

INSIGHTS

Monthly Futures Exchange Issuance Report: May 2015

June 3, 2015

By: [Michael W. Brooks](#) and [David M. Perlman](#)

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. **May's Highlight** This past month, CME Group released Market Regulation Advisory Notice RA1506-5, which conveniently combines in one location all of CME Group's prior regulatory guidance on block trades in CME, CBOT, NYMEX, and COMEX products. CME Group has been giving increasing scrutiny to block trades in recent years and unfamiliarity with the specific rules related to such trades could ultimately lead to significant disciplinary action, including fines, disgorgement, and suspensions. Block trades are "privately negotiated futures, options or combination transactions that meet certain quantity thresholds which are permitted to be executed apart from the public auction market."¹ To participate in a block trade, each party must be an "Eligible Contract Participant,"² as defined in Section 1a of the Commodity Exchange Act. Only certain products are block trade eligible, and each eligible product can only be traded in block at certain minimum quantity thresholds, as determined and modified by the Exchanges. Block trades between different accounts with common beneficial ownership are generally prohibited. When a block trade is executed, detailed reporting and recordkeeping requirements apply. Depending on the product, a consummated block trade must be price reported to the Exchange within 5 to 15 minutes. Further, additional rules and regulations apply to particular types of block trades. Diligent review of Rule 526 and the information contained in RA1506-5 is highly recommended prior to engaging in any block trade or related transaction. The full text of RA1506-5, which includes the text of Rule 526, can be found here:

<http://www.cmegroup.com/tools-information/lookups/advisories/market-regulation/files/>.

Rule Changes and Other Advisory Notices CME GROUP SPECIAL EXECUTIVE REPORT SER-7352

Pending all regulatory review periods, on May 20, 2015, all of the CME Group Exchanges were to amend Rule 535 to eliminate reference to fines that can be assessed in circumstances where a floor broker or floor trader has failed to have a designated representative available on the trade floor to resolve outrades from the previous day. The requirements of Rule 535 will remain in full effect, only the language related to fines will be deleted. Fines under Rule 535 have not been assessed by the Exchanges in many years and therefore the language has been deemed unnecessary. **CME GROUP SPECIAL EXECUTIVE REPORT SER-7353** Pending all regulatory review, effective May 22, 2015, the CME Group Exchanges were to amend Rule 110 to adopt a definition of "Transactions on the Exchange."³ The definition will include transactions receiving preferential clearing fees as a result of the membership, regardless of the entity

entitled to receipt of such preferential fees. Additional amendments will be made to Rule 110(e) to make clear that any public customers of a member's wholly-owned entities receiving preferential fees may file claims against the sale of the membership to satisfy certain claims arising out of Transactions on the Exchange for which that entity is responsible for the execution of customer orders. Further, additional amendments will be made across the rules of the Exchanges to codify that proceeds of membership sales can be used to pay outstanding tax liens at the request of the selling member and to replace "Market Regulation Department and the Membership Department" with "authorized Exchange staff."

NYMEX & COMEX MARKET REGULATION ADVISORY NOTICE RA1507-4R This notice supersedes RA1507-4 from April 29, 2015. On May 17, 2015, COMEX began to permit Copper futures trades in the second active contract month to be priced at the settlement price or any valid price increment ten ticks higher or lower than the settlement price.

CME GROUP- MARKET REGULATION ADVISORY NOTICE RA1506-5 This notice supersedes RA1502-3 and RA1506-4. This notice combines, in one place, all the regulatory guidance on block trades in CME, CBOT, NYMEX and COMEX products.

CME & CBOT MARKET REGULATION ADVISORY NOTICE RA1503-3 CME & CBOT will adopt a new Rule 524, entitled Trading at Settlement ("TAS") Transactions. In connection with the adoption of the new Rule, CME will begin to permit orders for the first listed contract months and the spread between those two contract months in certain contracts and CBOT will begin to permit orders for the first three listed contract months and certain spreads in other contracts. More information on these contract months and the relevant contracts involved can be found in the Special Notices Section at the end of Chapter 5 of the CME and CBOT Rulebooks. The notice provides general information on the new TAS transactions, as well as regulatory considerations for market participants engaging in these transactions.

CME & CBOT- MARKET REGULATION ADVISORY NOTICE RA1503-3R The adoption of Rule 524- Trading at Settlement ("TAS") Transactions, as announced RA1503-3 discussed above, has been delayed by one week and will now be effective June 14, 2015. No other changes were made to proposed Rule 524.

NYMEX & COMEX MARKET REGULATION ADVISORY NOTICE RA1509-4 This notice related to the new Rule 524, which will become effective in June of 2015, as discussed in RA1503-3R above. Specifically, NYMEX and COMEX are notifying the marketplace that effective June 21, 2015, COMEX will begin to permit Copper futures trades in the spot month to be executed on CME Globex and priced at the settlement price up to and including on the last day of trading in the expiring contract month. Further, NYMEX will eliminate TAS-eligibility in Cocoa (CJT), Coffee (KTT), Cotton (TTT), No. 11 Sugar (YOT) and REBCO (RET). No other changes were made to proposed Rule 524, which is included in full text in the notice.

CME GROUP- MARKET SURVEILLANCE UPDATE MSN05-13-15 CME has provided the June 2015 position limits for Treasury Futures contracts that are applicable during the last 10 trading days of an expiring contracts.

CME GROUP- MARKET SURVEILLANCE UPDATE MSN05-13-15A Pending regulatory review, effective May 28, 2015, NYMEX was to amend the termination of trading rules of eight electricity futures contracts, beginning with the June 2015 contract month. The new terms will be updated in the NYMEX Position Limit, Position Accountability and Reportable Level Table located in Chapter 5 of the NYMEX Rulebook.

CME GROUP- MARKET SURVEILLANCE UPDATE Beginning with the July 2015 contract month, and pending all regulatory review, COMEX will increase the spot month position limit for COMEX Aluminum futures contracts from 200 to 400

contracts. **ICE FUTURES U.S.- RGGI COATS DELIVERY ACCOUNT** This notice provides guidance for parties making or taking delivery of certain physical environmental futures contracts.

Specifically, the notice details the account requirements for making or taking delivery of ICE Regional Greenhouse Gas Initiative (RGGI) futures contracts. **ICE FUTURES U.S. NOTICE** On July 1, 2015, there will be a delayed Pre-open and Open for a number of contracts due to the Leap Second Impact, discussed in detail in previous notices. **ICE Futures Europe (Rule Changes & Other Advisory Notices)**

ICE FUTURES EUROPE CIRCULAR 15/089 ICE Futures Europe is changing the settlement period for ICE Futures FOB Indonesia Sub-Bituminous Coal Futures Contracts to 16:50-17:00, London time. **ICE FUTURES EUROPE CIRCULAR 15/091** This notice advises that on July 1, 2015 there will be a delayed Pre-Open and Open to various contracts due to the Leap Second Impact. The Leap Second Impact is the result of the Exchange adding an additional second to June 30, 2015 to synchronize and maintain the accuracy of the Exchange's time systems. **ICE FUTURES EUROPE CIRCULAR 15/093** ICE Futures Europe will change the contract specifications for cash settled Dividend Adjusted Stock Futures from flexible expiry dates to pre-defined standard expiry dates, effective June 1, 2015. The change to the contract specs will be made in Rule Sections QQQQQ and RRRRR. **ICE FUTURES EUROPE CIRCULAR 15/094** ICE Futures Europe is proposing amendments to Exchange regulations governing Position Reporting, Accountability, and Limits. This notice advises members of the proposed changes and notifies them that unless written requests for Board consideration are made, these changes will come into effect on May 21, 2015. **ICE FUTURES EUROPE CIRCULAR 15/096** This notice announces the introduction of a Market Maker program for Eurodollar Futures, which will have a term of twelve months, beginning May 12, 2015. Five participants will be selected to participate in the program. **ICE FUTURES EUROPE CIRCULAR 15/097** This notice provides a reminder of reporting requirements for ICE Three-Month Eurodollar and DTCC GCF Repo Index Futures in response to the new Market Identifier Code (MIC) change, which was announced in Circular 15/026. The MIC change will be made following the end of the day on May 15, 2015. **ICE FUTURES EUROPE CIRCULAR 15/099** ICE Futures Europe proposes amendments to the rules and procedures for London Cocoa Futures and Euro Cocoa Futures Contracts. Pending no requests to the Board regarding the proposed amendments, the amendments will go into effect on May 26, 2015. **ICE FUTURES EUROPE CIRCULAR 15/103** ICE Futures Europe is extending the Market Maker and Tiered Rebate Programmes announced in circulars 08/083, 09/012, 11/004, 11/005, 12/115, and 14/211. **ICE FUTURES EUROPE CIRCULAR 15/109** ICE Futures Europe is proposing changes to its Rule sections related to Brent NX contracts documentation. Specifically, the exchange will eliminate all reference to ICE Futures Brent NX contracts as these contracts were removed from trading on May 13, 2015, as announced in Circular 15/100. **ICE FUTURES EUROPE CIRCULAR 15/112** ICE Futures Europe is proposing an amendment to its Regulations governing confidentiality provisions in Rule A.4. Pending written request to the Board, the proposed changes will be effective June 10, 2015. The amendment adds a clause providing that the Exchange may disclose information to a Member, upon request, relating to the orders and transactions which were placed and/or executed on the ICE Platform by its clients through such Member. **ICE FUTURES EUROPE CIRCULAR 15/113** ICE Futures Europe is proposing an amendment to its Regulations governing settlement price procedures in Rule 2.4. Pending written request to the Board, the proposed changes will be effective June 10, 2015. A

redline of Rule 2.4 with the proposed changes can be found in the attachment to the notice.

ICE FUTURES EUROPE CIRCULAR 15/115 The Exchange is delaying the introduction of additional cleared ICE Futures Europe Option Contracts, as announced May 13, 2015. The contracts will now be introduced effective June 15, 2015. **Disciplinary Actions ICE FUTURES EOX Holdings LLC** *Block Trades; Misc.* Violation of Rule 4.01-Duty to Supervise; Rule 4.07(b)-Block Trading; Rule 6.08(b)(i)-Order Ticket Requirements. Allegedly on multiple occasions, EOX submitted block trades which were below the minimum quantity required and reported various block trades to the Exchange outside of the 15-minute reporting window for energy futures and options contracts. Further, EOX allegedly failed to comply with recordkeeping requirements associated with handling customer orders and failed to supervise the activities of its employees. \$200,000 fine, cease and desist, required addition of compliance staff. **Cargill Incorporated** *Pre-Arranged Trades* Violation of Former Rule Rule 27.22(b)(iii)-Pre-execution Communications & Rule 4.02(k)(2)(D)- Trade Practice Violations. Allegedly on multiple occasions, Cargill did not expose its orders when executing a cross trade that arose from pre-execution communications for a period of five seconds before entering the opposing order to affect such cross trade. \$300,000 fine and agreement to comply. **Golden Triangle Storage, Inc. & Jefferson Island Storage & Hub, LLC** *Pre-Arranged Trades* Violation of Rule 4.02(c)-Trade Practice Violations. Golden Triangle and Jefferson Island, who are corporate affiliates, allegedly executed trades opposite one another when an individual with discretion to trade for both firms placed opposing buy and sell orders, with the purpose of moving positions between the firms' accounts. \$7,500 fine (for each firm) and cease and desist. **CME GROUP JB Drax Honore UK Ltd - CME 12-9067-BC-10** *Pre-Arranged Trades* Violation of Rule 432-General Offenses. Allegedly, JB Drax, an affiliate of a CME member, between January 2012 and August 2013, had various desk brokers engage in a pattern of conduct in Eurodollar options on futures whereby the brokers engaged in pre-execution communications and disclosed customers' nonpublic order information for the purpose of prearranging the execution of orders opposite other customers' orders in their possession. The brokers executed these transactions at market prices. The employees only presented the orders to the pit after securing both sides of the transaction or guaranteeing a fill to the customer. Further, it was alleged that JB Drax failed to diligently supervise its employees. \$55,000 fine. **JB Drax Honore Inc - CME 12-9067-BC-9** *Pre-Arranged Trades* Violation of Rule 432-General Offenses. The same conduct as CME 12-9067-BC-10, only it occurred between March 2012 and July 2013. \$70,000 fine. **Bradley Charles Yam - CME 12-9067-BC-8** *Misc.* Violation of Rule 540-Responsibility of Customer Orders. Yam, an employee of a member firm, on April 20, 2012, after receiving two subsequent orders from a customer to sell a put spread in Eurodollar options, allegedly communicated a fill to the customer on the order before execution occurred in the pit. \$17,000 fine and 10 business day suspension. **Mathew Laurence Woodley - CME 12-9067-BC-7** *Pre-Arranged Trades* Violation of Rule 532-Disclosing Orders Prohibited & Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. On July 2, 2013, Woodley allegedly received a customer buy order, disclosed to the customer the existence of sell orders and the size of the offered quantities received from other customers also for execution in the pit. Woodley thus disclosed the customers' nonpublic sell-order information prior to presenting the sell order to the pit and then made further assurances that the opposing customer orders traded opposite each other by placing the buy

and sell orders almost simultaneously, with a slight price adjustment to match the price of the sell order and the buy order. \$20,000 fine and 7 business day suspension. **Paul Reeves - CME 12-9067-BC-6** *Pre-Arranged Trades* Violation of Rule 532-Disclosing Orders Prohibited & Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. Reeves allegedly prearranged two customer orders, using a strategy to package them for execution in the pit, thereby ensuring they traded opposite each other on one occasion. Also, on another occasion, Reeves again ensured customer orders traded opposite each other by entering buy and sell orders from customers into the pit only after securing both sides of the transaction, and disclosing customer nonpublic order information. \$30,000 fine and 10 business day suspension.

Mark Jason Gomez - CME 12-9067-BC-5 *Misc.* Rule 532-Disclosing Orders Prohibited. Allegedly, on March 23, 2012, Gomez disclosed to a customer the size and price of offered quantities his colleague received from other customers prior to the offers having been disclosed to the pit. \$17,000 fine and 10 business day suspension.

Mark Allen Christman - CME 12-9067-BC-4 *Misc.* Violation of Rule 540-Responsibility of Customer Orders. Christman allegedly communicated a fill to a customer on an order on April 20, 2012, before execution occurred in the pit. \$20,000 fine and 7 business day suspension.

Ryan Alexander Arenson - CME 12-9067-BC-3 *Misc.* Violation of Rule 548-Priority of Execution & Rule 540-Responsibility of Customer Orders. On April 16, 2012, Arenson allegedly guaranteed an execution to a customer before relaying the order to the pit. Further, the same customer received a fill on the full quantity of the order, despite the fact that Arenson had a prior customer order with a balance that remained and therefore had priority. \$20,000 fine and 7 business day suspension.

Robert James Anstey - CME 12-9067-BC-2 *Pre-Arranged Trades* Violation of Rule 532-Disclosing Orders Prohibited & Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. On August 2, 2013, Anstey allegedly disclosed a customer's nonpublic sell-order information to another customer prior to presenting the order to the pit and ensured that the opposing customer orders traded opposite each other by placing simultaneous buy and sell orders at the same price in the pit. \$50,000 fine and 15 business day suspension.

James Thomas Addley - CME 12-9067-1 *Pre-Arranged Trades* Violation of Rule 539 (Legacy)-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. Allegedly, Addley engaged in pre-execution communications and subsequently crossed the opposing customer buy and sell orders on Globex without entering an RFC after the entry of the RFQ. \$20,000 fine and 7 business day suspension.

JB Drax Honore Inc - CME 13-9623-BC-3 *Misc.* Violation of Rule 432-General Offenses. Allegedly, between July and September 2013, two JB Drax employees (a desk clerk and desk supervisor), engaged in a pattern of conduct whereby they directed brokerage groups to noncompetitively cross a minimum percentage of opposing buy and sell orders in the pit. Further, the employees indicated that JB Drax brokers would use alternative execution avenues, including block transactions, should the pit broker fail to cross this minimum percentage of orders. Also, there was a failure to supervise employees by JB Drax. \$125,000 fine.

James P. Werner - CME 13-9623-BC-2 *Pre-Arranged Trades* Violation of Rule 432-General Offenses & Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. Werner acted as desk supervisor in the conduct described above in CME 13-9623-BC-3. \$25,000 fine and 6 week suspension.

Thomas G. Conrick - CME 13-9623-BC-1 *Pre-Arranged Trades* Violation of Rule 432-General Offenses & Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited. Werner acted as

desk clerk in the conduct described above in CME 13-9623-BC-3. \$35,000 fine and 10 week suspension. **Ashley Ball - CME 12-9063-BC** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. Allegedly, Ball executed numerous transactions on the CME Globex electronic trading platform where there was the same beneficial ownership on both sides of the transaction, with the intent to flatten positions and the reasonable belief the buy and sell orders would trade opposite each other. Thus, for these numerous transactions that occurred during 2011 and 2012, Ball avoided taking a bona fide market position exposed to market risk. \$7,500 fine and 30 business day suspension. **NYMEX -None COMEX -None CBOT Aaron King - CBOT 14-0056-BC** *Disruptive Trading* Violation of Rule 432-General Offenses. Allegedly, King entered orders on the Globex electronic trading platform during the pre-opening period for the purpose of identifying the depth of the order book in Agricultural contracts. The entry and cancelation of these orders caused fluctuations in the publicly displayed Indicative Opening Price. \$35,000 fine. **Nathan King - CBOT 11-8496-BC** *Disruptive Trading* Violation of Rule 432-General Offenses. Allegedly, King entered orders on the Globex electronic trading platform during the pre-opening period for the purpose of identifying the depth of the order book in Agricultural contracts. The entry and cancelation of these orders caused fluctuations in the publicly displayed Indicative Opening Price. \$10,000 fine and 25 business day suspension. **Protein Sources Milling, LLC - CBOT 14-9787-BC** *Lack of Documentation; Misc.* Violation of Rule 538.A-Nature of an EFRP. Protein Sources Milling allegedly entered into eight EFP transactions in the Corn and Mini-Corn futures markets between November 2012 and November 2013 that consisted of a simultaneous exchange of a futures position without an exchange of a related cash position. Therefore, the transactions were not bona fide and were only used for the purpose of offsetting positions between two Protein Sources accounts. \$30,000 fine. **John T. Berg - CBOT 13-9668-BC** *Pre-Arranged Trades* Violation of Rule 534-Wash Trades Prohibited. Allegedly, on 13 separate days, Berg executed 39 wash trades totaling 1,324 Soybean and Wheat options on futures contracts on Globex. The matching buy and sell orders were alleged to have been entered with the knowledge and intent that the orders would match opposite one another for the purpose of moving positions between Berg's accounts. \$25,000 and 10 business day suspension. **Perdue Agribusiness Incorporated - CBOT 13-9446-BC** *Lack of Documentation* Violation of Rule 538.H.-Documentation. On March 4 and 5, 2013, Perdue allegedly entered three EFRP transactions that involved more than two parties and failed to ensure the proper documentation existed for the corresponding cash positions. Thus, the EFRPs were not bona fide. \$20,000 fine. **NEW PRODUCT LISTINGS ICE FUTURES U.S.** Beginning June 1, 2015, the Exchange will introduce new Financial Power futures contracts, called NYISO Zone D Day-Ahead Peak Fixed Price Futures and NYISO Zone D Day-Ahead Off-Peak Fixed Price Futures. **ICE FUTURES EUROPE** Effective June 29, 2015, ICE Futures Europe will commence trading in a new product- Eris Standard Interest Rate Futures Contracts. Effective June 1, 2015, ICE Futures Europe plans to introduce additional flexible Single Stock Options, flexible Single Stock Futures, and Divided Adjusted Stock Futures. The Exchange notes that currently, per U.S. regulation, U.S. persons are not permitted to engage in Single Stock Futures or Divided Adjusted Single Stock Futures transactions. Effective May 13, 2015, ICE Futures Europe is launching three new Oil Options Contracts. **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.