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INSIGHTS

Monthly Futures Exchange Issuance Report: October 2015

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October's Highlight October saw the first criminal conviction pursuant to Section 4c(a) for spoofing. A jury concluded that for approximately three months, an individual used a computer algorithm to place orders he did not intend to execute for the purpose of giving the impression that there was significant interest in orders he placed on the other side of the market. The individual and his trading company had already settled allegations of spoofing with multiple CME Group exchanges (CBOT, CEI, CME, and NYMEX) as well as the CFTC in 2013. The CFTC settlement required both to pay a $1.4 million civil penalty and disgorge $1.4 million in trading profits, and included a ban from trading on any CFTC-registered entity for one year. Further, the indivdiual also was ordered to pay the CME exchanges a combined $200,000 fine and $1.3 million in disgorgement, in addition to exchange-specific trading bans. **CME Group Rule Changes and Other Advisory Notices SPECIAL EXECUTIVE REPORT- S-7488** CME Group reminds all participants that the Brokerage Reassignment process must be followed for all IMM and IOM members who execute an options/futures spread trade via open outcry in an options pit where the futures leg of the spread is a product outside of the IMM or IOM member's division. The Report summarizes the executing broker's responsibilities and the firm's keypunching responsibilities. Failure to abide by these requirements can result in a disciplinary action. **MARKET REGULATION ADVISORY NOTICE- RA1516-5** This notice announces modifications to the answers to Questions 20 and 21 in the FAQ of the prior Advisory Notice RA1405-5R from September 15, 2014 on disruptive trade practices. Specifically, the modifications expand the answer to Question 20 to identify that the entry of TAS and TAM orders or partial orders into CME Globex prior to the receipt of the security status message indicating that the market has transitioned to the pre-open is prohibited and may constitute a violation of Rule 575. The answer to Question 21 is modified to add that CME Group offers test products in the pre-open production environment and to clarify that the rule does not prohibit entering orders for the purpose of verifying the flow of the transaction. **MARKET REGULATION ADVISORY NOTICE- RA1515-5** This notice supersedes RA1514-5 and clarifies certain issues related to block trades. Specifically, it clarifies that parties must expeditiously agree to the individual leg prices on certain spread and combination trades for the purpose of reporting the trade to the Exchange when they agree to engage in a block trade. Also, when parties utilize single-side trade entry in CME ClearPort, both parties must remember to accurately report within the required time period. **SPECIAL EXECUTIVE REPORT- SER-7472R** This notice supersedes SER-7472 from

September 28, 2015. CME Group is extending the deadline by which NYMEX EUA Futures position holders must provide a firm commitment to "opt-in" to the migration of their EUA Futures Positions to October 16, 2015. **SPECIAL EXECUTIVE REPORT- SER-7489** Effective November 10, 2015, the Firm Regulatory Portal will provide CME, CBOT, NYMEX, and COMEX Clearing Member Firms with the ability to monitor self-match activity of participants that clear through their firms. **SPECIAL EXECUTIVE REPORT- SER-7498R** This notice advises the marketplace that the Exchange is effectuating the close out of opted-in NYMEX In Delivery Month European Union Allowance futures positions and reestablishing positions on CME Europe Limited on November 27, 2015. **ICE Futures U.S. Rule Changes & Other Advisory Notices 10-29-2015** ICE Futures U.S. is amending its Messaging Policy on November 2, 2015 to increase daily messaging threshold levels applicable to messages entered in the U.S. Dollar Index Futures contract to 150,000 messages per trading session. **ICE Futures Europe Rule Changes & Other Advisory Notices CIRCULAR 15/210** Ice Futures Europe has amended Section B.1.4 and B.3.2 of its Regulations, in accordance with its powers under Rule A.5.6, effective October 7, 2015. The new text of Section B.1.4 and B.3.2 can be found in the attachment to Circular 15/210. **CIRCULAR 15/214** ICE Futures Europe is amending Rule #95-Heating Oil Diff-EU-Style Heating Oil vs. Low Sulphur Gasoil Future. The amendments are effective October 28, 2015. Details of the amendments can be found in the attachment to Circular 15/214. **CIRCULAR 15/218** This notice advises on the reporting deadline applicable to block trades on the ICE Futures Europe Exchange. Also, effective November 6, 2015, non-publication of standard Equity derivative contracts will no longer be available on ICE Block and will be replaced with delayed publication. No-publication will continue to be permitted for Equity derivative contract which are Block Only. **CIRCULAR 15/219** ICE Futures Europe has changed the No Cancellation Range for ICE UK Natural Gas Futures contracts from .85 pence/therm to .65 pence/therm. **CIRCULAR 15/221** After the expiry of the December 2015 contract month, ICE Futures Europe will cease to admit to trading ICE Futures UK Base Electricity Futures Contracts and UK Peak Electricity Contracts. **CIRCULAR 15/223** ICE Futures Europe is changing Rule #144, Section TTT Part II C:Differentials-Crude Oil and Refined Products and Rule #18, Section TTT Part II F, effective November 13, 2015. The details of the amendment can be found in the attachment to Circular 15/223. **ICE Futures Canada Rule Changes & Other Advisory Notices** None **Disciplinary Actions ICE FUTURES ICE 2014-082** *Misc.* Violation of Rule 18.05(a)-Open Interest in Energy Contracts, Rule 4.01-Duty to Supervise, and Rule 4.04-Conduct Detrimental to the Exchange. An entity allegedly violated the rules on numerous instances by failing to report open interest for various futures contracts. $100,000 fine. **ICE 2014-156** *Misc.* Violation of Rule 18.05(d)-Open Interest in Energy Contracts. Allegedly, an entity reported inaccurate open interest data on the last trading day and expiration date for each contract. $20,000 fine. **ICE 2013-042** *Misc.*, *Block Trades* Violation of Rule 4.02(c)-Trade practice Violations and Rule 4.07(a)(iii)-Block Trading. An employee of an entity allegedly transacted an accommodation trade that enabled the counterparty to the transaction to correct an erroneous allocation and move a position from one proprietary account belonging to the counterparty to another proprietary account belonging to the counterparty. The employee also paired block trades at prices that were not fair and reasonable. $12,500 fine and cease and desist. **ICE 2013-042** *Misc.*, *Block Trades* Violation of Rule 4.02(c)-Trade Practice Violations and Rule 4.07(a)(iii)-Block

Trading. Allegedly, an employee of an entity brokered accommodation trades that enabled the counterparty to the transaction to correct an erroneous allocation and move a position from one proprietary account belonging to the counterparty to another proprietary account belonging to the counterparty. The employee also paired block trades at prices that were not fair and reasonable. $20,000 penalty and cease and desist. **ICE 2013-042** *Misc.* Violation of Rule 4.02(c)-Trade Practice Violations. An employee of an entity allegedly transacted an accommodation trade that enabled the counterparty to the transaction to correct an erroneous allocation and move a position from one proprietary account belonging to the counterparty to another proprietary account belonging to the counterparty. $7,500 fine and cease and desist. **ICE 2013-130** *Position Limits* Violation of Rule 6.13(a)-Enforcement of Position Limits and Position Accountability Levels. Allegedly, an entity exceeded the position limit in May 2013 Coffee "C"? Futures contracts. $50,000 fine, disgorgement of profits, additional monetary penalty, and cease and desist. **CME GROUP CME 12-9023-BC** *Pre-Arranged Trades* Violation of (Legacy) Rule 534-Wash Trades Prohibited and Market Regulation Advisory Notice RA0913-5 FAQ. A member entity allegedly employed an automated trading system that executed numerous transactions wherein entity accounts self-matched. Also, the entity generated cancellation requests on passive orders in an attempt to avoid self-matches and at times sent a new order on the other side of the market while waiting for the requisite order acknowledgment on the passive order, allowing a self-match. The entity failed to employ functionality adequately designed to minimize self-matches. $75,000 fine. **CME 12-8864-BC** *Misc.* Violation of Rule 432-General Offenses. A non-member firm allegedly had an automated trading system that entered orders in certain contracts when the firm was the only participant on one side of the book, which caused incrementally widening spreads between the bid and offer prices and led to aberrant prices being disseminated to the market. The firm failed to have sufficient internal controls to monitor the system and to remedy the price widening instances. $75,000 fine. **CME 13-9525-BC-1** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. Allegedly, a non-member individual executed numerous transactions in January 2012 and February 2012 for two accounts over which he maintained control where there was common beneficial ownership on both sides of the transactions. The individual intended for the trades to trade opposite each other for the purpose of liquidating positions, transferring positions from one account to another, and avoiding maintenance margin requirements. $10,000 fine and 15 business day suspension. **CME 13-9525-BC-2** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. Allegedly, a non-member individual executed numerous transactions in January 2012 and August 2012 for two accounts over which he maintained control where there was common beneficial ownership on both sides of the transactions. The individual intended for the trades to trade opposite each other for the purpose of liquidating positions, transferring positions from one account to another, and avoiding maintenance margin requirements. Taking into account the individual's financial condition, 30 day suspension. **CME 14-9746-BC** *Misc.* Violation of Rule 432-General Offenses. A member individual allegedly executed numerous round turn transactions for the purpose of transferring funds between two accounts. $15,000 fine and 15 business day suspension. **CME 14-9743-BC** *Misc.* Violation of Rule 432-General Offenses. Allegedly, a non-member individual entered buy orders on 12 occasions from January 27, 2013 through February 24, 2014 in certain

contracts during the pre-opening session at prices higher than the prevailing bid, which were not made in good faith with the purpose of executing bona fide transactions. The entry and cancellation of the orders caused fluctuations in the displayed Indicative Opening Price. $20,000 fine and 15 business day suspension. **NYMEX NYMEX 13-9416-BC-1** *Pre-Arranged Trades* Violation of Rule 432-General Offenses and Rule 576- Identification of Globex Terminal Operators. Allegedly, a non-member individual executed multiple pre-arranged, round turn transactions, which resulted in the transfer of $23,900 between two accounts. The individual also permitted another individual to enter orders using his own Tag50. $20,000 fine, 10 business day suspension. **NYMEX 13-9416-BC-2** *Pre-Arranged Trades* Violation of Rules 432-General Offenses and 576- Identification of Globex Terminal Operators. Allegedly, a non-member individual executed multiple pre-arranged, round turn transactions, which resulted in the transfer of $11,800 between two accounts. The individual also permitted another individual to enter orders using his own Tag50. Finally, the individual also failed to appear before the Exchange staff for a scheduled interview. $10,000 fine, 6 month suspension. **NYMEX 14-9783-BC-2** *Spoofing* Violation of Rule 432-General Offenses. A non-member individual engaged in multiple trades from January 2013 through February 2014, in which he entered large orders in Palladium futures contracts with no intent to trade. The individual entered large orders to encourage market participants to trade opposite his smaller orders resting on the opposite side of the book, and then once the smaller orders were filled, he would cancel the resting large orders. $50,000 fine, 10 business day suspension. **NYMEX 14-9853-BC-2** *Pre-Arranged Trades* Violation of Rule 432-General Offenses and Rule 534-Wash Trades Prohibited. Two traders entered a series of wash trades in Crude Oil Calendar spreads between accounts with the same beneficial owner for a non-member entity. The entity failed to diligently supervise its traders. $40,000 fine. **NYMEX 15-0145-BC** *Position Limits* Violation of Rule 562-Position Limit Violations. A non-member entity allegedly exceeded the standard expiration month limit in May 2015 Brent Crude Oil Last Day Financial Futures contracts by 1,553 contracts (38.83%) from April 13-15. The entity liquidated its overage position, resulting in profits of $195,384.40. $25,000 fine, disgorgement of profits. **NYMEX 15-0122-BC** *Misc.* Violation of Rule 524.A- Trading at Settlement (TAS) Transactions. A member individual allegedly entered three TAS orders prior to the security status message stating that the product group had entered a pre-open state. $15,000 fine. **NYMEX 15-0130-BC-1** *EFRP* Violation of Rule 538-Exchange for Related Position. Allegedly, a member entity entered into an EFRP which did not involve the transfer of ownership of the cash commodity underlying the exchange contract or a by-product, related product, or OTC instrument. Therefore, the exchange was not a bona fide EFRP. $15,000 fine. **NYMEX 15-0173-BC** *Position Limits* Violation of Rule 562-Position Limit Violations. A member entity allegedly maintained a position that was 298 contracts over the standard position limit on trade dates May 27, 28, and 29, 2015. The entity realized a gain of $1,264.70 when it reduced its excess position. $25,000 fine and disgorgement of profits. **NYMEX 13-9577-BC** *Misc.* Violation of Rule 432-General Offenses. Allegedly, a non-member individual bought and sold, on 48 occasions from May 2013 through June 2013, one or two round-turn trades opposite an account owned by his employer, resulting in the transfer of $24,580 from his employer's account to his personal account. The individual then made several material misstatements during the course of interviews with Market Regulation. $100,000 fine,

restitution of $24,580, and permanent ban. **NYMEX 13-9391-BC** *Spoofing* Violation of Rule 432-General Offenses. On multiple trade dates from February 2013 through April 2013, a non-member individual repeatedly entered large orders with no intent to trade. After receiving a fill on his smaller resting orders on the opposite side of the book, the individual would cancel the large orders. $50,000 fine and permanent ban. **COMEX COMEX 14-9730-BC** *Pre-Arranged Trades* Violation of Rule 432-General Offenses. A member individual allegedly pre-arranged and executed two round-turn transactions, totaling 770 contracts, which resulted in the transfer of $119,625 between two accounts owned by the individual, but not involving customer accounts. $35,000 fine, 5 business day suspension. **COMEX 13-9391-BC** *Same individual and conduct as NYMEX 13-9391-BC, above.* $100,000 and permanent ban. **COMEX 12-9204-BC-3** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. A non-member individual allegedly entered a series of wash trades with another trader at the same firm, between accounts with the same beneficial owner, between November and December 2012. $50,000 fine and permanent ban. **CBOT CBOT 10-4973-BC-2** *Pre-Arranged Trades* Violation of Rule 521-Requirements for Open Outcry Trades and Rule 539.A-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. A member individual allegedly engaged in trades as a broker in the pit on one or more occasions in November 2010, June 2011, and September 2011 that were not competitively executed by open outcry. $7,500 fine and 10 business day suspension. **NEW PRODUCT LISTINGS ICE Futures Europe** ICE Futures Europe is introducing additional cleared Ice Futures Europe Eris Interest Rate Futures contracts, effective November 16, 2015. ICE Futures Europe is introducing an expanded set of Eris Interest Rate Futures Contracts, effective 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.*