

INSIGHTS

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

June 9, 2017

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

NYMEX

NYMEX 16-0372-BC

Misc.

Violation of Rule 432.Q, 432.W – General Offenses

Pursuant to a settlement offer, a panel found that from July 2015 through March 2016, a non-member trader was concomitantly operating market-making and market-taking automated trading systems during the pre-opening period that entered and cancelled a number of E-mini Crude Oil and Natural Gas futures contracts orders. The market-taking strategy should not have operated in the pre-opening period and the orders it generated were not intended to be entered. Due to the non-member trader's inability to properly supervise the automated trading strategies, the trader was ignorant of the excessive messaging created during the pre-opening period that resulted in flickering price quotes. \$25,000 penalty and 5 business-day suspension.

NYMEX 15-0195-BC

Misc.

Violation of Rule 260104.B – Timing of Delivery (Legacy)

Pursuant to a settlement offer, a panel found that a non-member entity failed to timely complete the delivery of seventy June 2015 Central Appalachian Coal Futures contracts. The non-member entity was matched with the party receiving the contracts by the last calendar day of the month, June 30, 2015. \$40,000 fine.

CBOT

CBOT 16-0601-BC

EFRP

Violation of Rule 538.C – Related Position and 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a panel found that a non-member entity executed an Exchange of Futures for Physical ("EFP") transaction in the Soybean futures market that featured an exchange of a futures position without the exchange of a related cash position, thereby constituting a non-bona fide EFP. The non-member entity allegedly executed this transaction for the purpose of transferring positions between two non-member entity accounts. \$25,000

fine.

CBOT 15-0296-BC

EFRP

Violation of Rules 538.B – Independently Controlled Accounts, 538.C – Related Position, and 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a panel found that between December 2011 and October 2015, a member entity executed numerous Exchange for Physical (“EFP”) transactions in CBOT Interest Rate markets that did not satisfy the Rules of the Exchange. The member entity’s traders allegedly entered into EFP trades in which the member entity’s accounts were on both sides of the transactions. Although the purpose of the transactions was to transfer positions between the member entity’s accounts, the panel found that the method for carrying out the trades violated the Exchange’s wash-trade prohibition. \$175,000 fine.

CBOT 15-0148-BC

Pre-Arranged Trades

Violation of Rules 534 – Wash Trades Prohibited and 576 – Identification of Globex Transition Operators

Pursuant to a settlement offer, a panel found that between January 2015 and May 2015, a non-member trader entered equal and opposing orders on behalf of a single account owned by his employer that resulted in the self-match of 21,434 Soybean futures contracts. The employer’s account was recorded as both the buying and selling account for each transaction and the non-member trader knew or reasonably should have known that the buy and sell orders would trade opposite each other. In addition, the panel found that the non-member trader allegedly utilized another individual’s TAG information to enter orders. Six-month suspension.

CBOT 15-0323-BC

Reporting Failure

Violation of Rule 807 – Open Long Positions During Delivery Month

Pursuant to a settlement offer, on May 10, 2017, a panel found that on November 2, 2015, and twice on November 10, 2015, a member entity did not accurately report its long positions eligible for delivery. On November 2, 2015, the member entity inaccurately reported its long position for delivery in the November 2015 Rough Rice futures contract. On November 10, 2015, the member entity did not disclose which of its long positions were eligible for delivery in the November 2015 Rough Rice futures contract and the November 2015 Soybean futures contract, which resulted in incorrect delivery assignments in the Rough Rice futures contract. The panel concluded that the member entity violated CBOT Rule 807. \$50,000 fine.

CBOT 16-0487-BC

EFRP

Violation of Rules 538.C – Related Position and 538.E – Quantity Equivalence

Pursuant to a settlement offer, on May 10, 2017, a panel found that on October 26, 2015, a member entity executed two transitory Exchange for Related Position (“EFRP”) transactions in the 10-Year U.S. Treasury Note futures market for the purpose of offsetting a related position without incurring material market risk. The panel determined that the quantity of the related

position was not roughly equivalent to the quantity of the Exchange component of the EFRP. \$25,000 fine.

CBOT 15-0148-BC-2

Pre-Arranged Trades

Violation of Rules 432 – General Offenses and 534 – Wash Trades Prohibited

A panel charged a non-member entity with violating CBOT Rules 432 and 534 based on allegations that an employee of the non-member entity entered equal and opposing orders on behalf of a single non-member firm account that resulted in the self-match of 21,434 Soybean futures contracts between January 2015 and May 2015. The panel determined that the account gave the appearance of being both a buy and sell account and that the non-member entity failed to sufficiently supervise its employee. A Hearing Panel Chair found that the non-member entity failed to answer the charges and ruled that in failing to answer, that entity was deemed to have admitted the charges and waived its right to a hearing on the merits. A penalty hearing was held before a panel and found the non-member entity guilty of the charges. \$100,000 fine and 5-year suspension.

COMEX

COMEX 15-0293-BC

Disruptive Trading

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

Pursuant to a settlement offer, a panel found that between May 1, 2015 and May 1, 2016, a non-member entity entered and cancelled 7,156 orders in the Gold futures markets primarily to test the latency within those same markets rather than to execute trades. The panel also found that the non-member entity allowed numerous individuals to enter and cancel these orders through a single TAG identification. \$55,000 fine.

ICE

2014-090

Misc.

Violation of Rules 4.01(a) – Duty to Supervise, 4.04 – Conduct Detrimental to the Exchange, and 4.07(a)(i) and (a)(ii)(A) – Block Trading

A subcommittee determined that a member entity and one of its executives on various occasions may have received from the executive's Introducing Broker – and may have used – non-public information relating to the identity or trade activity of the broker's customers between August 2013 and July 2014. This potential receipt and use of customer information did not appear to relate to block trade negotiations between the executive and the customers. In addition, the entity may not have been an eligible contract participant. The subcommittee further found that a second member entity had block trades allocated to its proprietary account based on an alleged verbal standing order to an Introducing Broker, rather than by having individual orders placed for each block trade. This second entity also failed to diligently supervise its employees. \$225,000 fine for the first entity and executive (jointly and severally liable), 30-day suspension, and cease and desist. For the second entity, \$100,000 fine, \$49,080

in disgorged profits, 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](#).