

August 28, 2019

OSE Imposes Disciplinary Action against Citigroup Global Markets Japan Inc.

Osaka Exchange, Inc. (hereinafter "OSE") has taken disciplinary action (imposition of a JPY 20 million fine) against Citigroup Global Markets Japan Inc. (hereinafter "the Company") pursuant to the provisions of Rule 42, Paragraph 1 of its Trading Participant Regulations and has requested that the Company submit a business improvement report pursuant to the provisions of Rule 17, Paragraph 1 of the same Regulations.

*The above measures were determined based on the result of deliberations by Japan Exchange Regulation.

[Background]

In the course of market surveillance in the OSE market, Japan Exchange Regulation (hereinafter "JPX-R") found activity suspected to constitute market manipulation (spoofing) with respect to trading of Japanese government bond futures (hereinafter the "suspected trading") entrusted by Citigroup Global Markets Limited (CGML), a group company headquartered in the U.K., to the Company, an OSE Trading Participant, and explained the details of the situation to the Company in November 2018. Thereafter, JPX-R analyzed the suspected trading in detail and reported the results of the investigation to the Securities and Exchange Surveillance Commission (hereinafter "SESC").

Based on the report from JPX-R, the SESC investigated the case in detail, and then judged that the suspected trading falls under market manipulation that is prohibited by the Financial Instruments and Exchange Act (hereinafter "FIEA"). On March 26, 2019, the SESC recommended the Financial Services Agency (hereinafter "FSA") to issue an Administrative Monetary Penalty Payment Order. On June 7, 2019, the FSA ordered CGML to pay an administrative monetary penalty of JPY 133.37 million.

The SESC conducted an inspection on the Company with the base date on November 26, 2018 and deemed that the Company had committed a legal violation (by having a deficiency in trade surveillance related to market transactions of derivatives) based on the results of the inspection.

(Reference Translation)

On April 19, 2019, the SESC recommended that the FSA impose administrative disciplinary action against the Company. On June 7, 2019, the FSA imposed said action against the Company.

[Summary of Violation]

(1) Failure in trading system

The Company uses a trading system that was jointly developed by the U.S. headquarters of Citigroup Inc. and an external vendor for market transactions of derivatives. Due to failures in programming of this system, some data from transactions conducted through said trading system (such as those pertaining to manually-operated bulk cancel orders and sliced orders of algorithmic trading) were not delivered to the Company's trade surveillance system; therefore, the Company inadequately failed to cover these transactions in its trade surveillance.

(2) Failure in trade surveillance system

The Company inappropriately narrowed down the scope of trade surveillance in its trading surveillance system settings. Specifically, when setting thresholds for extracting spoofing transactions, the persons in charge inappropriately shortened the time-period between the order placement and cancellation. This was done without any prior verification internally on the rationality for setting thresholds that take into account various factors, including the size of transactions.

In addition, due to faulty trade surveillance system settings, the Company's trade surveillance failed to cover the transactions executed during night sessions on days that preceded non-business days.

(3) Deficiency in trading management framework

Despite the fact that the Company was aware that a number of alerts for suspicious market fraud were concentrated on a single trader, the Company failed to take any thorough actions, such as close investigation into the intention of such transactions and scrutinizing the transaction data.

Under the above trading management framework, it was deemed that the Company accepted and executed orders of spoofing transactions in the 10-year JGB futures market committed by Citigroup Global Markets Limited and inadequately overlooked such market frauds.

(Reference Translation)

Thus, the above situation of the Company was deemed to fall under Article 123, Paragraph 1, Item 12 of the Cabinet Office Order on Financial Instruments and Exchange Business, etc. based on Article 40, Item 2 of the FIEA.

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