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CFTC Enters into Non-Prosecution Agreements with Former Citigroup Global Markets Inc. Traders Jeremy Lao, Daniel Liao, and Shlomo Salant

Non-Prosecution Agreements Are a Powerful Tool in the Division's Cooperation Program

Washington, DC — The U.S. Commodity Futures Trading Commission (CFTC) announced today that it entered into non-prosecution agreements with **Jeremy Lao (Lao)** of New York, New York, **Daniel Liao (Liao)** of Minato-Ku, Japan, and **Shlomo Salant (Salant)** of New York, New York. In their non-prosecution agreements, Lao, Liao, and Salant each admits that he engaged in the unlawful disruptive trade practice of "spoofing" (bidding or offering with the intent to cancel the bid or offer before execution) in U.S. Treasury futures markets while trading for Citigroup Global Markets Inc. (Citigroup) in 2011 and 2012. The non-prosecution agreements emphasize Lao's, Liao's, and Salant's timely and substantial cooperation, immediate willingness to accept responsibility for their misconduct, material assistance provided to the CFTC's investigation of Citigroup, and the absence of a history of prior misconduct.

> CFTC Director of Enforcement James McDonald commented: "I am pleased to announce the first non-prosecution agreements entered into by the Commission, which I expect will be an important part of the Division's cooperation program going forward. Non-prosecution agreements like these give the Division a powerful tool to reward extraordinary cooperation in the right cases, while providing individuals and organizations strong incentives to promptly accept responsibility for their wrongdoing and cooperate with the Division's investigation."
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> Mr. McDonald continued: "For many types of complex cases, there is simply no substitute for cooperating witnesses, who can tell the inside story of the fraud or misconduct at issue. Used properly, this type of first-hand knowledge can help the Division identify more culpable wrongdoers, hold them accountable, and further protect customers and the integrity of the markets. That's exactly what happened here: These traders readily admitted their own wrongdoing, identified misconduct of others, and provided other valuable information, all of which expedited our investigation and strengthened our cases against the other wrongdoers."

The non-prosecution agreements set forth how each trader employed a spoofing strategy that involved entering a large brief order (with the intent to cancel the large order before execution) on the opposite side of a smaller order (that each wanted to trade) in the same or a correlated market. Lao, Liao, and Salant used the spoofing strategy to get their smaller orders filled (and filled more quickly) at the prices they wanted. The agreements also detail numerous incidents of unlawful conduct at Citigroup, to which the traders admitted. For example:

> • On January 31, 2012, one of Liao's spoofing orders traded before he could cancel it and resulted in a $60,000 loss. Shortly thereafter, Liao called members of Citigroup's U.S. Treasury desk to report the loss and the circumstances around it. Specifically, Liao told the head trader on the desk that he had "offered 4,000 contracts in [ten-year futures] hoping I'd get hit in some [ten-year cash Treasuries]." The head trader responded, in part, "cool, sounds like it didn't cost too much, so that's cool." At this point, another senior trader got on the phone and asked about

what happened. The head trader responded, “He offered [ten-year futures] in the screens and got lifted,” to which the senior trader responded, “Oh! You were [screwing] around and got jacked.” In a subsequent call, the senior trader told Liao not to stress about the incident and reminded Liao that because he is in Tokyo, “when you do that, people know what you are doing. There’s no liquidity anyway, you’re on the offer for like umpteenth size, clearly, clearly guys know you want to buy [ ]. Yeah, don’t pick up bad habits from us.”

• In November 2011, Liao traveled from Tokyo to New York to train with, among other individuals, senior traders on the U.S. Treasury desk to learn how to trade U.S. Treasury futures and cash products. During his approximately six weeks of training in New York, Liao was instructed to sit adjacent to and observe the trading activity of other traders. During these sessions Liao asked the traders questions about their trading. He spent substantial time training with the head trader on the desk and another senior trader trading the “on the run,” or most recently issued, Treasuries and correlated futures contracts. One of the trading patterns utilized by the head trader and the senior trader that Liao observed involved the placement of a small order in U.S. Treasury futures or cash products on one side of the market and the placement and rapid cancellation (often in less than one second) of a much larger futures order on the opposite side of the market. At the time, Liao believed the large brief orders were entered to induce other market participants, specifically algorithmic traders, to transact on the smaller orders.

• In or around 2012, Lao engaged in the trading strategy described above in conjunction with a more senior trader. In that instance, the senior trader entered and quickly canceled large orders on one side of the futures market to induce other market participants to transact on Lao’s smaller resting futures orders on the opposite side. While neither spoke specifically about what they were doing, Lao understood that the senior trader’s intent was to cancel his large orders prior to execution to get Lao’s smaller resting orders filled (and filled more quickly) at the prices they wanted.

• In January 2012, a trader in Tokyo covering Citigroup’s U.S. Treasury desk employed a strategy similar to Salant’s. One of the large orders placed by this trader (4,000 ten-year futures contracts) — which the trader did not intend to execute — traded and resulted in a loss. Salant discussed this incident with the Tokyo trader and told him that an order for 4,000 contracts was a lot to place in such an illiquid market. Salant also mentioned that he had previously done the same thing using an order of 1,000 contracts. Salant suggested to the trader in Tokyo that he not do it again.

On January 19, 2017, the CFTC announced a settlement with Citigroup for spoofing and related supervision failures and imposed a $25 million civil monetary penalty (see CFTC Press Release and Order 7516-17, *CFTC Orders Citigroup Global Markets Inc. to Pay $25 Million for Spoofing in U.S. Treasury Futures Markets and for Related Supervision Failures).* Relatedly, on March 30, 2017, the CFTC announced settlements with former Citigroup traders **Stephen Gola** and **Jonathan Brims** for spoofing and imposed civil monetary penalties of $350,000 and $200,000, respectively, along with six-month trading bans (see CFTC Press Release and Orders 7542-17, *CFTC Orders Former Citigroup Global Markets Inc. Traders Stephen Gola and Jonathan Brims to Pay $350,000 and $200,000, Respectively, and Bans Them from Trading for 6 Months for Spoofing in U.S. Treasury Futures Markets*).

The CFTC thanks and acknowledges the assistance of the Chicago Mercantile Exchange.

CFTC Division of Enforcement staff members responsible for this matter are Margaret Aisenbrey, Christopher Reed, Allison Sizemore, Daniel Jordan, and Charles Marvine.

Media Contact
Dennis Holden
202-418-5088

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