

SPEECHES & TESTIMONY

Statement of CFTC Director of Enforcement James McDonald

January 29, 2018

Today, the CFTC announces the filing of eight actions that go to the core of our mission: to preserve market integrity and protect those who participate in our markets from fraud and manipulation. Specifically, these eight actions involve the settlement of three corporate cases against major financial institutions, as well the filing of five complaints, charging six individuals and one company, with spoofing and manipulation in the futures markets in violation of the Commodity Exchange Act.

The corporate cases involve a civil settlement with Deutsche Bank, which includes a fine of \$30 million for spoofing and manipulation; a civil settlement with UBS, which includes a fine of \$15 million for spoofing and attempted manipulation; and a civil settlement with HSBC, which includes a fine of \$1.6 million for spoofing. The \$30 million fine against Deutsche Bank marks the largest imposed by the CFTC to date for spoofing-related misconduct. Notably, the fines would have been substantially higher but for each banks' substantial cooperation, and for UBS, its additional self-reporting of the conduct.

The CFTC today also announces the filing of civil complaints against six individuals and one company. These cases were filed in the Northern District of Illinois, Southern District of Texas, and District of Connecticut. These cases involve charges against three individuals who allegedly engaged in spoofing and manipulation as traders for major banks, and who allegedly taught their subordinates to spoof as well; two individuals who allegedly engaged in spoofing and manipulation as traders for proprietary trading firms; and one individual and company who allegedly built a computer program designed to spoof and manipulate the market. This alleged misconduct stretches across multiple futures markets—from precious metals, like gold and silver, to the Dow, NASDAQ, and S&P 500 E-mini futures, which are some of the most heavily traded contracts in the world.

These cases were investigated and filed in connection with the Division of Enforcement's new Spoofing Task Force, which is a coordinated effort across the Division—with members from our offices in Chicago, Kansas City, New York, and Washington, DC—to root out spoofing from our markets. My thanks to all of the Task Force team members, and in particular to Neel Chopra who headed up the coordination effort. I am also grateful for the assistance of our law enforcement partners at the Department of Justice and the FBI, and for the assistance of the CME Group.

Spoofing is a particularly pernicious example of bad actors seeking to manipulate the market through the abuse of technology. The technological developments that enabled electronic and algorithmic trading have created new opportunities in our markets. At the CFTC, we are committed to facilitating these market-enhancing developments. But at the same time, we recognize that these new developments also present new opportunities for bad actors. We are equally committed to identifying and punishing these bad actors.

Spoofers seek to profit by unlawfully injecting false information into the market to distort prices and to trick others into trading at manipulated prices. If left unchecked, spoofers will gain an unfair and unlawful advantage over others, which hinders competition, undermines market integrity, and harms law-abiding victims. Spoofing drives traders away from our markets, reducing the liquidity needed for these markets to flourish. And spoofing harms businesses, large and small, that use our markets to hedge their risks in order to provide stable prices that all Americans enjoy.

The CFTC's enforcement program is built around the twin goals of holding wrongdoers accountable and deterring future misconduct. We believe these goals are best achieved when we

hold accountable not just companies, but also individual wrongdoers. As these cases show, we will work hard to identify and prosecute the individual traders who engage in spoofing, but we will also seek to find and hold accountable those who teach others how to spoof, who build the tools designed to spoof, or who otherwise aid and abet the wrongdoing. These cases should send a strong signal that we at the CFTC are committed to identifying individuals responsible for unlawful activity and holding them accountable.

In the cases announced today, we identified the alleged misconduct through our traditional surveillance and enforcement tools, and also through new ones we are developing. For example, we identified some of the alleged conduct using sophisticated data analysis, which we have worked to develop at the CFTC over the past year. Through analysis of market data, we can identify trading patterns that reveal unlawful conduct. I expect, going forward, we will use this type of data analysis across a range of trading activity to detect and punish various forms of misconduct.

Also over the past year, the CFTC has worked to develop its cooperation program for both companies and individuals. Today's filings stem from this enhanced cooperation program, and show how a successful program can both hold entities and individuals accountable for their misconduct while opening valuable new avenues of information that can lead to additional prosecutions. Going forward, I strongly believe that these new tools, when coupled with the traditional ones, will enable us to achieve our twin goals of accountability and deterrence—and ultimately stamp out fraud and manipulation from our markets.

Finally, I would like to personally thank the CFTC staff responsible for these cases: Margaret Aisenbrey, Candice Aloisi, Joyce Brandt, Laura Brookover, Neel Chopra, Patryk J. Chudy, Jordon Grimm, Rachel Hayes, Lenel Hickson, Jr., Rebecca Jelinek, Charles Marvine, Carlin Metzger, David Oakland, Katie Rasor, Christopher Reed, Peter Riggs, Thomas Simek, Allison Sizemore, Manal M. Sultan, Lara Turcik, Stephen Turley, Sam Wasserman, Alben Weinstein, and Brandon Wozniak

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