

# Legendary Chicago Trader Continues to Wait for Justice in Manipulation Case

By **Matthew Leising** and **Christie Smythe**

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- CFTC accused DRW and founder Wilson of illegally profiting
  - Final legal briefs were filed one year ago, but no ruling
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Donald R. Wilson *Photographer: Christopher Dilts/Bloomberg*

Still waiting.

To the surprise of both sides, a federal judge has spent a full year pondering government claims of market manipulation involving the legendary Chicago trader Donald R. Wilson. And the judge hasn't explained the delay.

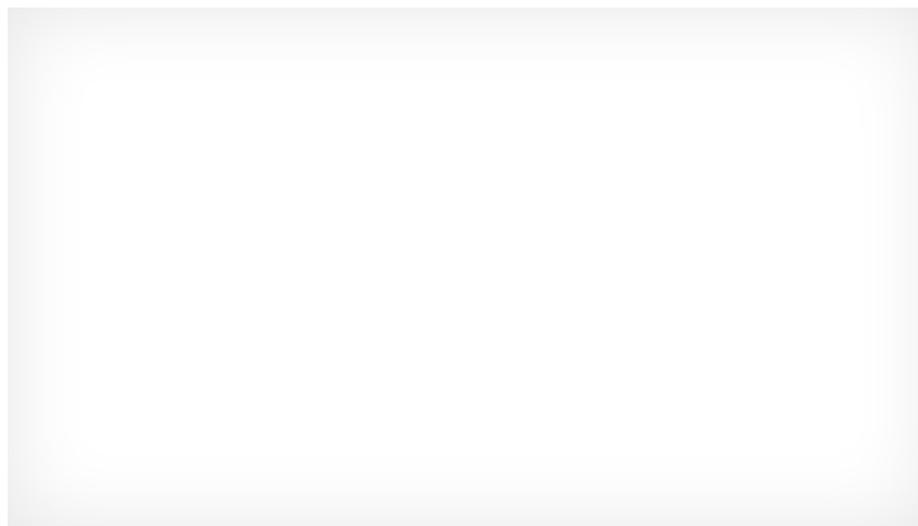
The case is being watched closely in derivatives circles because it's something of a legal rarity. The [Commodities Futures Trading Commission](#) usually aims to settle these type of cases; it hasn't brought one to trial in a decade.

The CFTC contended that Wilson's [DRW Holdings Inc.](#) reaped \$13 million by manipulating interest-rate derivatives. DRW maintained it had done nothing wrong.

U.S. District Judge Richard Sullivan appeared skeptical of the CFTC case after five days of testimony, interrupting closing arguments to ask things such as what evidence they really had. He said he'd consider additional written arguments, then issue his ruling. Those arguments were filed on Dec. 21, 2016 -- one year ago today.

"It's somewhat of a puzzle, and I don't have an explanation," said Craig Pirrong, a finance professor at the University of Houston, who has followed the case. He said the judge seemed to have a handle on derivatives valuations, a central issue of the case.

A message left with the judge's clerk wasn't returned. The CFTC and DRW declined to comment.



[DRW Judge Casts Doubt About Both Sides in Manipulation Trial <https://www.bloomberg.com/news/articles/2016-12-07/cftc-makes-final-pitch-to-judge-in-drw-manipulation-claims-case>](https://www.bloomberg.com/news/articles/2016-12-07/cftc-makes-final-pitch-to-judge-in-drw-manipulation-claims-case)

Traders, and their lawyers, are waiting for answers. The ruling could influence how firms handle price differences between related derivatives.

The CFTC argued that DRW profited by submitting artificially inflated bids for futures on interest-rate swaps near the end of trading sessions. The technique is known as “banging the close.”

DRW said it didn’t do anything illegal. Wilson testified that the contracts were fundamentally undervalued, given how their price should relate to swaps that trade elsewhere in the over-the-counter market.

“This is just a quant looking at how the exchange is settling things and noting our bids are being taken into account,” Wilson [testified](https://www.bloomberg.com/news/articles/2016-12-02/drw-s-wilson-takes-the-witness-stand-with-career-on-the-line) [last December](https://www.bloomberg.com/news/articles/2016-12-02/drw-s-wilson-takes-the-witness-stand-with-career-on-the-line). “This is not a nefarious thing.”

The waiting has left DRW and Wilson in a seemingly precarious position, considering the CFTC is seeking severe penalties -- including a lifetime trading ban for Wilson and the firm, and a fine of \$1 million for each violation.

Wilson built DRW from a one-man operation in the 1980s at the [Chicago Mercantile Exchange](#) trading floor into a more-than-750- person derivatives powerhouse. CFTC aside, the firm hasn’t lost a step.

In August, DRW bought Austin, Texas-based high-frequency trader RGM Advisors LLC, adding a stock-trading operation to its futures division. In November, it said it would open a Houston office and hire about 10 people in an expansion of its energy trading. Its digital currency operation, Cumberland Mining, has presumably profited quite nicely this year from the incredible price gains for bitcoin and other cryptocurrencies.

[Manipulation or Brilliant Trade? The Curious Case of Don Wilson <https://www.bloomberg.com/news/articles/2016-03-09/manipulation-or-brilliant-trade-the-curious-case-of-don-wilson>](https://www.bloomberg.com/news/articles/2016-03-09/manipulation-or-brilliant-trade-the-curious-case-of-don-wilson)

As the trial wrapped up, Sullivan found fault with evidence presented by both sides.

Bolstering DRW's case, the judge said the derivatives prices may have been moving to reflect economic fundamentals, and chided government lawyers for failing to appreciate "market forces."

"I just didn't see much in the way of evidence offering a coherent or pinpointed view of what the fair value is," Sullivan said.

Sullivan also indicated he thought some of the evidence was damaging for DRW. He noted the steep increase in DRW's bids for futures on interest-rate swaps in August 2011, a time when its traders on the other side were seeking to close out their positions.

"I think August is a problem," he said.

Sullivan's name has been mentioned <https://abovethelaw.com/2017/08/the-art-of-the-possible-new-york-nominees-for-federal-judgeships-and-prosecutor-posts/> as a possible nominee for a vacancy on federal appeals court in New York, according to Above the Law, a legal publication.

On the DRW case, the judge may have been busy on other trials or delaying his decision so that the parties consider a settlement, some speculated. Or he may be wrestling with a ruling in a case where the evidence was less than overwhelming.

James Cox, a professor of securities law at Duke University, said he was "surprised" Sullivan hasn't ruled.

"He has an admirably long list of cases that he has disposed of during his tenure," Cox said. "Malingering is not a characteristic you would associate with Judge Sullivan."

The case is CFTC v. Wilson, 13-cv-07884, U.S. District Court, Southern District of New York (Manhattan).