GUIDANCE

Hidden Quantity (“iceberg”) orders and Crossed Trades

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Rule 8A.08 sets out the requirements for crossing orders, including the timing delay required between the entry of opposing buy and sell orders. The full text of Rule 8 may be found at: https://www.theice.com/publicdocs/futures_canada/rules/Rule8_Trading.pdf

The purpose of this guidance document is to clarify the timing requirements that pertain to the usage of reserve / hidden quantity ("iceberg") order functionality, for crossed trades.

As described in previous Regulatory Division notices[1], when iceberg order functionality is used, whether through the ICE Trading Platform or a front-end trading system, each buy and sell order must be separated by the requisite time delay (5 seconds for futures; 15 seconds for options), when those orders have the potential to cross, and the usage of iceberg functionality is done at the discretion of the trader. **An "order" in these situations means each tranche of shown volume – not just the original order entry.**

Given that iceberg orders automatically submit a new tranche of volume immediately following the completion of the prior tranche, it is possible that although the entry of the original buy and sell orders are sufficiently apart in time (5 or 15 seconds), subsequent tranches do not meet the timing requirements of Rule 8A.08, due to the fact they are submitted automatically by the system, leaving very little (if any) time delay between them.

Therefore, in situations where the broker exercises discretion in the usage of iceberg orders, rather than being instructed by a client to do so, it may not be possible for the broker to use iceberg functionality for the opposing buy or sell orders, because it would not provide for a sufficient time delay for the execution of the hidden quantity(ies).

Where any portion of a broker's iceberg orders cross, and the entry time of the crossed order tranches does not meet the timing requirements of Rule 8A.08, the broker must be able to evidence that the usage of the iceberg order(s) was a decision conducted with the direction or general authority of the client, and independent of the decisions made for the opposing client's order. For example, the broker may have a pattern of conduct, in which iceberg orders are always used for a particular client, based on a past instruction or understanding with the client.

It is also important for brokers to adhere to the provisions of Rule 11.B.01(r)(4)[2], which prohibits the disclosure of orders that are not in the public domain. Therefore, brokers may only discuss the shown portion of an iceberg order with other clients. The hidden portion of an iceberg order may not be discussed, or alluded to, with other clients.

Further questions may be directed to compliance-canada@theice.com

[1] See 2014 notice: https://www.theice.com/publicdocs/futures_canada/member_notices/2014_03_05_Crossing_iceberg_orders.pdf

[2] https://www.theice.com/publicdocs/futures_canada/rules/Rule11_Violations_and_Penalties.pdf