

Disciplinary Notice

Case No. 2020-022: Settlement of Charges Against StoneX Financial Inc. & StoneX Markets LLC

Exchange Rules

Rule 4.04 - Conduct Detrimental to the Exchange

It shall be a violation of the Rules for any Person to fail to conform to, the Rules or the procedures of the Exchange or the Clearing Organization, or to engage in conduct or practices inconsistent with just and equitable principles of trade or conduct detrimental to the best interests of the Exchange.

Rule 4.01(a) - Duty to Supervise

Every Person shall diligently supervise the Exchange-related activities of such Person's employees and agents. For purposes of this Rule, the term "agent" includes any Exchange-related activities associated with automated trading systems that generate, submit and/or cancel messages without human intervention. Every Person shall also be responsible for the acts and omissions of such employees and agents.

Rule 4.07 - Block Trading

The parties to a Block Trade shall cause the Transaction to be reported to the Exchange in accordance with such procedure as are determined by the Exchange from time to time.

Rule 21.04 - Power to Compel Testimony and Production of Documents

The President, the Board, the Chief Regulatory Officer, the Compliance staff, any committee or subcommittee and any panel of any committee or subcommittee, engaged in any investigation of, examination into, or hearing involving any matter pursuant to the Rules shall have the power to summon any Member, any employee of any Member and any non-member market participant to appear before him or it, to give testimony under oath or in any other manner required by him or it and to produce any documents, books or records. A Firm so summoned shall appear by a partner, officer or responsible employee fully acquainted with the relevant facts. If any Member, any employee of any Member, or non-member market participant fails to obey any such summons or to give any such testimony or to produce any such documents, books or records, such failure shall constitute a violation of this Rule and shall be reported to the Business Conduct Committee for appropriate action.

Summary

On July 20, 2022, a subcommittee of the Exchange's Business Conduct Committee ("BCC") determined that StoneX Financial Inc. ("SX Financial") and StoneX Markets LLC ("SX Markets") may have violated Exchange Rule 4.04 in multiple instances between May 2020 and May 2021 by engaging in improper pre-hedging. In each instance, SX Financial, acting in a broker/agency capacity, received an order from a customer and then sought to fill the customer order opposite the proprietary trading desk of its affiliate, SX Markets. However, prior to consummating each block trade opposite SX Financial's customer, traders at SX Markets solicited and/or executed a trade to pre-hedge the risk from the impending block trade that SX Markets would execute

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opposite SX Financial's customer. SX Financial and SX Markets were able to realize profits in the amount of \$225,606.80 by engaging in this activity.

In addition, the BCC found that SX Financial and SX Markets may have separately violated Exchange Rule 4.04 by adopting a risk policy that may have motivated their employees to engage in the improper pre-hedging activity noted above for certain contracts. The BCC also found that SX Financial and SX Markets may have violated Exchange Rule 4.01(a) by failing to diligently supervise its employee's block trade activity and compliance with Exchange Rules.

Lastly, the BCC found that SX Markets may have violated Exchange Rule 4.07(c) by misreporting the execution time of certain block trades and submitting them beyond the 15-minute reporting window, and that SX Financial and SX Markets may have violated Exchange Rule 21.04 by failing to timely produce documents, books, or records requested by Compliance staff during the investigation of this matter.

Products

Henry LD1 Fixed Price Future
MISO Indiana Hub Day-Ahead Peak Fixed Price Future

Customer Harm

No

Penalty

In accordance with the terms of settlement, in which SX Financial and SX Markets neither admitted nor denied the alleged rule violations, SX Financial and SX Markets agreed to pay a collective monetary penalty of \$425,000 and disgorge \$225,606.80 in profits.

Effective Date

July 20, 2022

For more information:

Jason Fusco
jason.fusco@ice.com -or-
(212) 748-4021

Frances M. Mendieta
frances.mendieta@ice.com
(312) 523-5617

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Key Information Documents for certain products covered by the EU Packaged Retail and Insurance-based Investment Products Regulation can be accessed on the relevant exchange website under the heading "Key information Documents (KIDS)," commencing January 1, 2022.