

INSIGHTS

U.S. Futures Exchanges Disciplinary Actions Alert: April 2018

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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, www.theice.com/futures-us/notices, and <https://www.nasdaqtrader.com/Trader.aspx?id=NDisciplinaryActions>.

CME

CME-16-0403-BC

Misc.

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

Pursuant to a settlement offer, a Business Conduct Committee (BCC) Panel found that on October 16, 2015, an automated trading system (ATS) deployed by a member entity sold the February 2016 Eurodollar futures contract, which led to a 74-tick price movement. The price movement was caused by a code change that exposed a logic error in the way the ATS offset its Eurodollar Pack position. In addition, the Panel also found that although the entity's automated risk protocols locked down the ATS following the aberrant activity, the entity mistakenly unlocked the ATS causing further price aberrations. \$75,000 fine.

CME-17-0642-BC

Misc.

Violation of Rule 811 – Position Change Data

Pursuant to a settlement offer, a BCC Panel found that on numerous dates in January 2017, a member entity misreported open interest between 0.49% and 16.05% of the total open interest in these products. \$10,000 fine.

CBOT

CBOT 15-0282-BC

Disruptive Trading

Violation of Rule 575 – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on multiple dates between June 2015 and December 2016, a member engaged in a trading strategy that consisted of entering and canceling multiple layered orders without the intent to trade. Specifically, the member entered and cancelled orders on one side of the Wheat and Soybean futures markets to enable the execution of small aggressive orders on the other side of the market. In addition, the member repeatedly and intentionally modified his layered orders up and down the order book with the purpose of conveying a false sense of increased volatility. This activity encouraged participants to trade in a manner that resulted in advantageous price movements into which the member aggressively traded. \$100,000 fine and 4-month suspension.

CBOT 17-0642-BC

Misc.

Violation of Rule 811 – Position Change Data

Pursuant to a settlement offer, a BCC Panel found that on numerous dates between January 2017 and June 2017, the member entity cited in CME-17-0642-BC misreported open interest in multiple markets between 0.1% and 28% of the total open interest in multiple products. \$20,000 fine.

COMEX

COMEX 16-0529-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that between January 2016 and July 2016, a member entered orders in the Gold and Silver Futures contract markets without the intent to trade. Specifically, the member entered large orders on one side of the market and then cancelled them after the smaller resting orders on the opposite side of the book were executed. \$35,000 fine and 10-day suspension.

NYMEX

NYMEX 16-0446-BC

Disruptive Practices

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on multiple dates from March 29, 2016 through July 13, 2016, a non-member entered and cancelled multiple layered orders in the Platinum, Heating Oil and Crude Oil futures markets without the intent to trade. Specifically, the non-member entered these layered orders on one side of the market to encourage other market participants to trade opposite his smaller resting orders on the other side of the book. After receiving a fill on the smaller orders, the non-member cancelled the layered orders.. \$25,000 fine, disgorgement of \$1,752.09 and 4-month suspension.

NYMEX 16-0478-BC

Disruptive Practices

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that between April 2016 and June 2016, a non-member entered orders in the Henry Hub Natural Gas Futures contract market without the intent to trade. Specifically, the non-member entered large orders on one side of the market and then cancelled them after resting smaller orders on the opposite side of the book were filled. \$5,000 fine and 3-month suspension. The Panel took the non-member's financial condition into account when levying the sanctions.

NYMEX 16-0590-BC-1 and 2

Pre-Arranged Trades

Violation of Rule 534 – Wash Trades Prohibited

Pursuant to two settlement offers, a BCC Panel found that between February 2016 and August 2016, two non-members entered several wash trades in the Natural Gas Futures contracts market between accounts with the same beneficial owner with the purpose of moving positions within accounts. The BCC Panel took the first non-member's financial condition into account when sanctioning him with a \$5,000 fine and 2-month suspension. \$15,000 fine and 10-day suspension for the second non-member.

NYMEX 17-0628-BC

Misc.

Violation of Rule 575.A – Disruptive Practices Prohibited; Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a BCC Panel found that from October 7, 2016 to December 16, 2016, a non-member manually entered orders in several NYMEX Crude Oil Futures contract markets without the intent to trade. The non-member entered these orders to encourage them to trade opposite his smaller orders, which he placed while using another individual's unique TAG50 User ID. When the smaller resting orders were filled, the non-member would immediately cancel the larger orders on the opposite side of the order book. \$40,000 fine and 10-day suspension.

NYMEX 17-0829-BC

Position Limits

Violation of Rule 562 - Position Limit Violations

Pursuant to a settlement offer, a BCC Panel found that on November 27, 2017, a non-member entity held a futures equivalent position of 1,950 short December 2017 Henry Hub Natural Gas Look-Alike Last Day Financial Futures contracts, which was 950 contracts or 95% over the position limit of 1,000 lots in effect for the trade date. \$30,000 fine.

NYMEX 17-0836-BC

Lack of Documentation

Violation of Rule 538.C – Exchange for Related Positions

Pursuant to a settlement offer, a BCC Panel found that on September 14, 2017 a non-member entity entered into an Exchange for Risk (EFR) transaction with its counterparty for three October 2017 Mini Singapore Fuel Oil 380 cst (Platts) futures contracts without a corresponding

OTC swap or other OTC derivative transaction. Based on these findings, the BCC Panel concluded that this was a non-bona fide transaction. \$10,000 fine.

ICE

ICE-2017-059

Misc.

Violation of Rule 2.22 – Reporting Open Interest to Clearing Organization

A BCC subcommittee found that, on September 8, 2017, an entity reported inaccurate open interest in the following products: Euro Currency Pairs Euro/Hungarian Forint Futures, Dollar Based Currency Pairs Israeli Shekel/US Dollar, Cross Currency Pairs Polish Zloty/Euro, Dollar Based Currency Pairs Polish Zloty/US Dollar, Dollar Based Currency Pairs Turkish Lira/US Dollar, Dollar Based Currency Pairs US Dollar/Czech Koruna, and Dollar Based Currency Pairs US Dollar/Hungarian Forint. \$15,000 fine.

ICE-2017-077

Misc.

Violation of Rule 4.02 (g) – Trade Practice Violations

An entity failed in several instances to use a crossing order, which contains both buy and sell orders. \$2,500 summary fine.

***If you have any questions about the information contained in this month's report, please contact: [David Perlman](#), [Michael Brooks](#), [Bob Pease](#), [Ryan Eletto](#), or [Joshua Freda](#).*