Market Abuse Case Studies

Logista Advisors Alleged Commodity Spoofing

Market Abuse Case Study No:	**Name:**
011	Logista Advisors LLC
Offence: Engaged in fraudulent and manipulative acts and practices in violation of the Commodities Exchange Act and Commodities Futures Trading Commission (CFTC) Regulations	**Detection Control:** MAST Layering/ Spoofing Metric

TradingHub

Logista Advisors Alleged Commodity Spoofing

Market Abuse Case Study No:
011

Name:
Logista Advisors LLC

Civilian Authority:
Commodities Futures Trading Commission (CFTC)

Offence:
Engaged in fraudulent and manipulative acts and practices in violation of the Commodities Exchange Act (CEA) and Commodities Futures Trading Commission (CFTC) Regulations

1. Key Facts and Overview

In September 2023, the Commodities Futures Trading Commission (CFTC) filed a civil complaint in the U.S. District Court for the Northern District of Illinois against Logista Advisors LLC, known as Logista and Andrew Serotta charging them with spoofing, engaging in a manipulative and deceptive scheme, failing to supervise and for violating a prior CFTC order. Andrew Serotta is the Owner, Founder, and Chief Executive Officer of Logista and Logista's Head Trader.

The CFTC complaint alleges from January 2020 through April 2020, Andrew Serotta was executing a spoofing scheme where he would place hundreds of large orders for Crude Oil and Natural Gas futures, specifically Calendar Spreads, that he then intended to cancel before execution. This was done while simultaneously placing orders on the opposite side of the futures markets that would benefit from market participants' reactions to his spoof orders.

By placing the spoof orders, Andrew Serotta allegedly deceived other traders about supply and demand, misleading market participants about the likely direction of the commodity's price, which made his genuine orders appear more attractive to market participants. It also allowed Andrew Serotta to execute his genuine orders in larger quantities and at better prices than he would have without the spoof orders. The complaint further alleges that, by this conduct, he failed to supervise the fund's trading diligently and violated a 2017 CFTC order that found a supervision failure stemming from prior instances of spoofing at Logista.

2. Findings and Allegations

The CFTC's complaint alleges that Andrew Serotta wrongfully obtained gains from the scheme involving spoofing and deceptive trading of hundreds of thousands of dollars to the detriment of counterparties and other market participants. Through this conduct, the CFTC allege that Andrew Serotta engaged in fraudulent and manipulative acts and practices in violation of the Commodities Exchange Act and CFTC Regulations—specifically, 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) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2022).

The CFTC alleges that by placing hundreds of orders with the intent to cancel them before execution, Andrew Serotta intentionally or recklessly sent false signals of increased buying or selling interest designed to trick other market participants into entering higher bids or lower offers. This allowed him to execute orders on the opposite side of their order book at advantageous prices. The CFTC alleges that Andrew Serotta engaged in approximately 361 spoof events.

The scheme generally followed a pattern:

Andrew Serotta's spoof orders generally represented a significant proportion of the overall number of lots then being bid or offered at that price level. On average, his spoof orders constituted more than 80% of the lots on the order book at the price level at which the spoof order was entered. In other words, Andrew Serotta's spoof orders effected a median increase of nearly 600% in the number of lots on the order book at the relevant price level.

This was not the first time Logista had violated the Commodity Exchange Act. On September 29, 2017, the CFTC instituted administrative proceedings against Logista, issuing an Order finding that, for several months in 2013 and 2014, Logista gave inadequate training, direction and supervision to an employee trading Crude Oil futures. These deficiencies resulted in the employee repeatedly engaging in spoofing while trading on a foreign futures exchange. Logista also took until 2020 to implement annual compliance presentations and to require quarterly affidavits attesting to the fact that traders had not engaged in disruptive trading. Logista also did not hire additional compliance personnel until 2021 and did not invest in software to monitor for disruptive trading until 2022.

The CFTC alleges that Logista took these steps only after it received a document preservation notice from the CFTC regarding the alleged misconduct detailed in the complaint filed in 2023. Therefore, Logista's supervisory system was generally inadequate and failed to perform its supervisory duties diligently.

Detecting Spoofing with MAST

The consent order provides several examples of alleged market abuse that was performed. For example, on February 5th, 2020, a number of alleged spoof orders were submitted over an 18-minute period. A single scenario from this activity has been represented through MAST. The screenshot below illustrates how the MAST website presents the scenario:

1. A Brent/WTI Crude spread spoof order is placed in the market at 20:23. This order involves selling WTI and buying Brent.

2. A small trade is executed on the spread at 20:23:10. This trade takes a position in the spread in the opposite direction, i.e. buying WTI and selling Brent.

3. The spoof order is subsequently cancelled without being filled.

How MAST Recognises Price Manipulation

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.

How MAST Detects Cross-Product Abuse

MAST's market impact modelling allows the system to understand how positions across a combination of instruments and across a series of maturities are all linked and can share sensitivities to common factors. For Crude Oil markets, MAST recognises common underlying risks across both single-underlying (e.g. Brent futures, WTI futures) and multi-underlying products (e.g. Spread futures), allowing market abuse to be detected across products and within a single product.

Advance your surveillance function

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

Reach out to learn more.

tradinghub.com/MAST

tradesurveillance@tradinghub.com