

INSIGHTS

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

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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](http://www.cmegroup.com) and [www.theice.com/futures-us/notices](http://www.theice.com/futures-us/notices).

### **CME**

#### **CME-13-9693-BC-1**

*Misc.*

Violation of Rule 432.B.2, Rule 432.Q, Rule 432.T, and Rule 432.W – General Offenses (in part); Rule 433 – Strict Liability for the Acts of Agents; Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a Business Conduct Committee (“BCC Panel”) found that, from November 1, 2013 through December 27, 2013, a member entity failed to ensure that its Tag 50 user ID registrations were current and accurate at all times and failed to supervise its employees’ use of Tag 50s to make certain that its traders used a unique user ID to access GLOBEX. The entity’s failure to maintain adequate and current records of its Tag 50 user ID registrations delayed the Exchange’s investigation into the trading activity of the entity’s employees. However, the entity subsequently cooperated with CME to help identify the trades made by each entity employee. The BCC Panel also found that, from November 1, 2013 to December 27, 2013, three entity traders, none of whom still work for the entity, entered orders without an intent to trade in the E-mini S&P 500 and E-mini NASDAQ Futures contract markets. The entity was deemed strictly liable for the acts of its employees. \$150,000 fine (\$120,000 of which was allocated to CME) and \$162,000 disgorgement of profits (\$92,000 of in connection with this case and companion cases CBOT/NYMEX/COMEX 13-9693-BC (\$120,000 of the monetary fine and \$92,000 of the disgorgement allocated to CME).

#### **CME-14-0022-BC**

*Pre-Arranged Trades*

Violation of Rule 432.B.1, Rule 432.C, Rule 432.G, and Rule 432.L – General Offenses (in part);

## Rule 534 – Wash Trades Prohibited

Following an evidentiary hearing, a Panel found that between July and November 2014, a non-member trader executed multiple round-turn “money pass” transactions in E-mini S&P Futures on CME Globex for the purpose of transferring \$26,925 to his personal account from a friend’s account and another non-member’s account he controlled. The trader executed these transactions while trading for the benefit of the trader’s account and the account of another non-member. The trader executed the money pass transactions in back-month contracts, almost exclusively with the other accounts at issue, and with a short time differential between order entry by the different accounts. Moreover, the money pass transactions resulted in the unidirectional transfer of funds to the trader’s account or the account over which he had control, and the trader’s account ultimately profited from the transactions. The accounts were opened shortly before the violative activity and were closed shortly after it ended. Based on these facts, the trading was coordinated, and prearranged for the purpose of transferring equity between accounts. Collectively, the BCC Panel found that the trader engaged in money pass transactions designed to move money into his personal account. In addition, the BCC Panel found that between April 2014 and July 2014, the trader executed trades in E-Mini S&P Futures on CME Globex for an account over which there was common beneficial ownership on both sides of the transactions. The trader placed the orders with the knowledge and intent that the orders would trade opposite one another. The BCC Panel also found that the trader failed to appear for an interview in connection with the investigation, and failed to answer questions from Market Regulation staff, either in person or in writing. \$100,000 fine, disgorgement of \$25,200 in profits, \$1,725 in restitution, and permanent bar.

### **CME-14-0049-BC**

#### *Pre-Arranged Trades*

Violation of Rule 521 – Requirements for Open Outcry Trades (in part); Rule 522 – Acceptance of Bids and Offers; Rule 530 – Priority of Customers’ Orders; Rule 531.A – Trading Against Customer’s Orders Prohibited; Rule 539.A – Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited (in part)

Pursuant to a settlement offer, a BCC Panel found that on one or more occasions between March 2015 and June 2015, a member trader, while executing a customer order in the S&P 500 futures (“S&P”) pit, failed to transact at the best trade price available in the open outcry market. Specifically, on two occasions the trader bought (sold) for customer orders while other traders in the S&P pit offered (bid) two to three ticks lower (higher) than the prices at which the trader filled his customer orders. On one or more occasions between October 2014 and June 2015, the trader failed to treat an executed trade as binding, as the trade ultimately cleared at a different price than it was originally executed at in the pit. Specifically, after executing trades for customer orders opposite other traders in the S&P pit at one price, the trader changed the execution price to a price more favorable to the other traders. Additionally, on two occasions on May 13, 2015, the trader executed a customer order opposite a local in the S&P 500 pit without bidding or offering his order in a manner consistent with open and competitive trades. Further, on June 23, 2017, the trader acted as a dual trader and while in possession of an executable customer order, traded in the same futures product for his personal account before filling the order. During the cash close of the equities market, the trader liquidated his personal position by indirectly taking the opposite side of his customer order, realizing a profit for his personal account in doing so. Taking the trader’s financial condition into consideration,

\$10,000 fine, \$11,500 in restitution, and four-month suspension.

**CME-16-0369-BC-6**

*Misc.*

Violation of Rule 432.C – General Offenses; Rule 515 MRAN RA1602-2.B – Restrictions

A Panel of the Chicago Mercantile Exchange Probable Cause Committee (“PCC Panel”) charged a non-member who worked as a broker association’s runner and trade checker based on allegations that on one or more occasions between September 2015, and September 2016, after the non-member’s broker association received notice that it exceeded the monthly limit of intra-association order executions, the non-member retroactively endorsed trading documents with the marking “B&O” to give the false impression that the trades were executed between two brokers who were the best and only bid and offer at the time of execution. The non-member then submitted the trading documents to Market Regulation. Further, on one or more occasions, the non-member and another non-member employee of the broker association engaged in dishonest conduct by endorsing and submitting trading documents to Market Regulation with false witness signatures. Subsequently, a Hearing Panel Chair entered an order finding that the non-member failed to answer the charges issued against her and ordered that the non-member was deemed to have admitted the charges and waived her right to a hearing on the merits. At a penalty hearing, the non-member was found guilty. \$30,000 fine and permanently barred.

**CME-16-0396-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 September 14, 2015, and March 23, 2016, a non-member trader entered and cancelled large orders in the December 2015, March 2016, and June 2016 E-Mini S&P 500 futures contracts on Globex without the intent to trade. Specifically, the trader entered these large orders to obtain fills on smaller orders resting on the opposite side of the order book. After receiving fills on his smaller orders, the trader would cancel the large orders within seconds. \$35,000 fine and 10-business-day suspension.

**CME-16-0413-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on several occasions between June 2015 and March 2016, a member trader entered and canceled layered orders in the Live Cattle futures contract market without the intent to trade. Additionally, during this same period of time, the trader entered multiple layered orders on one side of the Live Cattle futures contract market without the intent to trade, and placed small resting orders on the other side of the market. Once the resting orders traded, the trader canceled the layered orders. \$25,000 fine and six-calendar week suspension.

**CBOT**

## **CBOT-13-9693-BC-1**

*Misc.*

Violation of Rule 432.B.2, Rule 432.Q, Rule 432.T, Rule 432.W – General Offenses (in part); Rule 433 – Strict Liability for the Acts of Agents; Rule 576 – Identification of Globex Terminal Operators

*See summary above in CME-13-9693-BC-1. \$150,000 fine (\$15,000 of which was allocated to CBOT) and disgorgement of \$162,000 in profits (\$25,000 of which was allocated to CBOT), in connection with companion cases CME/NYMEX/COMEX 13-9693-BC.*

## **CBOT-15-0230-BC**

*Disruptive Trading*

Violation of Rule 432.L.1 – General Offenses (in part); Rule 575.A – Disruptive Practices Prohibited (in part)

A PCC Panel charged a non-member trader with violating CBOT Rules 432.L. and 575.A. based on allegations that between October 1, 2014, and May 20, 2015, the trader entered orders in Oats and Rough Rice futures markets on Globex during the pre-opening session that were not made in good faith for the purpose of executing bona fide transactions. The orders caused fluctuations in the publicly displayed Indicative Opening Price. The trader failed to appear at a scheduled interview with Market Regulation in connection with its investigation. Subsequently, a Hearing Panel Chair entered an order finding that the trader failed to answer the charges issued against him and ordered that the trader was deemed to have admitted the charges and waived his right to a hearing on the merits. At a penalty hearing, the trader was found guilty. \$50,000 fine and five-year suspension.

## **COMEX**

### **COMEX 13-9693-BC-1**

*Misc.*

Violation of Rule 432.B.2, Rule 432.Q, Rule 432.T, Rule 432.W – General Offenses (in part); Rule 433 – Strict Liability for the Acts of Agents; Rule 576 – Identification of Globex Terminal Operators

*See summary above in CME 13-9693-BC-1. \$150,000 fine (\$7,500 of which was allocated to COMEX) and disgorgement of \$162,000 in profits (\$30,000 of which was allocated to COMEX), in connection with companion cases CME/CBOT/NYMEX 13-9693-BC.*

### **COMEX 15-0320-BC-1**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses; Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between November 26, 2014 and September 29, 2015, a member entity's trader entered orders in various COMEX futures products for different accounts wholly owned and controlled by the entity, which he knew or should have known would match with each other. The BCC Panel further found that the entity failed to diligently supervise its trader in a manner sufficient to ensure that the trader executed the trades in compliance with Exchange rules. \$20,000 fine.

**COMEX 16-0445-BC**

*Misc.*

Violation of Rule 576 – Identification of Globex Terminal Operators; MRAN RA0908-5

Pursuant to a settlement offer, a BCC Panel found that throughout March and April 2016, a non-member trader, while trading various COMEX Silver contracts, employed a single Tag 50 ID to place orders via an automated trading system executing a pre-determined strategy, while simultaneously using the same Tag 50 ID to place orders, manually, on the opposite side of the market. \$15,000 fine and five-business day suspension.

**NYMEX****NYMEX 13-9693-BC-1**

*Misc.*

Violation of Rule 432.B.2, Rule 432.Q, Rule 432.T, and Rule 432.W – General Offenses (in part); Rule 433 – Strict Liability for the Acts of Agents; Rule 576 – Identification of Globex Terminal Operators

*See summary above in CME-13-9693-BC-1. \$150,000 fine (\$7,500 of which was allocated to NYMEX) and disgorgement of \$162,000 in profits (\$15,000 of which was allocated to NYMEX), in connection with companion cases CME/CBOT/COMEX 13-9693-BC.*

**NYMEX 15-0297-BC-1 and 2**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses; Violation of Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between December 2014 and January 2016, a trader employed by a member entity entered numerous wash trades in Crude Oil and New York Harbor ULSD Futures contracts between accounts with the same beneficial owner.

The entity failed to provide instruction or guidance to its trader on Exchange rules and regulations and failed to supervise the trader's activities. \$90,000 fine for the entity. \$15,000 fine and 20-business-day suspension for the trader.

**NYMEX 15-0320-BC-1**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses; Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between November 26, 2014 and September 29, 2015, a trader employed by a member entity entered orders in various COMEX futures products for different accounts wholly owned and controlled by the entity, which he knew or should have known would match with each other. The BCC Panel further found that the entity failed to diligently supervise its trader in a manner sufficient to ensure that the trader executed the trades in compliance with Exchange rules. \$20,000 fine.

**NYMEX 16-0437-BC-1 and 2**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses; Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between August 2015 and December 2015, a member trader employed by a member entity entered numerous wash trades in New York Harbor ULSD Futures contracts between accounts with the same beneficial owner. The entity failed to provide instruction or guidance to its trader on Exchange rules and regulations and failed to supervise the trading activity of its trader to ensure compliance with Exchange rules. \$70,000 fine for the entity. \$20,000 fine for the trader and 10-business-day suspension.

#### **NYMEX 16-0469-BC**

##### *Disruptive Trading*

Violation of Rule 432.L.2 – General Offenses (in part); Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that, between January 8, 2015 and February 27, 2015 and October 28, 2015 and November 8, 2015, a non-member trader entered orders without the intent to trade in the RBOB Gasoline Futures and NY Harbor ULSD Futures markets. Specifically, the BCC Panel found that the trader placed larger-sized orders, using both a layered and non-layered strategy, on one side of the market and then cancelled them after resting orders on the opposite side of the book were executed. The BCC Panel also found that the trader refused to fully answer all questions posed by Exchange employees during an interview concerning the entry of such orders. \$150,000 fine and six-week suspension.

#### **ICE**

None.

*\*\*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](#).*