

## Securities Regulation Daily Wrap Up, ENFORCEMENT—A week of spoofing by newbie trader results in \$500,000 fine, (Nov. 8, 2019)

Securities Regulation Daily Wrap Up

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By [Brad Rosen, J.D.](#).

Mitsubishi Corporation RtM Japan Ltd. settles CFTC administrative charges that a novice trader on its proprietary trading desk engaged in multiple acts of spoofing in platinum and palladium futures contracts.

The CFTC issued an order filing and settling charges against Mitsubishi Corporation RtM Japan Ltd., a company incorporated under the laws of Japan, with its main office in Tokyo, for engaging in multiple acts of spoofing contracts on the New York Mercantile Exchange for platinum and palladium futures. The order found that RtM Japan engaged in this spoofing activity through an inexperienced trader who utilized a trading platform located in RtM Japan's Tokyo office. The order requires RtM Japan to cease and desist and imposes a civil monetary penalty of \$500,000. The order also notes that company promptly suspended the trader from trading upon learning of the spoofing activities ([In the Matter of Mitsubishi Corporation RtM Japan Ltd.](#), November 7, 2019).

**Spoofing trader lacked experience.** According to [the order](#), for an approximate one-week period, from April 5, 2018 through April 13, 2018, the company, thorough one of its traders, engaged in spoofing in connection with various precious metals futures products traded on the NYMEX and thereby violated Sections 4c(a)(5)(C) and 6c(a)(5)(C) of the Commodity Exchange Act. The order also found that the trader in question had no trading experience and was placed on the precious metals as part of a training rotation. Furthermore, the order found that during the trader's time on the desk, the novice trader placed multiple orders for futures contracts with the intent to cancel the orders before their execution.

**A typical spoofing scheme.** The order found that the trader typically first placed a large order with the intent to cancel it before execution (the spoof order). Soon thereafter, in the same market, the trader entered a smaller order which the trader intended to execute (the genuine order), while the spoof order rested. In many instances, the trader received a partial or complete fill on the genuine order, and then cancelled the spoof order before it was filled. At times, the trader layered the spoof orders, entering multiple genuine orders in conjunction with spoof orders. The trader engaged in this spoofing activity in order to test how the market would react.

**Cooperation and remediation led to reduced penalties.** The order found that RtM Japan cooperated with the Division of Enforcement's investigation and engaged in proactive remedial measures, including implementing an electronic trading monitoring system to screen for suspicious trades and retaining a third-party expert to develop and implement a comprehensive risk assessment for precious metals trading. Moreover, the company overhauled its training program and conducted relevant training sessions and seminars on market misconduct in the U.S. futures markets. According to the order, this cooperation and remediation is reflected in a reduced civil monetary penalty.

**Director comments.** James McDonald, the CFTC's Director of Enforcement, had this to say about this matter: "Today's enforcement action shows, once again, that the Commission will aggressively pursue spoofing in our markets. It also demonstrates that participants who allow their employees to test the markets for training or other inappropriate purposes will be held accountable when employees do not trade lawfully."

**Parallel CME disciplinary action.** The CME Group's Market Regulation Department independently conducted a parallel investigation, and also announced [a disciplinary action brought against RtM Japan](#) based upon substantially the same set of facts as set forth in the CFTC order. The company agreed to pay a fine in the amount of \$250,000 as part of its settlement with the exchange.

The order is CFTC Docket [No. 20-07](#).

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