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CFTC Orders Proprietary Trading Firm to Pay Record $67.4 Million for Engaging in a Manipulative and Deceptive Scheme and Spoofing

Result Is the Largest Total Monetary Relief Ever Ordered in a Spoofing Case

Washington, DC – The U.S. Commodity Futures Trading Commission today issued an order filing and settling charges against **Tower Research Capital LLC**, a proprietary trading firm, arising from a manipulative and deceptive scheme, spanning nearly two years and involving thousands of occasions of spoofing in equity index futures products traded on the Chicago Mercantile Exchange (CME) and Chicago Board of Trade (CBOT). The order finds that Tower, by and through three former Tower traders, engaged in this unlawful activity while placing orders for, and trading futures contracts through, Tower accounts, which benefited Tower financially while causing $32,593,849 million in market losses.

The order imposes a total of $67.4 million against Tower, comprised of $32,593,849 in restitution, $10,500,000 in disgorgement, and a $24,400,000 civil monetary penalty—the largest total monetary relief ever ordered in a spoofing case. It also requires Tower to cease and desist from violating the Commodity Exchange Act's prohibition on spoofing and the use of manipulative and deceptive schemes. This case was brought in connection with the CFTC Division of Enforcement's Spoofing Task Force.

"I've been clear that the CFTC will be tough on those who break the rules," said CFTC Chairman Heath P. Tarbert. "This case reflects that commitment as well as the continued importance the agency is placing on parallel efforts with our law enforcement partners. A robust combination of criminal prosecution and regulatory enforcement is essential to preserving market integrity and protecting our market participants. I commend the Department of Justice for its work on this case and its commitment to the relationship between our two agencies."

"Today's enforcement action shows that the CFTC will continue to aggressively pursue those who engage in manipulative and deceptive conduct in our markets," added CFTC Director of Enforcement James McDonald. "This misconduct undermines the integrity of the price discovery process and can result, as it did here, in harm to law-abiding market participants. The CFTC will continue to work closely with our law enforcement partners to root out this illegal activity and hold those responsible accountable."

The order finds that from at least March 2012 through December 2013, Tower, by and through the traders, on thousands of occasions, placed orders to buy or sell futures contracts with the intent to cancel those orders prior to execution. The traders implemented their manipulative and deceptive scheme by placing one or more orders that they wanted to get filled (genuine orders) on one side of the market, typically consisting of passive orders whose quantities are only partially visible to other market participants; and, on the opposite side of the market, placing one or more orders that the traders intended to cancel before execution (spoof orders), typically consisting of fully-visible passive orders for a larger total quantity. Generally, after receiving a full or partial fill on the genuine orders, the traders then cancelled the spoof orders. In placing the spoof orders, the traders often used an order splitter to enter several smaller, randomly-sized orders in an attempt to obscure their scheme from other market participants. The traders engaged in this scheme to induce other market participants to trade against their genuine orders—by intentionally sending a false signal to the market that they wanted to buy or sell the number of contracts specified in the spoof orders and creating a false impression of supply or demand—so that the genuine orders would fill sooner, at better prices, or in larger quantities than they otherwise would.

The order recognizes Tower's cooperation with the Division of Enforcement's investigation and notes that its cooperation resulted in a reduced civil monetary penalty. The order also provides for offsets for any payment of restitution, disgorgement, or monetary penalty that is made pursuant to the U.S. Department of Justice's (DOJ) related criminal action.

Related Criminal Action

Today, in a separate action, the DOJ Fraud Section announced entry of a Deferred Prosecution Agreement with Tower in a parallel matter, deferring criminal prosecution of Tower on a commodities fraud charge.

The Division of Enforcement acknowledges and thanks the staff of the Market Regulation Department of the CME Group, DOJ Fraud Section's Commodities Fraud Group, and the Federal Bureau of Investigation for their assistance.

The Division of Enforcement staff members responsible for this case are Rachel Hayes, Rebecca Jelinek, Allison Sizemore, Stephen Turley, Chris Reed, and Charles Marvine, as well as former staff member Peter Riggs.

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