

Disciplinary Notice

Case No. 2023-016: Settlement of Charges Against Merrill Lynch Commodities, Inc.

Exchange Rules

6.20(b) - Position Limits, Conditional Limits and Position Accountability for Energy Contracts and Oil Contracts

No Person may exceed the position limits specified in the Position Limit Tables for any Oil Contract or Energy Contract unless an exemption has been granted by the Exchange in accordance with these Rules.

6.29(d)(i) - Exemptions

Requests for enumerated bona fide hedge exemptions must include information that demonstrates that the proposed positions are bona fide hedging positions, consistent with the definition of “bona fide hedging transaction or position” in CFTC Regulation 150.1 and qualifies as an enumerated bona fide hedging transaction or position listed in Appendix A to Part 150 of the CFTC’s Regulations.

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.

4.01(b) - Duty to Supervise

Each Firm shall establish, administer and enforce supervisory systems, policies and procedures, based on the nature and size of its Exchange-related activities, which are reasonably designed to achieve compliance with Exchange Rules.

Summary

On July 31, 2024, a subcommittee of the Exchange’s Business Conduct Committee (“BCC”) determined that Merrill Lynch Commodities, Inc. (“MLCI”) may have violated Exchange Rules 6.20(b) and 6.29(d). The BCC found that during the April 2023 and May 2023 expiration periods for the Henry LD1 Fixed Price Future, MLCI held positions in excess of the applicable spot month positions limits that did not appear to comply with the terms of an exemption granted by the Exchange. The BCC also found that MLCI may have violated Exchange Rule 4.01(a) by failing to diligently supervise the Exchange-related activities of its employees and Exchange Rule 4.01(b) by failing to establish, administer, and enforce supervisory systems, policies, and procedures reasonably designed to achieve compliance with Exchange rules governing the use of exemptions.

Product

Henry LD1 Fixed Price Future

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Customer Harm

No

Penalty

In accordance with the terms of settlement, in which MLCI neither admitted nor denied the alleged rule violations, MLCI agreed to pay a monetary penalty of \$1,000,000.

Effective Date

July 31, 2024

For more information:

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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, 2019.