

INSIGHTS

U.S. Futures Exchanges Disciplinary Actions Report - October 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. The disciplinary notices cited in this report can be found at www.cmegroup.com and www.theice.com/futures-us/notices.

CME

CME-14-9944-BC-2

Pre-Arranged Trades

Violation of Rule 432.G – General Offenses (in part)

Following a merits hearing, a BCC Panel issued a written decision finding that between May 2014 and July 2014, a non-member individual prearranged the execution of 13 round-turn transactions with Trader A, resulting in 41 trades with a total of 56 contracts in various illiquid FX option instruments for the purpose of transferring \$19,527.50 from accounts controlled by Trader A to two of the individual's accounts. The Panel also found that during the three-month period at issue, the trades between the individual and Trader A were executed in illiquid back month FX contracts. The orders were placed opposite each other for the same price and in most instances for the same quantity. Out of the 188 orders placed by Trader A, the Globex match engine rejected 145 because they fell outside of the Exchange's existing price band, resulting in a 2179 error code, which was sent only to Trader A and would not have been known to any other market participant, including the individual. The Panel further found that moments after Trader A received the error code, the individual modified his existing orders to either increase or decrease his order price or cancelled his order and re-entered a new order within the price band limits. Based on these facts, the Panel determined that the trading was prearranged for the purpose of transferring equity between the accounts.

An appellate panel issued a decision affirming the decision of the BCC Panel. \$25,000 fine, disgorgement of \$19,527.50, and 35-business-day suspension.

CME-16-0395-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited (in part)

A BCC Panel found that on multiple occasions between September 2014 and March 2016, a

member individual engaged in a pattern of activity in which he entered large manual orders in the E-Mini NASDAQ and E-Mini S&P 500 futures contract markets without the intent to trade those orders. The individual would enter large orders on one side of the market and cancel those orders after resting iceberg orders on the opposite side of the market executed, in whole or part. Pursuant to a settlement, \$75,000 fine and 3-week suspension.

CME-16-0420-BC

Disruptive Trading

Violation of Rule 575.A - Disruptive Practices Prohibited

A BCC Panel found that on multiple dates between August 2015 and April 2016, a non-member individual entered and cancelled orders in the September 2015, December 2015, and June 2016 E-Mini futures contract without the intent to trade the orders. The individual placed large orders on one side of the market while having smaller orders on the opposite side of the market. Once the smaller orders began to trade, the large orders were cancelled. Pursuant to a settlement, \$35,000 fine and 30-business-day suspension.

CME-17-0658-BC

EFRP

Violation of Rule 538.C – Related Position

A BCC Panel found that on several occasions between January 2016 and June 2016, a member firm, acting as a broker, executed certain Exchange for Related Position (“EFRP”) transactions in E-mini NASDAQ 100 futures and E-mini S&P 500 futures contracts that were contingent upon the execution of other EFRP transactions. The transactions were entered without the incurrance of material market risk. Pursuant to a settlement, \$70,000 fine.

CBOT

CBOT-16-0421-BC-2

EFRP

Violation of Rule 538.C – Related Position

A BCC Panel found that on March 1, 2016, a member firm, acting as a broker, executed certain EFRP transactions in U.S. Treasury futures contracts that were contingent upon the execution of other EFRP transactions. The firm placed the orders for the EFRPs on behalf of its customer for the purpose of rebalancing positions held by its customer’s various funds. The transactions were executed without the incurrance of material market risk. Pursuant to a settlement, \$40,000 fine.

CBOT-17-0654-BC

Pre-Arranged Trades

Violation of Rule 534 – Wash Trades Prohibited

A BCC Panel found that on several dates between June and November 2016, a non-member individual acting as Risk Manager solely responsible for managing the positions held by his employer, entered multiple matching buy and sell orders on the CBOT Globex trading platform in Kansas City Hard Red Winter Wheat futures contracts for accounts with common beneficial ownership on both sides of the market. The matching buy and sell orders were entered with the knowledge and intent that the orders would match opposite one another for the purpose of transferring positions between accounts. Pursuant to a settlement, \$25,000 fine and 5-business-day suspension.

COMEX

COMEX 15-0193-BC

Pre-Arranged Trades

Violation of Rule 432.W – General Offenses; Rule 534 – Wash Trades Prohibited

A Business Conduct Committee (“BCC”) Panel found that between January 1, 2015 and February 5, 2016, two traders of a non-member firm executed a series of trades in COMEX Copper Futures contracts between accounts wholly owned and controlled by their firm. The firm failed to diligently supervise its traders in a manner sufficient to ensure that they executed the trades in compliance with Exchange rules. Pursuant to a settlement, \$55,000 penalty for the firm.

COMEX 15-0261-BC-2

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited

A COMEX Probable Cause Committee (“PCC”) Panel charged a non-member individual with employing a trading strategy that consisted of entering and canceling multiple layered orders without the intent to trade on multiple trade dates during the time period of July 2015 through September 2015. A BCC Hearing Panel Chair entered an order finding that the individual failed to answer the charge against her and was therefore deemed to have admitted the charge issued and waived the right to a hearing on the merits of the charge. A penalty hearing was held and the individual was found liable for the violations charged. \$50,000 fine and permanent ban.

COMEX 15-0350-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited

A COMEX PCC Panel found that a non-member individual employed a trading strategy that consisted of entering and cancelling layered orders without the intent to trade in the Silver futures market on multiple trade dates from November 19, 2015 through December 31, 2015. Later, a BCC Hearing Panel Chair entered an order finding that the individual failed to answer the charge against the individual and therefore was deemed to have admitted the charge issued and waived the right to a hearing on the merits of the charge. A penalty hearing was held and the individual was found liable for the violations charged. \$50,000 fine, disgorgement of \$35,031.13, and permanent ban.

COMEX 16-0513-BC-1

Disruptive Trading

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

A BCC Panel found that on multiple occasions from February 2016 through August 2016, one or more of a non-member firm’s proprietary traders entered orders in the Copper futures market with the intent to cancel the orders before execution. The trader(s) engaged in a pattern of activity wherein one of the traders entered a large order on one side of the Copper market, while either he or another of the firm’s traders placed a small order on the opposite side of the market. The traders would then cancel the large order once the smaller quantity traded. The firm failed to diligently supervise its traders and failed to monitor the employees’ trading activity for potential violations. Pursuant to a settlement, \$70,000 fine.

NYMEX

NYMEX 15-0198-BC

Disruptive Trading

Violation of Rule 575.D – Disruptive Practices Prohibited; Market Regulation Advisory Notice RA1405-5R

A BCC Panel found that from March 2015 through September 2015, a non-member individual entered orders with reckless disregard for the impact on the orderly conduct of trading or the fair execution of transactions. The individual entered an order on one side of the market and then while that order was resting, entered an aggressive order on the other side of the market.

A wash blocker would cause the resting order to be cancelled within the same millisecond or one millisecond of entry of the aggressive order, which at times turned the market (“flip order”) and traded immediately, which may have prevented others from gaining order book priority. Pursuant to a settlement, \$45,000 fine, and 10-business-day suspension.

ICE

ICE-2016-041

Misc.

Violation of Rule 4.01 – Duty to Supervise

A BCC determined that on numerous occasions between January 2016 and March 2017, an automated trading system (“ATS”) that the firm in question operated and had a duty to monitor, successively entered orders in Cotton No. 2, Russell Complex and MSCI Complex futures and then rapidly reacted to the orders it had just placed by deleting such orders and immediately entering new orders. As a result of this feedback loop, the ATS entered and deleted a number of orders within one-thousandth of a second. Pursuant to a settlement, \$30,000 penalty.

ICE-2016-059

Disruptive Trading

Violation of Rule 4.02(I)(1)(A), (I)(2) – Trade Practice Violations

On several occasions between January 1, 2016 and August 2, 2016, a BCC found an individual entered orders on the Exchange’s Electronic Trading System in the PJM Western Hub Real-Time Peak Daily Fixed Price Future (“PDP”) contract that were not for the purpose of executing transactions; rather, the orders were placed for testing connectivity and confirming that his ATS was operating as designed. Pursuant to a settlement, \$15,000 penalty and cease and desist.

ICE-2016-082

Spoofing

Violation of Rule 4.02(I) – Trade Practice Violations; Rule 4.01(a) – Duty to Supervise

From May 2016 to October 2016, a firm employee trading on behalf of himself and his firm through a profit sharing arrangement, engaged in a pattern of trading activity in the Cocoa futures market which created certain order book imbalances. The employee manually entered a large order relative to market conditions to buy or sell on one side of the market and a small reserve quantity order on the other side of the market. It appeared that the large orders were placed to induce others into transacting against the small reserve quantity orders. Once the small reserve quantity order transacted, the employee canceled the large orders on the opposite side of the market. The BCC determined that the firm was responsible for its employee’s actions in entering the large orders with the intent of canceling them and

misleading other market participants. Pursuant to a settlement, \$25,000 fine to the firm, including disgorgement of \$9,150, and cease and desist. Also pursuant to a settlement, the employee was given a 360 day suspension and a cease and desist. In determining the penalty, the BCC took into account that the firm had trained the employee on spoofing and when alerted to the activity immediately fired the employee and disciplined his supervisor. Further, the BCC noted that an automated exception reports which may have identified the employee's manual trading activity was inadvertently not enabled for the Cocoa futures market during the relevant time period.

ICE-2017-006

Pre-Arranged Trades

Violation of Rule 4.02(c) – Trade Practice Violations

On several trade dates during November and December 2016, a BCC found that a firm and its employee executed wash sales for the purpose of moving positions between accounts owned and controlled by the firm, despite the fact that the positions could have been properly been moved by a back-office transfer. Pursuant to a settlement, \$7,500 penalty (joint and several between firm and employee) 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](#).*