

INSIGHTS

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

August 9, 2017

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

NYMEX

NYMEX 15-0305-BC

Position Limits

Violation of Rule 562 – Position Limit Violations

On August 9, 2016, a Probable Cause Committee (“PCC”) panel charged a non-member entity with violating NYMEX Rule 562, based on allegations that on November 23, 2015, the non-member entity held a long position of 1,225 December 2015 Natural Gas Futures contracts, which was 22.5% above the standard monthly position limit that was in effect. On November 23, 2016, the Business Conduct Committee (“BCC”) entered an order finding that the non-member entity failed to answer the charge and thus was deemed to have admitted the charge, waiving the right to a hearing on the merits. A sanctions hearing was held before a BCC panel, which found that the non-member entity violated NYMEX Rule 562. On appeal, the panel’s decision was affirmed. \$50,000 fine and disgorgement of \$79,140 in profits.

NYMEX 17-0657-BC

Position Limits

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a BCC panel found that at the close of business on February 21, 2017, a non-member entity held a futures equivalent position of 1,053 March 2017 Natural Gas options contracts, which was 53 contracts (5.30%) over the standard monthly limit in effect. On February 22, 2017, as a result of a change in the difference on the non-member entity’s options, the non-member entity accrued a futures equivalent position of 1,181, which was 181 contracts (18.10%) over the standard monthly limit. The non-member entity subsequently liquidated its overage position, resulting in profits of \$52,700. \$35,000 fine and disgorgement of \$52,700 in profits.

NYMEX 15-0330-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC panel found that, on numerous trade dates between July 2015 and December 2015, a non-member trader entered various orders at significantly off-

market prices in the Brent Last Day Financial Futures market without the intent to trade. Specifically, the panel found that the trader entered these orders to detect market depth and never intended to trade these off-market orders. \$15,000 fine and 15-day suspension.

CBOT

CBOT 14-0008-BC

Disruptive Trading

Violation of Rule 432.Q, 432.T – General Offenses (in part) and Rule 575.A – Disruptive Practices Prohibited (in part)

Pursuant to a settlement offer, a BCC panel found that on one or more occasions between January 30, 2014, and October 28, 2014, a non-member trader entered orders in the CBOT 10-Year U.S. Treasury Note Futures on Globex during the pre-opening period, which were not made in good faith for the purpose of executing bona fide transactions. The entry and cancelation of these orders caused fluctuations in the publicly displayed Indicative Opening Price. \$15,000 fine and 10 business-day suspension.

CBOT 16-0400-BC

Disruptive Trading

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC panel found that on one or more occasions between August 2015 and December 2015, a non-member trader entered orders for various grain contracts on Globex during the pre-opening period that were not for the purpose of executing bona fide transactions, but rather, for the purpose of testing connectivity and latency of his front-end trading workstation. The entry and cancellation of these orders caused fluctuations in the publicly displayed Indicative Opening Price. \$20,000 fine (\$10,000 allocated to CBOT and \$10,000 allocated to CME) and 10 business-day suspension.

CBOT 14-9846-BC-1, 2 & 3

Pre-Arranged Trades

Violation of Rule 432.G, 432.L.1 – General Offenses and Rule 576 – Identification of Globex Terminal Operators

On June 9, 2017, a BCC panel found that three non-members failed to answer charges issued against them by the CBOT Probable Cause Committee. The panel ruled that the charges issued were deemed admitted and thus the non-members forfeited their rights to a hearing on the merits. On June 20, 2017, subsequent to a penalty hearing the BCC panel found Non-Member 1 and Non-Member 2 guilty of prearranging the execution of Soybean futures trades on one or more occasions between March 20, 2014, and May 22, 2014 for the purpose of transferring equity between the accounts of two market participants. Additionally, the panel found that Non-Member 1 and Non-Member 3 traded using a Tag 50 user ID other than their own. Finally, the panel found that all three non-members failed to appear before Exchange staff at a scheduled interview. Non-Members 1 and 2 were fined \$85,000 each and permanently barred. Non-Member 3 was fined \$10,000 and barred for 1 year.

CBOT 16-0421-BC

EFRP

Violation of Rule 538.C – Related Position

Pursuant to a settlement offer, a BCC panel found that on November 3, 2015 and March 1, 2016, a member entity executed certain Exchange for Related Position (“EFRP”) transactions in U.S. Treasury futures contracts that were contingent upon the execution of other EFRP transactions. The panel further found that the member entity placed the orders for the EFRPs with its brokers partially to rebalance positions held by various member entity funds. The member entity structured these orders such that they were executed without incurring material market risk. \$65,000 fine.

CBOT 16-0576-BC

Position Limit

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a BCC panel found that at the close of business on November 29, 2016, a member entity held an end-of-day futures equivalent long position of 686 December 2016 Corn futures contracts, which exceeded the position limit of 600 contracts by 86 contracts (14.33%). Prior to realizing this exceedance, the member entity sold 30 December 2016 – March 2017 Corn futures calendar spreads during the November 30, 2016 night session. The following morning, the member entity purchased 40 December 2016 Corn futures, thereby reaching a long position of 696 December 2016 Corn futures contracts, which exceeded the position limit by 96 contracts (16%). Upon discovering the overage, the entity liquidated, resulting in profits of \$9,025. \$20,000 fine and disgorgement of \$9,025 in profits.

CME

CME 13-9575-BC

Pre-Arranged Trades

Violation of Rule 534 – Wash Trades Prohibited, MRAN RA1308-5, Rule 432.Q, 432.W – General Offenses (in part)

Pursuant to a settlement offer, a BCC panel found that in 2014 and 2015, traders employed by a member entity entered numerous matching buy and sell orders for Eurodollar futures trades on Globex for accounts with common beneficial ownership. The entity’s traders should reasonably have known that their placement of orders would not result in a bona fide market position exposed to market risk. The conduct at issue involved two forms of self-match trading. First, during the period from January 2014 to April 2014, two of the entity’s traders rapidly created a position and then liquidated that position opposite each other at the same price. Second, during the period from June 2014 through July 2015, a single trader repeatedly entered opposing buy and sell orders for the same account with the intent and effect that the orders would match. This non-bona fide trading activity allowed the entity—a participant in the CME Interest Rate Market Maker Program for Eurodollar Pack and Bundle Futures (“Program”)—to unjustifiably earn monthly trading-fee credits under the Program based on the number of Eurodollar futures contracts they traded. In total, the member entity earned credits through this self-matching activity in the amount of \$467,554.96. The panel further found that sufficient proactive steps were not taken to prevent transactions between accounts with common beneficial ownership. \$250,000 fine and disgorgement of \$467,554.96.

CME 16-0400-BC*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

See facts of related action, CBOT 16-0400-BC, above. \$20,000 fine (\$10,000 allocated to CBOT and \$10,000 allocated to CME) and 10 business-day suspension.

CME-16-0562-BC*EFRP*

Violation of Rule 538.C. Related Position

Pursuant to a settlement offer, a BCC panel found that on April 5, 2016, a member entity entered into an EFRP through which it sold E-mini S&P 500 futures contracts and bought SPDR S&P 500 exchange-traded fund (“SPY”) contracts. Simultaneously with that transaction, the member entity sold the SPY contracts and bought CBOE June 2016 2000 strike S&P 500 Index (“SPX”) Option Combinations opposite the same counterparty. As a result, the related position in the EFRP transaction (the SPY contracts) was established and offset without incurring market risk. Further, the transaction was transitory in nature. \$15,000 fine.

COMEX**COMEX 12-8979-BC***Misc.*

Rule 432.B.2, 432.Q, 432.T – General Offenses

Pursuant to a settlement offer, a BCC panel found that in July and August 2013, a member trader employed a trading strategy in the August 2013 Gold and December 2013 Gold futures markets that consisted of frequently entering and cancelling a series of orders, at various prices, for the purpose of, including but not limited to, discovering support for or resistance to the order prices he had entered and to gauge other market participants’ interest in executing trades at various prices, rather than to execute trades. \$95,000 fine and 10 business-day suspension.

COMEX 15-0180-BC-1, 2*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to an offer of settlement, a BCC panel found that on multiple trade dates from January 2015 to June 2015, a non-member trader engaged in a pattern of activity in which he entered multiple layered orders in the Gold futures contracts with the intent, at the time of order entry, to cancel the orders before execution. Specifically, the trader wanted to encourage market participants to trade opposite his smaller order resting on the opposite side of the market or to encourage other market participants to better his bid/offer in order to trade against those bettered bids or offers. After receiving a fill on the smaller order, the trader would cancel the layered orders he had entered on the opposite side of the book. The panel further found that the trader’s non-member firm failed to properly supervise the trader. \$25,000 fine and 20 business-day suspension for the trader. \$30,000 fine for the trader’s firm.

****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](#).**