

INSIGHTS

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

May 11, 2016

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ICE FUTURES U.S.

2015-025

Spoofing

Violation of Rule 4.02(I) – Trade Practice Violations. Allegedly, an individual engaged in a pattern of trading activity in the Coffee “C” (“KC”) Futures market between March 2015 and May 2015 where numerous order book imbalances were created wherein he entered a small order relative to market conditions to buy or sell at the best price on one side and a large order to sell or buy on the opposite side of the market. Once the small order transacted, often the individual would cancel the larger order on the other side of the market. The individual engaged in the spoofing to get better prices for a hedge position, i.e. the spoofing benefitted the price of KC futures he put on to hedge KC options positions that he held. \$81,928.75 penalty, \$8,081.25 disgorgement of profit made on hedge positions (calculated by taking difference between the best bid/offer prior to the entry of the large order that was ultimately cancelled and the fill price the individual received for the small order), and 10 day suspension.

NYMEX

NYMEX 15-0117-BC

Misc.

Violation of Rule 432.Q and 432.W – General Offenses. A member entity allegedly had an employee inadvertently fail to deactivate an ATS which employed an auto spreader strategy before activating a second ATS which was neither designed nor intended to run simultaneously. The error allowed the two strategies to respond to each other, which resulted in continuous purchases by the auto spreader strategy, quickly escalating the price of the June15-Dec15 Crude Oil Spread. This prompted a Velocity Logic event, i.e. a temporary pause in trading when the market moves a predetermined number of ticks up or down within a predefined time. \$115,000 penalty.

NYMEX 15-0200-BC-1, NYMEX 15-0200-BC-3, and NYMEX 15-0200-BC-4

EFRP

Violation of Rule 538 – Exchange for Related Positions and 538. C – Related Position. On several occasions between December 2014 - February 17, 2015, three non-member entities allegedly

entered into 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 non-members and their counterparties. Therefore, they were not bona fide EFRPs. \$25,000, \$15,000 and \$15,000 penalties.

NYMEX 15-0200-BC-2

EFRP

Violation of Rule 432.X – General Offenses. On December 1, 2014, December 15, 2014, January 15, 2015, and February 17, 2015, a non-member entity, in its capacity as a broker, allegedly executed 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 of the entity’s conduct, the counterparties entered into EFRP transactions that violated Rule 538.C. \$25,000 penalty.

NYMEX 14-0037-BC-2

EFRP

Violation of Rule 432.X – General Offenses. On August 14, 2014, a non-member entity, in its capacity as a broker, allegedly executed 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 counterparties. As a result of the entity’s conduct, the counterparties entered into an EFRP transaction that violated Rule 538.C. \$15,000 penalty.

NYMEX 14-9933-BC

Spoofing

Violation of Rule 432 – General Offenses (in part). On multiple trade dates during the time period from June 2013 through June 2014, a member individual allegedly entered numerous orders in Natural Gas futures contracts without the intent to trade. Specifically, the individual entered orders to obtain fills on the smaller orders he had placed on the opposite side of the order book. After receiving a fill on his smaller orders, the individual would cancel the resting orders he had entered on the opposite side of the order book, within approximately one second. Furthermore, allegedly during that same time period, the individual placed a number of orders opposite his resting stop orders with the purpose and effect of preventing the election of those stop orders. \$200,000 penalty and 15 day suspension.

NYMEX 15-0213-BC-1

EFRP

Violation of Rule 538 – Exchange for Related Positions and 538. C – Related Position. On January 5, 2015 and March 3, 2015, a member entity allegedly executed several EFRP transactions in various energy products in which the related position for each transaction was offset to avoid material market risk. These transactions were transitory in nature and therefore non-bona fide. \$50,000 penalty.

NYMEX 15-0254-BC-1

EFRP

Violation of Rule 538 – Exchange for Related Positions and 538. C – Related Position. On January 8, 2015, a non-member entity allegedly executed a contingent EFRP transaction in which the related position for the transaction was offset in a manner designed to avoid material market risk. The transaction was transitory in nature and therefore non-bona fide. \$20,000 penalty.

COMEX

COMEX 15-0103-BC-1 and COMEX 15-0103-BC-2

Disruptive Trading

Violation of Rule 432.I – General Offenses (in part) and 575.A. Disruptive Practices Prohibited. On multiple trade dates during the time period of January 2015 and April 2015, two non-member individuals allegedly engaged in disruptive trading activity, individually, as well as in a coordinated fashion, by entering orders in Gold and Silver futures contracts without the intent to trade. Specifically, the individuals layered orders on one side of the market and then cancelled them a few seconds after resting orders on the opposite side of the book were executed. Additionally, the individuals made verbal material misstatements to Exchange employees concerning the entries of such orders. Finally, one individual permitted another to enter such orders using his own Tag50. \$100,000 penalty for the individual who permitted use of his own Tag50, \$90,000 penalty for the other individual, and a permanent ban for both individuals.

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