



Department of Justice

FOR IMMEDIATE RELEASE
TUESDAY, JANUARY 21, 2020
WWW.JUSTICE.GOV

CRM
(202) 514-2007
TTY (866) 544-5309

PROPEX DERIVATIVES PTY LTD AGREES TO PAY \$1 MILLION IN CONNECTION WITH SPOOFING SCHEME

WASHINGTON – Propex Derivatives Pty Ltd (Propex), a Sydney, Australia-based proprietary trading firm, has entered into a resolution with the Department of Justice to resolve criminal charges related to a spoofing scheme involving thousands of instances of unlawful trading activity in U.S. commodities markets by a former Propex trader, announced Assistant Attorney General Brian A. Benzckowski of the Justice Department’s Criminal Division and Special Agent in Charge Emmerson Buie Jr. of the FBI’s Chicago Field Office.

Propex entered into a deferred prosecution agreement (DPA) in connection with a criminal information filed today in the Northern District of Illinois charging the company with one count of spoofing. Spoofing is the illegal practice of bidding or offering (*i.e.*, placing an order to buy or sell) with the intent to cancel the bid or offer before execution. Under the terms of the DPA, Propex agreed to pay \$1 million that is comprised of a criminal monetary penalty (\$462,271), criminal disgorgement (\$73,429), and victim compensation (\$464,300) with the criminal monetary penalty credited for any payments made to the Commodity Futures Trading Commission (CFTC).

Propex also agreed to, among other things, conduct appropriate reviews of its internal controls, policies and procedures, and to modify its compliance program, where necessary and appropriate, to ensure it is designed to effectively detect and deter violations of the Commodity Exchange Act and commodities fraud statute.

Propex admitted as part of the DPA, that from approximately July 2012 until March 2016, a former Propex trader, Jionghsheng (Jim) Zhao, engaged in a trading strategy that involved placing thousands of large-volume orders to buy and sell E-mini S&P 500 futures contracts on the Chicago Mercantile Exchange (CME) that Zhao intended to cancel before execution (the Spoof Orders). On Dec. 26, 2018, Zhao [pleaded guilty](#) to one count of spoofing. As part of his plea, Zhao admitted that his trading strategy was intended to inject materially false and misleading liquidity and price information into the E-mini S&P 500 futures contracts market by placing the Spoof Orders in order to deceive other market participants about the existence of supply and demand. The Spoof Orders were designed to artificially move the price of E-mini S&P 500 futures contracts in a direction that was favorable to Zhao, and to the detriment of other market participants. Zhao’s sentencing is scheduled for Feb. 4, 2020, before U.S. District Judge John J. Tharp Jr. of the Northern District of Illinois.

A number of relevant considerations contributed to the Department's criminal resolution with Propex, including the company's cooperation with the United States and Propex's remedial efforts. In addition, the Department considered the fact that in May 2014 Zhao's trading was flagged for Propex senior management, yet he continued placing Spoof Orders through March 2016. Further, Zhao made false and misleading statements to the CME during its investigation into Zhao's trading activity. In March 2018, Propex undertook a significant enhancement of its compliance program and internal controls after engaging an independent compliance consulting firm to conduct an assessment of the adequacy and effectiveness of Propex's compliance program. As part of that enhancement, Propex increased the resources dedicated to compliance and contracted with a third-party vendor to provide automated trade surveillance, including surveillance for manipulative and deceptive trading such as spoofing. The Department determined that the criminal monetary penalty of \$462,271 imposed as part of the DPA is appropriate given the facts and circumstances of this case and given Propex's inability to pay an amount within the range calculated under the sentencing guidelines because it would threaten the continued viability of Propex and impair its ability to make restitution to victims. As part of the agreement, the Department has filed an unopposed motion, which is subject to approval by the Court, to defer for the term of the DPA any prosecution and trial of the criminal information filed against Propex.

The CFTC announced today a separate settlement with Propex in connection with a related, parallel proceeding. Under the terms of that resolution with the CFTC, Propex agreed to pay \$1 million, which includes a civil monetary penalty of \$462,271, as well as restitution and disgorgement that will be credited for any such payments made to the Department. In addition, the CFTC order imposes upon Propex other remedial and cooperation obligations in connection with any CFTC investigation pertaining to the underlying conduct.

The FBI's Chicago Field Office investigated this case. Trial Attorney Matthew F. Sullivan and Assistant Chief Justin Weitz of the Criminal Division's Fraud Section prosecuted the case, which is part of the Fraud Section's commodities enforcement program. The International Crime Cooperation Central Authority of the Australian Government Attorney-General's Department, the Australian Federal Police and the Criminal Division's Office of International Affairs provided significant assistance in connection with the arrest and extradition of Zhao. The CFTC's Division of Enforcement and the Australian Securities and Investments Commission also provided substantial assistance in this case.

Individuals who believe that they may be a victim in this case should visit the Fraud Section's Victim Witness website at <https://www.justice.gov/criminal-vns/case/propex-derivatives-dpa> or call (888) 549-3945.

The year 2020 marks the 150th anniversary of the Department of Justice. Learn more about the history of our agency at www.Justice.gov/Celebrating150Years.

###

20-XXX