

INSIGHTS

U.S. Futures Exchanges Disciplinary Actions Report: March 2016

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By: [David M. Perlman](#) and [Michael W. Brooks](#)

ICE FUTURES

ICE 2014-072

Position Limits; Misc.

Violation of Rule 4.04: Conduct Detrimental to the Exchange; and Rule 6.19: Position Limits for Cotton No. 2 Contracts. Allegedly, an entity may have violated Exchange Rule 4.04 when, after Exchange Staff had encouraged the entity to reduce its sizeable position in the July 2014 Cotton No. 2 ("N14 CT") Futures Contract in a manner consistent with an orderly liquidation for the purpose of complying with the 300 lot position limit in effect at the close of business on the day prior to First Notice Day for the N14 CT Contract, the entity waited until the final 20 minutes of trading to execute a high proportion of their transactions on the day prior to first notice day to reduce its N14 CT position. This may have resulted in a price movement in both the outright N14 CT market and the N14/ Dec 2014 CT spread market. In addition, the entity allegedly may have violated Exchange Rules 6.19(a) by holding positions that were in excess of the speculative position limit thus violating its single month position limit for N14 CT on May 30, 2014. \$200,000 fine.

ICE 2015-013

Block Trades

Violation of Rule 6.08(b)(i): Order Ticket Requirements; Rule 4.07(c): Block Trading; Rule 4.02(i): Trade Practice; Rule 21.04: Power to Compel Testimony and Production of Documents; and Rule 4.01: Duty to Supervise. Allegedly, an entity may have violated Exchange Rules 6.08(b)(i) in multiple instances in which it failed to comply with the recordkeeping requirements associated with handling customer orders; 4.07(c) in multiple instances in which it misreported the correct execution time of block trades and submitted a block trade to the Exchange beyond the 15-minute reporting requirement; and 4.01 in which it failed to adequately supervise its brokers' block trade activity. In addition, the entity allegedly may have violated Exchange Rules 4.02(i) in one instance by disclosing the identity of a customer without its consent while negotiating a potential block trade and 21.04 by failing to produce documents, books or records requested by Compliance staff engaged in an investigation of a matter pursuant to Disciplinary Rules. \$40,000.00 fine.

ICE 2015-015*Block Trades*

Violation of Rule 6.08(b)(i): Order Ticket Requirements; Rule 6.07(b): General Recordkeeping Requirements; and Rule 4.07(c): Block Trading. An entity allegedly may have violated the aforementioned Exchange Rules in one instance between October and December 2014 when it failed to comply with the recordkeeping requirements associated with handling customer orders and by misreporting the correct execution time of a block trade. Additionally, the entity allegedly failed to produce oral communications, which were inadequately maintained by a third party vendor. \$10,000.00 fine.

ICE 2015-039*Position Limits*

Violation of Rule 6.20(b): Position Limits, Conditional Limits and Position Accountability for Energy Contracts. Allegedly, an entity may have violated Exchange Rule 6.20(b) in one instance by holding a position in the Henry LD1 Fixed Price Future that exceeded its exemptive level during the April 2015 expiration period. \$20,000.00 fine, \$812.50 profit disgorgement.

ICE 2015-045*Disruptive Trading*

Violation of Rule 4.02(l)(1)(A): Trade Practice Violations; Rule 4.02(l)(1)(C): Trade Practice Violations; and Rule 4.02(l)(2): Trade Practice Violations. Allegedly, an individual may have violated Exchange Rules 4.02(l)(1)(A), 4.02(l)(1)(C) and 4.02(l)(2) on multiple occasions between November 2014 and March 2015 in the Henry LD1 Fixed Price Future, when he engaged in a pattern of activity in which he entered an iceberg order at the best bid (offer), then entered a large displayed order on the offer (bid) which would then be canceled within seconds of the iceberg order being traded against. The large displayed quantity order appeared to create artificial pressure and appeared to mislead market participants into trading opposite the pre-positioned iceberg order. \$139,850 fine, including \$69,850.00 profit disgorgement, 10 day suspension.

CME GROUP**CME 11-8523-BC***Pearranged Trades*

Violation of Rule 432.G: General Offenses. A non-member individual was charged with allegedly executing numerous noncompetitive round-turn transactions over the CME Globex platform on nine days in June and August 2011, for the purpose of transferring equity between the accounts. Forty-two trades were allegedly pearranged, constituting twenty round turn transactions. The individual failed to answer the charges and was therefore deemed to have admitted them. The CME Business Conduct Committee thus found the individual guilty of the violations and held a penalty hearing. Permanent bar.

CME 13-9478-BC and 13-9478-BC-2*Pearranged Trades*

Violation of Rule 432.B, G: General Offenses; Rule 532: Disclosing Orders Prohibited; and Rule 576: Identification of Globex Terminal Operators. Two non-member individuals allegedly executed numerous noncompetitive round-turn transactions over the CME Globex platform on multiple occasions from December 2012 to April 2013, for the purpose of transferring equity between accounts. One of the individuals entered the orders on behalf of the accounts using someone else's user ID. Both individuals failed to answer the charges and therefore the charges

were deemed admitted. The CME Business Conduct Committee thus found the individuals guilty and held a penalty hearing. Permanent bar and \$100,000 fine, and \$23,000 in restitution and \$40,925 in disgorgement paid jointly and severally.

CME 12-9112-BC and 12-9112-BC-2

Prearranged Trades

Violation of Rule 534: Wash Trades Prohibited. Two non-member individuals allegedly on multiple occasions in February and August 2012 entered matching buy and sell orders on the CME Globex platform for accounts with common beneficial ownership on both sides of the market. The orders were allegedly entered with the knowledge and intent that the orders would match opposite one another for the purpose of freshening long futures positions dates. \$30,000 fine each and 5 business day suspension.

NYMEX

NYMEX 15-0087-BC-1, 15-0087-BC-2, 15-0087-BC-3, and 15-0087-BC-4

EFRP

Violation of Rule 538: Exchange For Related Positions and Rule 538.C: Related Position. Allegedly, in mid-August 2014, three non-member entities and one member entity entered into an Exchange for Related Position ("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 entities. Therefore, it was a non-bona fide EFRP. Two non-member entities were fined \$15,000, the third non-member entity was fined \$20,000, and the member entity was fined \$39,500.

NYMEX 15-0220-BC

EFRP

Violation of Rule 432: General Offenses. Allegedly, on December 2, 2014, a member entity, in its capacity as a broker, executed an EFRP transaction that was intended to be a block trade. The EFRP was non-bona fide because there was no corresponding related OTC position. As a result of the entity's conduct, the counterparties entered into an EFRP transaction that violated Rule 538.C. \$40,000 fine.

NYMEX 15-0315-BC-1

EFRP

Violation of Rule 538: Exchange For Related Positions and Rule 538. C: Related Position. On August 28, 2015, a non-member entity entered into an Exchange for Risk ("EFR") transaction in the NYMEX October 2015 Mini Singapore Fuel Oil 380 cst (Platts) Futures contract that allegedly 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 entity and its counter-party. Therefore, it was not a bona fide EFRP transaction. \$15,000 fine.

NYMEX 15-0150-BC-1 and 15-0150-BC-2

EFRP

Violation of Rule 538: Exchange For Related Positions and Rule 538. C: Related Position. Allegedly, in August-September, 2014, two non-member entities executed one non-bona fide EFRP. The entities failed to evidence an associated related position for the EFRP transaction, thus rendering the transaction non-bon fide. \$15,000 fine each.

CBOT

CBOT 14-9808-BC*Prearranged Trades*

Violation of Rule 534: Wash Trades Prohibited; Rule 538.A (Legacy): Nature of EFRP; Rule 538.B (Legacy): Related Positions. Allegedly, a member firm had a trader that executed two Exchange for Physical (EFP) transactions between two accounts with common beneficial ownership on June 4, 2013. The trader placed the trades in order to move positions between accounts and reasonably should have known the orders would match opposite one another. The transactions were also not bona fide because they did not involve related positions. Also, on August 29, 2013, traders at the member firm executed two EFP transactions, which the firm mistakenly reported to the Exchange as EFP. These trades did not involve related positions and thus were not bona fide. \$60,000 fine.

CBOT 11-8655-BC and CBOT 10-05052-BC*Misc.*

Violation of Rule 854 (Legacy): Concurrent Long and Short Positions. Allegedly, between July and September 2010, a member entity failed to accurately report open interest to the Exchange by impermissibly netting long and short positions during the first two business days prior to the delivery month and/or during the delivery month itself for expiring Corn, Wheat, Oat, Soybeans, Soybean Meal, Soybean Oil, Rough Rice, Mini-Wheat, Mini-Corn, and/or Mini-Soybeans futures contracts on 35 occasions. In each instance the misreport was due to an "error" as defined by (Legacy) CBOT Rule 854.B., however the misreported positions exceeded one-percent of the open interest in the specified contract. In addition, allegedly on November 29 and November 30, 2011, less than two business days prior to the first delivery day in the December 2011 Oat futures contract, the entity failed to accurately report open interest to the Exchange by impermissibly netting down its long and short positions. \$100,000 fine.