

INSIGHTS

Monthly Futures Exchange Issuance Report: July 2015

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July's Highlight Exchange for related positions ("EFRPs") involve an off-Exchange execution of an Exchange contract and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the corresponding cash or physical position (Exchange for Physical- "EFP"); corresponding related OTC swap or OTC derivative (Exchange for Swap- "EFS"); corresponding futures contract (Exchange for Risk- "EFR"); or the corresponding related OTC option position (Exchange of Options for Options- "EOO"). EFRPs can be great trading tools, offering users the ability to engage in private negotiations as a means of reducing overall risk exposure. However, when engaging in EFRPs it is important to understand and comply with the rules and regulations governing these unique transactions. As we have seen this past month, the Exchanges remain focused on bringing enforcement actions related to EFRP transactions. In July alone, we saw eleven disciplinary actions across the Exchanges related to a failure to prepare or maintain the proper documents to evidence the bona fide transfer of ownership occurring in an EFRP. Further, we also saw two disciplinary actions, brought by NYMEX and CBOT, related to a failure to properly execute a bona fide EFRP. In NYMEX 15-0121-BC, INTL FC Stone was fined \$40,000 for entering into an EFRP transaction that did not involve the transfer of ownership of the cash commodity underlying the Exchange contract or a by-product, related product, or OTC instrument. Without this simultaneous, related transfer, the transaction was not a bona fide EFRP. In CBOT 13-9350-BC, Gavilon LLC was fined \$15,000 for executing a transitory EFRP transaction in an agricultural product, a product in which such transitory EFRPs are prohibited. While there were a high number of disciplinary actions related to EFRPs this month, this is not that unusual, as we see numerous disciplinary actions related to these types of transactions every month. Rule 538 of the CME Rulebook provides the requirements for executing and maintaining the required documentation for a proper EFRP on the CME Group Exchanges. The CME Group FAQ on EFRPs can be found here:

<http://www.cmegroup.com/clearing/trading-practices/efp-efr-eeo-trades.html>. Rule 4.06 of the ICE Futures U.S. Trading Rules provides the requirements for executing and maintaining the required documentation for a proper EFRP on the ICE Futures U.S. Exchange. The ICE Futures U.S. FAQ on EFRPs can be found here:

https://www.theice.com/publicdocs/futures_us/EFRP_FAQ.pdf. **CME Group Rule Changes and Other Advisory Notices CME GROUP MARKET REGULATION ADVISORY NOTICE RA1510-5** This notice adds the minimum quantity threshold requirements for S&P GSCI, S&P

GSCI ER and Bloomberg Roll Select Commodity Index intra-commodity futures spreads and combinations to Sec. 6 of Advisory RA1506-5, which it supersedes. **CME GROUP MARKET REGULATION ADVISORY NOTICE RA1511-5** This notice supersedes RA1503-5 from March 2015. CME Group is announcing an upcoming amendment to Rule 512- Reporting Infractions. The rule change will ensure that the Chief Regulatory Officer or his designee will have the authority to impose summary fines on any party who has consented to the jurisdiction of the Exchange. The fines will range from \$1,000 to \$5,000 per offense for individuals and \$10,000 per offense for firms or facilities. Rule 512 provides a list of the types of reporting infractions that can result in a summary fine under Rule 512. For additional details on Rule 512 and the issuance of summary fines for reporting violations, see RA1511-5. **CME GROUP MARKET REGULATION ADVISORY NOTICE RA1512-5** This notice combines in a single document all regulatory guidance on Trading at Settlement transactions in CME, CBOT, NYMEX, and COMEX products and Trading at Marker transactions in NYMEX products. It supersedes CME and CBOT Market Regulation Advisory Notice RA1503-3R and NYMEX and COMEX Market Regulation Advisory Notice RA1510-4R. **CME GROUP SPECIAL EXECUTIVE REPORT SER-7411** Pending all relevant regulatory review periods, effective July 27, 2015, CME, CBOT, NYMEX, and COMEX amended Rule 512 to eliminate reference to Rule 418 and clarify the rules regarding summary fines. A redline of Rule 512 is included in the notice. (This was also reported above in RA1511-5.) **CME GROUP SPECIAL EXECUTIVE REPORT SER-7430 and SER-7430R** Pending all relevant regulatory review, on August 10, 2015, CME, CBOT, NYMEX, and COMEX will adopt amendments to Rule 589 "" Special Price Fluctuation Limits. The amendments will provide additional details on the manner in which special price fluctuation limits are applied to those products subject to such limits. The amendments will clarify when and in what products there are no special price fluctuation limits. Also, effective August 10, 2015, the Exchanges are self-certifying amendments to the Special Price Fluctuation Limits Table located in Chapter 5 of the Rulebook. **CME GROUP SPECIAL EXECUTIVE REPORT SER-7412** Pending all relevant regulatory review periods, effective August 13, 2015, the Exchanges and SEF have self-certified changes to DCM Rule 537 and SEF Rule 537 that will require a market participant's clear consent in order to use data submitted for the purpose of fulfilling regulatory obligations for marketing and business activities. Amended DCM Rule 537 precludes the Exchanges from using regulatory data for business or marketing purposes, unless it has obtained the clear consent of the relevant market participant to do so. **CME GROUP MARKET SURVEILLANCE UPDATE MSN07-13-15** Pending all relevant regulatory review, beginning with the September 2015 contract month, NYMEX will increase the spot month position limits for two European and Singapore-based high sulfur fuel oil futures contracts from 150 to 500 futures contract equivalents. **CME GROUP MARKET SURVEILLANCE UPDATE MSN07-20-15** Pending all regulatory review, beginning with the August 2015 contract month, CBOT will amend the aggregation allocation for single month and all month position limits for its Soybean Board Crush Spread option. Going forward, those options will aggregate into the Soybean, Soybean Meal and Soybean Oil futures for purposes of the single and all month position limits on a futures equivalent basis. On July 22, 2015, the amended aggregation rules will be inserted into the relevant CBOT tables in Chapter 5 of the CBOT Rulebook. **CME GROUP MARKET SURVEILLANCE UPDATE MSN07-22-15** Pending all regulatory review, beginning July 27, 2015 NYMEX amended the spot month position limits and

aggregation allocations for 66 electricity futures and option contracts as a result of the amendments to the termination of trading rules for 31 electricity contracts beginning with the August 2015 contract month. The update will be made to the applicable NYMEX tables in Chapter 5 of the NYMEX Rulebook. **ICE Futures Europe Rule Changes & Other Advisory Notices**

ICE FUTURES RULEBOOK AMENDMENTS ICE Futures U.S. is amending its Rulebook, Block Trade FAQ, and Error Trade Policy, effective July 27, 2015. The Rulebook changes remove references to "request for cross;" make clerical changes to the terms "orders" and "credit;" revise definitions for the terms and phrases "commodity or commodities contract," "contract," "credit contract," and "OCO;" revise Rule 214 for clarity; provide for e-mail distribution for required disclosures under Rule 402; clarify that Rule 516 applies to Block Trades and Package Transactions; provide greater detail on when and how a mid-market order price will be determined under Rule 525(g); add a description of an Order Cancels Order type under Rule 525(l); include duration of Volume Clearing sessions and priority during such a session under Rule 528; add language to Rule 529 specifying terms of an Order; and revise Credit Contract terms to specify by execution method the required minimum notional amount, maximum notional amount, and minimum notional increment. The Block Trade FAQ changes shorten the reporting timeline for Block Trades to ten minutes after the transaction (from 30) and remove the reference to "request for cross" functionality. The Error Trade Policy change clarifies that errors alleged in block, brokered, and permitted transactions will not be subject to the Policy, but will be addressed after consultation with the counterparties to the transaction to determine whether the transaction should stand or be cancelled.

ICE FUTURES EUROPE CIRCULAR 15/147 ICE Futures Europe is terminating the Liquidity Provider Programme for Soft Commodity Futures Contracts, effective July 1, 2015. **ICE FUTURES EUROPE CIRCULAR 15/148** ICE Futures Europe is amending the Softs Futures Market Maker Programme to provide a further rebate for all volume traded in excess of 500,000 contracts per month. The previous threshold was 1 million contracts. **ICE FUTURES EUROPE CIRCULARS 15/150-152** 15/150 - ICE Futures Europe has re-published the Soft Commodities Commitment of Traders Report, which contained incorrect categorizations due to a technical issue when it was first published on June 29, 2015. 15/151 - ICE Futures Europe has delayed publication of the June 30, 2015 Commitments of Traders Report for Soft Commodities due to a technical issue. 15/152 - ICE Futures Europe has published the delayed report. **ICE FUTURES EUROPE 15/153** ICE Futures Europe is offering a transaction reporting program to participants taking advantage of its Regulation on Energy Market Integrity and Transparency (REMIT) transaction reporting facility. Participants must notify the Exchange to opt-out. The Exchange will request relevant identifying information from participants. No fee will be charged until further notice. **ICE FUTURES EUROPE CIRCULAR 15/156** ICE Futures Europe is introducing a volume indicator as a supplement to the Indicative Opening Price (IOP) during the pre-open period for each futures contract. The IOP is a calculation of the expected opening price for each contract month based on the ICE uncrossing algorithm. The rollout for the new volume supplement to the IOP will occur in two phases, the first on August 13 for soft commodity contracts, and the second on August 21 for all remaining ICE Futures Europe contracts with a few exceptions (including Oil contracts). Finally, on September 4, 2015, the pre-defined time interval in which the IOP is updated will be reduced to 5 second intervals. **ICE Futures Canada (Rule Changes & Other**

Advisory Notices) No relevant notices this month. **Disciplinary Actions ICE FUTURES** No relevant notices this month. **CME GROUP FC Stone LLC - CME 14-9709-BC-1** *Lack of Documentation* Violation of Rule 538.H- Documentation. Allegedly, between July 2013 and February 2014, FC Stone entered into nine transitory EFRP transactions that did not contain documentation of the corresponding cash positions and therefore were not bona fide. \$50,000 fine. **William Michael Fenton - CME 14-9709-BC-2** *Lack of Documentation* Violation of Rule 538.H- Documentation. On February 7, 2014 Fenton allegedly entered into a transitory EFRP transaction that did not contain documentation of the corresponding cash position and therefore was not bona fide. \$7,500 fine. **Newedge USA LLC (now known as SG Americas Securities, LLC) - CME 11-8193-BC** *Block Trades* Violation of Legacy Rule 526- Block Trades and Market Regulation Advisory Notice RA1203-3 Block Trades. Between October 8, 2010 and March 30, 2012, Newedge brokered and reported three block trades on behalf of customers that were not reported to the Exchange within the applicable time limit following execution. Two of these same block trades did not include accurate time of execution information. Additionally, Newedge brokered and reported a fourth block trade that was not reported within an accurate execution time or within the applicable time limit following execution. \$25,000 fine. **Kanat Khussainov - CME 14-9915-BC** *Misc.* Same as NYMEX 14-9915-BC, below. \$7,500 fine and 10 business day suspension (taking into consideration Khussainov repaid his employer the net \$3,030.25 he transferred to his account) **Don Kuster - CME 13-9248-BC** *Misc.* Violation of Rule 432- General Offenses. Allegedly, on one or more occasions on December 28, 2012 and January 2, 2013, Kuster caused trades to be executed in user-defined covered option instruments on the Globex electronic trading platform in which the trades were over-allocated futures at favorable prices. After confirming the source and nature of the over-allocations, Kuster contacted the Exchange to report the issue after execution of these trades. \$15,000 fine. **Brian Eric Rachwalski - CME 14-9878-BC** *Pre-Arranged Trades* Violation of Rule 534- Wash Trades Prohibited. On September 26, and 27th, 2013, Rachwalski allegedly entered large-quantity opposing customer orders for accounts with common beneficial ownership via open outcry. Rachwalski knew that the orders were for accounts with common beneficial ownership and mistakenly believed the orders could trade opposite each other as long as they were placed into the pit and bid and offered by the pit broker three times. In submitting the opposing buy and sell orders for execution in this manner, Rachwalski knew that the orders could trade opposite each other and avoid taking a bona fide market position exposed to market risk. \$25,000 fine and 10 business day suspension. **NYMEX INTL FC Stone Markets, LLC - NYMEX 14-9700-BC-1** *Lack of Documentation* Violation of Legacy Rule 538- Exchange for Related Positions & Legacy Rule 538.H- Documentation. Allegedly, on August 9, 2013, FC Stone Markets and INTL Commodities, both wholly owned subsidiaries of INTL FC Stone, were counterparties to an EFRP transaction which did not contain sufficient documentation of the related physical transaction and was therefore not a bona fide EFRP transactions. \$10,000 fine. **Ho Ming Yu- NYMEX 13-9359-BC** *Pre-Arranged Trades* Same conduct as CBOT 13-9359-BC, below, except that the trades were in energy-related futures contracts. \$15,000 fine and 25 business day suspension. **INTL Commodities, Inc. - NYMEX 14-9700-BC-2** *Lack of Documentation* Same as NYMEX 14-9700-BC-1, above. \$10,000 fine. **INTL FC Stone Markets, LLC - NYMEX 13-9641-BC-1** *Lack of Documentation* Violation of Legacy Rule 538- Exchange for Related Positions & Legacy Rule 538.H-

Documentation. Allegedly, on July 30, 2013, FC Stone Markets and INTL Commodities, both wholly owned subsidiaries of INTL FC Stone, were counterparties to an EFRP transaction which did not contain sufficient documentation of the related physical transaction and was therefore not a bona fide EFRP transactions. \$10,000 fine. **INTL Commodities, Inc. - NYMEX 13-9641-BC-2** *Lack of Documentation* Same as NYMEX 13-9641-BC-1, above. \$10,000 fine. **INTL FC Stone Markets, LLC - NYMEX 14-9729-BC** *Lack of Documentation* Violation of Legacy Rule 538- Exchange for Related Positions & Legacy Rule 538.H- Documentation. Allegedly, on February 13, 2013, FC Stone Markets entered into an EFRP transaction which did not contain sufficient documentation of the related OTC transaction and was therefore not a bona fide EFRP transactions. \$10,000 fine. **INTL FC Stone Markets, LLC - NYMEX 14-9968-BC** *Lack of Documentation* Violation of Legacy Rule 538- Exchange for Related Positions, Legacy Rule 538.H- Documentation, and Legacy Rule 538.A- Nature of an EFRP. Allegedly, on March 26, 2014, FC Stone Markets entered into an EFRP transaction, which failed to consist of two discrete but related simultaneous transactions, and which also did not contain sufficient documentation of the related OTC transaction and was therefore not a bona fide EFRP transaction. \$20,000 fine. **INTL FC Stone Markets, LLC - NYMEX 15-0121-BC** *Pre-Arranged Trades* Violation of Legacy Rule 538- Exchange for Related Positions & Rule 538.C- Related Position. Allegedly, on August 13, 2014 and August 25, 2014,, FC Stone Markets entered into EFRP transactions 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 FC Stone Markets and its counterparties. Therefore, it was not a bona fide EFRP. \$40,000 fine. **Kanat Khussainov - NYMEX 14-9915-BC** *Misc.* Violation of Rule 432- General Offenses. Khussainov allegedly executed 23 round turn transactions across all four CME Group Exchanges. The first 16 round turn transactions transferred about \$7,000 to an account owned by Khussainov from a second account owned by his employer. The remaining round turn transactions transferred about \$4,000 from Khussainov's account back to his employer's account. \$7,500 fine and 10 business day suspension (taking into consideration Khussainov repaid his employer the net \$3,030.25 he transferred to his account). **Repsol Trading S.A. - NYMEX 14-9937-BC-2** *Lack of Documentation* Violation of Rule 538.H- Documentation. Allegedly, Repsol entered into an EFRP transaction on February 5, 2014 that did not contain adequate documentation of the related swap transaction and therefore was not bona fide. \$10,000 fine. **OTC Europe LLP - NYMEX 14-9937-BC-3** *Lack of Documentation* Violation of Rule 538.H- Documentation. Allegedly OTC Europe brokered an EFRP on February 5, 2014 that did not contain adequate documentation of the related swap transaction and therefore was not bona fide. \$10,000 fine. **OTC Europe LLP - NYMEX 14-9800-BC-3** *Lack of Documentation* Violation of Rule 538.H- Documentation. Allegedly, on December 10, 2013, OTC Europe brokered an EFRP transaction that did not contain adequate documentation of the related swap transaction and therefore was not bona fide. \$10,000 fine. **Newedge USA LLC - NYMEX 11-8193-BC** *Block Trades* Violation of Legacy Rule 526- Block Trades. On December 5 and 13, 2012, Newedge allegedly, through its employees, brokered and reported four block trades on behalf of customers in Energy products that were not reported to the Exchange within the applicable time limits following execution. \$10,000 fine. **COMEX Kanat Khussainov - COMEX 14-9915-BC** *Misc.* Same as NYMEX 14-9915-BC, above. \$15,000 and 10 business day suspension (taking into consideration Khussainov repaid his employer the net

\$3,030.25 he transferred to his account). **Goldman Sachs Execution and Clearing LP - COMEX 14-9777-BC** *Misc.* Violation of Rule 853- Transfers of Trades and Customer Accounts. On February 27, 2013, GSEC allegedly processed a transaction requested by customers that transferred relevant futures and options contracts between the customers' accounts at GSEC without obtaining the approval of the Exchange. \$110,000 fine. **CBOT Chopper Trading LLC (now DRW Trading Group) - CBOT 14-9906-BC** *Position Limit* Violation of Rule 562- Position Limit Violations. Allegedly, on June 30, 2014, Chopper exceeded the spot month speculative position limit in July 2014 Corn Futures contracts. Chopper liquidated its overage to bring its positions into compliance within twelve minutes of the violation occurring. \$25,000 fine. **Kanat Khussainov - CBOT 14-9915-BC** *Misc.* Same as NYMEX 14-9915-BC, above. \$5,000 fine and 10 business day suspension (taking into consideration Khussainov repaid his employer the net \$3,030.25 he transferred to his account). **James Groth - CBOT 11-8463-BC** *Spooling* Violation of Rule 432- General Offenses. Allegedly, from May 2011 through October 2011, Groth, on multiple occasions, entered large orders without the intent to trade. Groth would place smaller orders to sell (buy) on the CME Globex electronic platform and then subsequently enter multiple large-lot buy (sell) orders at or near the best bid (offer) on Globex, thus creating the appearance of an imbalance in buy/sell pressure. Once the smaller orders began trading, Groth would cancel the large orders. It is alleged that Groth entered these large orders for the purpose of inducing market participants to trade opposite his smaller resting orders. \$55,000 fine and 10 business day suspension. **Pacific Investment Management Company LLC - CBOT 14-0035-BC** *Position Limit* Violation of Rule 562- Position Limit Violations. Allegedly, on November 21, 2014, PIMCO held end of day net short positions in excess of the single month position limit in the January 2015 Soybean Meal contract by 44 contracts. PIMCO exceed the same position limit again on November 24, 2014. On November 25, PIMCO liquidated its overage and brought the position into compliance and did not profit from doing so. \$35,000 fine. **Peter DiStaulo - CBOT 12-9106-BC** *Spooling* Violation of Rule 432- General Offenses. During August 2012, and from January 2014 through April 2014, DiStaulo, on multiple occasions, entered large orders without the intent to trade. DiStaulo would place smaller orders to sell (buy) on the CME Globex electronic platform and then subsequently enter multiple large-lot buy (sell) orders at or near the best bid (offer) on Globex, thus creating the appearance of an imbalance in buy/sell pressure. Once the smaller orders began trading, DiStaulo would cancel the large orders. It is alleged that DiStaulo entered these large orders for the purpose of inducing market participants to trade opposite his smaller resting orders. \$20,000 fine and 60 day suspension. **Gavilon LLC - CBOT 13-9350-BC** *Misc.* Violation of Rule 538.A- Nature of an EFRP and Market Regulation Advisory Notice Exchange for Related Positions Rule 538 RA1006-5. On March 7, 2013, Gavilon allegedly sold an OTC put swaption contract opposite another party while contemporaneously entering into an Exchange traded spread put option transaction via an Exchange of Options for Options transaction opposite the same party. The execution of the EOO thereby terminated the swaption, offset the cash component of the EOO and allowed Gavilon to establish a long futures position. It was found that this constituted a transitory EFRP, which is prohibited in agricultural products. \$15,000 fine. **Dan Patrick Sobolewski - CBOT 14-9878-BC** *Pre-Arranged Trades* Violation of Rule 534- Wash Trades Prohibited. Allegedly, on September 26, 2013, Sobolewski submitted large-quantity opposing customer orders for accounts with common

beneficial ownership via open outcry. Sobolewski knew that the orders were for accounts with common beneficial ownership and mistakenly believed the orders could trade opposite each other as long as they were placed into the pit and bid and offered by the pit broker three times. In submitting the opposing buy and sell orders for execution in this manner, Sobolewski knew that the orders could trade opposite each other and avoid taking a bona fide market position exposed to market risk. \$15,000 fine and 5 business day suspension. **Ho Ming Yu - CBOT 13-9359-BC** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. Allegedly, in November and December 2012, Ho executed numerous trades totaling 772 contracts in various agricultural futures, in which Ho maintained ownership of the accounts on both sides of the transactions. The trades were allegedly entered with the purpose of realizing losses in one trading account owned by Ho in order to manage tax obligations. Ho reasonably should have known that the trades would achieve a wash result. \$10,000 fine and 25 business day suspension. **NEW PRODUCT LISTINGS ICE FUTURES U.S. ~None~ ICE FUTURES EUROPE** ICE Futures Europe introduced new Individual Equity Option Contracts ("IEO"²) based on eBay Inc. and Single Stock Futures Contracts ("SSF"²) based on both eBay Inc. and PayPal Holdings Inc. shares which are to be listed on NASDAQ. ICE Futures Europe introduced additional flexible Individual Equity Option Contracts ("IEO"²) based on PayPal Holdings Inc. shares which are listed on NASDAQ. The regulation notes that U.S. persons are not permitted to engage in transactions in Individual Equity Options on U.S. shares. ****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.** [1] This report summarizes material notices from CME Group and ICE Futures, with a particular focus on energy. It is not intended to be a comprehensive review of each and every notice issued by these Exchanges.