

## Monthly Futures Exchange Issuance Report: August 2015

September 11, 2015

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### August's Highlight

This past month, the NYMEX Business Conduct Committee ("Panel"<sup>2</sup>) entered into a settlement with an entity to resolve alleged violations of Exchange Rule 526- Block Trades and two Market Regulation Advisory Notices, RA1326-4 and RA-1327-4, related to pre-hedging of block trades. The settlement resulted in a fine of \$50,000 and disgorgement of \$51,315.60 in profits, as well as a \$15,000 fine and 5-day suspension against the individual trader involved. Specifically, the Panel found that on four different trade dates the trader pre-hedged block trades by "trading on Globex prior to consummating the block trade with the counterparty."<sup>2</sup> The hedge was placed after soliciting but before consummating the block trade and locked in a profit. The trader also failed to timely report two of the block trades. Exchange Rule 526- Block Trades, provides in part:

*The Exchange shall designate the products in which block trades shall be permitted and determine the minimum quantity thresholds for such transactions. The following shall govern block trades:*

*F. The seller must ensure that each block trade is reported to the Exchange within five minutes of the time of execution. The report must include the contract, contract month, price, quantity of the transaction, the respective clearing members, the time of execution, and, for options, strike price, put or call and expiration month. The Exchange shall promptly publish such information separately from the reports of transactions in the regular market.*

RA1326-4 and RA1327-4, provide in part:

*Parties involved in the solicitation or negotiation of a block trade may not disclose the details of those communications to any other party for any purpose other than to facilitate the execution of the block trade. Parties privy to nonpublic information regarding a consummated block trade may not disclose such information to any other party prior to the public report of the block trade by the Exchange. A broker negotiating a block trade on behalf of a customer may disclose the identity of the customer to potential counterparties, including the counterparty with which the block trade is consummated, only with the permission of the customer.*

*Pre-hedging or anticipatory hedging of any portion of a block trade in the same product or a closely-related product based upon a solicitation to participate in a block trade is not permitted. A closely related product is a product that is highly correlated to, serves as a substitute for, or is the functional economic equivalent of the product being traded as a block.*

*Counterparties to a block trade are permitted to initiate trades to hedge or offset the risk associated with the block trade following the consummation of the block trade, including during the period preceding the public report of the block trade by the Exchange.*

This settlement serves as a reminder that pre-hedging block trades is prohibited. It also should remind market participants of the importance of the advisory notices provided by the exchanges. The above-referenced notice is available here: [CME Group Settlement Related to Pre-Hedging of Block Trades](#).

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

**MARKET SURVEILLANCE UPDATE- MSN08-12-15** CBOT Treasury futures contracts position limits applicable during the last 10 trading days of an expiring contract can be found in the CBOT Treasury futures product chapters. The expiring limits for September 2015 contracts can be found in MSN08-12-15. No exemptions from these limits are permitted. **MARKET SURVEILLANCE UPDATE- MSN08-26-15** Pending all relevant CFTC regulatory review, NYMEX will amend Chapter 7 Rule 703.B- Delivery Facilities and Procedures with respect to the load out of copper. The amendments will give preference to the load out of copper represented by cancelled COMEX warrants as opposed to the current rule which allows for comingling of such loads out with the load out of other metal at the warehouse. **SPECIAL EXECUTIVE REPORT-SER-7443** CME Group is implementing CME Rule 552 ("Dual Trading Restrictions"<sup>2</sup>). Dual trading restrictions have been removed from the 2<sup>nd</sup> contract month position quarterly cycle 3-Year Eurodollar MidCurve options and from the 2<sup>nd</sup> contract month position serial 3-Year Eurodollar MidCurve options. Dual Trading Restrictions are applicable to Eurodollar Options, Eurodollar Midcurve Options, and S&P 500 Index Options.

### **ICE Futures U.S. Rule Changes & Other Advisory Notices**

**ICE FUTURES U.S. EXCHANGE NOTICE** ICE Futures Europe is changing the trading hours for all ICE Futures U.S. Natural Gas, Power and Environmental futures and options by moving the daily close time to 6:00pm NY time. Daily open and daily settlement window times are not changed. **SEF NOTICE- August 11, 2015** This notice was issued to provide additional guidance on ICE Swap Trade Rule 701 "Block Trades"<sup>2</sup> and Rule 514.A- Package Transactions, the complete text of which can be found in the SEF Rulebook. Specifically, ICE reminds that all Block Trades and Package Transactions reported to the SEF using a third-party affirmation platform are subject to Rule 301 "Applicability of Rules, Jurisdiction."<sup>2</sup> Also, ICE notes that transactions that are flagged "isLarge Notional"<sup>2</sup> in the ICE Link off-facility trade workflow will be submitted to the SEF for execution and thus transactions that are not intended to be submitted to the SEF should not be given this flag. **SEF NOTICE- August 14, 2015** ICE Swap Trade introduced a new Rulebook and Error Trade Policy. The CFTC filing regarding these amendments can be found here: [https://www.theice.com/publicdocs/regulatory\\_filings/ICE\\_Swap\\_Trade\\_Submission\\_15-13.pdf](https://www.theice.com/publicdocs/regulatory_filings/ICE_Swap_Trade_Submission_15-13.pdf). **SEF NOTICE- August 14, 2015** ICE Swap Trade is revising the trading hours for all Credit Contracts by moving the daily close time to 5:30pm ET.

## ICE Futures Europe Rule Changes & Other Advisory Notices

**ICE FUTURES EUROPE CIRCULAR 15/164** ICE Futures Europe is changing the trading hours for German, Italian, Spanish and Swiss Bond futures Contracts on September 1, 2015. These changes will only impact the Pre-Open (now 00:45) and Open (now 01:00) times. Closing times will remain unaltered. **ICE FUTURES EUROPE CIRCULAR 15/166** ICE Futures Europe is revising the delta hedge element of the ICE Coal Options and Futures Liquidity Provider Programme to 35%. **ICE FUTURES EUROPE CIRCULAR 15/167** ICE Futures Europe is changing the closing time for ICE transitioned futures and options contracts to 23:00 London Time. No other trading times, such as pre-open, open, or settlement have been changed. **ICE FUTURES EUROPE CIRCULAR 15/168** ICE Futures Europe is amending Contract Rules Section QQQQQ of the ICE Futures Europe Regulations to reflect the addition of new Dividend Adjusted Single Stock Futures ("DASFs"). The amendments will be effective on September 28, 2015. **ICE FUTURES EUROPE CIRCULAR 15/169** ICE Futures Europe is changing the opening time for FTSE 100 futures to 1:00 London time. **ICE FUTURES EUROPE CIRCULAR 15/170** ICE Futures Europe is amending its regulations related to the definition of delivery day for UK Natural Gas. The new definition for Delivery Day will be 05:00-05:00. These amendments will go into effect on October 1, 2015. **ICE FUTURES EUROPE CIRCULAR 15/171** ICE Futures Europe is delaying the introduction of a volume indicator as a supplement to the Indicative Opening Price during the pre-open for each market. Now, on September 4, 2015 ICE Futures Europe will roll out the ICE Futures Europe Equity and Soft Commodity Contracts and then on September 11, 2015, the remaining ICE Futures Europe Contracts including Fixed Income, Oil, and Utility and Emissions Contracts will be rolled out. **ICE FUTURES EUROPE CIRCULAR 15/173** This circular updates the REMIT Transaction Reporting FAQ that was published originally as Circular 15/153 from July 9, 2015. This updated FAQ provides additional detail on the REMIT Transaction Reporting Facility and data to be reported; information on file submission and file availability; and information for firms that wish to opt-out of the REMIT Transaction Reporting Facility; UTI generation; and data reporting agreements. **ICE FUTURES EUROPE CIRCULAR 15/175** ICE Futures Europe is proposing changes to Section TTT Part II A: Outrights- Crude Oil and Refined Products contract # 4, #6, and #7, to increase the Contract Series for each contract and to standardize wording and correct typos. **ICE FUTURES EUROPE CIRCULAR 15/176** ICE Futures Europe is introducing a EUA Daily Futures Spread Programme effective September 1, 2015 that will run until March 31, 2016. **ICE FUTURES EUROPE CIRCULAR 15/177** ICE Futures Europe US Treasury DTCC GCF Repo Index Future Liquidity Provider Program will be introduced September 1, 2015 and will run through August 31, 2016. **ICE FUTURES EUROPE CIRCULAR 15/178** ICE Futures Europe will introduce a new Active Emissions Members Six Month Screen Futures Programme on September 1 that will run through December 31, 2015. **ICE FUTURES EUROPE CIRCULAR 15/179** This notice announces the launch of the REMIT Integration space on ICE Community that will serve as a central repository for launch information and technical documentation. This space can be accessed at: <https://community.theice.com/community/remi>.

## ICE Futures Canada Rule Changes & Other Advisory Notices

### ICE FUTURES CANADA- GUIDANCE ON EFP, EFS, AND EOO

This notice provides guidance on EFP, WFS, and EOO transactions on the Exchange.

## Disciplinary Actions

**ICE FUTURES 2014-105** *Reporting Violation* Violation of Rule 18.05(d)- Open Interest in Energy Contracts. Allegedly, an entity reported open interest data on a gross basis in the Henry Penultimate Fixed Price Futures Contract on the Last Trading Day for the contract in multiple instances resulting in the overstatement of open interest. \$10,000 fine. **2012-00155** *Position Limits* Violation of Rule 6.20(b)- Position Limits, Conditional Limits and Position Accountability for Energy Contracts. In three instances, an entity allegedly held a position in excess of the applicable spot month positions limit and failed to supervise the related activity of an employee. \$247,617.50 fine and disgorgement of \$167,617.50 and cease and desist. **2014-025** *Misc.* Violation of Rule 4.02(k)(2)(c)-Trade Practice Violations, Rule 4.04- Conduct Detrimental to the Exchange and Rule 6.08(b)(i)- Order Ticket Requirements. Allegedly, an entity and its broker communicated with an unaffiliated trader regarding the terms of a customer order and the trader was given the option to take a position that might have been offset against either the customer order or, alternatively, in the central limit order book. \$200,000 fine to the entity and the broker agreed to a 3 month suspension. Both the entity and its broker agreed to a cease and desist. **2014-0130** *Block Trading* Violation of Rule 4.07(c)-Block Trading. An entity allegedly misreported the execution times of several block trades and reported a block trade outside of the applicable 15 minute reporting window for Natural Gas contracts. \$22,500 fine and cease and desist. **2013-135** *Lack of Documentation* Violation of Rule 4.06(b)(iv)-(v)- Exchange for Related Position . Allegedly, two affiliated entities on multiple instances entered into non-bona fide EFP transactions opposite each other and failed to maintain documentation to substantiate the physical component of an EFP transaction. \$62,500 fine and cease and desist. **CME GROUP CME-14-9954-BC** *Position Limits* Violation of Rule 562- Position Limit Violations. Allegedly, on August 22, 2014, an individual held an end of day futures equivalent long position, which exceeded the spot month speculative position limit by 61.878 contracts. The next day, the individual increased his position without realizing he was over, giving him an intraday high of 87.878 contracts over the position limit. After realizing he was over the limit, the individual liquidated his overage to bring his positions into compliance, resulting in profits of \$39,897. \$25,000 fine and disgorgement of \$39,897. **CME-14-9847-BC** *Misc.* Violation of Rule 432- General Offenses. Allegedly, on March 21, 2014, an entity operated an automated trading system that, due to a sequence number log naming error by the entity, sent over 27,000 resend requests to the Exchange. Despite efforts to contact the entity, the ATS continued to submit resend requests until the Exchange initiated a closure of all of the entity's ports. The entity's monitoring and internal notification processes were not sufficient to recognize or stop the ATS from the improper requests. \$125,000 fine. **CME-12-9127-BC** *Misc.* Violation of Rule 534- Wash Trades Prohibited and Market Regulation Advisory Notice RA0913-5 FAQ and Rule 576- Identification of Globex Terminal Operators. On numerous occasions in 2013, an entity allegedly utilized an ATS that executed multiple transactions in several FX products wherein orders for the entity's accounts self-matched. The entity failed to employ effective functionality designed to minimize self-matches. Further, the entity erroneously assigned a

single Tag50 user id to multiple algorithms it employed in various FX products. \$50,000 fine.

**CME-13-9387-BC** *Spoofing* Violation of Rule 432- General Offenses. Allegedly, from April to June 2013, an individual engaged in a pattern of activity in certain contracts wherein he entered a larger-sized order and multiple smaller-sized sell (buy) orders at various book levels at or near the best offer (bid) on Globex. This order entry had the purpose of prompting market participants to enter and improve the best offer. The individual would then enter aggressive smaller-sized buy (sell) orders that traded immediately. Then, the individual would enter a series of smaller-sized buy (sell) orders at or near the best bid (offer). Once these began trading, the individual canceled all of the contracts resting on the offer (bid). \$75,000 fine and two week suspension. (\$25,000 allocated to CME, and \$50,000 and suspension allocated to NYMEX).

**NYMEX 13-9656-BC-2** *Lack of Documentation* Violation of Rule 538.H- Documentation (Legacy). Allegedly, on July 1, 2013, an entity entered into two EFRPs which did not contain documentation of the related OTC transaction and therefore were not bona fide. \$10,000 fine.

**NYMEX 14-0010-BC** *EFRP* Violation of Rule 538- Exchange for Related Positions. An entity allegedly entered into an EFRP on August 26, 2014 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, between the entity and its counterparty. \$15,000 fine.

**NYMEX 14-9802-BC-3** *Lack of Documentation* Violation of Rule 538- Exchange for Related Positions. Allegedly, an entity entered an EFRP transaction on September 27, 2013 which did not contain documentation of the related cash transaction and, therefore, was not a bona fide EFRP. \$15,000 fine.

**NYMEX 14-9783-BC-1** *Spoofing* Violation of Rule 432.W- General Offenses. Allegedly, from January 2013 through February of 2014, a trader entered multiple orders in certain contracts without the intent to trade, but rather to encourage others to trade opposite the orders. After receiving a fill on the smaller orders, the large orders resting on the opposite side of the book sometimes were cancelled by the trader. The employer of the trader allegedly failed to supervise this trader. \$50,000 fine.

**NYMEX 14-9945-BC-1** *Block Trades* Violation of Rule 526- Block Trades and NYMEX/COMEX Market Regulation Advisory Notices RA 1326-4 and RA1327-4. Allegedly, an entity entered into pre-hedged block trades on four dates in January of 2014 by trading on Globex prior to consummating the block trade with the counterparty. By entering into the hedge transaction and establishing the price of the hedge transaction prior to consummating the block trade, the entity was able to guarantee itself a profit upon subsequent execution of the block trade and thereby realized a profit of \$51,315.60. The entity also later reported two of these block trades. \$50,000 fine and disgorgement of \$51,315.60.

**NYMEX 14-9945-BC-2** *Block Trades* Violation of Rule 526- Block Trades and NYMEX/COMEX Market Regulation Advisory Notices RA 1326-4 and RA1327-4. This disciplinary action is related to the actions of the trader implicated in NYMEX 14-9945-BC-1, above. \$15,000 fine and 5 business day suspension.

**NYMEX 12-9127-BC** *Pre-Arranged Trades* Violation of Rule 534- Wash Trades Prohibited and Market Regulation Advisory Notice RA0913-5 FAQ. Between March and July of 2012, an entity allegedly utilized an ATS that executed multiple transactions wherein orders for the entity self-matched. The entity failed to employ effective functionality to minimize the self-matches. \$25,000 fine.

**NYMEX 13-9387-BC** *Spoofing* Violation of Rule 432- General offenses. Allegedly, from April to June 2013, an individual engaged in a pattern of activity in certain contracts wherein he entered a larger-sized order and multiple smaller-sized sell (buy) orders at

various book levels at or near the best offer (bid) on Globex. This order entry had the purpose of prompting market participants to enter and improve the best offer. The individual would then enter aggressive smaller-sized buy (sell) orders that traded immediately. Then, the individual would enter a series of smaller-sized buy (sell) orders at or near the best bid (offer). Once these began trading, the individual canceled all of the contracts resting on the offer (bid). \$75,000 fine and two week suspension. (suspension and \$50,000 fine allocated to NYMEX and \$25,000 fine allocated to CME). **COMEX COMEX 13-9651-BC** *Spooling* Violation of Rule 432- General Offenses. On various trade dates from May 2013 through January of 2014, an individual allegedly entered orders in certain contracts without the intent to trade, which he would cancel after a few seconds after resting iceberg orders on the opposite side of the book were executed. \$100,000 fine and 15 business day suspension. **CBOT CBOT-12-9127-BC** *Pre-Arranged Trades* Violation of Rule 534- Wash Trades Prohibited and Market Regulation Advisory Notice RA0913-5 FAQ. Between May and September 2012, an entity utilized an ATS that executed multiple transactions in several agricultural contract markets wherein orders for the entity's accounts self-matched. The entity should have reasonably known that the orders entered by the ATS would self-match and entity failed to employ functionality to minimize this. \$50,000 fine. **CBOT- 12-9163-BC** *Position Limits* Violation of Rule 562- Position Limit Violations. On November 30, 2012, an individual allegedly carried a position of 866 contracts long in December 2012 Corn Futures, which exceeded the spot month speculative position limit of 600 contracts by 266 contracts. The individual liquidated his overage position and realized a profit of \$4,364.45. \$20,000 fine and disgorgement of \$4,364.45. **CBOT- 12-9154-BC** *Pre-Arranged Trades* Violation of Rule 432- General Offenses and Rule 534- Wash Trades Prohibited. On numerous occasions in 2012, a trader employed by the entity at issue allegedly executed wash trades on Globex. The buy and sell orders were entered with the knowledge and intent that the orders would match opposite one another, with the purpose of moving positions between two entity accounts. The entity allegedly failed to supervise its trader. \$60,000 fine.

## **NEW PRODUCT LISTINGS**

**ICE FUTURES U.S.** ICE Futures U.S. is introducing a new World Cotton futures contract on November 2, 2015. ICE Futures U.S. is introducing three new financial natural gas futures and options contracts on September 28, 2015. **ICE FUTURES EUROPE** ICE Futures Europe introduced a MSCI ACWI ex Australia Index Future Contract. The Contract Rules and Contract Specifications are available in the attachments to Circular 15/067 dated March 27, 2015. ICE Futures Europe is introducing additional Dividend Adjusted Single Stock Futures ("DASFs"<sup>2</sup>) on September 28, 2015. ICE Futures Europe notes that currently U.S. persons are not permitted to engage in transactions in DASFs. \*\*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.**