

INSIGHTS

Monthly Futures Exchange Issuance Report: February 2015

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February's Highlight This month, CME Group announced fines totaling \$1.75 million against derivatives broker Newedge USA for violations of exchange rules in certain metal markets over the course of two years. Newedge agreed to the fine pursuant to an offer of settlement in which Newedge neither admitted nor denied the rule violations upon which the penalty was based. Specifically, Panels for both the NYMEX Business Conduct Committee and the COMEX Business Conduct Committee found that Newedge violated exchange Rule 432, Rule 529, Legacy Rule 538.A, Legacy Rule 538.G, and Legacy Rule 538.H., while a clearing member of the exchange. According to the disciplinary action notices released by the exchange, on multiple occasions over a two year period, employees working for Newedge, but trading accounts of a Newedge affiliate, executed EFRPs as a counterparty with its customers that were not *bona fide*. While trading in Gold and Silver futures, Newedge employees received orders from customers, including market and limit orders, which were executed as EFRPs instead of directly on Globex as was expected by the customers. In executing the EFRPs, Newedge typically entered them with a liquidity provider and then entered a separate EFRP at a marked-up price with the customer. The Panel found that at times the price of the EFRP with the customer was simply set by Newedge and was therefore not negotiated in those instances. In addition, the Panel found that for the OTC leg of the EFRP transactions, Newedge had inadequate documentation. Further, in many instances Newedge did not designate the trades on the customer account statements as EFRPs because of an operational error. Of the \$1.75 million fine, \$650,000 was allocated to NYMEX and \$1,100,000 was allocated to COMEX. As noted in our January Exchange Issuance Report, EFRP transactions are increasingly becoming the subject of exchange disciplinary actions. As seen in the Newedge settlement, the execution of non-*bona fide* EFRPs can give rise to significant penalties.

Rule Changes CME Group- Chapter 5 of the CME Rulebook Pending all relevant regulatory review, effective February 10, 2015, CME implemented revisions to the CME Position Limit, Position Accountability and Reportable Level Table located in Chapter 5 of the CME Rulebook. The revisions do not alter the terms and conditions, including spot, single or all month limits, accountability levels, or aggregation allocations of any listed contracts. In addition, on the same day NYMEX and CBOT implemented revisions to the same table in their rulebooks to eliminate the "Intra Crop Year Spread Allowance" column and insert a "Daily Accountability Level" column.

CME Group- Special Executive Report SER-7923- Rule 714 & 715 Pending all regulatory review periods, effective February 20, 2015, CME adopted

revisions to rule 714- Failure to Deliver and Rule 715- Failure to Remit Full Payment to harmonize the text of the rules with the text of the CBOT, NYMEX, and COMEX rules 714 and 715. The new Rule 714 will provide enhanced descriptions of the procedures attendant to delivery obligation failures and will incorporate a specific reference to authority vested in the President of the Clearing House. The new Rule 715 will replace the legacy title and text with the title and text of the current CBOT, NYMEX, and COMEX Rule 715.

CME Group- Special Executive Report SER-7309 "" **Rule 552** This Special Executive Report ("SER") explains that CME Group has approved a list of restricted markets for the implementation of CME Rule 552 ("Dual Trading Restrictions"). Dual Trading Restrictions are applicable to Eurodollar Options, Eurodollar Midcurve Options, and S&P 500 Index Options. The Report notes that the dual trading restriction for 2nd position serial 1-Year Eurodollar Midcurve options will be effective March 16, 2015. Also, effective immediately, the dual trading restriction has been removed from the 3rd contract month position quarterly cycle 2-Year Eurodollar MidCurve options. Finally, effective March 20, 2015, the dual trading restriction will be added to the 1st position quarterly S&P 500 options.

CME Group- Special Executive Report SER-7310- Rule 515 Effective March 16, 2015, the intra-association trading restrictions under CME Rule 515.E ("Trading Restrictions") will be added to the 2nd position serial 1-Year Eurodollar MidCurve options. Also, effective immediately the intra-association trading restrictions under CME Rule 515.E. will be removed from the 3rd contract month position quarterly cycle 2-Year MidCurve options. These changes are made in conjunction with changes pursuant to CME Rule 552, as outlined in SER-7309, described above.

ICE- SEF Notice: Rule Amendment- Amended Rulebook and Error Trade Policy Effective February 27, 2015, ICE Swap Trade, LLC implemented a new Rulebook and Error Trade Policy. The Rulebook replaced the Rulebook effective February 3, 2015, subject to regulatory approval.

ICE Futures U.S.- Clarifying Amendments to Sugar No. 16 Delivery Rules The Exchange is implementing two new clarifying amendments to Sugar No. 16 Rules. Specifically, the exchange is implementing Resolution 4 clarifying delivery rules and Rule 29.12 clarifying the section on Polarization Allowances.

Advisory Notices/Circulars ICE- SEF Notice: Update- Ownership and Control Reporting Implementation Dates The implementation of the submission of the new 102A and 102B data is being delayed based on the no-action relief issued by the CFTC on February 10, 2015.

ICE Futures Europe- Circular 15/025 and Attachment Ice Futures Europe has announced the block minimum thresholds that will apply to new products that were launched on February 2, 2015 (Five Year Mid-Curve Options and Euribor and Short Sterling Futures).

ICE Futures Europe- Circular 15/021 and 15/022 Ice Future Europe has announced the position reporting thresholds and position limits and accountability levels for fifteen new contracts that were launched on January 30, 2015.

ICE Futures Europe- Circular 15/028 ICE Futures UK is extending its Electricity Market Making Programme. The Exchange will select participants on the basis of their potential contribution to the enhancement of liquidity.

ICE Futures Europe- Circular 15/029 and Attachments Effective March 5, 2015, ICE Futures Europe will amend Annex Rule NNN and Annex Rule PPP. Annex Rule NNN pertains to procedures for ICE Futures EUA Auction Contracts. Annex Rule PPP pertains to procedures for ICE Futures EUAA Auction Contracts.

CME Group- Market Regulation Advisory Notice RA1502-5RR This notice relates to Rule 561- Daily Submission of Large Trader, Ownership/Control Reports, and Open Interest Data. This advisory notice superseded Notice RA1502-5R from February 5, 2015

and was issued to amend the effective dates and compliance dates for Forms 102A and 102B based on the CFTC no-action relief. **CME Group- Market Regulation Advisory Notice RA1502-5RR** This advisory notice superseded Notice RA 1501-4 from January 9, 2015. Pending all relevant regulatory review, effective March 8, 2015, NYMEX will permit block trading in nine new products. No other changes to the block trading rules have been made. **Disciplinary Actions ICE FUTURES Anthony Gianino** *Lack of Documentation; Misc.* Violation of Rule 4.10-Allocation of Trades, Rule 6.08(a)(i)-Recordkeeping, and Former Rule 4.26- Trading Card Procedures. A default finding was entered against Gianino for violations of the rules based on the fact that he allocated trades which should have gone to fill a customer order to his personal account; in two instances failed to properly record and timestamp his customer orders upon receiving changes to the terms of the orders from the customer; and failed to record trades he executed on his trading cards in three instances. \$10,000 penalty, restitution of \$1,500, and a cease and desist. **Nicholas Howard & Tiaga Trading** *Misc.* Howard: Violation of Rule 4.10-Allocation of Trades. A default finding was entered against Howard for executing and allocating trades to Howard's personal account when they should have gone to fill a customer order. Tiaga Trading: Violation of Rule 4.10-Allocation of Trades and Rule 2.33 Duty to Supervise. A default order was entered against Tiaga for the same and that they failed to supervise Howard. Together, the committee ordered that Howard and Tiaga pay a \$7,500 penalty, pay restitution in the amount of \$855, and a cease and desist. **CME GROUP Port 22 LLC- CME 13-9649-BC** *Misc.* Violation of Rule 432-General Offenses. Port 22 engaged in a pattern of activity in which an automated trading system Port 22 operated entered price modifications in Eurodollar futures spread instruments with incrementally widening spreads between the bid and offer prices, causing aberrant bid and offer prices to be disseminated to the market. Port 22 failed to adequately remedy the problem for eight months after it was first notified of the issue. Port 22's monitoring measures were insufficient to alert it to any of the price widening instances. Also, Port 22 had identified the potential problem with the system while testing it, but took insufficient measures to correct the issue before deploying it in the market. \$55,000 fine. **Steven Peake- CME 13-9427-BC** *Pre-Arranged Trades; Misc.* Violation of Rule 521-Requirements for Open Outcry Trades, Rule 539-Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited, Rule 527.D-Errors and Mishandling of Orders. Peake executed a portion of a customer order that was not bid openly and competitively in the pit in accordance with CME Rules. Specifically, after receiving instructions to sell, Peake directed the sale of a portion of the order opposite another broker without offering it in the pit. Further, upon overselling the order by 500 put spreads, Peake asked the market participants to whom he sold to reduce their executed quantity rather than place the 500-lot short position into his own error accounts. \$15,000 fine and 20 business day suspension. **NYMEX Advantage Futures, LLC (NYMEX 14-9924-BC)** *Misc.* Violation of Rule 716-Duties of Clearing Members. On the last trading date for physically settled Aug. 2014 Crude Oil futures, Advance failed to ensure that an open position held on its books in the physically delivered Crude Oil futures was liquidated in an orderly manner prior to the expiration of trading. \$10,000 fine. **Canadian Imperial Bank of Commerce (NYMEX 13-9656-BC)** *Lack of Documentation* Violation of Rule 538.H- Documentation. CIBC brokered and entered into two EFRPs which did not contain documentation of the related OTC transaction, and therefore were not *bona fide* EFRPs. \$15,000 fine. **Marex Spectron Asia Pte Ltd (NYMEX 14-9862-BC)** *Lack of*

Documentation Violation of Rule 538.H- Documentation. Marex Spectron executed an EFRP transaction that did not contain proper documentation and therefore was not *bona fide*. \$7,500 fine. **Marex Spectron Asia Pte Ltd (NYMEX 12-8894-BC)** *Block Trades* Violations of Rule 526- Block Trades. Marex Spectron executed block trades for customers that were not reported to the Exchange within the applicable time limit following execution. \$7,500 fine. **Marex Financial Ltd (NYMEX 12-8894-BC)** *Block Trades* Violation of Rule 526- Block Trades. Marex Financial executed block trades for customers that were not reported to the Exchange within the applicable time limit following execution and also misreported the true and accurate time of execution of one block trade. \$12,500 fine. **Marex Spectron International Ltd (NYMEX 12-8894-BC)** *Block Trades* Violation of Rule 526- Block Trades & Legacy Rule 538- Exchange for Related Positions. Marex Spectron executed block trades for customers that were not reported to the Exchange within the applicable time limit following execution and also misreported Exchange for Swaps (EFS) transactions as block trades to the Exchange. \$25,000 fine. **Newedge USA LLC (NYMEX 12-8619-BC)** *Lack of Documentation; Misc.* Violation of Rule 432- General Offenses, Rule 529-Withholding Orders Prohibited, Legacy Rule 538.A- Nature of an EFRP, Legacy Rule 538.G- Identification and Submission to the Clearing House, and Legacy Rule 538.H-Documentation. See "Highlight" section, above, for more details. \$1,750,000 fine (settled this and companion COMEX case, see below- \$650,000 of settlement fine was allocated to NYMEX). **COMEX Newedge USA LLC (COMEX 11-8619-BC)** *Lack of Documentation; Misc.* See "Highlight" section, above, for more details. \$1,750,000 fine (settled this and companion NYMEX case, above- \$1,100,000 of settlement fine was allocated to COMEX). **UBS AG (COMEX 13-9480-BC)** *Lack of Documentation* Violation of Rule 538.H-Documentation. UBS entered into an EFRP transactions that did not contain documentation of the corresponding cash position and therefore were not a *bona fide* EFRP. \$15,000 fine. **Jefferies Bache Financial Services Inc. (COMEX 14-9914-BC)** *Position Limits* Violation of Rule 562-Position Limit Violations. Jefferies exceeded the expiration month position limit in July 2014 Copper Futures contract by holding an open futures equivalent position of 201 long JUL14 Copper contracts, 1 contract over the standard expiration month limit. Also, Jefferies exceeded the position limits on an intraday basis on two occasions on one day. Further, Jefferies also exceeded position limits on an intraday basis on another day. \$40,000 fine. **CBOT Cargill de Mexico; Jose Gamboa; Jesus Avila- CBOT 13-9692-BC** *Pre-Arranged Trades; Misc.* Violation of Rule 432- General Offenses, Rule 534- Wash Trades Prohibited, Market Regulation Advisory Notice RA0913-5 FAQ (Excerpt). CDM, an affiliate of a CBOT member, on six days had employees execute transactions in agricultural products on the Globex platform where there was the same beneficial ownership on both sides of the transactions. The opposing buy and sell orders were placed by the CDM employees for the purpose of transferring positions from one CDM account to another, and the employees reasonably should have known that the orders would trade opposite each other. These transactions impacted the KC Hard Red Winter Wheat futures contract's daily open interest. Additionally, CDM failed to diligently supervise its employees in connection with this conduct. \$60,000 fine (CDM); \$10,000 fine and 5 business day suspension (Gamboa); \$10,000 fine and 5 business day suspension (Avila). **Other Issues to Note**

- On February 16, 2015, ICE Futures Europe launched six new Mid-Curve Option products on the Euribor and Short Sterling Futures Contracts and 30 new energy futures contracts.

The energy contracts include new natural gas contracts, financial power contracts, and physical environmental 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](#).