price;
- ◆ any other factor which the Exchange, in its sole discretion, may deem relevant.

It should be noted that the Exchange has the unilateral right to cancel any trade clearly executed in error where there has been no request from a market user, in the interest of maintaining a fair and orderly market. The Exchange aims to exercise this right promptly after the trade has been identified. The decision of the Exchange will be final.

**B.** The Exchange sets and may vary price reasonability limits within the system for each Contract beyond which the ETS will not execute limit or market orders. These limits necessarily are flexible to take account of prevailing market conditions. The ETS incorporates price reasonability limits to prevent ‘fat finger’ type errors that cap the amount the price may change in one trading sequence from the anchor price. These limits are set by the Exchange and may be varied without notice according to market conditions. Beyond these limits, the ETS will not execute orders unless the market moves to bring them within the reasonability limit.

Orders entered with prices outside the upper and lower price reasonability limits will not trade. Orders to sell at prices below the lower reasonability limit and orders to buy at prices above the upper reasonability limit will not be accepted by the ETS.

Any trade executed at a price outside of the no cancellation range but within the price reasonability limits, if identified to the Exchange within the designated time period, may be considered an alleged error trade.

The reasonability limits applicable to each product traded on the ETS is listed in the table in Section 4.

Any trade which is alleged as an error trade and subsequently is cancelled due to the determination that it has been executed at an unrepresentative price, may be investigated by the Exchange.

**C.** There is a defined no-cancellation range for each Contract. Trades executed within this price range will not, under normal circumstances, be cancelled. A component of market integrity is the assurance that once executed, except in exceptional circumstances, a trade will stand and not be subject to cancellation. Any trades that do not have an adverse effect on the market should not be able to be cancelled, even if executed in error.

The Exchange determines parameters above or below an Exchange set anchor price for each Contract within which a trade alleged as an error trade may not be cancelled. Such parameters are known as a ‘no cancellation range’. The no cancellation range applicable to each product traded on the ETS is listed in the table in Section 4.

The anchor price is set by the Exchange and is based on the front contract month. The anchor price may be the previous night's settlement price, the opening call price or the last traded price. The anchor price of the second contract month and successive months onward is achieved by applying spread differentials against the front month anchor price.

If a trade takes place within the no cancellation range and is alleged as an error, the trade will not be cancelled.

**D.** Trades executed within the price reasonability limits but outside of the defined no-cancellation range may be reported to or considered by the Exchange as an error.

**E.** Market users have 5 minutes from the time of the original trade in which to allege a trade as having been executed in error.

**F.** The Exchange Market Supervision Official will notify the market immediately via an ETS broadcast message that an error has been alleged, giving details of the trade including contract month, price and volume. The Exchange will then notify users by the broadcast message

facility whether the trade is cancelled or stands. The Exchange will then contact those parties involved in the trade to explain the Exchange's decision.

**G.** In order to assist the Exchange in determining whether the trade alleged as an error has taken place at an unrepresentative price, the Exchange may contact/consult Users and other market participants. The Exchange will not disclose to the parties to the alleged error trade the identity of their counterparty. The identities of the counterparties to the alleged error trade will not be disclosed to any market user the Exchange may consult with. The Exchange will take into account a variety of market factors in its determination, including whether consequential trades have resulted. Each error situation will be assessed on its individual circumstances. The Exchange will determine whether or not the trade will be cancelled.

**H.** Where consequential trades based on the price of the alleged error trade are executed after the Market Supervision official has notified the market of the alleged error trade, and where the Exchange, after consultation, subsequently determines that the alleged error trade is cancelled, these consequential trades may stand or may be cancelled at the discretion of the Exchange. The decision of the Exchange will be final. One of the factors taken into consideration by the Exchange will be whether the alleged error trade triggered contingent orders or resulted in the execution of spread trades or whether another market user or client relied on the price to execute consequential trades.

When resolving a situation involving consequential trades, the Exchange will consider these on a case by case basis, evaluating each situation on its individual circumstances and merits. When considering its approach, the Exchange will consider those consequential trades directly related to the error trade and consider reasonably any trades (specifically spread trades) which have been derived from the error itself and those executed as a result of it.

In circumstances where trades are executed as a consequence of the alleged error trade after the NYBOT Market Supervision Official has notified the market of the alleged error trade, should the alleged error trade subsequently be cancelled, these consequential trades may stand or may be cancelled at the discretion of the Exchange. The decision of the Exchange will be final.

**I.** The Exchange will make every attempt to ensure that a decision on whether an alleged error trade will stand or be cancelled will be communicated to the market as soon as reasonably possible after the time of the original trade. The Exchange will endeavor to complete this process 15 minutes after the time of the original trade.

**J.** The Exchange has the unilateral right to cancel any order and cancel any trade which it considers to be at an unrepresentative price where there has been no referral or request from a market user. The Exchange reserves its right to consider each alleged error trade situation on its individual merits and may therefore amend these policies in light of the circumstances of each individual case. The decision of the Exchange is final.

### **3. NYBOT Market Supervision Official – Contact with Responsible Individuals/Users**

All requests to cancel orders or Trades must be directed to the Market Supervisor *(212 748-3949)* via the Responsible Individual responsible for the order(s). Any request for the removal of orders made to the Market Supervision Official by the Responsible Individual will be acted upon on a best efforts basis by the Market Supervision Official.

#### 4. NO CANCELLATION RANGE AND REASONABILITY LIMITS

<b>Contract</b>	<b>Reasonability Limit</b>	<b>No cancellation range</b>
	\$ Value	\$ Value
Cocoa Futures	\$99.00	\$15.00
Coffee Futures	\$.0299	\$.0060
Cotton #2 Futures	\$.0099	\$.0025
FCOJ Futures	\$.0299	\$.0100
Sugar # 11 Futures	\$.0075	\$.0010
Sugar # 14 Futures	\$.0075	\$.0010

***Please note:***

*The price reasonability limits for each Contract necessarily are flexible to take account of prevailing market conditions. It remains at the discretion of the Exchange to determine when such conditions apply. The Exchange reserves its right to consider each alleged error trade situation on its individual merits and may therefore amend these price reasonability limits in light of the circumstances of each individual case and prevailing market conditions.*

**Reasonability Limits**

The ETS maintains reasonability limits to prevent ‘fat finger’ type errors. These are hard limits above or below an Exchange set anchor price. Bids above the reasonability limit and offers below the limit are not accepted. Offers above and bids below the reasonability limit are accepted but are not tradable unless the market moves to bring them within the reasonability limit.

**No Cancellation Range**

The Exchange determines parameters above or below an Exchange set anchor price for each Contract within which a trade alleged as an error trade may not be cancelled. Such parameters are known as a no cancellation range.

Trades within the no cancellation range will not, under most circumstances, be cancelled by the Exchange, whether as a result of error or otherwise, in order that market users can have confidence that traded levels will stand.

**Anchor Price**

The anchor price is set by the Exchange and is based on the front contract month. The price may be the previous night's settlement price, the opening call price or the last traded price. The anchor price of the second contract month and successive months onward is achieved by applying spread differentials against the front month anchor price.

The Exchange reserves the right to consider all alleged error trade situations on their individual merits and may therefore amend these policies in light of the circumstances of each case.