

CASE STUDY

Commodities Trade Surveillance



CHALLENGE

An international trade and finance company self-reported to the CFTC acts of spoofing. Settlement with CFTC required the company to improve substantially its trade surveillance capabilities and, ultimately, to pay a civil fine exceeding \$500,000.

The spoofing involved a single trader located in an office outside of the United States. While the company itself is not regulated, its participation in US futures exchanges requires it to adhere to all applicable market regulations. As part of its effort to settle the matter with the CFTC, the company teamed with MRE and a specialized global services firm to design and implement a trade surveillance framework.

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SOLUTION

Working with both the client and the CFTC, MRE and the specialized services firm conducted an in-depth analysis of 38 potential market manipulation scenarios. The scenarios analyzed included spoofing, wash trading, and breaching exchange limits. The team also compared the client's current surveillance processes against best practices for regulated financial institutions. Next the team worked with client leadership from legal, compliance, and the front office to design and implement a surveillance framework. The framework consisted of a new organizational structure, modified business & compliance processes, and trading system enhancements.

MRE conducted the testing and analysis of each of the 38 market manipulation scenarios. For each scenario MRE identified the points of failure within the company's existing processes and systems. Next MRE recommended changes to the current processes, reports and functions. MRE assisted in the implementation of the recommendations, particularly in the area of new report development. Among the systems impacted were Brady Trinity for Trade Capture & Reporting and TT by Trading Technology for exchange trades. MRE also assisted in on-boarding a third-party surveillance software, Trading Technology's Score, and developing custom reports & interfaces to supplement the third-party system.

BENEFITS:

At the completion of the project, which required approximately three months, the client was able to demonstrate to the CFTC its ability to address all of the findings raised by the regulator and settle the issue with the CFTC.



FOR MORE INFORMATION:

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