

INSIGHTS

## Monthly Futures Exchange Issuance Report: November 2015

December 18, 2015

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**November's Highlight** In November there were a significant number of disciplinary actions across the exchanges related to pre-arranged trading, including the execution of block trades. The exchanges clearly continue to focus on these types of violations and market participants should be conscious of the rules for pre-arranged trading and the entry of block trades. The fines for these violations can be significant and can include suspensions. For example, this month an entity was fined \$70,000 for the actions its traders took to enter buy and sell orders opposite one another to transfer positions, a violation of Rule 4.02(c). On NYMEX, an entity executed numerous improper block trades, a violation of Rule 526, and was fined \$50,000. On a related note, CME recently issued a new webcast on EFRPs, transactions that have recently been heavily scrutinized by the exchanges. The new webcast is available [here](#).

**CME Group Rule Changes and Other Advisory Notices**

**MARKET REGULATION ADVISORY NOTICE- RA1517-5** This notice strongly encourages parties to ensure that they have adopted and effectively execute appropriate supervisory procedures regarding Rules 432.W, 433, and 501. A member may register only a bona fide employee and is responsible for the supervision of that employee regardless of whether that employee works for other Members as well. Additionally, the notice summarizes members' responsibilities within such employment relationships.

**MARKET REGULATION ADVISORY NOTICE- RA1518-5** This notice was issued to provide regulatory guidance to market participants concerning CME Group Exchanges' Rules 559 ("Position Limits and Exemptions"<sup>2</sup>), 560 ("Position Accountability"<sup>2</sup>), 562 ("Position Limit Violations"<sup>2</sup>) and interpretative guidance related to each Exchange's Position Limit, Position Accountability and Reportable Level Table in the Interpretations Section at the end of Chapter 5.

**MARKET REGULATION ADVISORY NOTICE- RA1519-5** This notice announces that it supersedes CME Group RA1515-5 and is being issued to provide updated guidance on the following items: codifying that block trades may not be executed after the expiration of a contract month; updating the reporting requirements in response to the adjusted maintenance window for CME ClearPort; and clarifying the handling of block trade errors.

**SPECIAL EXECUTIVE REPORT-S-7507** This report announces that pending all relevant regulatory review periods, effective

Friday, November 20, 2015, CME, CBOT, NYMEX and COMEX (collectively, the "Exchanges"®) will adopt amendments to Rule 853 ("Transfers of Trades and Customer Accounts"®). The amendments will permit transfers of futures-style options at the original trade price or the most recent settlement price. Additionally, Rule 853 will permit premium-style options to transfer at the most recent settlement price, in addition to the currently permissible original trade price or a trade price of zero. **MARKET SURVEILLANCE UPDATE- MSN11-20-15B** Pending all relevant CFTC regulatory review, NYMEX will amend Chapter 7 of the NYMEX Rulebook in order to incorporate the conditions for onboarding of warehouses, load-out, and registration of lead for delivery against COMEX's Lead Futures contract. **ICE Futures U.S. Rule Changes & Other Advisory Notices SEF NOTICE- 11/9/15** ICE Swap Trade introduced an amended Rulebook and Block Trade FAQ. The CFTC filing regarding these amendments can be found here: [https://www.theice.com/publicdocs/regulatory\\_filings/ICE\\_Swap\\_Trade\\_15-14\\_CFTC\\_Submission.pdf](https://www.theice.com/publicdocs/regulatory_filings/ICE_Swap_Trade_15-14_CFTC_Submission.pdf). **ICE Futures Europe Rule Changes & Other Advisory Notices Circular 15/225** ICE Futures Europe has proposed amendments to the Corporate Actions Policy. Specifically, the policy document details the policy of ICE Futures Europe in relation to Corporate Actions. It is issued pursuant to, and should be read in conjunction with, the Contract Rules and Trading Procedures for futures and options based on individual equity securities. It explains the Exchange's policy in relation to Corporate Actions in respect of option contracts and futures contracts. **Circular 15/232** ICE Futures Europe has proposed amendments to Rule Section TTT Part II D: Natural Gas Liquids and Section TTT Part II G: Petrochemicals (#5 Benzene, PCW US Contract Price Futures). The proposed amendments will go into effect on December 1, 2015. The proposed amendments are set forth in the attachments to the Circular. **Circular 15/233** ICE Futures Europe has proposed amendments to Rule Sections JJJJJ, NNNNN, LLLLL, PPPPP, TTTTT, and VVVVV. The proposed amendments will go into effect on December 1, 2015. The proposed amendments are set forth in the attachment to the Circular. **Circular 15/237** This notice notifies Members of the Exchange and their customers of the new REMIT reporting obligations, including the obligation to report records of wholesale energy market transactions. The Exchange is aware that Annex III Version 2 to the ACER Transaction Reporting User Manual has been published and has revised the REMIT Reporting Programme accordingly. The notice contains an updated REMIT Transaction Reporting FAQ and ICE Futures Europe REMIT Reporting Opt-Out Form. **Circular 15/242** ICE Futures Europe will amend Rules Section NNN on January 2016, in accordance with the consultation initiated by Circular 15/201. New Rule Section NNN will implement a Minimum Price Movement for the first quarter delivery month of .005 for any spread, butterfly or condor strategy which includes the first quarterly delivery month as one of its legs. **ICE Futures Canada Rule Changes & Other Advisory Notices Notice- 11/5/15** ICE Futures Canada is amending its rule 8C.03.b, regarding EFPs. Specifically, the rule will now provide that tthat the same parties may submit a correcting EFP in situations where the underlying cash contracts in EFP transactions include an acceptable tolerance and, due to

situations contemplated by the contract, there is an undershipment of the commodity. **Notice 11/17/15** This notice contained a new guidance document re "Hidden Quantity ("iceberg") orders and Crossed Trades." The notice summarizes Rule 8A.08 and clarifies the timing requirements that pertain to the usage of reserve/hidden quantity ("iceberg") order functionality for crossed trades. **Disciplinary Actions ICE FUTURES ICE 2015-011** *Position Limits* Violation of Rule 6.20(c) " " Position Limits, Conditional Limits and Position Accountability for Energy Contracts. Allegedly, an entity inadvertently established a position in the spot month CME/NYMEX Natural Gas Futures contract, while simultaneously holding a position in excess of the spot month speculative position limit in the Henry LD1 Fixed Price Future contract during the February 2015 contract expiration. \$7,500 fine. **ICE 2014-088** *Misc.* Violation of Rule 4.02(c) " " Trade Practice Violations. An employee of an entity allegedly confirmed that offsetting orders generated by the firm's automated order management system were for different beneficial owners when, in fact, the offsetting orders were for the same funds. Therefore, the offsetting orders were crossed against each other by the executing broker, resulting in a wash sale. \$15,000 fine. **ICE 2014-126** *Block Trades* Violation of Rule 6.08(b)(i) " " Order Ticket Requirements, Rule 6.07(b) " " General Recordkeeping Requirements, Rule 4.07(c) " " Block Trading, and Rule 4.01 " " Duty to Supervise. An entity allegedly violated exchange rules in multiple instances by failing to comply with the recordkeeping requirements associated with handling customer orders; failing to record and maintain all oral communications that led to the execution of a consummated block trade; and failing to adequately supervise its brokers' block trade activity. \$42,500 fine. **ICE 2014-103** *Pre-Arranged Trades* Violation of Rule 4.02(c) " " Trade Practice Violations. Allegedly, between December 2013 and July 2014, traders at an entity executed trades opposite one another. In each instance, the opposing buy and sell orders were entered with the knowledge and intent that the orders would match opposite one another and were done for the purpose of transferring positions between accounts at the entity. \$70,000 fine. **ICE 2013-042** *Pre-Arranged Trades* Violation of Rule 4.02(c) " " Trade Practice Violations. An individual allegedly conducted a wash sale to correct an erroneous allocation and move a position belonging to his employer at the time from one proprietary account to another proprietary account. \$5,000 fine. **ICE 2013-042** *Block Trades* Violation of Rule 4.02(c) " " Trade Practice Violations and Rule 4.07(a)(iii) " " Block Trading. Allegedly, an individual conducted two wash sales (buys and sells) to correct erroneous allocations and move a position from one proprietary account to another proprietary account belonging to his employer at the time. In addition, the individual conducted a block trade using a price from earlier in the trading day that was no longer fair or reasonable based upon the prices of other trades in the contract at the time the block was executed. \$12,500 fine. **CME GROUP CME 13-9664-BC-2** *Pre-Arranged Trades* Violation of Rule 539 " " Prearranged- Pre-Negotiated and Noncompetitive Trades Prohibited (in part). A non-member individual allegedly directed the execution of customer orders that were not openly bid to the pit. \$12,500 fine, 5 business day suspension. **NYMEX**

**NYMEX 15-0130-BC-2 EFRP** Violation of Rule 538 "" Exchange for Related Positions. On October 23, 2014, a non-member entity allegedly entered into a non-bona fide EFRP because it did not involve the transfer of ownership of the cash commodity underlying the Exchange contract or a by-product, related product, or OTC instrument, between the entity and its counter-party. \$15,000 fine. **NYMEX 14-9922-BC-1 Lack of Documentation** Violation of Rule 432 "" General Offenses and (Legacy) Rule 538.H "" Documentation. On six dates between January 21, 2014 and June 5, 2014, a non-member entity allegedly brokered and arranged several transactions for the purpose of transferring \$65,000 from one firm to another in order to correct an operational error made in a prior transaction. In respect to two of these transactions, executed as EFRPs, the entity did not generate accurate broker confirmations in accordance with relevant market practices. \$30,000 fine. **NYMEX 14-9922-BC-2 Pre-Arranged Trades** Violation of Rule 432 "" General Offenses. On six dates between January 21, 2014 and June 5, 2014, a non-member individual allegedly brokered and arranged several transactions for the purpose of transferring \$65,000 from one firm to another in order to correct an operational error made in a prior transaction. \$15,000, 10 day suspension. **NYMEX 14-9922-BC-3 Misc.** Violation of Rule 432 "" General Offenses. On various dates between January 21, 2014 and June 5, 2014, a non-member entity allegedly executed six privately negotiated trades at fair and reasonable prices with a counterparty, for the purpose of ameliorating the impact of a prior error by the counterparty valued at \$65,000. \$20,000 fine. **NYMEX 13-9565-BC Block Trades** Violation of Rule 526 "" Block Trades. During the time period of January 2013 through March 2013, a non-member individual allegedly executed multiple block trades for customers on behalf of Fort Pitt. These block trades were not reported to the Exchange within the applicable time limit following execution. 3 month suspension. **NYMEX 14-9792-BC Block Trades** Violation of Rule 526 "" Block Trades. During the time period from March 2014 through August 2015, a non-member entity allegedly executed numerous block trades for customers in various exchange contracts that were not reported within the required time limit following execution, and that the entity failed to initially report accurate trade details for certain block trades to the Exchange. \$50,000 fine. **COMEX COMEX 14-0042-BC Position Limits** Violation of Rule 562 "" Position Limit Violations. A non-member individual allegedly exceeded the standard expiration month limit in December 2014 Copper Futures contracts by 874 contracts (218.50%) on November 26 and November 28. The individual liquidated his overage, resulting in profits of \$2,938,545. \$65,000 fine and disgorgement of profits in the amount of \$2,938,545. **CBOT CBOT 12-8862-BC Spoofing** Violation of Rule 432 "" General Offenses (in part). Between January 1, 2012 and April 30, 2012, a member individual allegedly engaged in a pattern of activity wherein he entered orders for Soybean futures contracts without the intent to trade. \$40,000 fine, 20 day suspension. **CBOT 11-8570-BC Disruptive Trading** Violation of Rule 432 "" General Offenses (in part). On one or more occasions between July 2011 and September 2011, a member individual allegedly entered orders in various Agriculture contracts on the Globex electronic trading platform during the pre-

opening period that were not made in good faith for the purpose of executing bona fide transactions. The entry and cancellation of these orders caused fluctuations in the publicly displayed indicative Opening Price. \$20,000 fine, 15 day suspension. **CBOT 13-9517-BC** *Position Limits Violation of Rule 562 "" Position Limit Violations (in part) and Rule 538.H ""*

Documentation. A non-member entity allegedly exceeded the spot month speculative position limit in July 2013 Soybean futures by 275 contracts (45.8%) on June 27, 2013, and by 480 contracts (80%) as an intraday high on June 28, 2013. On June 28, 2013, the entity sold 1,164 contracts via three EFP transactions to bring its position back into compliance with Exchange Rules. In addition, the entity allegedly failed to ensure that proper documentation existed for two of the EFPs, and thus the two EFP transactions were not bona fide. \$40,000 fine. **CBOT 14-9830-BC** *EFRP Violation of (Legacy) Rule 538.A "" Nature of an EFRP. Between September 2012 and September 2013, a non-member entity allegedly entered into eight EFP transactions in the Corn, Soybean, and Wheat futures markets that consisted of the simultaneous exchange of futures positions without the exchange of related cash positions, thereby executing non-bona fide EFPs. \$30,000 fine.* **NEW PRODUCT LISTINGS** ICE Futures Europe is introducing 17 new Oil Futures contracts, 4 Oil Options contracts, 2 Coal Options and 6 Natural Gas Liquids Futures contracts beginning December 14, 2015. ICE Futures Europe is introducing three MSCI Currency Hedged Indices and four MSCI Regional and Country Specific Indices beginning December 14, 2015. ICE Futures Europe is introducing 30 year Eris Interest Rate Futures Contracts beginning November 16, 2015. ICE Futures U.S. is introducing a number of new financial power (30+) and physical environmental futures and options (15+) contracts beginning December 14, 2015. CME Group is introducing a new S&P MLP Total Return Index Futures contract beginning November 16, 2015. CME Group is introducing a new S&P 500 Annual Dividend Index Futures and S&P 500 Quarterly Dividend Index Futures contract beginning November 16, 2015. CME Group is introducing four new European Petroleum Crack Spread Futures contracts beginning November 16, 2015. \*\*If you have any questions about the information contained in this month's report, please contact: **David Perlman, Michael Brooks, Bob Pease, or Jennifer Lias.**