Securities Regulation Daily Wrap Up, COMMODITY FUTURES—CFTC orders Citigroup to pay $25M for spoofing in treasury futures markets, (Jan. 19, 2017)

Securities Regulation Daily Wrap Up

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The U.S. Commodity Futures Trading Commission (CFTC) announced that it issued an Order filing and settling charges against Citigroup Global Markets Inc. (Citigroup) for spoofing—bidding or offering with the intent to cancel the bid or offer before execution—in U.S. Treasury futures markets and for failing to diligently supervise the activities of its employees and agents in conjunction with the spoofing orders. Five traders at Citigroup placed more than 2,500 orders with the intent to cancel before execution over an eighteen-month period (*In the Matter of Citigroup Global Markets Inc.*, January 19, 2017).

Citigroup's unlawful conduct occurred between July 16, 2011 and December 31, 2012 (the Relevant Period). Citigroup is registered with the CFTC as a Futures Commission Merchant and provisionally registered as a Swap Dealer.

Spoofing. Specifically, the Order found that Citigroup, by and through five of its traders (who worked on either its U.S. Treasury or U.S. Swaps desks), engaged in spoofing more than 2,500 times in various Chicago Mercantile Exchange (CME) U.S. Treasury futures products during the Relevant Period. The traders' spoofing strategy involved placing bids or offers of 1,000 lots or more with the intent to cancel those orders before execution. The spoofing orders were placed in the U.S. Treasury futures markets after another smaller bid or offer was placed on the opposite side of the same or a correlated futures or cash market. The traders placed their spoofing orders to create or exacerbate an imbalance in the order book and cancelled their spoofing orders after either the smaller resting orders had been filled or the traders believed that the spoofing orders were at too great a risk of being executed. In addition to executing the spoofing strategy individually, on at least one occasion, some of Citigroup's traders coordinated with each other to implement the spoofing strategy, by placing one or more spoofing orders after another trader had placed one or more smaller resting orders in the same or a correlated futures or cash market.

Citigroup's supervision failures. The Order also found several supervision failures related to Citigroup's spoofing. First, Citigroup provided insufficient training about spoofing to traders on its U.S. Treasury and U.S. Swaps desk. In fact, for most of the traders through which Citigroup spoofed, the only communication they received about spoofing before or during the Relevant Period consisted of a single compliance alert containing the Commodity Exchange Act's (Act's) anti-spoofing language. Second, Citigroup did not have adequate systems and controls in place to detect spoofing by traders on its U.S. Treasury and U.S. Swaps desks. Third, even when alerted to a spoofing incident involving one of its traders, a supervisor and other members on the U.S. Treasury desk failed to comply with Citigroup's then-existing policies regarding reporting violations of the Act.

Penalties and remedies. The Order recognized Citigroup's cooperation during the investigation of this matter, including Citigroup's self-reporting of additional potential spoofing orders after the CME had inquired about certain suspicious orders, as well as corrective action taken by Citigroup prior to entry of the Order to improve its supervisory systems, internal controls, and training with respect to spoofing. Nevertheless, the spoofing violated Section 4c(a)(5)(C) of the Act, and the supervision failures violated Commission Regulation 166.3. Citigroup is required to pay a $25 million civil monetary penalty. Citigroup must also cease and desist from violating the Act's prohibition against spoofing and the CFTC regulation governing diligent supervision. In addition, Citigroup must comply with undertakings, including providing annual training addressing the Act's legal requirements with regard

to spoofing to its employees who submit orders on U.S. futures markets and their supervisors and maintaining systems and controls reasonably designed to detect spoofing activity by its traders.

The case is No. 17-06.

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