



## NYSE LIFFE US NOTICE No. 10/2013

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### Guidance on Risk-Based Limits and Automated Order Screening Functionality

#### Summary

This Notice provides guidance with respect to risk-based limits and automated screening controls provided by the Exchange for Members to address CFTC Regulation § 1.73 obligations. These tools will be made available to users in the near term future.

#### 1. Introduction and Background

- 1.1 [NYSE Liffe US Notice 19/2010](#) reminded Members and Registered Users of their responsibility for the orders placed on the NYSE Liffe US Trading Platform and provided interpretative guidance regarding minimum risk controls that Members should have in place and actively use to demonstrate adequate exercise of due diligence for the placement of orders.
- 1.2 Since Notice 19/2010 was published, the Commodity Futures Trading Commission (“Commission” or “CFTC”) has interpreted certain provisions of the Commodity Exchange Act (the “CEA” or the “Act”) as creating a “web of requirements designed to secure the financial integrity of the markets and the clearing system, to avoid systemic risk, and to protect customer funds.”<sup>1</sup> The Commission has found that firm failures resulting in insolvency and default tend to be caused predominately by failures in risk management. As one means of promoting more effective risk management, the CFTC promulgated new Commission Regulation § 1.73 (“CFTC Rule 1.73”), which requires futures commission merchant (“FCM”) members of registered derivatives clearing organizations (“Clearing FCMs”) to establish risk-based limits and screen orders in the proprietary account and each customer account in an automated fashion for compliance with those limits.
- 1.3 CFTC Rule 1.73 does not prescribe the specific means by which Clearing FCMs must establish such limits. Rather, Clearing FCMs retain the flexibility to satisfy CFTC Rule 1.73 with “simple numerical limits on order or position size, or through more complex margin-based limit[s],” or “price limits that would reject orders that are too far away from the market, or limits on the number of orders that could be placed in a short time.”<sup>2</sup>
- 1.4 To assist those Clearing FCMs that are members of one of the Exchange’s two Clearing Service Providers (“Clearing Members”) with meeting their obligations

<sup>1</sup> See, e.g., CEA Section 4d (requiring FCMs to register with the Commission and segregate customer funds), CEA Section 4f (requiring FCMs to maintain certain levels of capital), and CEA Section 4g (establishing reporting and recordkeeping requirements). 77 FR 212278, 21287 (April 9, 2012).

<sup>2</sup> 77 FR 21278, 21288.



under CFTC Rule 1.73, NYSE Liffe US (the “Exchange”) is implementing a suite of risk controls.

## **2. Overview of Risk Management Tools**

2.1 The suite of risk-based tools (“NYSE Liffe US Risk Suite” or “NLRS”) will include a web interface which allows Clearing Members to set risk controls on a Non Clearing Member (“NCM”) or Individual Trader Mnemonic (“ITM”) basis. The web-based interface can be accessed via the following portal: <https://ptrm.nyseliffeus.com>. NLRS will allow a Clearing Member to set the following limits on trading activity that occurs on the Exchange:

- Maximum long position by product by expiration
- Maximum short position by product by expiration
- Maximum net position by product by expiration

Upon a breach of any of the aforementioned limits, NLRS will automatically log off, or lock out the single ITM or all ITMs associated with the NCM, or generate an email alert regarding the breach. The action to be taken by NLRS upon a specific breach is configurable by a Clearing Member.

2.2 User documentation for NLRS will be available at [www.nyseliffeus.com](http://www.nyseliffeus.com).

2.3 The Exchange has also provided for disconnection capabilities (also referred to as a “Kill Switch”) accessible through its proprietary Application Program Interface (“API”), and which are designed for integration into a Clearing Member’s risk systems. This functionality, called Master Trader Mnemonic (“MTM”), will create administrative rights (a so-called “super user”) which include disconnection rights over specific subordinate ITMs defined by the MTM.

## **3. Introduction and Registration of Customer Risk Administrators**

3.1 By providing NLRS, the Exchange is introducing a new role, the Customer Risk Administrator (“CRA”), which is defined as an officer of a Clearing Member who is employed in a risk, operations or compliance capacity. Only CRAs registered with the Exchange will be given editable access to NLRS.

3.2 Each Clearing Member will be required to register at least two CRAs by completing the form attached as Appendix A, which must be executed by the Clearing Member’s Member Connectivity Administrator (“MCA”) registered with the Exchange or by another CRA registered with the Exchange. See [Notice 2/2008](#).

3.3 Prior to going live in the production web-based system, a Clearing Member and its designated CRAs must complete certain tests of NLRS capability within the Exchange test environment. Instructions for completing testing are on the web interface.

3.4 Non-Clearing Members and other market participants will be permitted to logon to the website to view the limits set by their Clearing Member(s) They will not, however, be



able to edit these limits. Non-Clearing Members and other market participants are urged to discuss with their Clearing Member(s) any and all risk limits placed on their trading.

#### **4. Maximum Order Size**

4.1 To coincide with the launch of its suite of risk tools, the Exchange is refining the maximum order size thresholds for orders to be sent to the Exchange's Trading Platform in each of its products. The new limits will be set as follows:

- Futures on DTCC GCF Repo Index™ Products: 29,999
- Eurodollar Futures: 49,999
- US Treasury Futures: 19,999
- Full sized Gold and Silver Futures and Options on Full sized Gold and Silver Futures: 999
- Mini sized Gold and Silver Futures and Options on Mini sized Gold and Silver Futures: 4,999
- Mini MSCI Index Futures: 14,999

#### **5. Limitation of Liability**

5.1 Members and market participants are reminded that they remain ultimately responsible for the appropriate execution of orders on the Exchange in accordance with Commission Regulations and Exchange Rules. The Exchange makes no warranty that merely using NLRS guarantees that a Member is in compliance with CFTC Rule 1.73. Clearing Members should consult with their compliance, regulatory, and legal departments or advisers to ensure their policies and procedures are compliant with CFTC Rule 1.73

5.2 In addition, it should be noted that misuse of NLRS could be interpreted as a violation of Exchange Rule 408.

5.2 Members are also reminded to review Exchange Rule 415, which limits the Exchange's liability for damages in connection with the use of any Exchange facility, including the use of NLRS .

Members who have questions or seek additional information in respect of this Notice should contact:

New York Office  
Chicago Office

+1 212 656 4300  
+1 312 442 7730

[nyseliffeus@nyx.com](mailto:nyseliffeus@nyx.com)



## Pre-Trade Risk Management (PTRM) System Access Application Form

Please complete the following form and return to NYSE Liffe US Membership.  
 TEL 212 656 4300 | FAX 212 656 2025 | EMAIL: NYLUSMembership@nyx.com

Firm Name	
View-Only User	Yes <input type="checkbox"/> No <input type="checkbox"/>
OCC Access	The firm requests access to OCC-cleared business: <input type="checkbox"/>
	Member Mnemonic(s):  [Clearing Members Only] Request privilege to set limits for all customers of Clearing Member*: <input type="checkbox"/>
	Specific ITM(s)**:
NYPC Access	The firm requests access to NYPC-cleared business: <input type="checkbox"/>
	Member Mnemonic(s):  [Clearing Members Only] Request privilege to set limits for all customers of Clearing Member*: <input type="checkbox"/>
	Specific ITM(s)**:
Full Name of User <i>(mandatory)</i>	First: Middle Initial: Last: Department: (e.g., risk, operations, compliance)
Phone <i>(mandatory)</i>	Office: Mobile:
Email <i>(mandatory)</i>	
Geographic Region <i>(mandatory)</i>	U.S. <input type="checkbox"/> Europe <input type="checkbox"/> Asia <input type="checkbox"/>

\*If the user's firm is a General Clearing Member (GCM), the user may request access to edit/set positions for all of the firm's Non Clearing Members (NCM). If access to only a subset of NCMs is requested, the specific member mnemonics must be stated explicitly.

\*\*If specific ITMs are not requested, access will default to all of the ITMs belonging to the requested members. If necessary, please specify the members to whom the ITMs belong.



\_\_\_\_\_  
Customer Risk Administrator Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Authorizing Signatory

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

*(must be authorized either by a MCA or an Exchange registered CRA)*

If the Firm is not a Clearing Member, the Clearing Firm's authorization must be obtained:

\_\_\_\_\_  
Clearing Firm Representative Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

*(must be authorized either by a Clearing Firm MCA or an Exchange registered CRA other than the CRA being authorized by the completion of this form)*

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