Market Abuse Case Studies

Adam Cobb-Webb Spoofing

Market Abuse Case Study No:	**Name:**
009	Adam Cobb-Webb
Offence: Spoofing in West Texas Intermediate (WTI) light sweet Crude Oil futures contracts traded on the New York Mercantile Exchange, Inc. (NYMEX)	**Detection Control:** MAST Layering/ Spoofing Metric

TradingHub

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Civilian Authority:
CFTC

Offence:
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1. Key Facts and Overview

In August 2023, the Commodity Futures Trading Commission (CFTC) issued an order simultaneously filing and settling charges against Adam Cobb-Webb, a UK-based trader, for engaging in multiple instances of spoofing in West Texas Intermediate (WTI) light sweet Crude Oil futures contracts traded on the New York Mercantile Exchange, Inc. (NYMEX) from December 2021 through January 2022.

Adam Cobb-Webb is a British citizen who resides in England and is trading for his own account. The CFTC order required Adam Cobb-Webb to pay a $150,000 civil monetary penalty and imposed a one-year ban from trading. He was also ordered to cease and desist from violating the spoofing prohibition in the Commodity Exchange Act.

2. Findings and Allegations

The CFTC order found that Adam Cobb-Webb's spoofing involved a pattern of trading in which he placed an iceberg order in WTI futures that he intended to execute. While simultaneously entering a series of fully displayed spoof orders on the opposite side of the order book at the first few price levels. After Adam Cobb-Webb's iceberg order received fills, he would cancel his fully displayed spoof orders. Adam Cobb-Webb engaged in this daily trading pattern during December 2021 and January 2022.

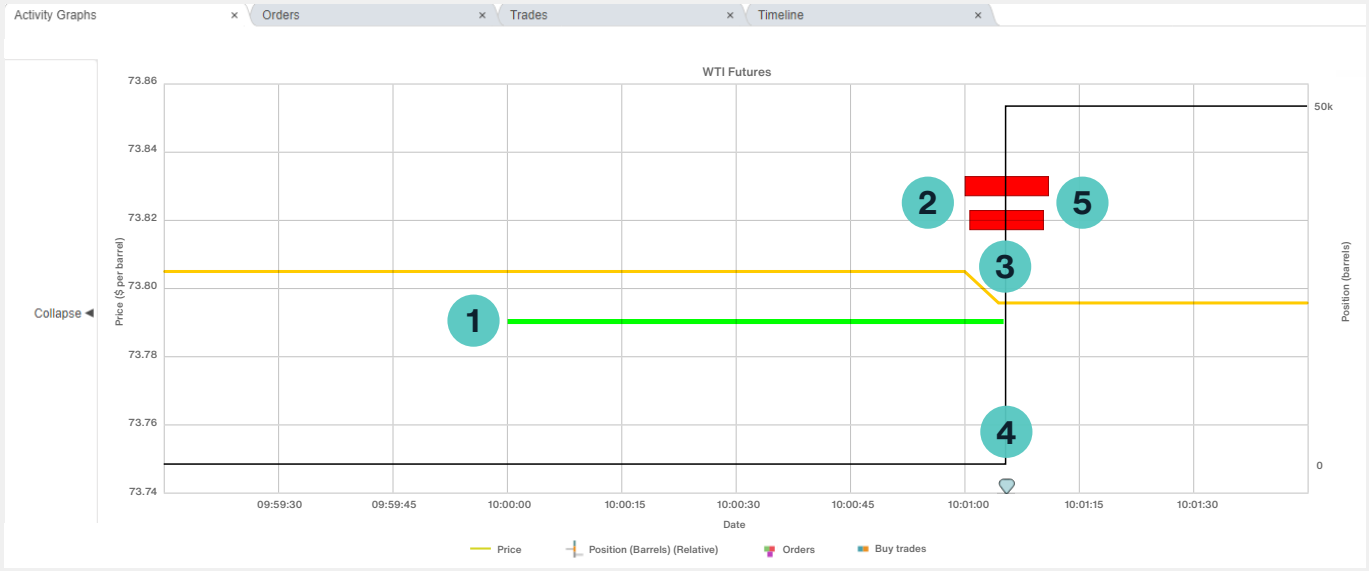
Adam Cobb-Webb's fully displayed spoof orders often made up a very large percentage of orders resting at the top price levels. During the majority of the spoofing attempts, the volume of his spoof orders was several times larger than the visible quantity of his iceberg orders. Adam Cobb-Webb entered the spoof orders with the intent to cancel and to create a false impression of buying or selling interest that would induce other market participants to cross the bid-ask spread and fill his iceberg orders. The CFTC order found that Adam Cobb-Webb knew or recklessly disregarded that the spoof orders would create the false appearance of market depth and result in misinformation about supply and demand that could affect market activity.

The CFTC order noted that Cobb-Webb's conduct violated Sections 4c(a)(5)(C) and 6(c)(1) of the Act, 7 U.S.C. §§ 6c(a)(5)(C), 9(1), and Regulation 180.1(a)(1), (3), 17 C.F.R. § 180.1(a)(1), (3) (2022), which prohibit engaging in any trading, practice, or conduct that is, is of the character of, or is commonly known as, "spoofing," i.e., bidding or offering with the intent to cancel the bid or offer before execution. See United States v. Coscia, 866 F.3d 782, 795–96 (7th Cir. 2017) affirming conviction for spoofing where evidence showed that the defendant entered three orders with the intent to cancel before execution. The regulations also prohibit using or employing, or attempting to use or employ, any manipulative device, scheme, or

artifice to fraud, or engaging, or attempting to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person, in connection with a contract of sales of any commodity for future delivery on or subject to the rules of a registered entity. See, e.g., Skudder, 2022 WL 17752392.

Detecting Spoofing with MAST

The consent order did not provide any examples of the market abuse performed by Adam Cobb-Webb. However, we have produced an example of the type of spoofing that is likely to have taken place. The screenshot illustrates how the MAST website presents the scenario:



1. The genuine buy order for 50 futures contracts is placed by the trader and represented as a green bar in the MAST graph.
2. The trader places two spoof orders to sell 250 futures contracts, which are represented by the red bars.
3. The yellow line shows the mid-price for the instrument, which trends downwards as the spoof orders are placed.
4. The buy order is filled at a lower price because of the presence of the spoof orders.
5. The spoof orders are quickly cancelled after the genuine order has been filled.

How MAST Recognises Spoofing

MAST's Cross-Product Layering/Spoofing metric detects spoofing by measuring the degree to which the market impact of a potential spoof order benefits any transactions on the other side of the market. It balances this benefit with the risk to the trader of placing a spoof order, namely the cost to them of having to unwind an unwanted execution.

Advance your surveillance function

Improve your detection of market abuse, reduce false positives and prioritise high-risk alerts.

Reach out to learn more.

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