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## CFTC Releases Annual Enforcement Results for Fiscal Year 2014

### Agency Obtained a Record \$3.27 Billion in Monetary Sanctions



**Washington, DC** -- The U.S. Commodity Futures Trading Commission (CFTC) today reported on the agency's enforcement results for fiscal year 2014. The CFTC obtained a record \$3.27 billion in monetary sanctions imposed against companies and individuals. The CFTC filed 67 new enforcement actions while continuing to devote significant resources to litigating a host of complex cases filed in prior years. A number of those litigations reached successful resolutions, either through settlement, the granting of summary judgment, or a finding of liability after trial.

"The CFTC is committed to aggressive enforcement and policing of our financial markets. Through the outstanding work of CFTC enforcement staff, the CFTC sends the message that the protection of customers and the integrity of the markets are paramount," said Timothy Massad, Chairman of the CFTC.

The \$3.27 billion in sanctions includes more than \$1.8 billion in civil monetary penalties and more than \$1.4 billion in restitution and disgorgement.\* This brings the Commission's total monetary sanctions over the past two fiscal years to more than \$5 billion, which is more than the total sanctions imposed during the prior 10 fiscal years combined. Alone, this year's civil monetary penalties total more than eight times the Commission's operating budget for the fiscal year. The Division of Enforcement (Enforcement Division) also opened more than 240 new investigations in FY 2014. This year also marked the first award made under the CFTC's new Whistleblower Program, which Congress created as part of the Dodd-Frank Act.

"The Enforcement Division's results reflect the unwavering dedication and hard work of our talented staff," said Aitan Goelman, the Enforcement Division's Director. "Going forward, we will continue to enforce the rules governing the behavior of market participants to ensure that the wrongdoers who seek to take advantage of customers or game our markets are pursued and punished so that the integrity of our markets is protected."

The Commission's enforcement results are even more noteworthy because of constrained resources and a truncated work year. The Enforcement Division's staffing levels are now more than 10 percent smaller than when Dodd-Frank was enacted, and the CFTC was subject to the staff furloughs and a government shutdown last October.

### FY 2014 CFTC Enforcement Highlights

#### Market Integrity: Manipulation, Attempted Manipulation and False Reporting of Market Information

• **Manipulation of Interest Rate Benchmarks (LIBOR)** - Filed and settled three actions on charges of manipulation, attempted manipulation and false reporting of market information relating to LIBOR and other interest rate benchmarks. Imposed over \$580 million in civil monetary penalties (CMPs) and required internal controls improvements to strengthen benchmark setting process. *In re Lloyds Banking Group plc and Lloyds Bank plc; In re RP Martin Holdings Ltd., et al.*; and *In re Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A (Rabo)*.

CFTC has now imposed penalties of over \$1.87 billion on banks and interdealer brokers for manipulative conduct with respect to LIBOR and other benchmark interest rates. Actions filed during previous fiscal years include: *In re ICAP Europe Limited; In re The Royal Bank of Scotland plc and RBS Securities Japan Limited; In re UBS AG and UBS Securities Japan Co., Ltd.*, and *In re Barclays PLC, Barclays Bank PLC, and Barclays Capital Inc.*

The international scope of these benchmark investigations, among others, is evidenced by the unprecedented international cooperation with agencies such as U.K. Financial Conduct Authority, Japanese Financial Services Agency, Dutch National Bank, Dutch Public Prosecutor's Office and others.

• **JPMorgan London Whale Credit Default Swaps Manipulation** - Filed and settled a landmark case charging the reckless use of a manipulative device in violation of new Dodd-Frank anti-manipulation authority. The Order found that JPMorgan Chase Bank, N.A. by

selling a staggering volume of certain credit default swaps in a concentrated period, recklessly disregarded the fundamental precept that prices are to be established based on legitimate forces of supply and demand. JPMorgan was ordered to pay a \$100 million CMP and to continue to implement written enhancements to its supervision and control system governing swaps trading.

- **Manipulation of Interest Rate Futures Contract** - Filed suit in the Southern District of New York against Donald R. Wilson and his company, DRW Investments, LLC (DRW), charging them with manipulating and attempting to manipulate the price of an interest rates futures contract (the IDEX USD Three-Month Interest Rate Swap Futures Contract). The Complaint alleges that as a result of the manipulative scheme, the defendants profited by at least \$20 million, while their trading counterparties suffered losses of an equal amount. On June 26, 2014, the CFTC successfully defeated a motion to dismiss the CFTC's complaint.

- **Attempted Manipulation of Crude Oil Markets** - Filed and settled charges of attempted manipulation of NYMEX crude oil markets and violations of position limits on two days in 2008 against Daniel Shak and his former company, SHK Management LLC and imposed \$400,000 CMP and trading bans and restrictions, including prohibiting Shak from trading outright futures contracts in any market during the closing period for a period of two years.

- **Related Violation of a Commission Order** - Subsequently, the Commission filed a federal suit charging Shak with violating the Commission's attempted manipulation Order against him. The Commission alleges that Shak violated the CFTC Order by trading outright gold futures contracts during the closing period.

- **Resolution of On-going Manipulation Litigation Cases**

- **Attempted Manipulation Through "Spoofing"** - Resolved litigation against Eric Moncada and proprietary trading firms BES Capital LLC (BES) and Serdika LLC (Serdika), on charges of attempted manipulation through "spoofing" orders, fictitious and non-competitive transactions in the wheat futures market. After the Enforcement Division persuaded the court to grant summary judgment against Moncada on the charges of fictitious sales and non-competitive transactions, the parties settled the attempted manipulation charges with a \$1.56 million CMP and permanent trading and registration bans. Per the consent Order, Moncada attempted to manipulate the wheat futures market by entering and cancelling large lot orders without the intent to fill the orders. CFTC also obtained default judgments against the firms with CMPs totaling \$32.24 million and permanent trading and registration bans.

- **Crude Oil Manipulation Litigation: Parnon Energy Inc., et al.** - Settled litigation against Parnon Energy Inc., Arcadia Petroleum Ltd., Arcadia Energy (Suisse) SA, Nicholas Wildgoose and James Dyer, alleging that from January 2008 through April 2008, the defendants manipulated and attempted to manipulate crude oil futures contract spreads traded on NYMEX. The defendants paid a \$13 million CMP and agreed to limit their physical market trading for three years, among other undertakings.

#### Illegal Off-Exchange Metals Fraud

- **Successful Trial of Major Metals Dealer** - Won a liability verdict after trial against a major off-exchange metals company Hunter Wise Commodities, LLC (Hunter Wise) on fraud charges in connection with financed transactions in precious metals that resulted in millions of dollars in customer losses. The court found that over 90 percent of Hunter Wise's retail customers lost money, and Hunter Wise and its two principal owners had knowingly defrauded more than 3,200 retail customers. The court ordered \$52.6 million in restitution to the defrauded customers and a \$55.4 million CMP, the maximum provided by law. Earlier, the CFTC had won summary judgment on charges that the defendants' transactions violated the Dodd-Frank Act's new provisions requiring this type of transaction to be executed on exchange. Along with the other precious metals cases described below, this action is a prime example of how the Enforcement Division is using its new authority under the Dodd-Frank Act to pursue wrong-doers who prey on people looking to make investments in commodities like gold and silver.

- **Related Aiding and Abetting Charges Brought against Hunter Wise Attorney** - Filed action against Florida attorney Jay Bruce Grossman charging him with willfully aiding and abetting multiple clients, including Hunter Wise, in their operation of illegal and fraudulent precious metals schemes. This is an example of the Commission's commitment to take action against gatekeepers, including attorneys, who are complicit in conduct violating the federal commodities laws.

**MF Global Inc.; Distribution to Customers** - Pursuant to the settlement obtained by the CFTC against MF Global Inc., the Trustee for MF Global began making final distributions to its customers to satisfy its obligation of full restitution for \$1.212 billion in losses sustained by customers of MF Global when the company failed in 2011. The enforcement action was filed on June 27, 2013 against MF Global, MF Global Holdings Ltd. (Holdings), former Chief Executive Officer of MF Global and Holdings Jon S. Corzine, and former Assistant Treasurer of MF Global Edith O'Brien based on, among other violations, MF Global's unlawful use of customer funds that harmed thousands of customers and violated

fundamental customer protection laws on an unprecedented scale. The Enforcement Division continues in its suit against the remaining defendants, MF Global Holdings Ltd., Jon S. Corzine, and Edith O'Brien.

**Under-Capitalization and Under-Segregation and Failure to Supervise Violations** - Enforcement actions against CFTC-registered firms to ensure that they have the necessary capital, protect customer funds, and maintain adequate supervisory controls.

- **Morgan Stanley Smith Barney, LLC** - Filed and settled action against Morgan Stanley finding that it failed to meet its supervisory and recordkeeping obligations with regards to the opening and handling of certain accounts which were ultimately used as part of a \$35 million Ponzi scheme. The Commission imposed \$280,000 CMP and ordered MSSB to disgorge commissions it earned from the subject accounts.
- **Morgan Stanley Smith Barney LLC** - Filed and settled charges against Morgan Stanley finding that it committed violations pertaining to segregated and secured amount funds, including the commingling customer and firm funds. The Commission imposed a \$490,000 CMP.
- **Capital Market Services, LLC** (\$275,000 CMP); **Global Futures & Forex, Ltd.** (\$200,000 CMP); and **FXDirectDealer, LLC** (violation of minimum financial requirements and a prior Commission order; \$600,000 CMP) - Filed and settled charges that these Futures Commission Merchants and Retail Foreign Exchange Dealers failed to maintain their required adjusted net capital.

**False Statements to the Commission** - Protecting the integrity of information provided to the Commission by rigorous enforcement of Dodd-Frank's prohibition against making false statements to the Commission or its staff.

- **Sean Stropp** - Filed and settled charges that Stropp made false and misleading statements of material fact and omitted material facts to Commission staff during an investigation. Specifically, Stropp provided DOE staff a signed and notarized financial disclosure statement that omitted material facts, including both his control of, and his spouse's ownership interest in, another entity selling leveraged metals contracts and his ownership and control of two of that other entity's bank accounts. The Commission imposed a \$250,000 CMP.
- **Artem Obolensky** - Filed and settled charges that Artem Obolensky, the President of a Russian bank and co-owner of a private investment fund located in Cyprus, made false and misleading statements of material fact to staff in an interview during an investigation. Obolensky was required to pay a \$250,000 CMP.

**Failure to File Required Reports** - The Commission uses required reports to evaluate potential market risks and monitor compliance with CFTC requirements. These reports are also important to members of the public, many of whom rely on that information in forming trading strategies.

- **J.P. Morgan Securities LLC** - Filed and settled action against J.P. Morgan finding that it submitted inaccurate "large trader" reports over an extended period of time despite being notified by the Commission about the problems. The Commission imposed a \$650,000 CMP and ordered J.P. Morgan to submit a certified statement of compliance that it has completed enhancements to, and testing of, its systems and procedures to ensure compliance.
- **Multigrain SA and Agricola Xingu SA** - Filed and settled charges that two Brazilian agricultural companies, who held or controlled reportable cotton positions, failed to submit weekly Form 304 Reports. The Commission imposed a \$500,000 CMP and ordered them to comply with their undertaking to adopt enhanced procedures and internal controls to ensure compliance.

**Speculative Position Limit Violations** - The Commission continues to bring enforcement actions against market participants that hold positions in excess of CFTC-approved speculative position limits.

- **James C. Yadgir** (filed action for violation of position limits in CME live cattle futures and feeder cattle futures); and
- **Kennith Wayne Thrasher and Kennith Luke Thrasher** (filed and settled charges of violation of position limit for CME live cattle futures; imposed \$525,000 CMP).

**Prearranged Trading** - The Commission filed and settled charges against several respondents for noncompetitive, prearranged trades that negated market risk and price competition and constituted fictitious sales.

- **FirstRand Bank, Ltd.** (prearranged noncompetitive trades involving CBOT corn and soybean futures contracts; \$150,000 CMP);
- **Absa Bank, Ltd.** (prearranged noncompetitive trades involving CBOT corn and soybean futures contracts; \$150,000 CMP); and
- **Fan Zhang** (prearranged noncompetitive trades involving CME's Las Vegas Housing

Market and Cash-Settled Cheese futures contracts and CBOT's Ethanol futures contract, \$250,000 CMP).

**Charges against Precious Metals Boiler Rooms** - The CFTC also pursued the firms who solicited retail customers to buy precious metals in off-exchange leveraged, margined or financed transactions while acting as dealers for purported metal merchants, including Hunter Wise.

- Hunter Wise dealers sued included: Vertical Integration Group LLC, et al.; PGS Capital Wealth Management, et al.; Rockwell Asset Management, Inc.; Empire Sterling Metals Corp., et al.; Palm Beach Capital LLC, et al.; and Young Scott & Associates, et al.

- AmeriFirst Management, LLC dealers sued included: Gold Distributors Inc., et al.; S.J. Woods, Inc., et al. (also acted as a dealer for Hunter Wise); WorldPMX, Inc., et al.; and Inter-Global Currency & Precious Metals LLC, et al. (also acted as a dealer for Hunter Wise); and

- **Worth Group, Inc.** dealers sued included: Louis J. Ferone (as the owner and operator of defunct Bentley Metals LLC); and International Monetary Metals, Inc., et al. (also acted as a dealer for AmeriFirst).

#### Other Fraud Actions

- **\$7.6 billion Pool Fraud** - Reached a partial resolution in its action against Stephen Walsh. Consent order finds that Walsh fraudulently solicited approximately \$7.6 billion through Westridge Capital Management and WGIA, LLC and misappropriated approximately \$51 million. Walsh is subject to permanent registration and trading bans and required to disgorge ill-gotten gains to defrauded pool participants and to pay a CMP in amounts the court will determine at a later date. Previously, the CFTC partially resolved its litigation against Walsh's partner, Paul Greenwood, in a similar manner.

- **Arrington, et al.; Summary Judgment Win** - Won summary judgment against Michael B. Kratville, a Nebraska attorney, with the court finding that he personally and through his involvement with other defendants, defrauded commodity pool participants. The court ordered Kratville to pay \$534,387 in restitution and a \$1.17 million CMP. The court also entered a default order against the other defendants and ordered them to pay \$3,833,982.02 in restitution (joint and several) and a total of \$4,559,142.87 in CMPs.

- **Arista LLC, et al.** - Obtained a federal court order against Arista LLC, a registered Commodity Pool Operator, and its principals Abdul Sultan Walji and Reniero Francisco, finding that they engaged in a fraudulent scheme to misappropriate millions of dollars from customers in commodity futures and options, and lied to both the CFTC and the National Futures Association. Defendants must pay more than \$22 million in restitution and penalties.

- **EJS Capital Management, LLC, Alex Vladimir Ekdeshman, and Edward J. Servider, and Relief Defendants Alisa Ekdeshman, Executive Services of Florida LLC, Executive Management Services of Montana Inc., and Michael Vilner** - Filed charges of fraudulent solicitation, misappropriation, false statements and registration violations involving an allegedly ongoing retail forex fraud scheme. Ekdeshman is also alleged to have violated a U.S. District Court Order entered on July 8, 2013, in an enforcement action that found he had committed fraud in a previous forex scheme.

- **Senen Pousa and Investment Intelligence Corporation (IIC) (d/b/a ProphetMax Managed FX)** - Reached settlement in an off-exchange forex fraud scheme in which Pousa and IIC defrauded over 960 clients of over \$32 million. The Order requires Pousa and IIC to each pay a \$79.5 million CMP and to also pay, jointly and severally, \$33,299,821 in restitution.

- **Trading System Fraud** - Obtained a federal court order for permanent injunction against CTI Group, LLC, Cooper Trading, Stephen Craig Symons and James David Kline, for fraudulent sales practices in connection with the sale of two automated trading systems. Defendants are required to pay more than \$29 million in disgorgement and penalties, and permanent trading and registration bans were imposed.

- **Energy Trader Fraud** - Obtained a federal court order against former Citicorp North America Inc. employee John Aaron Brooks for defrauding Citigroup, Inc. and Citigroup Energy, Inc. by mismarking and inflating the value of his position in ethanol futures in Citigroup's proprietary account. Brooks subject to a \$500,000 penalty and trading and registration bans.

**Cooperative Enforcement** - During FY 2014, the Enforcement Division maintained its long-standing active cooperative enforcement work with federal and state criminal and civil law enforcement authorities, self-regulatory organizations, and international civil and criminal authorities. Approximately 95 percent of the Enforcement Division's major fraud and manipulation cases filed in FY 2014 involved a parallel criminal proceeding. During the past year, judgments were entered in 12 federal criminal proceedings related to CFTC enforcement cases, which resulted in prison sentences against 17 persons and criminal restitution amounting to \$793 million.

**Note (from page 1)**

\* This amount reflects the total monetary sanctions ordered in CFTC enforcement actions during FY 2014, not the total amount collected. The CFTC refers outstanding judgments to the U.S. Department of Justice or the U.S. Department of the Treasury for collection. The CFTC cautions that collection efforts may not result in the recovery of money because the wrongdoers may not have sufficient funds or assets.

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