

INSIGHTS

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

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ICE

2014-033 & 2015-085

Disruptive Trading; Spoofing

Violation of Rule 4.02(e)(i), 4.02(e)(iv) [Current Rule 4.02(l)(2)], Rule 4.02(h) [Current Rule 4.02(l)(1)(C), and 4.02(k)(2)(C) – Trade Practice Violations and Rule 4.01 – Duty to Supervise. On January 23, 2014, a trader allegedly engaged in a pattern of trading activity where he created order book imbalances in the Cotton No. 2 futures market (“CT”) by entering multiple 500-lot March 2014 (“H14”) CT orders at different price levels at the same time he was entering smaller orders on the opposite side of the H14 CT market, creating market pressure and misleading market participants into trading opposite the small orders. The trader would subsequently cancel or amend the large orders shortly after the small orders transacted on the opposite side of the market. In addition, in a separate incident on July 28, 2014, the trader entered an order with the benefit of information gained during a pre-execution communication. Specifically, the trader had knowledge, through pre-execution communications, that the counterparty to an OTC swap transaction was going to hedge such transaction by selling March 2015 (“H15”) CT futures. Once the counterparty entered the order to sell the futures, the trader immediately entered an order to buy futures, knowingly trading opposite the OTC counterparty. \$80,000 penalty paid by the trader’s employer, and the employer and trader agreed to a six month denial of access to trade directly or indirectly in any of the Exchange’s markets and to a cease and desist.

NYMEX

NYMEX 15-0139-BC

Misc.

Violation of NYMEX Rule 432 – General Offenses, NYMEX Rule 530 – Priority of Customers’ Orders, and NYMEX Rule 532 – Disclosing Orders Prohibited. Allegedly on several occasions between December 2014 and March 2015, a non-member individual executed multiple transactions between his personal trading account and the account he traded for his employer.

In particular, the individual allegedly traded ahead of his employer's account by entering orders and executing trades for his personal account and then offsetting those trades opposite the employer's account, profiting in the amount of \$236,530. In addition, the individual, through his counsel, declined to be interviewed by Exchange staff when requested. \$100,000 fine, \$236,530 in disgorgement, and 3 year suspension.

NYMEX 16-0394-BC

Misc.

Violation of NYMEX Rule 716 – Duties of Clearing Members. On February 29, 2016, the last day for the physically settled March 2016 RBOB Gasoline Futures contract (“MAR16 RB”), a member entity allegedly carried a position of one long contract for one of its customer through the expiration of trading in MAR16 RB. The entity allegedly did not ensure that the customer's position was liquidated prior to the expiration of trading. \$15,000 fine.

NYMEX 15-0087-BC-6

EFRP

Violation of NYMEX Rule 432.X – General Offenses. On August 27, 2014, a non-member entity, in its capacity as a broker, allegedly executed an Exchange for Related Position (“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 the counterparties. As a result, the EFRP transactions violated Rule 538.C. \$20,000 fine.

NYMEX 15-0254-BC-2

EFRP

Violation of Rule 538.C – Exchange for Related Positions. On January 8, 2015, a member entity allegedly executed an EFRP transaction in which the related position for the transaction appears to have been offset in a manner designed to avoid material market risk. The transaction was transitory in nature and therefore not bona fide. \$30,000 fine.

NYMEX 15-0143-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited. On several occasions in April 2015, a non-member individual allegedly engaged in a pattern of activity in which he entered layered manual orders in Crude Oil and Natural Gas contracts without the intent to trade. Particularly, the individual allegedly entered these layered 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 layered orders he had entered on the opposite side of the order book. \$15,000 fine and 20 day suspension.

CBOT

CBOT 14-9835-BC

Pre-Arranged Trades

Violation of Rule 534 – Wash Trades Prohibited (in part). On several occasions between March

and December of 2013, a member individual allegedly executed several wash trades involving Soybean, Corn and Wheat futures and options on futures contracts on Globex. The individual allegedly entered the orders in order to move positions between his accounts or to satisfy margin requirements, and he knew or reasonably should have known that the buy and sell orders would trade opposite orders placed for accounts with common beneficial ownership. \$30,000 fine and 10 day suspension.

CBOT 14-9940-BC

Block Trades

Violation of Rule 526.F – Block Trades. On January 13, 2014, a member entity allegedly executed a block trade in the March 2014 5-Year Note contract that was not reported to the Exchange within the applicable time limit following execution. In addition, the entity allegedly reported an inaccurate time of execution of the block trade and, after agreeing to sell to the customer at one price, the entity reported to the Exchange that the block trade was executed at a different, lower price. \$30,000 fine.

CBOT 15-0138-BC-2

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 allegedly non-competitively traded 1,000 contracts opposite another broker within the same brokerage group without bidding his order in a manner consistent with open and competitive trades. Allegedly, after the individual openly bid for and traded 900 contracts opposite the other broker, he received instructions to sell another 1,000 contracts. The individual subsequently told the other broker that they traded 1,900, rather than 900, contracts. \$10,000 fine and 15 day suspension.

CBOT 14-9995-BC

Spoofing

Violation of Rule 432.Q and 432.T – General Offenses (in part). On at least one occasion between August 2013 and September 2014, a member individual allegedly entered orders in Oats futures contracts on the Globex electronic trading platform during the pre-opening session. Allegedly, these orders were not made in good faith for the purpose of executing bona fide transactions. The entry and cancellation of these orders caused fluctuations in the publicly displayed Indicative Opening Price (“IOP”). \$17,500 fine and 20 day suspension.

CBOT 15-0204-BC and 15-0204-BC-2

EFRP

Violation of Rule 538.A (Legacy) – Nature of an EFRP and MRAN RA1006-5 - Exchange for Related Positions. Allegedly, on March 6, 2014, a non-member entity executed two EFRP transactions in which the related position for the transactions were offset in a manner that did

not involve material market risk. Additionally on March 6, 2016, another non-member entity allegedly executed two contingent EFRP transactions in which the related positions for the transactions were designed to avoid material market risk. Therefore, these transactions were transitory in nature and not bona fide. \$15,000 fine for the first entity and \$20,000 fine for the second entity.

COMEX

COMEX 15-0143-BC

Disruptive Trading

Violation of 575.A – Disruptive Practices Prohibited. Allegedly, on several dates in April 2015, a non-member individual engaged in a pattern of activity in which he entered layered manual orders in Gold, Copper and Silver contracts without the intent to trade. Allegedly, the individual entered these layered 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 layered orders he had entered on the opposite side of the order book. \$20,000 fine and 20 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 Gordon](#) or [Chelsea Carbone](#).