



## U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre  
1155 21st Street, NW, Washington, DC 20581  
Telephone: (202) 418-5000  
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Division of  
Enforcement

### NON-PROSECUTION AGREEMENT

The U.S. Commodity Futures Trading Commission's Division of Enforcement ("Division") investigated whether there were possible violations of the Commodity Exchange Act ("Act") and/or Commission Regulations ("Regulations"). Specifically, the Division investigated, *inter alia*, whether Citigroup Global Markets Inc., and its agents, employees, and affiliates ("Citigroup"), engaged in conduct known to the trade as "spoofing" in the U.S. Treasuries futures markets and whether Citigroup failed to properly supervise its agents and employees with respect to this conduct in 2011 and 2012 ("Investigation"). Daniel Liao ("Liao") and the U.S. Commodity Futures Trading Commission ("Commission") enter into the following terms and conditions of a non-prosecution agreement ("Agreement") in connection with the Investigation and any other related enforcement litigation or proceeding to which the Commission is a party (together, the "Proceedings"):

The Commission enters into this Agreement based, in part, on Liao's timely and substantial cooperation in the Investigation; his immediate willingness to accept responsibility for his misconduct, as described herein; the material assistance he provided to the Division in the Proceedings, including implicating others at Citigroup for unlawful conduct; and the absence of a history of prior misconduct by Liao.

#### I. Term

1. Liao understands and agrees that the provisions of this Agreement are in full force and effect from January 31, 2017 to the termination of the Proceedings or two years from the beginning date of the Agreement whichever is later ("Agreement Period"), unless expressly stated otherwise.

#### II. Cooperation

2. Liao agrees to cooperate fully and truthfully in the Proceedings, as directed by the Division's staff. Liao likewise agrees to cooperate fully and truthfully, as directed by the Division's staff, in any official investigation or proceeding by any other federal or state authority or a self-regulatory organization related to the Investigation and the factual statements that are part of this Agreement ("Other Proceedings"). The full, truthful, and continuing cooperation of Liao shall include, but not be limited to:

- a. preserving and producing to the Commission in a responsive and prompt manner, as requested by the Division's staff, all non-privileged documents, information, and other materials wherever located, in the possession, custody, or control of Liao;

- b. utilizing his knowledge and skill to explain transactions, interpret information and terminology, or identify new and productive lines of inquiry, as requested by the Division's staff;
- c. preparing and appearing for interviews and testimony, at such times and places and as requested by the Division's staff;
- d. responding completely and truthfully to all inquiries and interviews, as requested by the Division's staff;
- e. identifying and authenticating documents, executing affidavits or declarations, and testifying completely and truthfully at depositions, trial, and other judicial proceedings;
- f. accepting service by mail, electronic mail, or facsimile transmission of notices or subpoenas for documents and/or testimony at depositions, hearings, or trials;
- g. appointing Liao's undersigned attorney as agent to receive service of such notices and subpoenas;
- h. waiving 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 the Division's staff; and
- i. serving by hand delivery or by next-day mail all written notices and correspondence required by or related to this Agreement to the Director of the Division of Enforcement, U.S. Commodity Futures Trading Commission, 1155 21st Street, NW, Three Lafayette Centre, Washington, DC 20581, unless otherwise directed in writing by the Division's staff.

### **III. Statement of Facts**

3. If this case had gone to trial, the Commission would have presented evidence sufficient to prove the facts set forth in Exhibit A, which Liao admits.

### **IV. Prohibitions and Undertakings**

4. During the Agreement Period, Liao understands and agrees to comply with the following prohibitions:
- a. To refrain from violating the Act and/or Regulations; and
  - b. To refrain from violating the rules promulgated by any self-regulatory organization and any registered entity (as that term is defined in Section 1a(40) of the Act, 7 U.S.C. § 1a(40)).

5. During the Agreement Period, Liao understands and agrees to perform the following undertakings:

- a. provide written notification to the Division, within fourteen calendar days, if Liao has been charged or convicted of an offense by any other federal or state authority, or self-regulatory organization.
- b. provide written notification to the Division, within fourteen calendar days, if Liao has been questioned, a formal or informal complaint has been made against Liao, or disciplinary action has been taken against Liao, by any other federal, state, or self-regulatory organization.
- c. Liao will cooperate fully, as enumerated in Section I.

6. Notwithstanding the end of the Agreement Period, Liao understands and agrees that neither Liao nor any of Liao's successors and assigns, agents or employees under Liao's authority or control shall take any action or make any public statement denying, directly or indirectly, any aspect of this Agreement or creating, or tending to create, the impression that this Agreement, which includes the statements in Exhibit A, is without a factual basis; provided, however, that nothing in this provision shall affect Liao's (i) testimonial obligations, or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Liao and his successors and assigns shall undertake all steps necessary to ensure that all of Liao's agents and/or employees under Liao's authority or control understand and comply with this provision. If it is determined by the Division that a public statement by Liao, or by anyone under Liao's authority or control, contradicts in whole or in part this Agreement which includes the statements in Exhibit A, the Division, at its sole discretion, may recommend, and the Commission may bring, an action or proceeding against Liao in accordance with this Agreement.

7. Notwithstanding the end of the Agreement Period, before issuing any press release concerning this Agreement, Liao agrees to have the text of the release approved by the Division's staff.

#### V. Violation of the Agreement

8. Liao understands and agrees that it shall be a violation of this Agreement if Liao provides false or misleading information or materials in connection with the Proceedings or Other Proceedings if he knew or reasonably should have known the information or materials to be false or misleading. Providing false or misleading information or materials to the Commission also violates Section 6(c)(2) of the Act (7 U.S.C. § 9) and also may subject Liao to criminal penalties for providing false information to the U.S. Government (18 U.S.C. § 1001), providing false information to the Commission (Section 6(c)(2) of the Act, 7 U.S.C. § 9), contempt (18 U.S.C. §§ 401-402), perjury (18 U.S.C. § 1621), making false statements or declarations in court proceedings (18 U.S.C. § 1623), and/or obstructing justice (18 U.S.C. § 1503 *et seq.*). Further, providing false, fictitious, or fraudulent information to a registered entity, board of trade, swap data repository, or futures association designated or registered under the Act

violates, and may also subject Liao to criminal penalties pursuant to Section 9(a)(4) of the Act (7 U.S.C. § 13).

9. Liao understands and agrees that it shall be a violation of this Agreement if Liao violates the Act and/or Regulations during the Agreement Period.

10. Liao understands and agrees that should the Division in its sole discretion determine that Liao failed to comply with any of the Prohibitions or Undertakings of this Agreement, the Division may recommend an enforcement action against Liao for violations of the Act and/or Regulations, including, but not limited to, the substantive offenses relating to the Investigation. In such circumstances, the Division will exercise its discretion whether to notify Liao or Liao's counsel of a recommended enforcement action and whether to provide an opportunity for Liao to make a submission consistent with the procedures set forth in Appendix A to Part 11 of the Regulations, 17 C.F.R. pt. 11, app. A. Moreover, nothing in this Agreement limits the Division's discretion to recommend to the Commission or the Commission's authority to bring an enforcement action against Liao for violations not arising from this Investigation or for future violations of the Act and/or Regulations, without notice, to protect the public interest.

11. Liao understands and agrees that in the event the Commission does bring an enforcement action against Liao following Liao's violation of this Agreement, any documents, statements, information, testimony, or evidence provided by Liao during the Proceedings and Other Proceedings, as well as any leads derived therefrom, may be used against Liao.

12. Liao understands and agrees that any enforcement action brought by the Commission following Liao's violation of the Agreement may be commenced against Liao, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the commencement of such action, provided that, applying any and all previously executed tolling agreements, the action would not have been time-barred by the applicable statute of limitations if brought on the date of the execution of this Agreement. Liao will not assert any claim or defense based on the passage of time from the date of this Agreement to the commencement of any action or proceeding against Liao authorized, instituted, or brought by or on behalf of the Commission or to which the Commission is a party arising out of the Investigation, including any sanction or relief that may be imposed therein, regardless of whether such claim or defense is constitutional, statutory (including any statute of limitations), or equitable (including laches or other equitable doctrines). It is further understood and agreed that a separate tolling agreement is not required to give effect to this paragraph.

13. If Liao violates this Agreement, Liao agrees not to dispute, contest, or contradict the factual statements in Exhibit A as admissions pursuant to Federal Rule of Evidence 801(d)(2), or their admissibility, in any future action or proceeding against Liao or any action or proceeding to which the Commission is a party.

## **VI. Compliance with Agreement**

14. Subject to the full, truthful, and continuing cooperation of Liao, as described above, and compliance with all Prohibitions and Undertakings in this Agreement, as described above, the Commission will not bring any enforcement action against Liao arising from the Investigation. This Agreement should not, however, be deemed an exoneration of Liao or be construed as a finding by the Commission or the Division that no violations of the Act and/or Commission Regulations have occurred.

15. Liao understands and agrees that this Agreement does not constitute a grant of immunity by the Commission, nor is it any other form of final disposition.

16. Liao understands and agrees that this Agreement does not bind any other federal or state authority or any self-regulatory organization. The Division may, at its discretion, issue a letter to other federal or state authorities or self-regulatory organizations detailing the cooperation of Liao during the Proceedings or Other Proceedings, upon Liao's written request.

17. This Agreement does not limit or otherwise affect any understandings or conditions in any agreements between Liao and any other federal or state authority or any self-regulatory organization, and any agreements between Liao and any other federal or state authority or any self-regulatory organization do not limit or otherwise affect the understandings and conditions set forth in this Agreement.

18. Liao understands and agrees that the Agreement only applies to enforcement actions arising from the Investigation and does not provide protection for any other violations or for any individual or entity other than Liao.

## **VII. Voluntary Agreement**

19. Liao's decision to enter into this Agreement is freely and voluntarily made and is not the result of force, threats, assurances, promises, or representations other than those contained in this Agreement.

20. Liao has read and understands this Agreement. Furthermore, Liao has reviewed all legal and factual aspects of this matter with Liao's attorney and is fully satisfied with that attorney's legal representation. Liao has thoroughly reviewed this Agreement with his attorney and has received satisfactory explanations concerning each paragraph of the Agreement. After conferring with his attorney and considering all available alternatives, Liao has made a knowing decision to enter into the Agreement.


VIII. Entirety of Agreement

21. This Agreement constitutes the entire agreement between the Commission and Liao, and supersedes all prior understandings, if any, whether oral or written, relating to the subject matter herein.
22. This Agreement cannot be modified except in writing, signed by Liao and an authorized representative of the Commission.
23. In the event an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring the Commission or Liao by virtue of the authorship of any of the provisions of the Agreement.
24. This Agreement may be executed by the parties to it in counterparts, with each counterpart constituting the entire Agreement.

\* \* \*

6/28/17

Date



James McDonald  
Director  
Division of Enforcement  
U.S. COMMODITY FUTURES TRADING  
COMMISSION

AGREED AND CONSENTED TO:

5th June 2017

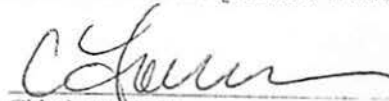
Date

  
Daniel Liao

I am counsel for Daniel Liao in this case. I have carefully reviewed this Agreement with Liao. To my knowledge, the decision of Liao to enter into this Agreement is informed and voluntary.

6/13/17

Date



Chip Loewenson  
250 West 55<sup>th</sup> Street  
New York, NY 10019-9601  
(212) 468-8000

## EXHIBIT A

### Statement of Facts

1. Liao has worked for Citibank Global Markets Japan ("Citigroup") in Tokyo since 2009, trading, among other things, U.S. Treasury futures and cash products contracts, which he traded in the overnight session for the U.S. Treasury desk at Citigroup beginning in late 2011.
2. In November 2011, Liao traveled from Tokyo to New York to train with, among other individuals, senior traders on the U.S. Treasury desk to learn how to trade U.S. Treasury futures and cash products. During his approximately six weeks of training in New York, Liao was instructed to sit adjacent to and observe the trading activity of other traders. During these sessions Liao asked the traders questions about their trading. He spent substantial time training with the head trader on the desk ("Head Trader") and another senior trader ("Trader A") trading the "on the run," or most recently issued, treasuries and correlated futures contracts. One of the trading patterns utilized by Head Trader and Trader A that Liao observed, involved the placement of a small order in U.S. Treasury futures or cash products on one side of the market and the placement and rapid cancellation (often in less than one second) of a much larger futures order on the opposite side of the market. At the time, Liao believed the large brief orders were entered to induce other market participants, specifically algorithmic traders, to transact on the smaller orders.
3. Following his training in New York, Liao returned to Tokyo in early January 2012 and began trading U.S. Treasury futures and cash products. Liao also attempted to mirror the trading pattern employed by Head Trader and Trader A in New York. From at least December 2011 through January 2012, on approximately 30 occasions, Liao entered and quickly cancelled large futures orders for the purpose of causing the market to react and transact on a smaller order resting on the opposite side of the same futures or correlated futures or cash market. In these instances, Liao intended to cancel the large futures orders before they were executed. Liao engaged in spoofing (*i.e.*, bidding or offering with the intent to cancel the bid or offer before execution) to get his smaller orders on the opposite side of the same or correlated market filled (and filled more quickly) at the prices he wanted.
4. On January 31, 2012, Liao placed an order to sell 4,000 ten-year Treasury futures contracts with the intention of canceling it before its execution. In placing this order, Liao intended to "push the market down" hoping that someone would transact on his much smaller resting order in ten-year cash Treasuries on the opposite side of the market. Despite his intent, almost the entire 4,000-lot futures order traded. Liao immediately traded out of the position, but lost approximately \$60,000 on the transaction.
5. Shortly after this incident, Liao called the head of the desk, Head Trader, Trader A, and other traders on the U.S. Treasury desk to report his loss and the circumstances surrounding it. Liao told Head Trader that he had "offered 4,000 contracts in [ten-year futures] hoping I'd get hit in some [ten-year cash Treasuries]." Head Trader responded,

in part, "cool, sounds like it didn't cost too much, so that's cool." At this point, Trader A got on the phone and asked about what happened. Head Trader responded, "He offered [ten-year futures] in the screens and got lifted," to which Trader A responded, "Oh! You were fucking around and got jacked." Liao explained, "yeah, I was. Umm, I mean, like, I went 4,000 contracts on the offer at TY and as soon as I offered I got lifted in all of them." All three subsequently laughed about the incident. Liao then explained his strategy for getting flat, Head Trader responded thanks, and the phone call ended. Shortly thereafter, Liao called back Trader A. During this conversation, Trader A told Liao not to stress about the incident and reminded Liao that because he is in Tokyo, "when you do that, people know what you are doing. There's no liquidity anyway, you're on the offer for like umpteenth size, clearly, clearly guys know you want to buy shit. Yeah, don't pick up bad habits from us."

6. Later that same day, Liao chatted about the incident with another trader on the desk. This trader admitted to also utilizing a similar trading strategy while he was in Tokyo and recalled an incident where his large brief order of 1,000 contracts (that he intended to cancel before execution) was transacted upon. This trader told Liao that 4,000 contracts was a lot to be offering "in an illiquid market."

7. In October 2013, Liao was interviewed by the CME during which he admitted to the misconduct described above. Liao admitted to the same in testimony with the CFTC in April 2015.

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