



Pre-Execution Communications FAQ

effective March 3, 2014

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PRE-EXECUTION COMMUNICATIONS FAQ

Effective Trade Date March 3, 2014, ICE Futures Canada (“IFCA”) Rules will permit Pre-Execution Communications, **in options and strategies that include options**, subject to the provisions of Rule 8A.09. Pre-Execution Communication will continue to be prohibited in futures and futures-futures spreads.

This document is intended to provide information on the permission required to allow Pre-Execution Communication on behalf of a customer, and on how orders resulting from Pre-Execution Communication must be executed on the electronic trading system (“ETS”).

Required permissions, and restrictions for Pre-Execution Communications

1. Is a customer’s consent to Pre-Execution Communications necessary?

Yes. If a market participant is acting on behalf of a customer, the Customer’s written consent must be obtained prior to engaging in Pre-Execution Communications.

2. What must be done to obtain customer consent, and what form should the consent take?

Entities conducting business on behalf of customers should have conversations with those customers in advance of any Pre-Execution Communication, to ensure the requisite consent is in place for a particular order. Such consent may be on an order-by-order basis, or in the form of blanket consent from a customer acknowledging its authorization for the broker to engage in Pre-Execution Communications on its behalf, and would be considered in force until revoked by such customer.

Records evidencing that such consent was obtained should be available for production upon request of the Exchange. Spot-checks may occur by the Regulatory Division, to ensure such consent was in place at the time of a trade.

3. May a person involved in Pre-Execution Communications disclose the details of those communications to other parties?

No. Pre-Execution Communications are confidential, and may not be disclosed to anyone else.

4. If a person has participated in a Pre-Execution Communication, where non-public information has been disclosed about an order or a potential order, may

such person subsequently enter an order into the market to take advantage of the non-public information derived during the communication?

No.

5. On what products is Pre-Execution Communication permitted?

Pre-Execution Communication is only permitted on options and strategies that include options. This includes outright options, serial options, Calendar Spread Options (CSOs), options-options strategies, and options-futures strategies.

Pre-Execution Communication continues to be **prohibited** on outright futures, and futures-futures spreads.

Execution of orders resulting from Pre-Execution Communication

6. How are orders resulting from Pre-Execution Communications required to be executed?

Such orders must be executed by submission of a Crossing Order (“CO”) into the ETS. The CO must contain the quantity and price at which the cross trade execution is sought. Entry of the CO will trigger a Request For Quote (“RFQ”) message for the respective option or strategy, which will automatically be exposed to the market for the prescribed time period before the ETS will seek to execute the CO.

7. Is a CO or a Request for Quote (“RFQ”) required to be submitted prior to engaging in Pre-Execution Communications?

No. Only after the market participants have agreed to the execution of a crossing transaction as a result of Pre-Execution Communications, must a CO be submitted. The ETS will create the RFQ automatically from the submitted CO.

8. Is the price or quantity of the orders on the CO displayed to the marketplace in the resulting RFQ?

The price of the orders will not be displayed, but the quantity will be displayed.

9. Is there any information in the RFQ that identifies that a CO may be forthcoming?

No. The purpose of the RFQ is to notify all market participants that there is interest in executing a trade or strategy.

10. After submitting a CO, how much time will elapse before the CO is automatically activated?

Fifteen (15) seconds will elapse after the submission of the CO, before the CO is automatically activated.

11. Once the CO has been activated, are the buy and sell orders automatically executed against each other?

No. Once activated, the CO will be evaluated against the best prices in the ETS order book. If the CO price improves the best bid and the best offer in the order book, or if there is no bid and no offer, 100% of the CO quantity will match at the CO price immediately upon activation. If the CO price improves the best bid but there are better offers, the buy side of the CO will be executed first against such better offers and then subsequently against the sell side of the CO, if any residual quantity on the buy side remains. Similarly, if the CO price improves the best offer but there are better bids, the sell side of the CO will be executed first against such better bids and then subsequently against the buy side of the CO, if any residual quantity on the sell side remains.

12. What priority will the CO have in the order book?

For purposes of determining priority in the order book, the CO will be considered to have been entered at the time the CO is submitted to the ETS.

13. What happens if there are unfilled quantities of the CO after the CO has been matched?

Any remaining volume of the CO will be cancelled by ETS.

14. Are there any alternative methods of complying with the requirements of Rule 8A.09, other than through the entry of a CO?

No. All orders obtained through Pre-Execution Communication must be executed by the use of a CO.

15. Once the CO is submitted and quotes are made, may the submitter of the CO trade opposite the bids or offers entered in response to the RFQ?

Yes. However, the parties to the CO cannot enter bids or offers that would improve the bids or offers made in the corresponding market during the 15 second crossing window. This would violate the provisions of Rule 8A.09 which prohibit Pre-Execution Communication counterparties from entering orders that take advantage of information obtained through the Pre-Execution

Communication, such as the price at which the CO will execute.

16. Once the CO is submitted and active, may the parties to the CO submit any RFQs?

No. The parties to the CO (including the submitter of the CO in the case of a broker) may not submit any RFQs until the CO has transacted.

17. Once the CO is submitted and quotes are made, may the submitter of the CO change the CO?

No. The submitter of the CO cannot change the originally submitted CO and may not submit another CO until the original CO is transacted. Further, the parties to the CO cannot enter bids or offers that would improve the bids or offers made in the corresponding market during the 15 second crossing window.

18. Once a transaction is agreed upon via Pre-Execution Communications, when must the submitter must enter the CO?

Once a transaction has been agreed upon, the submitter must immediately enter the CO.

19. May a submitter specify a “Reserve Quantity” (iceberg quantity) on a CO?

No. All crossing volume must be fully disclosed, on both the buying and selling orders, in the CO.

Transactions with no Pre-Execution Communications

20. Is it permissible to contact other market participants to obtain general market color without engaging in Pre-Execution Communications?

Yes. Communications to obtain general market color, or simply to obtain a quote, are permissible provided there is no express or obviously implied arrangement to execute a specified trade and no non-public information is communicated regarding an order or potential order.

21. If an order has been submitted to ETS, are there any restrictions on communicating with potential counterparties?

Yes. With a resting order exposed on ETS, it is permissible to contact potential counterparties to solicit interest in trading against the order. However, in any such communications, non-public information (i.e. information not represented in the terms of the order exposed to the market) may not be disclosed. For example, if the represented offer is for 250 contracts, it would be a violation of the Rules to disclose that there are an additional 500 contracts to sell, because that information

has not been disclosed to the market.

22. What are the requirements for handling simultaneous buy and sell orders for different beneficial owners that do not involve Pre-Execution Communications?

Opposing buy and sell orders, which did not involve Pre-Execution Communication, are governed by Rule 8A.08. This Rule is not changed, with the introduction of Pre-Execution Communication.

23. If there have been no Pre-Execution Communications, is it permissible for a firm to knowingly trade for its proprietary account against a Customer order entered by the firm?

Yes, provided that the orders are entered in accordance with Rule 8A.08(a).