



Futures Markets Disciplinary Report and CFTC Enforcement Decisions September 2017

CME Group Exchanges

Disruptive Practices Prohibited (Rule 575)

CBOT 15-0302-BC

On two dates in October 2015, Vinko Sajn entered multiple orders involving user defined spreads (“UDS”) in covered Soybean options that avoided futures contracts allocations that should have been associated with the covered options instrument. The price difference between the UDS futures and the outright futures led to an under-allocation favorable to Sajn. Sajn was found in violation of Rule 575.D, ordered to pay a \$5,000 fine, and suspended from trading until thirty business days after the fine is paid in full.

CBOT 16-0416-BC

On multiple dates between September 2015 and April 2016, Andrew Anaszewicz layered orders on one side of the order book in the 5-Year, 10-Year, and 30-Year U.S. Treasury Note futures markets, then placed smaller orders on the opposite side of the same markets or correlated CBOT futures markets. Once the smaller orders traded, Anaszewicz cancelled the larger layered orders on the opposite side of the market. Anaszewicz was found in violation of Rule 575.A, ordered to pay a \$50,000 fine, \$5,296.88 in disgorgement, and serve a four-week trading suspension.

COMEX 16-0434-BC (1-3), NYMEX 16-0434-BC (1-3)

Between December 2015 and April 2016, traders Satya Sharma and Deepak Gautam, then employed with Jaypee Singapore PTE Ltd. (“Jaypee”), entered multiple larger orders in the Silver Futures contract market and Natural Gas Futures contract market without the intent to trade. Sharma and Gautam also entered smaller sized orders on the opposite side of the books, and once these had traded the larger orders were cancelled. Sharma was ordered to pay a \$5,000 fine and serve a six-month trading suspension; Gautam was ordered to pay a \$7,000 fine and serve a three-month trading suspension. Jaypee was found in violation of Rule 432.W and fined \$55,000 for failing to provide instruction to its traders on Exchange regulations concerning disruptive trading, as well as failing to adequately supervise the trading activity of its traders.

CME 15-0249-BC

From March 2015 through June 2015, Bertram Consultants Limited (“Bertram”) accumulated a short position of 378 contracts in the June 2015 NASDAQ 100 (“June 2015 NASDAQ”) futures market. The CME notified Bertram several times of the impending delisting and cessation of trading of the NASDAQ 100 futures contract scheduled for June 18, 2015. Bertram maintained this outstanding short position until several minutes prior to the close of regular trading on the afternoon of June 18, 2015, when a floor broker placed a single market on close order for all 378 contracts. The execution of this order resulted in price and volume aberrations in the June 2015 NASDAQ market. Bertram was found in violation of Rule 575.D and fined \$50,000.

Titan Tips: Market manipulation and trading practices that appears on its face to be market manipulation are a continued focus for investigations and disciplinary actions.

Exchange for Related Positions (Rule 538)

CBOT 16-0487-BC

On October 26, 2015, Morgan Stanley & Co. International Plc (“MSIP”) facilitated the execution of two Exchange for Related Position (“EFRP”) transactions in the 10-Year U.S. Treasury Note futures market. These transactions were contingent upon each other for the purpose of rebalancing positions, which offset the related position without incurring material market risk. Additionally, the quantity of the related position was not an equal quantity to the exchange-component of the EFRP. MSIP was found in violation of Rules 538.C and 538.E and ordered to pay a fine of \$25,000.

General Offenses (Rule 432), Acceptance of Bids and Offers (Rule 522)

CME-16-0492-BC

On June 17, 2016, acting desk clerk Robert Samuel Parks received a not-held order to buy 385 contracts in the Standard & Poor’s 500 Stock Price Index (“S&P”) futures market. Parks relayed the customer order to a floor broker who bought 435 contracts at various prices, at which point the 50 contract overbuy was recognized and the S&P futures price declined. Parks then authorized the broker to assign 50 contracts to the broker’s error account at lowest purchase price, depriving the customer of best purchase price. Parks was found in violation of Rule 432 and Rule 522, fined \$20,000, and suspended from trading for fourteen days.

COMEX 15-0261-BC-1

From July 2015 through September 2015, an employee of Skeet Commodities DMCC (“Skeet”) engaged in disruptive trading practices in Gold and Silver futures. Skeet was fined \$30,000 for failing to properly supervise this employee and her trading strategies, and for failing to provide the employee any type of training regarding Exchange rules.

Position Limit Violations (Rule 562)

CBOT 17-0707-BC

On May 2, 2017, Edward J. Schwartz held an intraday position of 603 contracts long in May 2017 Corn Futures, a 0.5% excess over the spot month position limit of 600 contracts in effect on that date. Schwartz was ordered to pay a \$5,000 fine but did not profit from liquidating this overage and was therefore not ordered to disgorge any profits.

NYMEX 16-0570-BC

On November 28, 2016, Condor Alpha Asset Management (“Condor”) held a futures equivalent net long position of 2,879.25 contracts in December 2016 Henry Hub Natural Gas Look-Alike Last Day Financial Futures and liquidated its overage position on the same date. The position was 879.25 contracts, or 43.963%, in excess of the date’s effective approved hedge exemption. Condor was fined \$25,000 for the violation and penalized with an additional \$17,400 disgorgement.

NYMEX 17-0652-BC

At the close of business on February 21, 2017, Etorri Capital LLC (“Etorri”) held a futures equivalent short position of 1,939 contracts in March 2017 Henry Hub Natural Gas Futures. The position was 939 contracts, or 93.9%, over the standard expiration month limit. Etorri was fined \$32,500 for the violation.

Titan Tips: As position limits change with some regularity, it is a best practice to monitor that internal limits are properly set. CME Group position limits can be found at the following link: <http://www.cmegroup.com/market-regulation/position-limits.html>

Large Trader Reporting (Rule 561)

NYMEX 15-0294-BC, CME 15-0294-BC

Between 2009 and 2015, Morgan Stanley & Co., LLC (“Morgan Stanley”) failed to submit to the Exchange a daily large trade position report of all of its positions at or above the reportable level in various equity, FX, and energy products. Morgan Stanley’s proprietary large trader system was not accurately mapping the options contracts for some futures to the related futures contracts, and as a result, if only one product was above the reporting threshold then the other product would not be reported in the large trade position file. Morgan Stanley was fined \$100,000.

ICE Futures U.S.

Trade Practices Violations (Rule 4.02)

Case Number 2017-003

On instances between January 2016 and July 2016, Bueno Café Comercio E Exportacao (“Bueno Café”) executed wash sales to move positions between accounts under common control and ownership. In each instance, the position could have been properly moved by a back-office transfer. Bueno Café agreed to pay a monetary penalty of \$7,500 and to cease and desist from violating Rule 4.02(c).

Highlights from September CFTC Enforcement Decisions

CFTC Docket No. 17-24

W Resources operated the W North Funds to purchase oil and gas assets and to hedge the exposure related to certain of those oil assets with the purchase of commodity interests. W Resources solicited, accepted, and received funds from investors on behalf of the W North Funds to purchase oil and gas assets, including non-operated working interests in oil drilling wells, as well as to trade commodity options to hedge its resulting financial exposure. The CFTC held that W Resources acted as a CPO as defined by 7 U.S.C. § 1a(11) (2012). W Resources was not registered with the CFTC as a CPO and found in violation of Section 4m(1) of the Commodity Exchange Act. The CFTC ordered W Resources to pay a \$150,000 civil penalty for acting as a CPO without registering.

CFTC Docket No. 17-25

In 2009 and 2010, CME Group inquired into the futures block trade execution and recordkeeping practices of the U.S. Dollar interest rate swaps and block futures trading desk at Bank of America N.A. (“BANA”). CME Group Market Regulation staff interviewed certain traders on the swaps desk. In response, the swaps desk traders made misleading statements and failed to acknowledge that they did in fact trade ahead of futures block trades in some instances. Merrill Lynch relied on the business operations support group at BANA to gather information for Merrill Lynch’s response to the CME Group’s inquiries. However, Merrill Lynch exercised minimal oversight over the work of this group and failed to stay adequately informed regarding the group’s findings. Merrill Lynch’s lack of diligence in supervising the work of this group contributed to its failure to detect trading ahead by certain traders on the swaps desk before these traders misled CME Market Regulation staff during their interviews.

Merrill Lynch was ordered to pay a \$2.5 million civil penalty and comply with undertakings to improve its procedures and controls to ensure that it prepares and maintains accurate and complete records of futures block trades executed by its affiliates.

Titan Tip: Parties privy to nonpublic information regarding a consummated block trade may not disclose such information to any other party prior to the public report of the block trade by the Exchange.

Parties to a potential block trade may engage in pre-hedging or anticipatory hedging of the position that they believe *in good faith* will result from the consummation of the block trade, except for an intermediary that takes the opposite side of its own customer order. In such instances, prior to the consummation of the block trade, the intermediary is prohibited from offsetting the position established by the block trade in any account which is owned or controlled, or in which an ownership interest is held, or for the proprietary account of the employer of such intermediary. The intermediary may enter into transactions to offset the position only after the block has been consummated.

CFTC Docket No. 17-27

From at least March 3, 2016 through March 24, 2016, Tillage Commodities, LLC’s (“Tillage”) fund administrator received seven fraudulent requests to transfer funds from the commodity pool’s bank account. These requests were made by an unknown party who spoofed Tillage’s managing member’s email address and sent requests that imitated Tillage’s typical transfer requests. Tillage’s fund

administrator processed five of these requests, which resulted in a \$5.9 million loss of pool participants' funds, or 64% of the pool's total capital. Tillage only reviewed the pool bank account's balance once during the month to verify its calculation of the pool's net asset value. Furthermore, while Tillage could review the activity in the account on the bank's website, from January 7, 2016 to March 24, 2016, Tillage failed to do so.

The CFTC required Tillage to pay a \$150,000 civil penalty and ordered Tillage to cease and desist from further violations of the Commodity Exchange Act.

Titan Tip: Titan's review of our client's administrator and fund transfer processes includes an examination of past transfers to identify circumstances in which a client may have been spoofed by a third-party acting as if they are the members of the firm.

It is also important to actively review the bank records and balances to actively identify situations in which a client may have been spoofed or compromised.