

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

_____)
In the Matter of:)
)
StoneX Markets LLC,)
) **CFTC Docket No. 23-44**
Respondent.)
)
)
_____)

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO
SECTION 6(c) AND (d) 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 in or about March 2016 to at least June 2022 (“Relevant Period”), StoneX Markets LLC (“StoneX” or “Respondent”) violated Section 4s(h)(1) of the Commodity Exchange Act (the “Act”), 7 U.S.C. § 6s(h)(1), and Commission Regulations (“Regulation”) 23.431(a) and 23.602(a), 17 C.F.R. §§ 23.431(a) and 23.602(a) (2022). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent 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, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Respondent makes the admissions set forth in Section V.A and otherwise neither admits nor denies the findings of fact and conclusions of law herein. Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.¹

¹ Respondent 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. Respondent 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

During the six-year Relevant Period, StoneX, a registered swap dealer, failed to diligently supervise its mid-market mark disclosure process, resulting in StoneX's failure to comply with mid-market mark disclosure requirements for thousands of swap transactions. Specifically, StoneX failed to implement procedures to ensure that its pre-trade mid-market marks ("PTMMMs")² were accurate (i.e., consistent with StoneX's internal pricing methodologies), failed to adequately train and monitor its associated persons ("APs") regarding PTMMM disclosure requirements, and failed to timely provide PTMMMs to counterparties on numerous occasions throughout the Relevant Period.

In accepting Respondent's offer, the Commission recognizes the cooperation of StoneX with the Division of Enforcement's investigation of this matter. The Commission also acknowledges Respondent's representations concerning its remediation in connection with this matter.

B. RESPONDENT

StoneX Markets LLC is headquartered in Chicago, Illinois and was provisionally registered with the Commission as a swap dealer beginning on December 31, 2012, and has been fully registered as a swap dealer since August 15, 2023.

C. FACTS

For at least six years, StoneX experienced significant PTMMM-related compliance and disclosure failures. Specifically, StoneX failed to implement procedures to confirm that the PTMMMs provided to counterparties were calculated in accordance with StoneX's internal pricing methodologies. StoneX also failed to provide sufficient training to its APs regarding PTMMM disclosure requirements such that certain APs did not understand the complete universe of products that required PTMMM disclosures. StoneX also failed to have a system in place to adequately monitor whether its APs were actually providing PTMMMs to counterparties when required and in a timely manner. StoneX's PTMMM monitoring randomly selected one AP and one transaction per day to confirm that a PTMMM was sent to a counterparty before the swap was executed, without ensuring that transactions from each AP were tested at regular intervals. Throughout the Relevant Period, StoneX had hundreds of APs at any given time who were entering transactions that required the calculation and disclosure of PTMMMs. The foregoing deficiencies led to StoneX failing to provide PTMMMs before the swaps were executed and failing to provide any PTMMMs at all on thousands of occasions during the Relevant Period.

StoneX represented to the Division of Enforcement that it has begun implementing

² Regulation 23.431(a)(3)(i), 17 C.F.R. § 23.431(a)(3)(i), requires swap dealers to disclose to counterparties the "mid-market mark" of the swap "prior to entering into" the swap, hence the term "pre-trade mid-market mark."

enhanced procedures to prevent PTMMM failures going forward. For example, StoneX has (1) adopted a trade surveillance and monitoring process which will house PTMMM failure alerts in a central location and allow StoneX to identify trends in PTMMM disclosure failures over time; (2) provided additional training to APs regarding the circumstances under which PTMMMs must be disclosed to counterparties and potential counterparties; (3) enhanced annual review of each AP's PTMMM disclosures; and (4) automated PTMMM disclosures for certain swaps.

III. LEGAL DISCUSSION

Title VII of the Dodd-Frank Act amended the Commodity Exchange Act to establish a comprehensive regulatory framework for swaps in order to reduce risk, increase transparency, and promote market integrity within the financial system. *Business Conduct Standards for Swap Dealers and Major Swap Participants with Counterparties*, 77 Fed. Reg. 9734, 9735, 2012 WL 506203 (Feb. 17, 2012) (adopting final rules to implement Section 4s(h) of the Act, 7 U.S.C. § 6s(h)). To achieve these goals, Subpart H of Part 23 of the Commission's Regulations sets forth a number of business conduct standards for swap dealers dealing with counterparties. In particular, Regulation 23.431(a)(3)(i), 17 C.F.R. 23.431(a)(3)(i) (2022), requires swap dealers to disclose to counterparties the material incentives and conflicts of interest the swap dealer may have in connection with a particular swap. Such disclosures include the PTMMM of the swap. These disclosure rules "are intended to level the information playing field . . . to enable counterparties to make their own informed decisions about the appropriateness of entering into the swap." 77 Fed. Reg. at 9759. The PTMMM should represent "an objective value," providing counterparties with "a baseline to assess swap valuations . . ." *Id.* at 9768.

As a registered swap dealer, StoneX is subject to certain business conduct standards, pursuant to Section 4s(h) of the Act, 7 U.S.C. § 6s(h), and the Regulations promulgated thereunder. Specifically, Section 4s(h)(1) requires swap dealers to "conform with such business conduct standards as prescribed in paragraph [(h)](3) and as may be prescribed by the Commission by rule or regulation." Subparagraph (h)(3) provides that business conduct standards adopted by the Commission shall include required disclosure of "the material risks and characteristics of the swap" and "the daily mark." Subparagraph (h)(1)(B) refers to standards prescribed by the Commission related to the "diligent supervision of the business."

Regulations 23.431(a) and 23.602(a), 17 C.F.R. §§ 23.431(a), 23.602(a) (2022), implement the disclosure and supervision requirements, respectively, of Section 4s(h)(1) of the Act. As mentioned above, Regulation 23.431(a)(3)(i) requires swap dealers to disclose to counterparties "[a]t a reasonably sufficient time prior to entering into a swap," the "material incentives and conflicts of interest" the swap dealer may have in connection with the swap, which includes "the [pre-trade] mid-market mark of the swap."

Regulation 23.602(a) requires swap dealers to establish and maintain a system to supervise, and to diligently supervise, all activities relating to its business performed by its employees and agents, and further requires that such system shall be "reasonably designed to achieve compliance with the requirements of the Commodity Exchange Act and Commission regulations."

A. StoneX Failed to Comply with PTMMM Requirements in Violation of Section 4s(h)(1) of the Act and Regulation 23.431(a)

Regulation 23.431(a)(3)(i) requires swap dealers to disclose a PTMMM to counterparties prior to entering into a swap. As described above, during the Relevant Period, StoneX failed to provide PTMMMs, or provided them late (i.e., post-entry of the swap), on thousands of occasions. As a result, StoneX violated Section 4s(h)(1) of the Act and Regulation 23.431(a)(3)(i). See *In re ED&F Man Capital Mkts. Ltd.*, CFTC No. 22-13, 2022 WL 827785, at **6-7 (Mar. 15, 2022) (consent order); *In re Société Générale S.A.*, CFTC No. 21-36, 2021 WL 4501471, at **6-7 (Sept. 29, 2021) (consent order).

B. StoneX Failed to Diligently Supervise its PTMMM Compliance Process in Violation of Section 4s(h)(1) of the Act and Regulation 23.602(a)

A violation of Regulation 23.602(a) is demonstrated by showing either that: (1) the registrant's supervisory system was generally inadequate; and/or (2) the registrant failed to perform its supervisory duties diligently. *In re INTL FCStone Mkts., LLC*, CFTC No. 15-27, 2015 WL 4980321, at *3 (Aug. 19, 2015) (consent order). Evidence of violations that “‘should be detected by a diligent system of supervision, either because of the nature of the violations or because the violations have occurred repeatedly’ is probative of a failure to supervise.” *In re Société Générale Int'l Ltd.*, CFTC No. 19-38, 2019 WL 4915485, at *7 (Sept. 30, 2019) (consent order) (quoting *INTL FCStone Mkts.*, 2015 WL 4980321, at *3).

As described above, during the Relevant Period, StoneX failed to maintain an adequate supervisory system and failed to perform its supervisory obligations diligently with respect to PTMMM disclosures by (1) failing to implement procedures to confirm that the PTMMMs provided to counterparties were calculated in accordance with StoneX's internal pricing methodologies; (2) failing to provide sufficient training to its APs regarding PTMMM disclosure requirements; (3) failing to have a system in place to adequately monitor whether its APs were actually providing PTMMMs to counterparties when required and in a timely manner; and (4) failing to provide numerous PTMMMs at all or providing them late. Accordingly, StoneX violated Section 4s(h)(1) of the Act and Regulation 23.602(a). See, e.g., *In re ED&F Man Capital Mkts. Ltd.*, 2022 WL 827785, at *6-7; *In re Société Générale S.A.*, 2021 WL 4501471, at *6-7.

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the Relevant Period, StoneX violated Section 4s(h)(1) of the Act, 7 U.S.C. § 6s(h)(1), and Regulations 23.431(a) and 23.602(a), 17 C.F.R. §§ 23.431(a) and 23.602(a) (2022).

V. OFFER OF SETTLEMENT

Respondent has submitted the Offer in which it:

- A. Admits that, for numerous transactions during the Relevant Period, it failed to provide PTMMMs or failed to provide PTMMMs prior to entering into a swap, that this conduct

violated Regulation 23.431, 17 C.F.R. § 23.431 (2022), and that there were deficiencies in its supervision of PTMMM compliance during the Relevant Period;

- 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. Waives:
 - 1. The filing and service of a complaint and notice of hearing;
 - 2. A hearing;
 - 3. All post-hearing procedures;
 - 4. Judicial review by any court;
 - 5. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 - 6. 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 (2022), relating to, or arising from, this proceeding;
 - 7. 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, §§ 201–253, 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
 - 8. 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;
- E. Acknowledges that the Commission is the prevailing party in this action for purposes of the waiver of any and all rights under the Equal Access to Justice Act and the Small Business Regulatory Enforcement Fairness Act of 1996, specified in subparts 6 and 7 of Paragraph D of this Section;
- F. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;

- G. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
1. Makes findings by the Commission that Respondent violated Section 4s(h)(1) of the Act, 7 U.S.C. § 6s(h)(1), and Regulations 23.431(a) and 23.602(a), 17 C.F.R. §§ 23.431(a) ad 23.602(a) (2022);
 2. Orders Respondent to cease and desist from violating Section 4s(h)(1) of the Act and Regulations 23.431(a) and 23.602(a);
 3. Orders Respondent to pay a civil monetary penalty in the amount of six-hundred fifty thousand dollars (\$650,000), plus post-judgment interest;
 4. Orders Respondent 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
- H. Represents that it has begun implementing enhanced procedures to prevent pre-trade mid-market mark ("PTMMM") failures in the future by, among other things, (1) adopting a trade surveillance and monitoring process which will house PTMMM failure alerts in a central location and allow Respondent to identify trends in PTMMM disclosure failures over time; (2) providing additional training to Respondent's APs regarding the circumstances under which PTMMMs must be disclosed to counterparties and potential counterparties; (3) enhancing annual review of each AP's PTMMM disclosures; and (4) automating PTMMM disclosures for certain swaps.

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

VI. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. Respondent and its successors and assigns shall cease and desist from violating Section 4s(h)(1) of the Act, 7 U.S.C. § 6s(h)(1), and Regulations 23.431(a) and 23.602(a), 17 C.F.R. §§ 23.431(a) and 23.602(a) (2022);
- B. Respondent shall pay a civil monetary penalty in the amount of six-hundred fifty thousand dollars (\$650,000) ("CMP Obligation"), within ten (10) days of the date of entry of this Order. If the CMP Obligation is not paid in full within ten (10) days of the date of 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 entry of this Order pursuant to 28 U.S.C. § 1961.

Respondent 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
Division of Enforcement
6500 S. MacArthur Blvd.
HQ Room 266
Oklahoma City, OK 73169
(405) 954-6569 office
(405) 954-1620 fax
9-AMC-AR-CFTC@faa.gov

If payment is to be made by electronic funds transfer, Respondent shall contact Tonia King or her successor at the above address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. The paying Respondent 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. Respondent and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:
1. **Public Statements:** Respondent agrees that neither it nor any of its 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 this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's and/or its agents' and/or employees': (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondent 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. **Cooperation, in General:** Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, in this action, and in any current or future Commission investigation or action related thereto. Respondent shall also cooperate in any investigation, civil litigation, or administrative matter related to, or arising from, this action.
 3. **Partial Satisfaction:** Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
 4. **Change of Address/Phone:** Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Order, Respondent shall provide written

notice to the Commission by certified mail of any change to its telephone number and mailing address within ten calendar days of the change.

5. Notices: Until such time as Respondent satisfies in full its CMP Obligation, upon the commencement by or against Respondent of insolvency, receivership or bankruptcy proceedings or any other proceedings for the settlement of Respondent's debts, all notices to creditors required to be furnished to the Commission under Title 11 of the United States Code or other applicable law with respect to such insolvency, receivership bankruptcy or other proceedings, shall be sent to the address below:

Secretary of the Commission
Office of General Counsel
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, D.C. 20581

6. Remediation: Respondent will continue to implement specific remediation efforts, in relation to the supervision and PTMMM disclosure deficiencies that are the subject of the Order. Such remediation efforts shall, at a minimum, be designed to confirm that PTMMM disclosures are:
 - a. Consistently provided to appropriate counterparties;
 - b. Provided prior to entering into a swap; and
 - c. Developed and provided to counterparties consistent with Respondent's internal policies and procedures addressing reasonable pricing methodologies.

Furthermore, Respondent shall implement adequate policies, procedures, and controls to confirm compliance with Regulation 23.431. These policies, procedures, and controls shall, among other things, include:

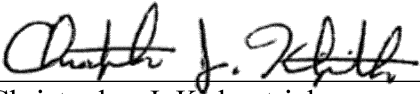
- a. Respondent's testing program for monitoring compliance with the supervision and PTMMM requirements; and
- b. Requirements for the training of staff responsible for compliance with Respondent's PTMMM disclosures.

Within sixty (60) days of the entry of this Order, Respondent shall make a written report to the Commission, through the Division of Enforcement ("DOE") and the Market Participants Division ("MPD"), providing Respondent's updated remediation plan since the entry of this Order. Within 365 days of the entry of this Order, Respondent shall submit a final written report to the Commission, through the DOE and MPD. The final written report shall explain how Respondent has complied with the undertakings provided for in Section VI.C.6 of this Order and provide an update on the status of Respondent's remedial efforts including, but not limited to, discussion of: the policies, procedures and controls

governing Respondent's PTMMM disclosures, including the periodic internal testing and review of compliance with Respondent's PTMMM disclosures; the training of staff responsible for compliance with Respondent's PTMMM disclosures; and the status of any PTMMM disclosure issues that have been identified and/or escalated since the entry of this Order. The written report shall contain a certification from Respondent's Chief Compliance Officer and Respondent's Chief Executive Officer that Respondent has completed its remediation by establishing policies, procedures, and controls to satisfy the undertakings provided for in Section VI.C.6 of this Order.

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 20, 2023