Securities Regulation Daily Wrap Up, COMMODITY FUTURES—N.D. Ill.: High-speed trader quickly found guilty in spoofing trial, (Nov. 4, 2015)

By Matthew Garza, J.D.

A Chicago jury took one hour to convict futures trader Michael Coscia on 6 counts of spoofing, a deceptive trading tactic that places and then cancels orders at high-speed to take advantage of price swings in the market. The first federal prosecution of the Dodd-Frank-banned activity represented a major victory for Zachary Fardon, the U.S. Attorney for the Northern District of Illinois, and the Chicago-based Securities and Commodities Fraud Section that he created in April 2014 (*U.S. v. Coscia*, October 1, 2014).

The jury's quick verdict in the complex case may embolden criminal and civil authorities in their pursuit of traders using methods similar to Coscia's. Coscia, who was also convicted on 6 counts of commodities fraud, commissioned the design of two computer programs to execute the fraudulent strategy at his New Jersey trading firm, Panther Energy Trading LLC, according to the Justice Department. He now faces a maximum sentence of 25 years in prison and a $250,000 fine for each commodities fraud count and a maximum sentence of ten years and a $1 million fine for each spoofing count. His sentencing hearing was scheduled for March 17, 2016.

"The defendant's trading activities disrupted the markets in his favor and against legitimate traders and investors," said Fardon. "The jury's verdict exemplifies the reason we created the Securities and Commodities Fraud Section in Chicago, which will continue to criminally prosecute these types of violations."

Spoofing. Spoofing is prohibited by Sec. 4c (a)(5)(C) of the Commodity Exchange Act, which was added by the Dodd-Frank Act. The section specifically proscribes conduct

that “is, is of the character of, or is commonly known to the trade as, ‘spoofing’ (bidding or offering with the intent to cancel the bid or offer before execution).”

As more fully explained in the *Securities Regulation Daily* wrap up for October 3, 2014, Coscia used the computer algorithms in 17 different CME Group markets and three markets on the ICE Futures Europe exchange to make about $1.4 million from his spoofing activities. Civil authorities also teed off on Coscia. In 2013 the CFTC ordered him to pay a $1.4 million civil monetary penalty and disgorge the same amount of profits. The U.K. Financial Conduct Authority fined him about $900,000 the same year.

Other cases. The CFTC is also pursuing two traders from the United Arab Emirates in connection with spoofing in the gold and silver futures markets. The agency filed suit and obtained an asset freeze against the pair on May 5, alleging that they placed orders they never intended to execute and cancelled them before execution. On April 21, the CFTC filed a complaint in the Northern District of Illinois against Navinder Sarao for spoofing the E-mini S&P 500 futures contract. The Justice Department also filed criminal charges in that case. According to the charges, Sarao’s conduct contributed to the May 2010 “Flash Crash” in which the Dow Jones Industrial Average plunged 600 points in five minutes.

The case is No. 14 CR 551.

Companies: Panther Energy Trading LLC

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