

INSIGHTS

## U.S. Futures Exchanges Disciplinary Actions Alert: December 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 13-9575-BC-2**

*Pre-Arranged Trades*

Violation of Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a Business Conduct Committee (“BCC Panel”) found that between June 2014 and July 2015, a non-member entered numerous opposing buy and sell orders for Eurodollar futures trades on Globex for an account with common beneficial ownership with knowledge that the orders would match. This non-bona fide trading activity allowed his employer—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. \$40,000 fine and 20-day suspension.

#### **CME 13-9693-BC-2**

*Disruptive Trading*

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

Pursuant to a settlement offer, a BCC Panel found that between November 2013 and December 2013, a non-member employed as a proprietary trader engaged in disruptive activity by entering orders without the intent to trade in E-mini S&P 500 and E-mini NASDAQ futures markets. In addition, between September 2014 and October 2014, the non-member entered orders in E-mini S&P futures without the intent to trade by layering orders on one side and then

cancelling them after resting orders on the opposite side were executed. The non-member also refused to fully answer interview questions asked by Exchange employees. In connection with this case and companion cases CBOT/COMEX/NYMEX 13-9693-BC-2, the non-member was permanently banned.

**CME 15-0126-BC**

*Disruptive Trading*

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

Pursuant to a settlement offer, a BCC Panel found that between July 1, 2014 and September 4, 2015, a member trader entered bids, offers and modifications on Globex in Lean Hog futures contracts at prices through the existing bid/offer, which were not made in good faith for the purpose of executing bona fide transactions. The entries and cancellation of the orders caused fluctuations in the publicly displayed Indicative Opening Price. Taking the member's financial condition into consideration, \$12,500 fine and two-month suspension.

**CME 15-0161-BC**

*Misc.*

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

A BCC Panel found that between March 17, 2015 and May 6, 2015, a non-member executed multiple round-turn transactions in back-month Eurodollar futures spread markets on Globex between an employer account and a non-member account over which she had discretionary control. As a result, the non-member account profited and the employer account took a loss. Taking into consideration that the non-member was previously ordered to pay restitution to the employer account, six-year suspension but no additional fine.

**CME 15-0237-BC-1 and 2**

*Misc.*

Violation of Rule 432.W – General Offenses (in part); Violation of Rule 534 – Wash Trades Prohibited; Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a BCC Panel found that between December 1, 2014 and March 31, 2015, a non-member trader entered numerous buy and sell orders on behalf of his employer in futures contracts on Globex with the knowledge and intent that the orders would match opposite each other. The purpose was to move positions between accounts in order to manage margin calls. The Panel further found that the trader's non-member employer failed to diligently supervise its trader and allowed the trader to enter orders on Globex using another employee's user ID. \$10,000 fine and 5-day suspension for the trader. \$85,000 fine for the trader's employer.

**CME 15-0238-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that between January 2015 and December 2015, a non-member entered and cancelled orders in the Lumber futures markets without the intent to trade, specifically in an attempt to better the existing bid or offer by entering multiple

1-lot orders at various prices on one side of the market, which narrowed the bid-ask spread and created the appearance of imbalance in buy/sell pressure. Market participants would then join or better the order, at which point the non-member would enter an aggressive order on the opposite side of the market resulting in an execution of the most recent order. After receiving a fill on his bid/offer, the non-member would cancel the remaining resting orders previously entered on the opposite side and repeat the process on the other side of the market. \$25,000 fine and four-week suspension.

**CME 15-0307-BC**

*Misc.*

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

Pursuant to a settlement offer, a BCC Panel found that on November 25, 2015, a member entity submitted eight malformed Request for Quote (“RFQ”) messages in the E-Mini S&P 500 Options Complex to Globex, which prevented all messaging and trading activity for more than 11 seconds on the Equity Options Globex match engine including, but not limited to, the E-Mini S&P and E-Mini NASDAQ Option Complexes. Further, the Panel found that the incident was the result of supervisory error, mistakenly configuring the new RFQ sending functionality, and failing to restrict its traders’ access to the new, untested RFQ functionality. \$135,000 fine.

**CME 15-0329-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited (in part)

Pursuant to a settlement offer, a BCC Panel found that between October 12, 2015 and December 8, 2015, a member entered and cancelled orders in the Live Cattle futures contract markets without the intent to trade those orders. Without the intent to trade, the member placed large orders on one side of the market while having a single, small order on the opposite side of the market. Once the smaller order traded, the member canceled the large orders. \$25,000 fine and 30-day suspension.

**CME 16-0078-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited (in part)

Pursuant to a settlement offer, a BCC Panel found that between September 15, 2014 and January 22, 2015, a member entered and cancelled orders in the December 2014 and March 2015 E-Mini S&P 500 futures without the intent to trade. The member placed large orders on one side of the market opposite smaller resting orders on the other side of the market, which encouraged other market participants to either trade opposite his smaller orders or better his bid/offer, after which he would trade against those participants. \$35,000 fine and 25-day suspension.

**CME 16-0364-BC-1**

*Disruptive Trading*

Violation of Rule 432.L, – General Offenses (in part); Rule 575.A – Disruptive Practices Prohibited; Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a BCC Panel found that between October 1, 2015 and November 18, 2015, a member using Tag 50 user IDs registered to other employees of the same firm entered orders without the intent to trade in the E-Mini S&P 500 futures market. Specifically, large orders were placed on one side of the market and then cancelled after the resting orders on the opposite side were executed. The member also refused to fully answer all questions posed by Exchange employees during an interview. \$100,000 fine and three-month suspension.

**CME 16-0377-BC**

*Misc.*

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

Pursuant to a settlement offer, a BCC Panel found that on December 14, 2015 an automated trading system (ATS), deployed by a member entity in the E-Mini and E-Mini NASDAQ 100 futures contract markets malfunctioned as a result of a change made by the entity to the ATS's logic for executing hedge transactions. This malfunction caused sharp price movements and volume aberrations in both E-mini products. The entity disabled the ATS upon recognizing the malfunction, but re-deployed the ATS in the same markets after misdiagnosing the cause of the malfunction. This redeployment caused additional price and volume aberrations. \$75,000 fine.

**CME 16-0429-BC-1, 2, and 3**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses (in part), Rule 534 – Wash Trades Prohibited

Pursuant to settlement offers, a BCC Panel found that between December 9, 2015 and February 9, 2016 two non-member employees of a non-member entity made numerous trades on Globex in New Zealand Dollar, British Pound and Nikkei/Yen futures in which the entity maintained ownership and control on both sides of the transactions. The employees entered matching buy and sell orders with the knowledge and intent that the orders would match opposite one another for the purpose of liquidating opposing positions to avoid delivery. The Panel found that the non-member entity employing the traders failed to supervise them properly. \$45,000 fine for the non-member entity. \$5,000 fine and 10-day suspension for Trader 1. \$10,000 fine and 10-day suspension for Trader 2.

**CME 16-0444-BC-1, 2, 3, and 4**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses (in part), Rule 534 - Wash Trades Prohibited, Rule 576 – Identification of Globex Terminal Operators

Pursuant to settlement offers, a BCC Panel found that on 12 trade dates between October 2015 and February 2016, three non-member employees of a non-member entity entered matching buy and sell orders on Globex in Live Cattle futures contracts for accounts with common beneficial ownership on both sides. The employees entered the orders with the knowledge and intent that the orders would match opposite one another to freshen customer accounts. The employees failed to use their own Tag50 user IDs and the entity failed to supervise the employees properly. \$60,000 fine for the non-member entity. \$15,000 fine and 15-day suspension for Trader 1. \$10,000 fine and a 7-day suspension for Trader 2. \$10,000 fine and a 7-day suspension for Trader 3.

**CME 16-0563-BC***Pre-Arranged Trades***Violation of Rule 534 – Wash Trades Prohibited**

Pursuant to a settlement offer, a BCC Panel found that on multiple dates between February 1, 2016 and October 12, 2016, a non-member trader executed numerous wash trades involving Lumber futures contracts on Globex. The trader placed opposing buy and sell orders with the knowledge and intent that the orders would match opposite one another with the purpose of moving positions within or between accounts. \$20,000 fine and 15-day suspension.

**CME 17-0631-BC***Misc.*

Violation of Rule 432.T, 432.W – General Offenses; Rule 536.A – Recordkeeping Requirements for Pit, Globex, and Negotiated Trades (in part); Special Executive Report S-7611: Updated Requirement for Proper Recordation, Endorsement, and Key punching of CME Brokerage Reassignment Trades (in part)

Pursuant to a settlement offer, a BCC Panel found that on December 16, 2016, brokers trading at a member entity and executing options-futures spreads in Eurodollar options reassigned 49,760 Eurodollar futures to an individual not physically present on the trading floor when the trade was executed. The entity's clerks and brokers continued to use order tickets signed by this individual, knowing the individual was not on the floor that day. The individual also signed blank order tickets the previous day, December 15, 2016, which the clerks and brokers used on execution of the futures leg of options-futures spreads. The member entity failed to diligently supervise, monitor, and educate its members, including clerks and brokers, as to how to properly discharge the brokerage reassignment process to ensure that any brokerage for the futures leg of the options-futures spread was accurately credited. \$45,000 fine for the entity.

**CBOT****CBOT 13-9693-BC-2***Misc.*

Violation of Rule 432.B.2, 432.L.2, 432.Q and 432.T – General Offenses (in part)

Pursuant to a settlement agreement, a BCC Panel found that the non-member in CME 13-9693-BC-2 engaged in similar activity in the E-mini Dow futures market between November 2013 and December 2013 as the non-member's activity in the E-mini S&P 500 and E-mini NASDAQ futures markets during that same time period. *See summary above in CME 13-9693-BC-2.* In connection with this case and CME/COMEX/NYMEX 13-9693-BC-2, the non-member was permanently banned.

**CBOT 15-0142-BC-1 and 2***Pre-Arranged Trades*

Violation of Rule 534 – Wash Trades Prohibited; Rule 539.A – Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between November 2014 and December 2014, a member of a non-member entity prearranged the execution of transactions in Kansas City Wheat futures by instructing brokers to execute trades in which his employer maintained

control and common beneficial ownership on both sides. The opposing buy and sell orders were placed knowing that the orders would trade opposite of one another for the purpose of freshening an existing position to avoid delivery. \$10,000 fine and 5-day suspension for the member. \$20,000 fine for the non-member entity.

**CBOT 15-0238-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC panel found that on numerous occasions between January 2015 and December 2015, the non-member in CME 15-0238-BC engaged in a similar pattern of activity in the Rough Rice and Oats futures markets as the activity described in CME 15-0238-BC in the Lumber futures markets. *See summary above in CME 15-0238-BC.* \$25,000 fine and 4-week suspension.

**CBOT 15-0263-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on various dates between January 2015 and June 2015, during the pre-opening period of the Wheat, Corn, Soybean Meal and Soybean markets on Globex, a member entered and cancelled crossed-market orders. The purpose of this activity was to identify the depth of the order book or determine the amount of volume pressure necessary to shift the market. The activity caused fluctuations in the publicly displayed Indicative Opening Price. \$20,000 fine and 10-day suspension.

**CBOT 16-0382-BC-1 and 2**

*EFRP*

Violation of Rule 538.C – Related Position

Pursuant to settlement offers, a BCC Panel found that on April 15, 2015, a member entity and non-member entity executed two EFRP transactions that were contingent upon each other, in the sense that each position was established and offset without the incurrence of material market risk. \$15,000 fine for each entity.

**CBOT 17-0679-BC**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found that on multiple occasions between January 3, 2016 and January 27, 2017, a non-member entered and cancelled orders during the pre-opening period of the Oats and Rice futures markets on Globex. The orders were entered not for the purpose of executing bona fide transactions but to identify the depth of the order book. The activity caused fluctuations in the publicly displayed Indicative Opening Price. \$20,000 fine and 15-day suspension.

**COMEX**

**COMEX 13-9693-BC-2**

*Misc.*

Violation of Rule 432.B.2, 432.L.2, 432.Q and 432.T – General Offenses (in part)

Pursuant to a settlement agreement, a BCC Panel found that the non-member in CME 13-9693-BC-2 engaged in similar activity in the Gold and Copper futures market between November 2013 and December 2013 as the non-member's activity in the E-mini S&P 500 and E-mini NASDAQ futures markets during that same time period. *See summary above in CME 13-9693-BC-2.* In connection with this case and CME/CBOT/NYMEX 13-9693-BC-2, the non-member was permanently banned.

**COMEX 15-0320-BC-2**

*Pre-Arranged Trades*

Violation of Rule 534 – Wash Trades Prohibited

Pursuant to a settlement offer, a BCC Panel found that between November 26, 2014 and September 29, 2015, a non-member entered orders for different accounts owned and controlled by his employer in various COMEX and NYMEX futures products that he knew or should have known would match with each other. In connection with this case and companion case NYMEX 15-0320-BC-2, \$10,000 fine (\$5,000 allocated to COMEX, and \$5,000 allocated to NYMEX) and 5-day suspension.

**COMEX 16-0429-BC-1 and 2**

*Pre-Arranged Trades*

Violation of Rule 432.W – General Offenses (in part), Rule 534 – Wash Trades Prohibited

Pursuant to settlement offers, a BCC Panel found that on January 28, 2016 and February 3, 2016 the non-member entity in CME 15-0429-BC-1 and non-member in CME 16-0429-BC-2 engaged in a similar pattern of activity in Gold and Copper futures on Globex as the activity cited in CME 16-0429-BC-1 and 2. *See summary above in CME 16-0429-BC-1, 2, and 3.* \$15,000 fine for the entity. \$5,000 fine and 10-day suspension for the non-member.

**COMEX 16-0522-BC-1 and 2**

*Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to settlement offers, a BCC Panel found that on multiple occasions in September 2016, a non-member trader entered 100-lot orders on one side of the Silver and Gold futures markets without the intent to trade to obtain fills on smaller resting orders on the opposite side. After receiving fills on the smaller orders, the 100-lot orders would be cancelled mostly within seconds. The Panel concluded that the trader's employer, a non-member entity was liable for the acts of its traders. \$45,000 fine for the non-member and 10-day suspension. \$18,841 disgorgement of profits for the non-member entity.

**NYMEX****NYMEX 13-9693-BC-2**

*Misc.*

Violation of Rule 432.B.2, Rule 432.L.2, Rule 432.Q and Rule 432.T – General Offenses (in part)

Pursuant to a settlement agreement, a BCC Panel found that the non-member in CME 13-9693-BC-2 engaged in similar activity in the Natural Gas futures market between November 2013 and December 2013 as the non-member's activity in the E-mini S&P 500 and E-mini NASDAQ futures markets during that same time period. *See summary above in CME 13-9693-BC-2.* In connection with this case and CME/CBOT/COMEX 13-9693-BC-2, the non-member was permanently banned.

#### **NYMEX 15-0238-BC**

##### *Disruptive Trading*

Violation of Rule 575.A – Disruptive Practices Prohibited

Pursuant to a settlement offer, a BCC Panel found the non-member in CME 15-0238-BC to have engaged in a similar pattern activity from June 2015 to January 2016 in the RBOB Gasoline future markets as the activity described in in CME 15-0238-BC involving Lumber futures markets from January 2015 to December 2015. *See summary above in CME 15-0238-BC.* \$30,000 fine, \$11,900.36 disgorgement of profits, and 4-week suspension.

#### **NYMEX 15-0320-BC-2**

##### *Pre-Arranged Trades*

Violation of Rule 534 – Wash Trades Prohibited

*See summary above in COMEX 15-0320-BC-2.*

#### **NYMEX 16-0532-BC**

##### *Misc.*

Violation of Rule 432.W – General Offenses; Violation of Rule 539.C – Pre-Execution Communications Regarding Globex Trades, 539.C.3 – Permissible Entry Methods for Orders, 539.C.a – Globex Cross; Rule 576 – Identification of Globex Terminal Operators

Pursuant to a settlement offer, a BCC Panel found that on multiple occasions between February 1, 2016 and May 31, 2016, traders from a non-member entity crossed multiple Crude Oil futures orders without waiting the requisite five seconds between pre-execution communications and ultimately executing their orders. The entity failed to supervise its traders by providing them with compliance training or educational materials regarding Exchange rules. In addition, the entity failed to ensure that the TAG 50 registration for its traders accessing Globex was current, accurate and unique to each trader, which enabled the traders to enter the orders using TAG 50 IDs registered to different users. \$65,000 fine.

#### **NYMEX 17-0715-BC-1 and 2**

##### *Position Limits*

Violation of Rule 562 – Position Limit Violations

Pursuant to settlement offers, a BCC Panel found that on May 30, 2017, a non-member entity and a non-member trader, who were aggregated for positions limit purposes, held an aggregated net long position in the June 2017 Palladium ("PA") contract of 164 contracts, which was 64 contracts (64%) over the standard position limit of 100 contracts in the June 2017 PA contract. The position limit for June 2017 PA went into effect as of the close of business on May 30, 2017. The entity realized a profit of \$16,635.00 by reducing the excess June 2017 PA positions on May 31, 2017. \$25,000 joint-and-several fine for the entity and trader. \$16,635.00



disgorgement of profits.

#### **NYMEX 17-0795-BC**

*Position Limit*

Violation of Rule 562 – Position Limit Violations

Pursuant to a settlement offer, a BCC Panel found that on September 26, 2017, a non-member entity carried a futures long position of 1,768 contracts in October 2017 Henry Hub Natural Gas futures, which was 76.80% (768 contracts) over the standard expiration month limit. \$30,000 fine.

#### **ICE**

##### **ICE-2014-090**

*Misc.*

Violation of Rule 4.01 – Duty to Supervise; Rule 4.02(i) – Trade Practice Violations, Rule 4.04 – Conduct Detrimental to the Exchange; Rule 4.07(a)(ii)(A) – Block Trading, Rule 6.08(b)(i) – Order Ticket Requirements

A Business Conduct Committee Subcommittee (“BCC Subcommittee”) determined that, a registered entity serving as an introducing broker, may have failed to adequately supervise the Exchange-related activities of its brokers between August 2013 and July 2014 and the Exchange-related activities of Trader 1, a voice broker employed by the entity, in connection with his exercise of a power of attorney for a discretionary account. The BCC Subcommittee also found a possible failure to supervise the exercise of a power of attorney by the Trader 1 for a discretionary account and to comply with recordkeeping requirements. Trader 1 may have improperly disclosed customer information, traded a discretionary account opposite the entity’s customer orders, and executed inadequately-documented block trades by accepting an alleged standing verbal order. Trader 2, also a voice broker employed by the entity, may have improperly executed inadequately-documented block trades by accepting an alleged standing verbal order. \$442,500 fine and cease and desist for the entity. \$50,000 fine, 6-week suspension, and cease and desist for the Trader 1. \$7,500 fine and cease and desist for Trader 2.

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