EBS RULES OF CONDUCT & PROHIBITED TRADING PRACTICES

This Customer Communication provides guidance on the application of Rule 14 of the EBS Dealing Rules – General Terms (Conduct Rules and Prohibited Practices).

Rule 14 sets out rules of conduct which must be observed by all Participants at all times when trading on the EBS Dealing Services.

Rule 14.1.2 prohibits Participants from engaging in any act or course of conduct which is likely to harm the integrity, fairness, orderliness or reputation of the EBS Dealing Services.

This Rule shall be read to include practices or conduct inconsistent with just and equitable principles of trade and acts which are detrimental to the interest, welfare and good name of the EBS Dealing Services or the Operator.

Rule 14.3 sets out types of disruptive order 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 14.3 is set out below. This list is not exhaustive.

14.3. Disruptive Trading Practices

14.3.1. Participants shall not enter or cause to be entered an Order or Trade Request with intent to disrupt, or with reckless disregard for the adverse impact on, the orderly conduct of trading or the fair execution of Transactions;

14.3.2. Participants shall not enter or cause to be entered an Order or Trade Request with the intent, at the time of entry, to cancel the Order or Trade Request before execution or to modify the Order or Trade Request to avoid execution;

14.3.3. Participants shall not enter or cause to be entered an Order or Trade Request with intent to mislead other market participants; and

14.3.4. Participants shall not enter or cause to be entered an Order or Trade Request with intent to overload, delay, or disrupt the systems of the EBS Dealing Service or other market participants.

The Operator 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 Quote 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 Quotes are short in duration and do not result in a Deal.

Flashing

Flashing at top of book results when a Quote:
i. Is submitted at 'flash height' (configurable by the Operator) or more (pips) better than the EBS Best Price on the same side of the market,

ii. Is interrupted within 'flash time' (configurable by the Operator),

iii. Is not involved in any Deals, and

iv. The EBS Best Price at interruption is not better than the Quote price

b) The criteria for monitoring flashing are:
i. Flash height (varies by pair), e.g. >= 0.1pip, 0.5pips, 1.0pips

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 orders.

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

These types of behaviour involve the entry of multiple Quote 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 orders 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) orders that it intends to have executed, and then immediately enters numerous sell (or buy) orders for the purpose of attracting interest to the resting orders. The Participant placed these subsequent orders to induce, or trick, other Participants to execute against the initial, order. Immediately after the execution against the resting order, the Participant cancels the open orders.

Order Book Shaping/Layering

Similar to spoofing, these types of behaviour are characterised by the entry of multiple Orders 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 Orders 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 orders at Top of the Book (TOB) within a short timeframe of the previous order 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 order going TOB and being retracted immediately or within a short period of time if the preceding order is retracted.

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

i. the frequency of such orders;
ii. the ratio of such orders to the volume of "make" trades being executed;
iii. the duration for which the order 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 orders to achieve queue position at certain price levels and, given changing market conditions, modification or cancellation of those orders 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 Operator 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.

Rule 14.4.2. sets out the actions that the Operator may take in consequence of a breach of Rule 14. The text of Rule 14.4.2. is set out below. This list is not exhaustive.

14.4.2. The actions that the Operator may take in consequence of a breach of these Rules include, but are not limited to:

a) formal written notification of contravention of these Dealing Rules;
b) restriction of specific Order types;
c) impose systematic enforcements, such as a minimum quote life, or throttling of Orders;
d) suspension from specific instruments, such as currency pairs; and suspension from an EBS Dealing Service;

Failure to co-operate with the Operator shall be deemed a material breach of these Dealing Rules and the Agreements.

The Operator may impose penalties which are specific to some of the disruptive practices described above. Any such penalties will be communicated separately to Participants by the Operator.