

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

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10:35 am, Oct 11, 2018

In the Matter of:)
)
)

Kamaldeep Gandhi,)
)

Respondent.)
)
)

CFTC Docket No. 19-01

**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 Kamaldeep Gandhi (“Gandhi” or “Respondent”) has violated Sections 4c(a)(5)(C) and 6(c)(1) of the Commodity Exchange Act (“Act”), 7 U.S.C. §§ 6c(a)(5)(C), 9(1) (2012), and CFTC Regulation (“Regulation(s)”) 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2018). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Gandhi 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, Gandhi has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Gandhi admits the facts set forth below, acknowledges that his conduct violated the Act and Regulations, admits the Commission’s jurisdiction over him and the subject matter of these proceedings, 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.

II.
FINDINGS

The Commission finds the following:

A. Summary

From at least September 2012 through March 2014, while employed as a trader at a proprietary trading firm (“Firm A”), and from at least May 2014 through October 2014, while employed as a trader at another proprietary trading firm (“Firm B”) (together, September 2012 through March 2014 and May 2014 through October 2014 are referred to as the “Relevant Period”), Gandhi, acting individually and in coordination with others, engaged in manipulative and deceptive schemes at Firm A and Firm B while placing orders for and trading futures contracts on at least four registered entities.

In furtherance of the schemes, Gandhi, individually and in coordination with others, repeatedly engaged in “spoofing” (bidding or offering with the intent to cancel the bid or offer before execution). Specifically, on thousands of occasions during the Relevant Period, Gandhi placed orders to buy or sell futures contracts that he intended to cancel before execution at the time the orders were placed. In doing so, Gandhi intentionally sent false signals of increased supply or demand designed to trick market participants into executing against the orders he wanted filled. By virtue of this conduct, Gandhi engaged in acts and practices that violated Sections 4c(a)(5)(C) and 6(c)(1) of the Act, 7 U.S.C. §§ 6c(a)(5)(C), 9(1) (2012), and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180(a)(1), (3) (2018).

* * * * *

In accepting the Offer, the Commission recognizes Gandhi’s entry into a formal cooperation agreement between Gandhi and the Division of Enforcement (“Division”) dated October 4, 2018 (“Cooperation Agreement”), which sets forth the terms of his agreement to cooperate with the Commission, the Division, and any other governmental agency in connection with any investigation, litigation, or administrative proceeding relating to the subject matter of this Order.

B. Respondent

Kamaldeep Gandhi is a former trader who resides in Chicago, Illinois. During the Relevant Period, Gandhi was co-leader of a trading team at Firm A from September 2010 through March 2014 and employed as a trader on a desk at Firm B from May 2014 through October 2014. Gandhi has never been registered with the Commission.

C. Facts

During the Relevant Period, Gandhi worked as part of trading teams at Firm A and Firm B, where he engaged in proprietary trading on behalf of the firms in futures markets. Gandhi traded in numerous futures contracts while employed at Firm A, including the E-mini S&P 500, E-mini NASDAQ 100, E-mini Dow (\$5), Gold, Copper, and Natural Gas futures contracts (the “Relevant Markets”).¹ Gandhi primarily traded in the E-mini S&P 500 futures contract at Firm B.

On thousands of occasions during the Relevant Period, Gandhi, individually and in coordination with others at Firm A and Firm B, repeatedly engaged in spoofing in the Relevant Markets while placing orders for, and trading futures contracts through, accounts owned by Firm A and Firm B. The manipulative scheme involving his trading at Firm A and his separate manipulative scheme involving his trading at Firm B (collectively, the “Schemes”) each involved placing thousands of bids or offers for futures contracts with the intent to cancel those orders before their execution. Gandhi, individually and in coordination with others, undertook the Schemes in the Relevant Markets at Firm A and in the E-mini S&P 500 at Firm B.

Typically, Gandhi implemented the Schemes as follows: he placed on one side of the market, at least one passive iceberg order, showing a small visible quantity to the market (“Genuine Order(s)”) and on the opposite side of the market from the Genuine Order, he placed one or more fully-visible passive order(s) with the intent to cancel those orders before execution (“Spoof Order(s)”). In placing the Spoof Orders, Gandhi often used an order splitter to enter several smaller randomly-sized orders to further disguise his Schemes from other market participants.

Gandhi engaged in the Schemes to induce other market participants to trade against his Genuine Orders—so that the Genuine Orders would fill sooner, at better prices, or in larger quantities than the Genuine Orders otherwise would. Gandhi entered his Spoof Orders to create or exacerbate an order book imbalance in the Relevant Markets and to intentionally send a false signal to the market that he wanted to buy or sell the number of contracts specified in the Spoof Orders, thereby creating a false impression of supply or demand. Moreover, through the Schemes, Gandhi, Firm A, Firm B, and other individuals at those firms, reaped significant financial benefits from market participants’ reactions to his Spoof Orders.

¹ The E-mini S&P 500 and the E-mini NASDAQ futures contracts referenced herein are traded on the Chicago Mercantile Exchange (“CME”), a designated contract market and swap execution facility. The E-mini Dow (\$5) futures contract referenced herein is traded on the Chicago Board of Trade (“CBOT”), a designated contract market. The Natural Gas futures contract referenced herein is traded on the New York Mercantile Exchange (“NYMEX”), a designated contract market. The Gold and Copper futures contracts referenced herein are traded on the Commodity Exchange, Inc. (“COMEX”), a designated contract market. CME, CBOT, NYMEX, and COMEX are owned and operated by CME Group, Inc.

Two examples from Gandhi's trading, set forth below, illustrate how he executed the Schemes.

i. ***December 16, 2013—March 2014 E-mini S&P Contract***

At 4:45:56.648 AM Central Time (denoted in hours, minutes, seconds, and milliseconds), Gandhi placed an iceberg order to buy 100 E-mini S&P contracts (displaying 12 contracts to the market) at the first-bid level (Genuine Order). Using an order splitter, Gandhi then placed the following Spoof Orders opposite the Genuine Order:

- at 4:45:57.496 AM, four Spoof Orders to collectively sell 100 E-mini S&P contracts at the first-ask level (first Spoof Orders). The first Spoof Orders caused the total number of contracts then resting at the first-ask level to more than double;
- at 4:45:58.969 AM, nine Spoof Orders to collectively sell 200 E-mini S&P contracts at the third-ask level (second Spoof Orders). The second Spoof Orders caused the total number of contracts then resting at the third-ask level to almost triple;
- between 4:46:03.744 AM and 4:46:04.321 AM, ten Spoof Orders to collectively sell 200 E-mini S&P contracts at the second-ask level (third Spoof Orders). The third Spoof Orders caused the total number of contracts then resting at the second-ask level to increase by approximately 58%; and
- at 4:46:06.408 AM, four Spoof Orders to collectively sell an additional 100 E-mini S&P contracts at the first-ask level (fourth Spoof Orders). The fourth Spoof Orders caused the total number of contracts then resting at the first-ask level to increase by approximately 55%.

Less than two seconds after entering his fourth Spoof Orders, at 4:46:08.353 AM, Gandhi's Genuine Order filled in full. Having completely filled his Genuine Order, just over one second later, Gandhi placed additional orders, via an order splitter, to collectively buy an additional 100 E-mini S&P contracts at the first-ask level. Seventeen of those contract orders filled instantly and 18 more filled between 4:46:09.603 AM and 4:46:10.337 AM. Between 4:46:11.329 AM and 4:46:13.240 AM, Gandhi then cancelled all 600 sell contracts in the four groups of Spoof Orders.

ii. ***September 17, 2014—December 2014 E-mini S&P Contract***

At 10:09:14.592 AM, Gandhi placed an iceberg order to sell 250 E-mini S&P contracts (displaying 19 contracts to the market) at the first-ask level (Genuine Order). Less than one second later, Gandhi began placing a series of Spoof Orders opposite the Genuine Order. At 10:09:15.339 AM, Gandhi placed an iceberg order to buy 250 E-mini S&P contracts (displaying 19 contracts to the market) at the first-bid level (first Spoof Order). Next, over the course of four milliseconds from 10:09:16.228 AM-10:09:16.231 AM, Gandhi placed another group of Spoof Orders (25 orders in total), via an order splitter, to collectively buy an additional 250 E-mini S&P contracts at the first-bid level (second Spoof Orders). Together, the first Spoof Order and the second Spoof Orders caused the total number of contracts then resting at the first-bid level to increase approximately 50%. Three milliseconds later, at 10:09:16:234 AM, Gandhi's Genuine Order began to trade, and filled in full in two milliseconds, by 10:09:16:235 AM. Only 695

milliseconds after his Genuine Order filled in full, at 10:09:16.930 AM, Gandhi cancelled his first Spoof Order; and within the next two milliseconds, between 10:09:16.930 AM and 10:09:16.932 AM, Gandhi cancelled his second Spoof Orders.

III.

LEGAL DISCUSSION

A. Spoofing in Violation of Section 4c(a)(5)(C) of the Act

Section 4c(a)(5) of the Act, 7 U.S.C. § 6c(a)(5)(C) (2012), makes it unlawful for “[any person to engage in any trading, practice, or conduct on or subject to the rules of a registered entity that . . . is, is of the character of, or is commonly known to the trade as, ‘spoofing’ (bidding or offering with the intent to cancel the bid or offer before the execution).” *See also United States v. Coscia*, 866 F.3d 782, 792-93 (7th Cir. 2017) (holding that because the Act clearly defines spoofing, it provides adequate notice of prohibited conduct) *cert denied*, 138 S. Ct. 1989 (2018).

As described above, during the Schemes, Gandhi entered thousands of bids or offers on a registered entity, specifically CME, CBOT, COMEX, or NYMEX, with the intent to cancel the bids or offers before execution in violation of Section 4c(a)(5)(C) of the Act.

B. Use of Manipulative and Deceptive Schemes in Violation of Section 6(c)(1) of the Act and Regulation 180.1(a)(1), (3)

Under Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) (2012), and Regulation 180.1(a), 17 C.F.R. § 180.1(a) (2018), it is unlawful to, directly or indirectly, in connection with any contract for future delivery on or subject to the rules of a registered entity, intentionally or recklessly “(1) [u]se or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud;” or “(3) [e]ngage or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person.”

As described above, Gandhi, along with others, employed manipulative and deceptive schemes at Firm A and Firm B wherein he entered Spoof Orders to intentionally send false signals to the market that he actually wanted to buy or sell the number of contracts specified in the Spoof Orders. Gandhi, along with others, engaged in the Schemes to trick other market participants into executing against his Genuine Orders on the opposite side of the market—to fill sooner, at better prices, or in larger quantities than the Genuine Orders otherwise would. Gandhi knew that his Spoof Orders would create the false appearance of market depth and result in misinformation, thereby luring market participants to trade based on Gandhi’s spoofing. *See In re McVean Trading*, CFTC No. 17-15, 2017 WL 2729956, at *11, (June 21, 2017) (consent order) (finding that “injecting false information into the marketplace that ‘portrayed a false appearance of wide investor interest’” was a manipulative or deceptive device under Section 6(c)(1) and Regulation 180.1 (quoting *SEC v. Commonwealth Chem. Secs., Inc.*, 410 F. Supp. 1002, 1013 (S.D.N.Y. 1976) *aff’d in part and modified in part on other grounds*, 574 F.2d 90 (2d Cir. 1978))). Through this misconduct, Gandhi violated Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) (2012), and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180(a)(1), (3) (2018).

IV.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that Gandhi violated Sections 4c(a)(5)(C) and 6(c)(1) of the Act, 7 U.S.C. §§ 6c(a)(5)(C), 9(1) (2012), and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2018).

V.

OFFER OF SETTLEMENT

Gandhi has submitted the Offer in which he:

- A. Acknowledges receipt of service of this Order;
- B. 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;
- C. Admits to all of the findings made in 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 he may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2012) and 28 U.S.C. § 2412 (2012), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2018), relating to, or arising from, this proceeding;
 - 7. Any and all claims that he 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

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;
- E. Stipulates that the record basis on which this Order is entered shall consist solely of the findings of fact in Section II. of this Order;
- F. Consents to additional proceedings to determine what, if any, monetary sanctions may be assessed against him. In connection with such additional proceedings, he further consents that: (a) the findings of fact in Section II. of this Order shall be accepted as and deemed true by the Presiding Officer; (b) Gandhi will be precluded from arguing that he did not violate the federal laws as described in Sections III. and IV. of this Order; and (c) he may not challenge the validity of his consents and agreements in the Offer or this Order;
- 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:
 - a. Gandhi violated Section 4c(a)(5)(C), 7 U.S.C. § 6c(a)(5)(C) (2012);
 - b. Gandhi violated Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) (2012) and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2018);
 2. Orders Gandhi to cease and desist from violating Sections 4c(a)(5)(C) and 6(c)(1) of the Act and Regulation 180.1(a)(1) and (3);
 3. Orders that Gandhi be permanently prohibited from, directly or indirectly, engaging in trading on or subject to the rules of any registered entity (as that term is defined in Section 1a(40) of the Act, 7 U.S.C. § 1a(40)(2012)), and all registered entities shall refuse him trading privileges; and
 4. Orders Gandhi to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order.

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

VI.

ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. Gandhi shall cease and desist from violating Sections 4c(a)(5)(C) and 6(c)(1) of the Act, 7 U.S.C. §§ 6c(a)(5)(C), 9(1) (2012), and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2018).

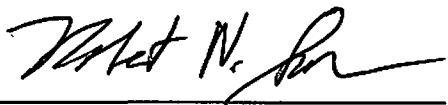
- B. Gandhi is permanently prohibited from, directly or indirectly, engaging in trading on or subject to the rules of any registered entity (as that term is defined in Section 1a(40) of the Act, 7 U.S.C. § 1a(4) (2012)) and all registered entities shall refuse him trading privileges.
- C. The Commission reserves its determination as to monetary sanctions against Gandhi at this time based upon his cooperation in a Commission investigation and related proceedings, pursuant to the terms of the Cooperation Agreement, and his undertaking to continue to cooperate, as set forth in this Order in Part VI. D. III. below. The determination of what, if any, monetary sanctions may be assessed against him will be made at a public hearing for the purpose of taking evidence and hearing arguments on the issue in accordance with the Part 10 of the Commission's Rules of Practice under the Act ("Rules"), 17 C.F.R. pt. 10 (2018), at a time and place to be fixed as provided in Section 10.61 of the Rules, 17 C.F.R. § 10.61 (2018), except that in the additional proceedings: (a) the findings of fact in Section II. of this Order shall be accepted as and deemed true by the Presiding Officer; (b) Gandhi will be precluded from arguing that he did not violate the federal laws as described in Sections III. and IV. of this Order; and (c) Gandhi may not challenge the validity of his consents and agreements in the Offer or this Order. All post-hearing procedures shall be conducted pursuant to Sections 10.81-10.107 of the Rules, 17 C.F.R. §§ 10.81-10.107.
- D. Gandhi shall comply with the following conditions and undertakings set forth in the Offer:
1. Public Statements: Gandhi agrees that neither he nor any of his agents or employees under his 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 Gandhi's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Gandhi shall undertake all steps necessary to ensure that all of his agents and/or employees under his authority or control understand and comply with this provision.
 2. Gandhi agrees that he shall never, directly or indirectly:
 - a. enter into any transactions involving "commodity interests" (as that term is defined in Regulation 1.3, 17 C.F.R. § 1.3 (2018)), for his own personal account or for any account in which he has a direct or indirect interest;
 - b. have any commodity interests traded on his behalf;
 - c. control or direct the trading for or on behalf of any other person or entity, whether by power of attorney or otherwise, in any account involving commodity interests;
 - d. solicit, receive, or accept any funds from any person for the purpose of purchasing or selling any commodity interests;

- e. apply for registration or claim exemption from registration with the Commission in any capacity, and engage in any activity requiring such registration or exemption from registration with the Commission except as provided for in Regulation 4.14(a)(9), 17 C.F.R. §4.14(a)(9) (2018); and/or
 - f. act as a principal (as that term is defined in Regulation 3.1(a), 17 C.F.R. § 3.1(a) (2018)), agent, or any other officer or employee of any person (as that term is defined in Section 1a(38) of the Act, 7 U.S.C. § 1a(38) (2012)), registered, required to be registered or exempted from registration with the Commission except as provided for in Regulation 4.14(a)(9).
3. Cooperation with the Commission: Gandhi shall cooperate fully and expeditiously with the Commission, including the Division, in accordance with the terms set forth in the Cooperation Agreement and any other governmental agency in this action, in any investigation, civil litigation, or administrative proceeding related to the subject matter of this action or any current or future Division investigation or Commission action related thereto. As part of such cooperation, Gandhi agrees to:
- a. preserve and produce to the Commission in a responsive and prompt manner, as requested by Division Staff, all relevant non-privileged documents, information, and other materials wherever located, in the appropriate possession, custody, or control of Gandhi;
 - b. utilize his knowledge and skill to explain transactions, interpret information and technology, or identify new and productive lines of inquiry;
 - c. prepare and appear for interviews and testimony at such times and places as requested by Division staff;
 - d. respond completely and truthfully to all inquiries and interviews, when requested to do so by Division staff;
 - e. identify and authenticate relevant documents and other evidentiary materials, execute affidavits and/or declarations, and testify completely and truthfully at depositions, trial, and other judicial proceedings, when requested to do so by Division staff;
 - f. enter into tolling agreements, when requested to do so by Division staff, during the period of cooperation;
 - g. accept service by mail, electronic mail, or facsimile transmission of notices or subpoenas for documents and/or testimony;
 - h. appoint his attorney as agent to receive service of such notices and subpoenas;

- i. waive the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules in connection with requests or subpoenas of Division staff; and
 - j. serve by hand delivery or by next-day mail all written notices and correspondence required by or related to the Cooperation Agreement to the Director of the Division of Enforcement, Commodity Futures Trading Commission, 1155 21st Street, NW, Three Lafayette Centre, Washington, DC 20581, unless otherwise directed in writing by Division Staff.
- E. Change of Address: Until such time as Gandhi satisfies in full his obligations as set forth in the Cooperation Agreement and this Order, Gandhi shall provide written notice to the Commission by certified mail of any change to his 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.



Robert N. Sidman
Deputy Secretary of the Commission
Commodity Futures Trading Commission

Dated: October 11, 2018