Securities Regulation Daily Wrap Up, COMMODITY FUTURES—N.D. Ill.: Victim of 'spoofing' scheme sues John Does, (Mar. 11, 2015)

By Anne Sherry, J.D.

HTG Capital Partners, LLC is suing yet-unidentified defendants for engaging in "spoofing" on the Chicago Board of Trade's CME Globex platform. HTG alleges that its own orders were matched with canceled orders and aggressive flip orders as part of the defendants' market manipulation (*HTG Capital Partners, LLC v. Doe*, March 10, 2015).

Allegations. Trading on CME Globex is anonymous, but operators identify themselves through a unique operator identification known to Chicago Board of Trade and/or CME Group. HTG said that it will be able to obtain the defendant's or defendants' identities through discovery and will request leave to amend its complaint upon identification. The complaint alleges violations of Commodity Exchange Act Secs. 4c and 6(c), which ban spoofing and manipulation, respectively.

Mechanics of scheme. The complaint alleges that the defendants engaged in a spoofing scheme to manipulate the market in three phases. In the first phase, the defendants would enter orders that they intended to cancel before execution, creating the false appearance of market depth and causing other market participants to enter buy or sell orders in the direction of the false momentum. The defendants then cancelled the orders in the second phase. Finally, virtually simultaneously with the cancels, the defendants would enter one or more orders in the opposite direction of the cancelled orders and at the same price. By doing so, they "flipped" the market by trading against the remaining available contracts.

Premeditated manipulation. HTG argues that the defendants could not have legitimately changed their mind as to the direction of the market so quickly, often, and precisely. The defendants sometimes also modified the orders they entered in the first phase, causing the CME Globex platform to reassign a lower queue priority to the order and minimizing the likelihood that it would be filled. The fact that the cancels and "flip" orders occurred almost simultaneously evidences premeditation, according to the complaint. HTG also notes that the defendants implemented the same three-phase pattern in multiple treasury products at the same time, giving further credence to the argument that the defendants entered orders they intended to cancel prior to execution.

Harm. Exhibits to the complaint identify nearly 7000 individual instances of spoofing in 2013 and 2014 that were matched to HTG's orders. HTG also argues that it was damaged by having to expend time and resources to develop protective trading strategies to detect and avoid the defendants' illegal trading. Finally, HTG substantially reduced its trading activity for significant periods of time due to the disruption in the markets, resulting in lost opportunities in the Treasury markets.

The case is No. 15-cv-2129.

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Companies: HTG Capital Partners, LLC

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