

INSIGHTS

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

April 17, 2017

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

### **NYMEX**

#### **NYMEX 15-0200-BC-6**

##### *EFRP*

Violation of Rules 538 – Exchange for Related Positions and 538.C – Related Position.

A non-member entity was found to have entered into an EFRP transaction on December 1, 2014 that was in violation of Exchange Rule 538.C. No evidence was found that the non-member entity, as the seller of a futures contract, purchased a corresponding swap or other related position, as required by Exchange Rule 538.C. Nevertheless, it was found that the EFRP transaction that the non-member entity entered into was non-bona fide, since it did not involve the requisite transfer of ownership of the cash commodity underlying the Exchange contract or a by-product, related product, or OTC instrument between the non-member entity and its counterparty. As a party to the noted EFRP transaction, it was found that the non-member entity had the responsibility to comply with Exchange Rules, including compliance with terms of the contract and recordkeeping requirements, and such responsibility could not be deferred to a broker or Futures Commission Merchant (“FCM”). \$30,000 penalty.

#### **NYMEX 15-0091-BC**

##### *Pre-Arranged Trades*

Violation of Rule 534 – Wash Trades Prohibited.

Pursuant to a settlement offer, a panel found that between the dates of December 17, 2014 and January 21, 2015, two traders of a non-member entity executed a series of trades in NYMEX Crude Oil Futures between two accounts wholly owned and controlled by the non-member entity. The panel further found that the non-member entity failed to diligently supervise its traders in a manner sufficient to ensure that they executed the trades in compliance with Exchange rules. \$75,000 fine for the non-member entity.

#### **NYMEX 15-0269-BC**

##### *Disruptive Trading*

Violation of NYMEX Rule 575.D – Disruptive Practices Prohibited.

Pursuant to an offer of settlement, a panel found that on several trade dates during June 2015 and July 2015, a non-member individual placed a series of large stop orders in the NY Harbor

ULSD Futures (“HO”) market in close proximity to each other, which resulted, when the stop orders were triggered, in a disruptive and rapid price movement in the HO Futures market, prompting Stop Logic events. \$100,000 fine and six month suspension.

#### **NYMEX 16-0452-BC**

*Pre-Arranged Trades; EFRP*

Violation of Rules 538 – Exchange for Related Positions, 538.C – Related Position, and 534 – Wash Trades Prohibited.

Pursuant to an offer of settlement, a panel found that on November 6, 2015 and November 16, 2015, a non-member entity executed two EFRP transactions in the January 2016 NY Harbor ULSD Futures contract, both of which consisted of the simultaneous exchange of futures positions without the evidence of a related position component of the transactions. Consequently, the two transactions were non-bona fide. In addition, the panel found that the non-member entity executed the two transactions for the purpose of transferring positions between two of its accounts with common beneficial ownership, resulting in improper wash trades. \$25,000 fine.

#### **NYMEX 16-0527-BC**

*Position Limits*

Violation of Rule 562 – Position Limit Violations.

Pursuant to an offer of settlement, a panel found that on September 16, 2016, a non-member entity opened the trading day holding a futures equivalent position of 3,831 short October 2016 Crude (“OCT16 CL”) contracts. This position exceeded the 3,000 lot standard expiration month limit by 831 contracts or 27.7%. Later the same day, the non-member’s position reached an intraday high position of 4,335 short OCT16 CL contracts, which was 1,335 contracts or 44.5% above the position limit that was in effect at the close of business on September 15, 2016 through September 20, 2016. \$25,000 fine.

#### **CBOT**

##### **CBOT 15-0158-BC and CME 15-0158-BC**

*Disruptive Trading; Misc.*

Violation of Rules 575 – Disruptive Practices Prohibited and 576 – Identification of Globex Terminal Operators.

Pursuant to a settlement offer, a panel found that on multiple dates between October 2014 and March 2015, a member firm operated an auto-liquidation algorithm to liquidate its clients’ under-margined positions by entering a market order for the entire quantity of the clients’ open position. This auto-liquidation algorithm entered orders without taking into account market conditions. On at least three occasions, this algorithm resulted in significant price movements in CBOT futures markets. On its own initiative, the member firm promptly undertook remedial measures, including developing and employing a new and enhanced custom algorithm to liquidate under-margined customer positions; however, the firm continued to operate the algorithm in the interim. Additionally, during this time period, the firm routed the market orders to the Exchange using Tag50 User IDs assigned to the underlying clients, rather than assigning and using a unique Tag50 User ID for the algorithm. \$190,000 fine (\$120,000 allocated to CBOT and \$70,000 allocated to CME).

**CBOT 16-0536-BC***EFRP*

Violation of Rule 538.C – Related Position.

Pursuant to a settlement offer, a panel found that on June 17, 2016, a non-member firm, through two of its subsidiaries, executed an exchange of futures for physical (“EFP”) transaction that consisted of the simultaneous exchange of futures positions without the exchange of a related cash position, thereby executing a non-bona fide EFP. \$15,000 fine.

**CBOT 16-0384-BC***Position Limits*

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

Pursuant to a settlement offer, a panel found that at the culmination of trading on February 22, 2016, accounts managed by a member firm and its affiliate, whose positions were aggregated, held a CBOT Wheat futures of 12,867 short contracts, 867 contracts, or 7.22%, over the all month speculative position limit. On the following day, the member firm and its affiliate reached an aggregated maximum short position of 12,953 contracts, 953 contracts, or 7.94%, over the all month speculative position limit. Once the member firm and its affiliate discovered the overage on the morning of February 23, 2016, they liquidated the overage to bring the aggregate position into compliance with the all month limit, and did not profit from doing so. \$25,000 fine.

**CBOT 16-0518-BC***Position Limits*

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

Pursuant to an offer of settlement, a panel found that at the culmination of business on August 30, 2016, a member entity held a futures equivalent long position of 1,467 September 2016 Corn futures contracts, which was 867 contracts (144.5%) over the spot month position limit in effect. On the following day, the member entity liquidated its overage to bring its position into compliance, and did not profit from doing so. \$40,000 fine.

**CME****CME 15-0179-BC and CME 15-0179-BC-2***Pre-Arranged Trades*

Violation of Rules 532 – Disclosing Orders Prohibited (in part) and 539 – Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited (in part).

Pursuant to a settlement offer, it was found that on March 13, 2015, a member individual received a customer order to buy 40,000 September 2015 9900 – 9912 put spreads in Eurodollar options on futures. Once the member individual received the buy order, he spoke to a non-member individual and disclosed the customer’s nonpublic buy order information, including the side of the market and the size of the order, before the order was disclosed to the pit. Subsequently, the two individuals executed a strategy whereby the non-member individual’s order would match opposite the member individual’s customer’s order in the pit and thereby noncompetitively prearranging the execution of the customer order. \$20,000 fine

and 15 day suspension for the member individual; \$35,000 fine and 10 day suspension for the non-member individual.

**CME 15-0082-BC**

*Disruptive Trading*

Violation of Rules 575.A – Disruptive Practices Prohibited and 575.B – Disruptive Practices Prohibited.

Pursuant to a settlement offer, a panel found that on several occasions between December 12, 2014 and January 31, 2015, a member individual engaged in a pattern of activity in which he entered large manual orders in the March 2015 E-Mini NASDAQ 100 (“NASDAQ”) futures market without the intent to trade. In particular, he entered these large orders in order to observe the market’s reaction and to encourage market participants to trade opposite his smaller iceberg orders that were resting on the opposite side of the book. Once he received fills on his iceberg orders, the member individual would subsequently cancel the resting large orders he had entered on the opposite side of the order book. \$7,328.52 in disgorgement, \$5,000 fine, and barred for three months (taking into account member individual’s financial condition).

**CME 15-0201-BC**

*Misc.*

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

Pursuant to a settlement offer, a panel found that between March 2015 and January 2016, Market Regulation staff issued requests to a member entity for the production of records, documents and information related to regulatory inquiries; nevertheless, the member entity, acting principally through its former Chief Compliance Officer, failed to respond in a timely manner to numerous requests. \$55,000 fine.

**COMEX**

**COMEX 15-0274-BC**

*Misc.*

Violation of Rule 432 – General Offenses.

Pursuant to a settlement offer, a panel found that on two dates in May 2015, a non-member individual executed multiple round turn transactions between an account he trades for his employer and a personal account over which he had trading discretion. Consequently, the non-member individual’s personal; account profited in the amount of \$8,350 and his employer’s account sustained a \$10,737.50 loss. \$25,000 fine and one year suspension (taking into account that non-member fully reimbursed his employer).

\*\*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 [Chelsea Carbone](#).