

**UNITED STATES OF AMERICA**  
**Before the**  
**COMMODITY FUTURES TRADING COMMISSION**

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**In the Matter of:**

**GFI Swaps Exchange, LLC,**

**Respondent.**  
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) **CFTC Docket No. 24-38**  
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**10:32 am, Sep 30, 2024**

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO  
SECTION 6b OF THE COMMODITY EXCHANGE ACT, MAKING  
FINDINGS, AND IMPOSING REMEDIAL SANCTIONS**

**I. INTRODUCTION**

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from July 2017 to February 2024 (“Relevant Period”), Respondent GFI Swaps Exchange, LLC (“GFI SEF”) violated Section 5h(f)(9)-(10) and (14) of the Commodity Exchange Act (“Act”), 7 U.S.C. §§ 7b-3(f)(9)-(10), (14); and, Commission Regulations (“Regulations”) 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401, 17 C.F.R. §§ 16.01, 37.900, 37.901, 37.1000, 37.1400, & 13.1401 (2023). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether GFI SEF engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, GFI SEF has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. GFI SEF admits the facts set forth in Section II below, acknowledges that its conduct violated the Act and Regulations, and consents to the entry of this Order Instituting Proceedings Pursuant to Section 6b of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.<sup>1</sup>

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<sup>1</sup> GFI SEF agrees that the findings of fact and conclusions of law in this Order shall be taken as true and correct and be given preclusive effect without further proof in this proceeding and any other proceeding brought by the Commission or to which the Commission is a party or claimant, including but not limited to, a proceeding in bankruptcy or receivership. GFI SEF does not consent to the use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

## II. FINDINGS

The Commission finds the following:

### A. Summary

As a registered swap execution facility (“SEF”), GFI SEF is required to comply with certain reporting and publication requirements related to the swap transactions executed on or pursuant to the rules of GFI SEF and to establish and maintain a program to identify and minimize sources of operational risk through development of appropriate controls and procedures. During the Relevant Period, as the result of six separate reporting systems issues, GFI SEF failed to report or accurately report or publish data related to thousands of transactions executed on or pursuant to the rules of GFI SEF. GFI SEF’s swap reporting failures and inaccurate reports, as well as its failure to promptly identify these errors, were the result of insufficient swap reporting processes and procedures, its swap reporting system design, and an inadequate system of internal controls and procedures. This conduct violated Section 5h(f)(9)-(10) and (14) of the Act, 7 U.S.C. §§ 7b-3(f)(9)-(10), (14), and Regulations 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401, 17 C.F.R. §§ 16.01, 37.900, 37.901, 37.1000, 37.1400, & 37.1401 (2023).

In accepting GFI SEF’s Offer, the Commission recognizes GFI SEF’s self-reporting and substantial cooperation in connection with the Division of Enforcement’s (the “Division”) investigation of this matter. The Commission also acknowledges GFI SEF’s representations concerning remediation in connection with this matter. The Commission’s recognition of GFI SEF’s self-reporting, substantial cooperation, and appropriate remediation is further reflected in the form of a substantially reduced penalty.

### B. Respondent

**GFI Swaps Exchange, LLC** is a Delaware limited liability company, with its principal place of business in New York, New York. GFI SEF was granted temporary registration as a SEF with the Commission on September 19, 2013. On January 22, 2016, GFI SEF was granted full SEF registration status.

### C. Facts

During the Relevant Period, as the result of six separate swap reporting issues, GFI SEF failed to report or accurately report to the Commission and, in some instances, also on its public website data related to nearly 49,000 swap transactions executed on the SEF.

Two of these six issues occurred between June 2016 and August 2021. The first issue resulted from a system error that designated certain non-deliverable forward (“NDF”) trades as duplicates. The second issue resulted from a failure to return a front office platform to production mode following a system upgrade. As a result of these two issues, one of which lasted for over five years, GFI SEF failed to report data related to over 25,000 swap transactions to the Commission, some of which data it also failed to report to the public on its website.

The remaining four issues all occurred after GFI SEF implemented a redesigned swap transaction and reporting system in January 2023. The redesigned system was intended, in part, to improve the completeness and accuracy of GFI SEF's swap reporting. Instead, GFI SEF's redesigned system contained coding errors and erroneous data mapping and resulted in additional swap reporting errors. Specifically, because of these four issues, GFI SEF: (1) reported inaccurate notional values of certain foreign exchange ("FX") swaps, (2) failed to report data fields related to the delta-adjusted notional values of certain FX swaps, (3) failed to report a delta for certain FX Options and Non-Deliverable Options, and (4) failed to report a price for certain exotic swaps. GFI SEF did not perform thorough and sufficient testing of the redesigned system, either before its implementation or in connection with system updates. As a result, GFI SEF failed to detect coding/mapping errors that existed in the system at implementation and failed to correct or detect additional errors introduced during a subsequent system update. Between January 2023 and February 2024, these coding/mapping errors resulted in GFI SEF failing to report or accurately report certain required swap transaction data to the Commission and, in some instances, also on its public website related to over 23,000 additional swap transactions.

In or around September 2022, GFI SEF implemented a swap reporting reconciliation system to assist it in identifying and promptly correcting swap data reporting errors. This new reconciliation system, implemented prior to GFI SEF's four most recent swap reporting issues, however, did not timely detect these reporting errors. The reconciliation process, as initially implemented, only reconciled the accuracy of a limited number of swap data fields, none of which included the data fields erroneously reported due to these issues. As a result, GFI SEF did not detect these four issues for several months, with two of the four issues going undetected for approximately one year.

GFI SEF represents that it has corrected its reporting related to these issues. Additionally, GFI SEF represents that in May 2024 it expanded its swap reporting reconciliation system to reconcile the accuracy of 61 data fields, representing all data fields currently utilized by GFI SEF in reporting swap data to the Commission, to its regulatory services provider, to its swap data repository ("SDR"), and on its website.

### III. LEGAL DISCUSSION

#### A. GFI SEF Failed to Report and Accurately Report Swap Data to the Commission and/or to the Public in Violation of Regulation 16.01.

Part 16 of the Regulations sets forth the information that SEFs and other reporting markets are required to record and report to the Commission on a daily basis. *See* 17 C.F.R. pt. 16 (2023). For swaps, required reporting includes such items as the total trading volume by product type and term life of the swap and various prices. *See* Regulation 16.01(a)(1)(iii) and (2)(iv) and (b). "The accuracy and completeness of swap reporting are critical to the Commission's mission to protect market participants and to ensure market integrity." *Commodity Futures Trading Comm'n v. Deutsche Bank AG*, 2020 WL 4611985, at \*8 (S.D.N.Y. June 17, 2020) (consent order) (citation omitted); *see also In re ICE Futures U.S., Inc.*, CFTC No. 15-17, 2015 WL 1276463, \*5 (March 16, 2015) (consent order) (recognizing that accuracy and completeness of Part 16 reports are critical to this mission).

In addition to reporting this information to the Commission, SEFs and other reporting markets are required to publish daily this same information for the prior day's trading activity in a manner that is accessible to the general public. *See* Regulation 16.01(e). Market transparency cannot exist if the information provided to the public is inaccurate. It is inherent in the reporting requirements that the reports provided to the Commission and the public be accurate and complete. *See ICE Futures*, 2015 WL 1276463, at \*5; *In re JP Morgan Securities LLC*, CFTC No. 14-19, 2014 WL 3817865, at \*4 (July 29, 2014) (consent order).

GFI SEF violated Regulation 16.01 when it failed to report or accurately report data related to thousands of swap transactions in its data submissions to the Commission and on its public website during the Relevant Period.

## **B. GFI SEF's Conduct Violated SEF Core Principles 9, 10, and 14.**

Section 5h of the Act, 7 U.S.C. § 7b-3, creates a regulatory regime for SEFs that is implemented by the Commission's Part 37 Regulations, 17 C.F.R. pt. 37 (2023) (collectively, "SEF Core Principles"). As a condition of registration, SEFs are required to comply with the SEF Core Principles. Section 5h(f)(1) of the Act. The SEF Core Principles, along with other provisions of the Act governing SEFs, are intended to promote swaps trading on SEFs and to promote pre-trade price transparency in the swaps market. *See* Section 5h(e) of the Act.

### **1. GFI SEF's Conduct Violated SEF Core Principles 9 and 10 and Associated Regulations.**

SEF Core Principles 9 and 10 set forth a SEF's reporting and publication obligations. *See* Section 5h(f)(9)-(10) of the Act, 7 U.S.C. § 7b-3(f)(9)-(10). Specifically, SEF Core Principle 9 requires SEFs to "make public timely information on price, trading volume, and other trading data on swaps" as prescribed by the Commission and to have "the capacity to electronically capture and transmit trade information with respect to transactions executed on the facility." Section 5h(f)(9) of the Act; Regulation 37.900, 17 C.F.R. § 37.900 (2023). The Commission has prescribed that for swaps traded on or through a SEF, a SEF must report the specified swap data required under Parts 43 and 45 and meet the requirements of Part 16. *See* Regulation 37.901, 17 C.F.R. § 37.901 (2023). Among other things, SEF Core Principle 10 requires that SEFs report to the Commission such information as the Commission determines is necessary or appropriate for the Commission to perform its duties under the Act. *See* Regulation 37.1000, 17 C.F.R. § 37.1000 (2023).

GFI SEF's recurrent reporting and publication failures and inadequate processes and procedures for reporting complete and accurate data related to swap transactions violated Core Principles 9 and 10 and associated Regulations 37.900, 37.901, and 37.1000.

### **2. GFI SEF's Conduct Violated SEF Core Principle 14 and Associated Regulations.**

SEF Core Principle 14 sets forth a SEF's system safeguard obligations. *See* Section 5h(f)(14) of the Act, 7 U.S.C. § 7b-3(f)(14). Among other things, SEF Core Principle 14 requires SEFs to "[e]stablish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and

procedures, and automated systems, that – (i) are reliable and secure . . .” Section 5h(f)(14)(A) of the Act; *see also* Regulation 37.1400(a); 17 C.F.R. § 37.1400(a) (2023). This program of risk analysis and oversight is required to address, among other things:

(5) *Systems operations*. This category includes, but is not limited to: System maintenance; configuration management (including baseline configuration, configuration change and patch management, least functionality, inventory of authorized and unauthorized devices and software); event and problem response and management; and any other elements of system operations included in generally accepted best practices.

(6) *Systems development and quality assurance*. This category includes, but is not limited to: Requirements development; pre-production and regression testing; change management procedures and approvals; outsourcing and vendor management; training in secure coding practices; and any other elements of systems development and quality assurance included in generally accepted best practices.

Regulation 37.1401(a); 17 C.F.R. § 37.1401(a) (2023).

As detailed herein, GFI SEF’s redesigned swap transaction and reporting system was not designed properly or tested sufficiently before implementation. GFI SEF’s redesigned system resulted in inaccurate reporting to the Commission and on GFI SEF’s website. These reporting errors were the direct result of inaccurate mapping and erroneous coding, demonstrating flaws in design and pre-implementation testing of the system. Further, GFI SEF implemented additional system coding changes post-implementation that were likewise not sufficiently tested, resulting in additional swap reporting errors. Consequently, GFI SEF’s failure to design and sufficiently test its swap transaction and reporting system to ensure compliance with its swap reporting obligations and its lack of sufficient processes and procedures surrounding the design, testing, implementation, and operation of its swap transaction and reporting system violated SEF Core Principle 14 and associated Regulations 37.1400 and 37.1401.

#### **IV. FINDINGS OF VIOLATIONS**

Based on the foregoing, the Commission finds that, during the Relevant Period, GFI SEF violated Section 5h(f)(9)-(10) and (14) of the Act, 7 U.S.C. § 7b-3(f)(9)-(10), (14), and Regulations 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401, 17 C.F.R. §§ 16.01, 37.900, 37.901, 37.1000, 37.1400, 37.1401 (2023).

#### **V. OFFER OF SETTLEMENT**

GFI SEF has submitted the Offer in which it knowingly and voluntarily:

- A. Consents to the resolution of this matter in an administrative proceeding;
- B. Acknowledges service of this Order;

- C. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- D. Admits the facts described in Section II above and acknowledges that its conduct violated the Act and Regulations;
- E. Waives:
  - 1. The filing and service of a complaint and notice of hearing;
  - 2. A hearing;
  - 3. All post-hearing procedures;
  - 4. Any and all rights or defenses that it has or might have for the matter to be adjudicated in a federal district court in the first instance, including any associated right to a jury trial;
  - 5. Judicial review by any court;
  - 6. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
  - 7. Any and all claims that it may possess under the Equal Access to Justice Act, 5 U.S.C. § 504, and 28 U.S.C. § 2412, and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2023), relating to, or arising from, this proceeding;
  - 8. Any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, tit. II, §§ 201-53, 110 Stat. 847, 857-74 (codified as amended at 28 U.S.C. § 2412 and in scattered sections of 5 U.S.C. and 15 U.S.C.), relating to, or arising from, this proceeding; and
  - 9. Any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief, including this Order;
- F. Agrees for purposes of the waiver of any and all rights under the Equal Access to Justice Act specified in Paragraph E.7 above, that GFI SEF is not the prevailing party in this action;
- G. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which GFI SEF has consented in the Offer;

- H. Consents, solely on the basis of the Offer, to the Commission’s entry of this Order that:
1. Makes findings by the Commission that GFI SEF violated Section 5h(f)(9)-(10) and (14) of the Act, 7 U.S.C. § 7b-3(f)(9)-(10), (14), and Regulations 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401, 17 C.F.R. §§ 16.01, 37.900, 37.901, 37.1000, 36.1400, & 37.1401 (2023);
  2. Orders GFI SEF to cease and desist from violating Section 5h(f)(9)-(10) and (14) of the Act and Regulations 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401;
  3. Orders GFI SEF to pay a civil monetary penalty in the amount of five hundred and fifty thousand dollars (\$550,000), plus any post-judgment interest; and
  4. Orders GFI SEF and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order; and
- I. Represents that it has:
1. Remediated the errors that caused these six swap reporting issues;
  2. Corrected its reporting to the Commission and that it has corrected or removed any inaccurate reports published on the SEF website related to these violations; and
  3. Expanded its post-execution reconciliation process for all products traded on the SEF to reconcile for completeness and accuracy all data fields from which information reported to the Commission, its SDR, its regulatory services provider, and on its website is derived by GFI SEF (“Expanded Reconciliation Process”).

Upon consideration, the Commission has determined to accept the Offer.

## **VI. ORDER**

### **Accordingly, IT IS HEREBY ORDERED THAT:**

- A. GFI SEF shall cease and desist from violating Section 5h(f)(9)-(10) and (14) of the Act, 7 U.S.C. § 7b-3(f)(9)-(10), (14), and Regulations 16.01, 37.900, 37.901, 37.1000, 37.1400, and 37.1401, 17 C.F.R. §§ 16.01, 37.900, 37.901, 37.1000, 37.1400, & 37.1401 (2023).
- B. GFI SEF shall pay a civil monetary penalty in the amount of five hundred and fifty thousand dollars (\$550,000) (“CMP Obligation”), within ten (10) business days of the date of the entry of this Order. If the CMP Obligation is not paid in full within ten (10) business days of the date of the entry of this Order, then post-judgment interest shall accrue on the unpaid portion of the CMP Obligation beginning on the date of entry of

this Order and shall be determined by using the Treasury Bill rate prevailing on the date of the entry of this Order pursuant to 28 U.S.C. § 1961.

GFI SEF shall pay the CMP Obligation and any post-judgment interest by electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made other than by electronic funds transfer, then the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

MMAC/ESC/AMK326  
Commodity Futures Trading Commission  
6500 S. MacArthur Blvd.  
HQ Room 266  
Oklahoma City, OK 73169  
9-AMC-AR-CFTC@faa.gov

If payment is to be made by electronic transfer, GFI SEF shall contact the Federal Aviation Administration at the above email address to receive payment instructions and shall fully comply with those instructions. GFI SEF shall accompany payment of the CMP Obligation with a cover letter that identifies GFI SEF and the name and docket number of this proceeding. GFI SEF shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

- C. GFI SEF and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:
1. Public Statements: GFI SEF agrees that neither it nor any of its successors and assigns, agents or employees under its authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in the Order or creating, or tending to create, the impression that the Order is without a factual basis; provided, however, that nothing in this provision shall affect GFI SEF's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. GFI SEF and its successors and assigns shall comply with this agreement, and shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.
  2. Remediation and Reporting to the Commission: GFI SEF represents and agrees that:
    - a. GFI SEF will establish and maintain, including through any subsequent update of its systems, an Expanded Reconciliation Process for all asset classes of products traded on the SEF that will reconcile for completeness and accuracy all swap data fields reported to the Commission, an SDR, its

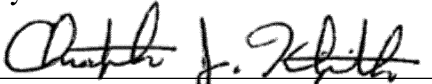


regulatory services provider, or on its website and will maintain records of the reconciliations;

- b. GFI SEF will develop and implement written processes and procedures related to: (1) GFI SEF's Expanded Reconciliation Process; (2) the identification, review, escalation, performance of root cause analyses, and remediation related to any reporting discrepancies; and (3) implementation and testing of any updates or changes to its swap transaction and reporting system;
  - c. During the one (1) year following entry of this Order, GFI SEF will promptly implement any changes to its trade processing, swap reporting system, staffing and funding with respect to swap data reporting functions, policies and procedures, or other changes implemented by any GFI SEF affiliate that are also applicable to GFI SEF's business as a SEF; and
  - d. One (1) year following the entry of this Order, GFI SEF will submit certifications signed by its Chief Executive Officer ("CEO") and Chief Compliance Officer ("CCO") attesting that GFI SEF has complied with subparagraphs a-c.
3. Cooperation, in General: GFI SEF shall cooperate fully and expeditiously with the Commission, including the Division, in this action, and in any current or future Commission investigation or action related thereto. GFI SEF shall also cooperate in any investigation, civil litigation, or administrative matter related to, or arising from, the subject matter of this action.
  4. Partial Satisfaction: GFI SEF understands and agrees that any acceptance by the Commission of any partial payment of GFI SEF's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to the Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
  5. Change of Address/Phone: Until such time as GFI SEF satisfies in full its CMP Obligation as set forth in the Order, GFI SEF shall provide written notice to the Commission by certified mail of any change to its telephone number and mailing address within ten (10) calendar days of the change.

**The provisions of this Order shall be effective as of this date.**

By the Commission.



Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission

Dated: September 30, 2024