

INSIGHTS

U.S. Futures Exchanges Disciplinary Actions Report - June 2016

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ICE

2015-058

Misc.

Violation of Rule 6.15(a)- Reportable Positions and Daily Reports and Rule 4.01- Duty to Supervise. An entity allegedly failed, on multiple occasions from January 2015–April 2015 and September 2015–October 2015, to report large trader positions. The entity did not have an adequate process or procedure in place to discover these reporting errors. \$20,000 penalty and cease and desist.

2015-014

Block Trade; Misc.

Violation of Rule 6.08(b)(i)- Order Ticket Requirements, Rule 4.07- Block Trading, Rule 21.04- Power to Compel Testimony and Production of Documents, and Rule 4.01- Duty to Supervise. Allegedly, on multiple occasions, an entity failed to comply with the recordkeeping requirements associated with handling customer orders, misreported the execution time of block trades, and failed to have procedures in place to ensure correct trade data reporting to the Exchange. Furthermore, during the investigation into this conduct, the entity was late in producing documents requested by Compliance staff and thus was sanctioned. \$25,000 penalty (reduced pursuant to a claim of financial hardship) and cease and desist.

CME

CME 14-9943-BC

Misc.

Violation of Rule 432- General Offenses. A member entity allegedly had a risk-based automated trading system calculate risk parameters that were higher than intended, following an error in a system upgrade and a manual input error. When the entity's automatic safeguards disabled the system, a trader allegedly overrode the safeguards, resulting in the purchase and sale of a

large number of Eurodollar futures contracts which subsequently caused a price movement. The system was eventually deactivated and the entity traded out the erroneously acquired positions, taking care to minimize market impact. Subsequently, the entity enhanced its safeguards and procedures. \$92,500 fine (considering entity immediately self-reported the incident).

CME 13-9620-BC; 13-9620-BC-2

Pre-Arranged Trades

Violation of Rule 432- General Offenses and Rule 534- Wash Trades Prohibited. Allegedly, a non-member individual executed several trades on Globex in the E-mini S&P 500 futures markets and the CME foreign exchange ("FX") markets with the knowledge that the accounts on both sides of the transaction were beneficially owned by his employer and knowing that the orders would likely match. The purpose of these transactions was allegedly to move positions between accounts. \$25,000 fine for the individual, \$85,000 for the employer.

CME-12-9055-BC-2

Pre-Arranged Trades

Violation of Rule 432(W)- General Offenses (in part), Rule 534- Wash Trades Prohibited (in part), and (Legacy) Rule 807- Open Long Positions During Delivery Month. On two dates in August 2012, after First Notice Day, a non-member entity, a futures commission merchant acting on behalf of a customer, allegedly placed orders with a CME member floor broker to buy and sell 250 expiring Live Cattle futures contracts for the same customer account. The purpose of the orders was to freshen long futures position dates and delay delivery. The entity knew or reasonably should have known that the purpose of such offsetting orders was to avoid taking a bona fide market position exposed to market risk. In addition, the day after each of these transactions, an employee of the entity manually overrode the default settings of the entity's back-office processing system to provide new trade dates for the contracts instead of netting them out as day trades as was then required after First Notice Day, thereby freshening the positions. Finally, the entity failed to both diligently supervise its employees and adequately educate its employees on the rules. \$70,000 fine.

CME-15-0151-BC

EFRP

Violation of Rule 538(A)- Nature of an EFRP and Market Regulation Advisory Notice Exchange for Related Positions Rule 538 RA 1006-5: (in part). On June 23, 2014, a non-member entity allegedly entered into an Exchange for Related Position ("EFRP") transaction whereby it bought E-mini S&P 500 futures and sold SPDR S&P 500 exchange-traded fund ("SPY") contracts. Contemporaneous with the execution of the EFRP, the entity bought the SPY contracts and sold CBOE September 2014 1950 strike S&P 500 Index ("SPX") Option Combos with the same counterparty. The SPY contracts, used as the related position in the EFRP transaction, were immediately offset. In addition, the execution of the two transactions involving the SPY contracts were not independent transactions exposed to market risk and therefore resulted in a transitory EFRP. \$15,000 fine.

CME 14-9992-BC; 14-9992-BC-2

EFRP

Violation of Rule 538(A)- Nature of an EFRP (Legacy) and Market Regulation Advisory Notice Exchange for Related Positions Rule 538 RA 1006-5: (in part) (Legacy). On August 8, 2013, two non-member entities allegedly entered into a swap agreement consisting of two transactions constituting a spread. The transactions were terminated the next day via an Exchange for Risk (“EFR”) transaction in the Live Cattle futures markets at the same price as the swap agreement, thereby allowing the entities to avoid taking a bona fide market risk. The BCC concluded that the EFR was transitory. \$20,000 and \$15,000 fines.

CME 15-0242-BC; 15-0242-BC-2

EFRP

Violation of Rule 538(C)- Exchange for Related Positions. On June 30, 2015, two non-member entities allegedly executed an EFRP transaction in which the related position transaction was established and offset without the incurrance of market risk. This transaction was transitory in nature and therefore not bona fide. \$15,000 fine each.

NYMEX

NYMEX 11-8625-BC-1; 11-8625-BC-2

Misc.

Violation of Rule 432(L)- General Offenses. A non-member individual allegedly failed to appear for an interview scheduled with Exchange staff. The NYMEX Business Conduct Committee (“BCC”) found the individual to be in violation of Rule 432.L.1 for failing to appear in connection with an investigation. Subsequently, the BCC entered an order finding that the individual had failed to answer the charges and, therefore, had admitted the charges and waived any right to a hearing on the merits. Permanent ban.

NYMEX 12-9153-BC-1; 12-9153-BC-2

Misc.

Violation of Rule 432B.1, B.2, C, L.1- General Offenses, Rule 530- Priority of Customers’ Orders, Rule 532- Disclosing Orders Prohibited, and Rule 576- Identification of Globex Terminal Operators. Allegedly, a non-member individual, while trading on behalf of his wife’s accounts and his employer’s accounts, either 1) initiated a position opposite his employer’s account; 2) offset a position opposite his employer’s account; or 3) front-ran orders subsequently entered for his employer’s account, with the purpose of obtaining a favorable price for his wife’s accounts. The individual allegedly also used his wife’s Tag 50 ID to enter all of the trades associated with her accounts. The BCC considered the fact that the individual had violated the employer’s internal policies and procedures by using confidential and non-public proprietary information for his own benefit. As a result of this conduct, the individual realized profits of \$3,305,366 (\$2,812,126.20 during the time the individual was subject to the jurisdiction of the Exchange). Moreover, the BCC found that the individual declined an interview request by

Market Regulation. \$300,000 fine, disgorgement of profits (\$2,812,126.20), and permanent ban. The individual's wife was also permanently banned from all CME Group exchanges for permitting her husband to use her Tag 50 ID.

NYMEX 15-0221-BC

EFRP

Violation of Rule 538(C)- Exchange for Related Positions Exchange. On March 19, 2015, a non-member entity allegedly entered into an Exchange of Option for Option ("EOO") transaction which did not involve the transfer of ownership of an OTC derivative instrument between the entity and its counterparty. \$15,000 fine.

NYMEX 15-0200-BC-5

EFRP

Violation of Rule 538(C)- Exchange for Related Positions. On January 15, 2015, a non-member entity allegedly entered into an EFRP transaction 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 15-0150-BC-5

EFRP

Violation of Rule 538(C)- Exchange for Related Positions and Rule 432(X)- General Offenses. On August 15, 2014, a member entity allegedly executed one non-bona fide transitory EFRP transaction. In addition, on August 4, 2014, while acting solely as broker for a customer, the entity allegedly erroneously submitted a block trade to the Exchange as an EFRP. \$30,000 fine.

NYMEX 15-0069-BC

EFRP

Violation of Rule 432(B.2), (W)- General Offenses and 538(B)-(C)- Exchange for Related Positions. On numerous occasions between April 27, 2010 and August 20, 2014, a non-member individual allegedly received futures orders from a customer and transacted the orders via EFRPs opposite an affiliated company. The BCC found that the EFRP transactions did not involve independently controlled accounts as the individual employed power of attorney over the customer's account and owned and controlled the affiliated company's account, and the last EFRP transaction also did not involve the transfer of a related position. \$145,000 fine, \$155,799 in disgorgement, and 15 day suspension.

NYMEX 14-0059-BC

Disruptive Trading

Violation of Rule 575(A)- Disruptive Practices Prohibited. On several trade dates between September 15, 2014 and January 23, 2015, a non-member individual allegedly engaged in a pattern of activity in which he entered large manual orders in Platinum and Palladium contracts

without the intent to trade. Specifically, the individual entered these large orders to encourage market participants to trade opposite his smaller orders that were resting on the opposite side of the book. After receiving a fill on his resting smaller orders, the individual would then cancel the large orders he had entered on the opposite side of the order book. \$25,000 fine and 15 day suspension.

CBOT

CBOT 13-9285-BC

Pre-Arranged Trades

Violation of Rule 432- General Offenses and Rule 534- Wash Trades Prohibited. Allegedly, a member firm, on multiple dates between July 2012 and March 2013, operated an ATS that executed numerous transactions over several days wherein the orders frequently self-matched, at times comprising 100% of the individual strike's market volume. These self-matches occurred allegedly because of ATS configuration errors, which were compounded by the entity's failure to employ effective functionality to minimize self-matches and failure to diligently supervise its traders to ensure conduct consistent with the rules. \$75,000 fine.

CBOT 15-0138-BC

Pre-Arranged Trades

Violation of Rule 521- Requirements for Open Outcry Trades (in part) and Rule 539(a)- Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited (in part). On January 6, 2015, while in the 10-Year Treasury Note Options on Futures pit, a member individual, prior to receiving instructions to sell 1,000 contracts, non-competitively, allegedly traded the 1,000 contracts opposite another broker without offering his order in a manner consistent with open and competitive trades. \$7,500 fine and 15 day suspension.

CBOT 14-9791-BC

Block Trade

Violation of Rule 432(W)- General Offenses (in part), Legacy CBOT Rule 526(F)- Block Trades (in part), CME & CBOT Market Regulation Advisory Notice RA 1307-3 (in part)- 5(b)- Reporting Obligation (in part) and 10- Use of Nonpublic Information Regarding Block Trades. On six days between November 2013 and January 2014, three traders for a member entity allegedly entered into separate transactions with third parties prior to consummating the block trade with the counterparty. Specifically, after receiving solicitation of a block trade, but prior to consummating the block trade with the counterparty, the entity executed a separate block trade with a liquidity provider in the same product and on the same side of the market as the customer's proposed block trade in order to hedge the trade ultimately executed opposite the customer. As a result of this activity, the entity realized profits in the amount of \$19,502.50. In addition, the entity failed to report some of the block trades within the specified time period following execution and reported inaccurate execution times. The entity also failed to diligently supervise its traders. \$100,000 fine and \$19,502.50 in disgorgement.

CBOT 14-9977-BC

Disruptive Trading

Violation of Rule 432(Q), (T)- General Offenses (in part) and Rule 575(A), (D)- Disruptive Practices Prohibited (in part). On one or more occasions between October 1, 2013 and June 4, 2015, a non-member individual allegedly entered orders on Globex during the pre-opening period for the purpose of identifying the depth of the order book. The entry and cancellation of these orders caused variations in the publicly displayed Indicative Opening Price. \$15,000 fine and 40 day suspension.

CBOT 13-9350-BC-2

EFRP

Violation of Rule 538(A)- Nature of an EFRP (LEGACY) and Market Regulation Advisory Notice Exchange for Related Positions Rule 538 RA 1006-5: (in part) (LEGACY). On March 7, 2013, a non-member entity allegedly bought an OTC put swaption contract opposite another party. Contemporaneous with the execution of the OTC put swaption, the entity entered into an Exchange traded Wheat calendar spread put option transaction via an EOO transaction opposite the same party. The execution of the EOO thereby terminated the swaption, offset the cash component of the EOO, and allowed the entity to establish a short futures position without market risk. The execution of the EOO and swaption transactions constituted a transitory EFRP, which is prohibited in agricultural products. \$25,000 fine.

CBOT 15-0225-BC

EFRP; Pre-Arranged Trades

Violation of Rule 538(A)- Nature of an EFRP (LEGACY) and Rule 534- Wash Trades Prohibited. On July 3, 2014, a member entity allegedly executed an Exchange for Physical (“EFP”) transaction in the Corn Futures market that consisted of a simultaneous exchange of a futures position without the exchange of a related cash position. In addition, the entity executed this transaction for the purpose of transferring positions between the entity and a related entity, and that the entity maintained ownership and control of the accounts on both sides of the transaction. \$25,000 fine.

CBOT 15-0205-BC

EFRP

Violation of Rule 538(A)- Nature of an EFRP (LEGACY) and Market Regulation Advisory Notice Exchange for Related Positions Rule 538 RA 1006-5: (in part) (LEGACY). On March 28, 2013, a non-member entity allegedly entered into an EOO transaction in the Corn options on futures market. The related position of the EOO consisted of three OTC swaption contracts that were settled the same day without market risk. The Panel found that the execution of the EOO and the OTC swaptions transactions constituted a transitory EFRP, which is prohibited in agricultural products. \$15,000 fine.

COMEX

COMEX 14-0059-BC

Disruptive Trading

Violation of Rule 575(A)- Disruptive Practices Prohibited. On several trade dates between September 15, 2014 and January 23, 2015, a non-member individual allegedly engaged in a pattern of activity in which he entered large manual orders in Gold and Silver contracts without the intent to trade. Specifically, the individual entered these large orders to encourage market participants to trade opposite his smaller orders that were resting on the opposite side of the book. After receiving a fill on his resting smaller orders, the individual would then cancel the large orders he had entered on the opposite side of the order book. \$20,000 fine and 15 day suspension.

**If you have any questions about the information contained in this month's report, please contact: [David Perlman](#), [Michael Brooks](#), [Bob Pease](#), [Jennifer Gordan](#) or [Chelsea Carbone](#).