Circular 26/117
Disciplinary Notice: Settlement of Disciplinary Proceedings against Marex Financial

Category
Disciplinary

Attachments
None

ICE Futures Europe (the "Exchange") has proceeded with and settled disciplinary measures against Marex Financial ("MFL") following an investigation into suspected improper use of the exchange for swap ("EFS") facility in the London Cocoa market.

Background

An Exchange investigation found that, between April 2024 and June 2024, MFL improperly utilised the Exchange's EFS facility on multiple occasions for the purposes of managing margin obligations owed to MFL by one of its clients under a pre-existing over-the-counter ("OTC") cocoa swap position held with MFL.

On each occasion, MFL and its client entered into paired EFS transactions comprising two futures legs and two newly-created OTC swap legs. The futures legs generated pre-determined gains and losses and the OTC swap legs mirrored those outcomes in reverse. The result was a net-zero economic effect overall, the activity as a whole serving not to generate a financial gain for MFL, but to allocate gains and losses such that the client could satisfy its OTC margin obligations to MFL without the need for a cash payment.

The Exchange also found that MFL did not have in place adequate systems and controls to detect the relevant activity, nor to properly monitor, supervise and train its employees in this regard and ensure compliance with Exchange Rules.

Allegations

The Exchange considered that MFL breached the following Exchange Rules and sections of the ICE Futures Europe EFP, EFS, Soft Commodity EOO, EFRP and Basis Trade Policy (the "EFS 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;*

E.1.2(a) Conduct in relation to trading
No Member (or other Person Subject to the Regulations) shall in relation to Contracts or Corresponding Contracts entered into, or orders placed, on the Market or otherwise in accordance with the Regulations:
(vii) make or report a false or fictitious trade;

EFS Policy - Section 3: Permitted use of EFP, EFS, EOO, EFRP and Basis Trading Facilities
3.3. For EFP, EFS and EFRP trades in contracts which are subject to a Position, Expiry or Delivery Limit, […] there must be evidence of a bona fide pre-existing physical or swap agreement that is capable of being independently settled on its own terms, i.e. its completion is not directly dependent on the transaction being registered on ICE Futures Europe.

3.5. The EFP, EFS, EOO, EFRP and Basis Trade facilities may not be used with the intent to:
> *[…]*

• allocate gains and losses between the futures and cash or OTC derivative components of the EFP, EFS, EFRP and Basis Trade;
[…]
• accommodate any other […] non-commercial purpose.

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

In accordance with Exchange Rule E.4.3A, MFL 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 MFL required ratification by the Chair of the Authorisation, Rules and Conduct Committee. Following such ratification these terms shall now take effect.

Details of Settlement

MFL 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 MFL in connection with the alleged breaches to ensure future compliance with Exchange Rules.

As a result, the parties agreed a settlement in which MFL will pay a financial penalty of £252,000, reduced from £360,000 for early settlement.

The Exchange takes seriously any activity which undermines the integrity of its markets and reminds Members that the Exchange's EFS facility may only be used in accordance with Exchange Rules and the EFS Policy.

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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