Circular 26/015
Disciplinary Notice: Settlement of Disciplinary Proceedings against TFS Derivatives Limited

Category
Disciplinary

Attachments
None

ICE Futures Europe (the "Exchange") has proceeded with and settled disciplinary measures against TFS Derivatives Limited ("TFSD") following an investigation into suspected improper disclosures of details of Block Trades brokered by TFSD in the Biodiesel, Gasoline, Fuel Oil and Natural Gas markets.

Background

An Exchange investigation found that, between July 2023 and November 2023, several TFSD brokers disclosed details of numerous Block Trades to market participants not party to the Block Trades, prior to details of the Block Trades being broadcast by the Exchange. The Exchange also found that, between June 2023 and August 2023, certain brokers improperly disclosed clients' identities, or information from which clients' identities could reasonably be inferred, in Block Trade communications with third parties on multiple occasions.

The Exchange also found that TFSD did not have adequate systems and controls in place during the relevant period to properly monitor, supervise and train its brokers and ensure compliance with Exchange Rules. Further, the Exchange identified deficiencies in TFS's processes with respect to obtaining client consent to disclose their identities in Block Trade communications with potential counterparties.

Allegations

The Exchange considered that TFSD breached the following Exchange Rules and sections of the ICE Futures Europe Block Trades and Asset Allocation Policy during the relevant period:

A.11 Systems and Controls
A.11.1 Without prejudice and in addition to any other specific requirement in these Regulations regarding systems and controls, each Member and non-Member Sponsored Principal shall be responsible for making adequate arrangements, systems and controls to ensure that:

> *(a) its internal affairs are organised and controlled in a responsible and effective manner with adequate risk management systems;*
> *(c) all of its Responsible Individuals and Member's Representatives involved in the conduct of business on the Market are fit and proper, suitable, adequately trained and properly supervised;*
> *(d) all business conducted on the Market including individual transactions complies with the Member's and Responsible Individual's obligations under the Regulations;*

ICE Futures Europe Block Trades and Asset Allocation Policy - Section 5: Prohibitions
(i) A Member must not disclose the identity of the party to a Block Trade or Asset Allocation order to potential counterparties or disclose information from which their identity can reasonably be inferred, unless the Member has previously received that party's permission to do so. Consent must be obtained in writing or on a recorded phone line and must be evidenced to the Exchange upon request. Where consent is received, disclosure of identity may only be made to parties involved in the Block Trade negotiation; disclosure to anyone else is prohibited. There is no right under Exchange Rules to insist on disclosure of names of counterparties as a condition of completing the trade.
iv) Once a Contingent Agreement to Trade has been reached, the details must not be disclosed to anyone except those party to the agreement prior to the details of the resultant Block Trade or Asset Allocation being broadcast by the Exchange.

Accordingly, the Exchange commenced disciplinary proceedings pursuant to Exchange Rule E.4.

In accordance with Exchange Rule E.4.3A, TFSD was given the opportunity to settle disciplinary proceedings at any stage with the Exchange. An agreement was reached and, as per the same Exchange Rule, any terms of settlement agreed between the Compliance Officer and TFSD required ratification by the Chair of the Authorisation, Rules and Conduct Committee. Following such ratification these terms shall now take effect.

Details of Settlement

TFSD cooperated with the Exchange throughout the investigation. In agreeing to the settlement terms, the Exchange took into account, amongst other things, the remedial steps taken by TFSD in connection with the alleged breaches to ensure future compliance with Exchange Rules, including the dismissal of two brokers.

As a result, the parties agreed a settlement in which TFSD will pay a financial penalty of £220,500, reduced from £315,000 for early settlement.

The Exchange takes seriously any activity which undermines the integrity of its market and reminds Members that details of a Contingent Agreement to Trade are non-public information and that such details must not be disclosed to anyone except those party to the agreement prior to the details of the resultant Block Trade being broadcast by the Exchange.

Further, Members must not disclose the identity of a party to a Block Trade order to potential counterparties without that party's prior consent. Such disclosure may only be made to parties involved in the Block Trade negotiation, with disclosure to anyone else being prohibited.

Please ensure that the appropriate members of staff within your organisation are advised of the content of this Disciplinary Notice.

For more information, please contact:

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