

INSIGHTS

U.S. Futures Exchanges Disciplinary Actions Report - June 2017

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NYMEX

NYMEX 16-0498-BC

Position Limit

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a Business Conduct Committee panel (“BCC Panel”) found that on July 27, 2016, a non-member entity held a futures equivalent long position of 1,159.25 contracts in August 2016 Henry Hub Natural Gas Look-Alike Last Day Financial Futures, which was 159.25 contracts, or 15.925%, beyond the standard expiration month limit. As a result, the non-member entity may have violated Rule 562. \$50,000 fine.

NYMEX 16-0600-BC

Misc.

Violation of Rule 432 – General Offenses, Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a BCC Panel found that in December 2016 and January 2017, a member entity’s traders submitted Trading at Settlement orders in various products with incomplete values in the Sender Location I.D. field of its order messages to obtain a queue advantage, despite an instruction to cease this practice. Upon reaching a certain position in the queue, the member entity modified its order messages to correct the incomplete data. The member entity failed to supervise its traders and failed to ensure that the registration for its traders accessing the Globex system was current, accurate, and unique to each individual. \$125,000 fine.

NYMEX 16-0597-BC

Position Limit

Violation of Rule 562 – Position Limit Violations

Pursuant to settlement offer, a BCC Panel found that on December 19, 2016, a member entity reached an open January 2017 Crude Oil Futures contract futures position of 4,562 long contracts, which was 1,562 contracts, or 52.06%, over the standard 3,000 contract position limit. The member entity earned a profit of \$11,560.20. \$25,000 fine and \$11,560.20 disgorgement of profits.

CBOT

CBOT 14-9994-BC

Disruptive Trading

Violation of Rule 432 – “General Offenses” (in part), and Rule 575 – Disruptive Practices Prohibited (in part)

Pursuant to a settlement offer, a BCC Panel found that on certain days between March and October 2014, a member entered orders in the Wheat, Corn, Soybean, KC Wheat, and E-mini Dow futures contract markets with no intent to trade those orders. The Panel found that the member placed multiple larger orders on one side of the market, placed only one small order on the other side, and canceled the larger orders after trading the smaller order. The Panel found that the strategy was designed to influence other market participants’ trading patterns. The Panel concluded that the member may have violated Rules 432.B.2, 432.Q and 432.T, and Rule 575.A. \$60,000 fine, disgorgement of \$32,299.57 in profits, and 120-day suspension.

CBOT 16-0574-BC

Position Limit

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

Pursuant to settlement offer, a BCC Panel found that on November 29, 2016, a member’s account held an end of day position of 900 contracts short in December 2016 Soybean Oil futures, which surpassed the spot month speculative position limit of 540 contracts by 360 contracts, or approximately 66%. The next morning, after being notified of the limit violation, the member liquidated the overage to come into compliance, suffering a loss. The panel found that the member may have violated CBOT Rule 562. \$30,000 fine and 10-day suspension.

CBOT 16-0578-BC

Position Limit

Violation of Rule 562 – Position Limit Violations

Pursuant to settlement offer, a BCC Panel found that at the close of business on November 29, 2016, a member entity held a long futures position of 1,702 December 2016 Corn futures contracts, which was 1,102 contracts (184%) beyond the spot month position limit. On November 30, 2016, the member entity liquidated its surplus to attain compliance and did not profit from such liquidation. The panel concluded that the member entity may have violated CBOT Rule 562. \$40,000 fine.

CBOT 17-0661-BC

Position Limit

Violation of Rule 562 – Position Limit Violations

Pursuant to settlement offer, a BCC Panel found that on February 28, 2017, a member entity held a futures position of 660 short March 2017 Soybean contracts which was 60 contracts (10%) over the spot month maximum. The member entity gained a profit of \$124.20 from the liquidation of its excess position. During the past five months, this member entity has had three position limit violations. \$35,000 fine and disgorgement of \$124.20 in profits.

CME

CME 15-8683-BC

Misc.

Violation of Rule 536.B.2 – Recordkeeping Requirements for Pit, Globex, and Negotiated Trades (in part), Rule 432.L.2 – General Offenses

Pursuant to a settlement offer, a BCC Panel found that during 2014, a member entity failed to maintain audit trail data that contained all required fields, such as order receipt, order entry, order modification, and response receipt times. The member entity stated to Market Regulation that it had maintained or caused to be maintained audit trail data with all the proper elements for five years, which was false. The Panel concluded that the member entity may have violated CME Rules 536.B.2. and 432.L.2. \$40,000 fine.

CME 16-0369-BC-1

Pre-Arranged Trades

Violation of Rule 515 MRN RA1602-2, Rule 521 – Requirements for Open Outcry Trades (in part), Rule 539 – Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that on multiple occasions between September 2015 and December 2016, customer orders executed between a member and other brokers in his association were improperly documented as resulting from best and only bids and offers (“B&O”). The documents related to these trades failed to comply with one or more of the documentation requirements for Rule 515. Further, the panel found that on September 23, 2015, the member executed a portion of his 5,000-lot sell order without bidding or offering his order in a manner consistent with open and competitive trades. The panel concluded that the member may have violated CME Rules 515, 521, and 539.A. \$15,000 fine and 20 business-day suspension.

CME 16-0369-BC-2

Pre-Arranged Trades

Violation of Rule 515 – Registration and Identification of Broker Associations, Rule 515 – MRAN RA 1602-2, Rule 521 – Requirements for Open Outcry Trades (in part), Rule 539 – Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between September 2015 and December 2016, a member failed to diligently supervise his association’s member registrants and non-member employees. On several occasions between September 2015 and December 2016, customer orders executed in his association were improperly documented as resulting from B&O. The trading documents related to these trades failed to comply with one or more of the Rule 515 documentation requirements. Additionally, the Panel found that on one or more occasions, a non-member employee retroactively endorsed trading documents as B&O. Further, on one or more occasions, two non-member employees of the member’s association dishonestly endorsed and submitted trading documents with witness signatures that the purported witness did not endorse. Moreover, the Panel found that on September 23, 2015, the member executed a 2,000-lot buy order without offering his order in a manner consistent with open and competitive trades. The Panel concluded that the member may have violated

CME Rules 515, 521, and 539.A. \$77,500 fine, 40 business-day suspension, and member jointly liable for the payment of any fines assessed against another principal, registrant or employee of his association.

CME 16-0369-BC-3

Misc.

Violation of Rule 432 – General Offenses and Rule 515 MRAN RA1602-2

Pursuant to a settlement offer, a BCC Panel found that between September 2015 and December 2016, a non-member who acted as a runner and trade checker for a brokerage association impermissibly documented customer orders in his broker association as resulting from B&O. The documents related to these trades failed to comply with one or more of the Rule 515 documentation requirements. Further, on multiple occasions, the non-member and another non-member employee of the broker association dishonestly endorsed and submitted trading documents with witness signatures that each purported witness did not endorse. The panel concluded that the non-member may have violated CME Rules 432.C. and 515. \$30,000 fine and 2-year suspension.

CME 16-0369-BC-4

Pre-Arranged Trades

Rule 515 – Registration and Identification of Broker Associations, Rule 515 MRAN RA1602-2

Pursuant to a settlement offer, a BCC Panel found that between September 2015 and December 2016, a member failed to diligently monitor his association's member registrants and non-member employees. On a multitude of occasions between September 2015 and December 2016, customer orders executed in the member's association were improperly documented as resulting from B&O. The trading documents failed to comply with one or more of the Rule 515 documentation requirements. Additionally, the panel found that, after the association was notified that it had surpassed the intra-association order monthly limit, a non-member employee retroactively represented that certain trading documents were B&O. Further, during this time, two non-member employees of the member's association dishonestly endorsed and submitted trading documents with witness signatures that the purported witness did not endorse. The panel concluded that the member may have violated CME Rule 515. \$47,500 fine, 30-day suspension, and member jointly liable for payment of fines against another principal, registrant or employee of his association.

CME 16-0369-BC-5

Misc.

Violation of Rule 515 MRAN RA1602-2

Pursuant to a settlement offer, a BCC Panel found that between September 2015 and December 2016, customer orders executed between a member and other brokers in his association were improperly documented as resulting from B&O. The trading documents did not comply with Rule 515 documentation requirements. The Panel concluded that the member may have violated CME Rule 515. \$10,000 fine and 5 business-day suspension.

CME 16-0562-BC

EFRP

Violation of Rule 538.C – Related Position

Pursuant to a settlement offer, a BCC Panel found that on April 5, 2016, a non-member entity entered into an Exchange for Related Position (“EFRP”) in which the entity purchased E-mini S&P 500 futures contracts and sold SPDR S&P 500 exchange-traded fund (“SPY”) contracts. At the same time, the non-member entity bought the SPY contracts and sold certain option combinations in exchange with the same counterparty. The consequence was a related position in the EFRP transaction (the SPY contracts) which offset without incurring market risk. The Panel concluded that the non-member entity may have violated CME Rule 538.C. \$15,000 fine.

ICE

2016-037

Misc.

Violation of Rule 4.01 – Duty to Supervise, Rule 4.04 – Conduct Detrimental to the Exchange

A subcommittee of the Business Conduct Committee (“BCC”) found that an individual may have violated Rule 4.04 when he operated and had a duty to monitor an automated trading system (“ATS”) that malfunctioned. The malfunction of the ATS caused erroneous buy and sell orders to be entered and cancelled on the Electronic Trading System (“ETS”). By failing to diligently supervise the activity that led to this malfunction, the individual may have violated Rule 4.01. Pursuant to settlement, \$20,000 penalty and cease and desist.

2016-069

Block Trading

Violation of Rule 4.07(a)(i), (d) – Block Trading, Rule 6.07(a)(ii) – General Records Requirements

A subcommittee of the BCC found that between November 2015 and August 2016 an entity may have violated Rule 4.07(d) by failing to perform due diligence on certain client accounts engaged in Block Trades and Rule 6.07(a)(ii) by failing to properly record Block Trades on certain client account statements. The subcommittee further found that the specific client at issue may have violated Rule 4.07(a)(i) by not being an eligible contract participant in the Block Trades executed. Pursuant to settlement with the executing entity, \$100,000 penalty, implementation of procedures to verify eligible contract participant status before allowing Block Trades, and cease and desist. Pursuant to settlement with the client, \$20,000 penalty and cease and desist.

2016-085

Misc.

Violation of Rule 2.21(a) – FCM Member Firm Financial and Reporting Requirements

A subcommittee of the BCC found that a member firm may have violated Rule 2.21(a) by failing to submit a copy of its independently certified financial statement within the proper timeframe. Pursuant to settlement, \$10,000 penalty 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](#).**