

INSIGHTS

## U.S. Futures Exchanges Disciplinary Actions Report - September 2017

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*The Bracewell U.S. Futures Exchanges Disciplinary Actions Report is a monthly report that provides summaries of certain disciplinary notices by U.S. exchanges during the prior month. The report has a particular focus on notices potentially relevant to energy commodities and is not intended to be a comprehensive review of each and every notice issued. Instead, the report is intended to provide market participants, and compliance personnel in particular, with illustrative examples of rule violations and to bring to light enforcement trends across the exchanges.*

### **COMEX**

#### **COMEX 15-0261-BC-1**

*Misc.*

Violation of Rule 432 – General Offenses

Pursuant to a settlement offer, a BCC Panel found that on multiple dates from July 2015 through September 2015, an employee of a non-member entity engaged in disruptive trade practices in Gold and Silver futures. The entity failed to be familiar with Exchange Rules, failed to provide the employee appropriate training on Exchange rules, and failed to oversee and review the employee's trading strategies. \$30,000 fine.

#### **COMEX 16-0434-BC-1, 2 & 3**

*Disruptive Trading*

Violation of Rule 432.W. – General Offenses (in part), Rule 575.A – Disruptive Practices Prohibited (in part)

Pursuant to settlement offers, a Business Conduct Committee panel ("BCC Panel" or "Panel") found that on certain dates between December 2015 and April 2016, two non-member traders engaged in a pattern of trading activity in which they entered multiple large orders in the Silver Futures contract market without the intent to trade, but rather, to encourage market participants to trade opposite the smaller orders entered by the traders that were resting on the opposite side of the order book. The traders cancelled the large orders after receiving a fill on the smaller orders. The non-member entity employing the traders failed to provide instruction or guidance to its traders on Exchange rules and regulations and failed to supervise their trading activities to ensure compliance. In connection with this case and companion case NYMEX 16-0434: Non-member entity was fined \$55,000 (\$35,000 of which was allocated to COMEX); non-member trader 1 was fined \$7,000 (\$5,000 of which was allocated to COMEX) and a 3-month suspension; and non-member trader 2 was fined \$5,000 (\$3,000 of which was

allocated to COMEX) and a 6-month suspension. The Panel took financial condition into account when levying the fines against the traders.

## **NYMEX**

### **NYMEX 15-0294-BC**

*Misc.*

Violation of Rule 561.A – Large Trader Reporting (in part)

Pursuant to a settlement offer, a BCC Panel found that between 2009 and September 2015, a member entity failed to submit a daily large trader position report of all positions in its accounts that were at or above the reportable level in various energy products. The reason for such failure was the entity's inability to accurately map some options contracts for some futures to the related futures contracts. Because of the mapping failure, when a futures position became reportable, the entity failed to include the positions for the related options in the large trader position file. Likewise, when options on a futures position became reportable on an account, the positions for the related futures contract were not reported in the large trader position file. The Panel took into consideration that the entity self-reported the activity. In connection with this case and companion case CME 15-0294-BC, \$100,000 fine (\$25,000 allocated to NYMEX).

### **NYMEX 16-0434-BC-1, 2 & 3**

*Disruptive Trading*

Violation of 432.W – General Offenses (in part), Violation of Rule 575.A – Disruptive Practices Prohibited (in part)

*See summary above in COMEX 16-0434-BC-1, 2 & 3.*

### **NYMEX 16-0570-BC**

*Position Limits*

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a BCC Panel found that on trade date November 28, 2016, a non-member entity carried a futures equivalent net long position in December 2016 Henry Hub Natural Gas Look-Alike Last Day Financial Futures that was 43.963% (879.25 contracts) in excess of the hedge exemption approved for the trade date. The entity liquidated its overage, resulting in profits of \$17,400. \$25,000 fine and disgorgement of \$17,400 in profits.

### **NYMEX 17-0652-BC**

*Position Limits*

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a BCC Panel found that on February 21, 2017, a non-member entity carried a futures equivalent short position in March 2017 Henry Hub Natural Gas Futures that was at 93.9% (939 contracts) over the standard expiration month limit. \$32,500 fine.

## **CME**

**CME 15-0249-BC***Disruptive Trading*

Violation of Rule 575.D – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that between March 2015 and June 2015, a non-member entity accumulated a short position of 378 contracts in the June 2015 NASDAQ 100 futures market. Despite receiving several notifications from CME regarding the upcoming delisting and cessation of trading of the NASDAQ 100 futures contract scheduled for June 18, 2015, and despite the short position and lack of liquidity in the market, the entity waited until a few minutes prior to the close of regular trading on June 18 to place a Market on Close order for all of the contracts. The execution of the order resulted in price and volume deviations in the market in both the pit and on Globex. \$50,000 fine.

**CME 15-0294-BC***Misc.*

Violation of Rule 561 – Large Trader Reporting (in part)

*See summary above in NYMEX 15-0294-BC.***CME-16-492-BC***Misc.*

Violation of Rule 432 – General Offenses; Rule 522 – Acceptance of Bids and Offers

Pursuant to a settlement offer, a BCC Panel found that a member acting as a desk clerk received a non-held order to buy 385 contracts in the S&P 500 Stock Price Index futures market, relayed the order to a floor broker, who then actually bought 435 contracts at various prices. Realizing the mistake (overbought 50 contracts) and noticing that the S&P futures price had declined, the member desk clerk authorized the floor broker to assign the surplus 50 contracts to the broker's error account at the lowest purchase price. This action denied the customer the best purchase price. \$20,000 fine (taking into consideration that the customer had been reimbursed for the loss) and 15-day suspension.

**CBOT****CBOT-15-0302-BC***Disruptive Trading*

Violation of Rule 575 – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on two dates in October 2015, a non-member trader entered multiple orders involving User Defined Spreads in covered Soybean options to avoid future contracts allocations that should have been associated with the covered options instrument. The under-allocation favored the trader, due to the price difference between the UDS futures and the outright futures. \$5,000 fine (taking into consideration financial condition) and 30-day suspension.

**CBOT-16-0416-BC***Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that between September 2015 and April 2016, a non-member trader entered multiple layered orders on one side of one or more of the 5-Year U.S. Treasury Note futures, 10-Year Treasury Note futures and 30-Year U.S. Treasury Bond futures markets without the intent to trade the orders. The trader would then place smaller orders on the opposite side of same market or correlated CBOT futures market. He would cancel the layered orders once the smaller orders on the opposite side traded. \$50,000 fine, disgorgement of \$5,296.88 in profits, and four-week suspension.

#### **CBOT-16-0487-BC**

##### *EFRP*

Violation of Rule 538 – Exchange for Related Positions (in part)

Pursuant to a settlement offer, a BCC Panel found that on October 26, 2015, a member entity facilitated the execution of two Exchange for Related Position (“EFRP”) transactions in the 10-Year U.S. Treasury Note futures market that were contingent upon each other for the purpose of rebalancing positions, which offset the related position without the incurrence of material market risk. The related position also was not approximately equivalent to the quantity of the Exchange component of the EFRP. \$25,000 fine.

#### **CBOT-17-0707-BC**

##### *Position Limits*

Violation of Rule 562 – Position Limit Violations (in part)

Pursuant to a settlement offer, a BCC Panel found that on May 2, 2017, a member trader exceeded the position limit in effect of 600 contracts for Corn futures by .5% (3 contracts). The trader did not profit from liquidating the overage. \$5,000 fine.

#### **ICE**

#### **2017-003**

##### *Disruptive Trading*

Violation of Rule 4.02(c) – Trade Practice Violations

Pursuant to a settlement offer, a BCC Panel found that on several trade dates between January 2016 and July 2016, an entity executed wash sales for the purpose of moving positions between common control/ownership accounts. The positions could have been moved properly by back-office transfers. \$7,500 fine and cease and desist.

\*\*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 [Ryan Eletto](#).