

NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE

FILED

In the Matter of:) MAR 17 2015

PRIMARY ASSETS MANAGEMENT) NATIONAL FUTURES ASSOCIATION
CORPORATION) LEGAL DOCKETING
(NFA ID #365192),)

ACCREDITED INVESTMENT) NFA Case No. 15-BCC-003
MANAGEMENT CORP.)
(NFA ID #195408),)

and)

PETER G. CATRANIS)
(NFA ID #97678),)

Respondents.)

COMPLAINT

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association (NFA), and having reason to believe that NFA Requirements are being, have been, or are about to be violated and that the matter should be adjudicated, NFA's Business Conduct Committee (Committee) issues this Complaint against Primary Assets Management Corporation (PAMC), Accredited Investment Management Corp. (AIM) and Peter G. Catranis (Catranis).

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, AIM was an introducing broker (IB) NFA Member. As such, AIM was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.

2. At all times relevant to this Complaint, PAMC was a commodity trading advisor (CTA) and commodity pool operator (CPO) NFA Member. As such, PAMC was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.
3. At all times relevant to this Complaint, Catranis was a principal and associated person (AP) of both AIM and PAMC and an NFA Associate. As such, Catranis was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof. AIM and PAMC are liable for violations of NFA Requirements committed by Catranis during the course of his activities on behalf of AIM and PAMC.

BACKGROUND

4. Catranis and AIM (formerly known as Catranco) were named in a Complaint issued by this Committee in 1995 which charged them with failing to observe high standards of commercial honor, failing to maintain adequate books and records and using misleading promotional material. Catranis and Catranco settled the 1995 Complaint by agreeing to pay \$33,000 in restitution to customers and a \$15,000 fine to NFA.
5. AIM currently maintains offices in Tortola, British Virgin Islands. The firm has been an NFA Member IB at most times since 1987. It was also registered as a CTA from 1993 through November 2012. AIM has been guaranteed by a number of futures commission merchants (FCMs) over the years. It was guaranteed by Peregrine Financial Group, Inc. (PFG) from August 2008 through July 2012.

6. Catranis and an individual named Russell Tanner (Tanner) were the only APs and principals of AIM at all times relevant to this Complaint. Tanner was based in AIM's former main office in Chicago while Catranis was based in AIM's former branch office in California. Tanner's sole responsibility at AIM was completing order tickets and placing trades requested by Catranis. Catranis was responsible for all other operations of AIM including, but not limited to, trading and monitoring customer accounts, maintaining books and records and preparing and distributing promotional material.
7. PAMC currently shares offices with AIM in Tortola, British Virgin Islands. It has been registered as a CTA since January 2006 and as a CPO since September 2011. Catranis is PAMC's only AP and principal.
8. NFA commenced an examination of AIM and PAMC in June 2014 based on questions NFA had concerning the December 31, 2013 Certified Pool Financial Statement (PFS) of Primary Assets Fund LLC (Primary Assets Fund), which was a pool operated by PAMC. Such questions related to the qualifications of the certified public accountant (CPA) firm that performed the audit of the pool and several material errors that NFA noted in the PFS which required correction and resubmission to NFA.
9. The Primary Assets Fund ceased trading on July 31, 2014 and all money was distributed to pool participants and, according to Catranis, all powers of attorney (POAs) were revoked.
10. In addition to the Primary Assets Fund, AIM had three active customer accounts at the time of NFA's June 2014 exam. Although these three accounts were not

fully managed by AIM and Catranis, Catranis did have time and price discretion with respect to the trading in these accounts.

11. All but one of the AIM/PAMC accounts were introduced by AIM. The only exception was the Primary Assets Fund, which NFA IB Member Index FX LLC (Index) introduced. Catranis represented that he personally solicited the only Primary Assets Fund participant and that Index became the Fund's IB after Vision Financial Markets LLC took over the Fund's account after PFG's bankruptcy.
12. Catranis represented further that each PAMC and AIM customer account, including Primary Assets Fund, had the same commission/fee split breakdown as follows: Catranis – 68%, Tanner – 12% and the FCM – 20%. Also, like AIM, the PAMC managed accounts were all charged commissions, rather than management and incentive fees as is more typical for CTAs. Although the Primary Assets Fund's account was eligible to be charged an incentive fee there were no profits to trigger any such payments.
13. Catranis provided NFA with notional funding agreements for several customers and told the NFA exam team that any commission to equity ratio issues or perceived high commissions were a result of notional funding.
14. In addition to the problems that NFA noted with the Primary Assets Fund's PFS, NFA's exam team found that Catranis and both AIM and PAMC used misleading promotional material to solicit the public which touted the likelihood of investors achieving dramatic profits, included hypothetical trading results which were not clearly identified as hypothetical, and downplayed the risk of loss by discussing it

within the context of presenting large profit examples. Further, NFA's exam found that Catranis and both AIM and PAMC routinely traded their customer accounts in a manner that maximized commissions while ignoring the best financial interests of their customers. Based on the deficiencies noted in the examination, NFA also determined that Catranis and the firms failed to diligently supervise their operations.

APPLICABLE RULES

15. NFA Compliance Rule 2-4 provides that Members and Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business.
16. NFA Compliance Rule 2-9(a) provides that each Member shall diligently supervise its employees and agents in the conduct of their commodity futures activities for or on behalf of the Member. Each Associate who has supervisory duties shall diligently exercise such duties in the conduct of that Associate's commodity futures activities on behalf of the Member.
17. NFA Compliance Rule 2-10 provides, in pertinent part, that each Member shall maintain adequate books and records necessary and appropriate to conduct its business.
18. NFA Compliance Rule 2-13(a) provides, in pertinent part, that any Member who violates any of Commodity Futures Trading Commission (CFTC) Regulations 4.16 through 4.41 shall be deemed to have violated an NFA Requirement.
19. NFA Compliance Rule 2-29(b)(1) provides that no Member or Associate shall use any promotional material which is likely to deceive the public.

20. NFA Compliance Rule 2-29(b)(3) provides that no Member or Associate shall use any promotional material mentions which the possibility of profit unless accompanied by an equally prominent statement of the risk of loss.
21. NFA Compliance Rule 2-29(c) provides, in pertinent part, that any Member or Associate who uses promotional material which includes a measurement or description of or makes any reference to hypothetical performance results which could have been achieved had a particular trading system of the Member or Associate been employed in the past must include in the promotional material a disclaimer that is set out in the Compliance Rule.

COUNT I

VIOLATION OF NFA COMPLIANCE RULES 2-29(b)(1) AND (b)(3), 2-29(c), 2-10 AND 2-13: USING MISLEADING AND UNBALANCED PROMOTIONAL MATERIAL WHICH INCLUDED HYPOTHETICAL PERFORMANCE RESULTS THAT WAS NOT IDENTIFIED AS HYPOTHETICAL AND FAILING TO MAINTAIN REQUIRED RECORDS RELATING TO PROMOTIONAL MATERIAL.

22. The allegations contained in paragraphs 1 through 14 and 17 through 21 are realleged as paragraph 22.
23. Former AIM customer Andres M. provided NFA with a promotional e-mail he received from AIM and Catranis prior to his opening an account through AIM.
24. This promotional e-mail indicated that tremendous profits would result from projected price moves that were characterized as having a high probability of occurring. However, the only mention of risk came at the end of the long e-mail after Catranis' signature.

25. The subject line of the e-mail stated, "+471% is the increase in contact [sic] value for the Dec Fed Funds interest rate contact [sic] on a move in rates from the current 0.175% to 1.00% -From Peter Catranis US+949-376-8020 019."

26. In addition, the e-mail stated:

Short term interest rates can only have a major market move in one direction up yet many investors aren't positioned to benefit from this historic opportunity. This email explains why rates will rise and walk you through one of the ways we're positioning ourselves to capture this move and how to open an account to work with my team. I'd challenge anyone, to show me any trade in any regulated sector with a better reward/risk ratio or probability of eventually occurring.

27. The e-mail continued touting profit potential with statements such as, "Given the current economic fundamentals rates this low is an historical aberration creating one of the best trading opportunities I've seen in my 20+ year careers as a professional Advisor/Broker/Trader."

28. Further, the e-mail compared the profit potential of Catranis' interest rate trading strategy with that of other investments:

The reward/risk of trading short term interest rates higher dwarfs the profit of other sectors. What do you think will happen first? Short term interest rates moving from 0.20% to 5.00% for an increase in contract value of +2,400% or the same percentage moves in the following markets? The Dow from 12,042 to 310,050, the S&P from [sic] 1,278 to 31,950, Gold from \$1,537 to \$38,425 per ounce, Median home price from 173K to 4,325K, Crude from \$101 to \$2,525 per barrel, Wholesale gasoline from \$3.00 to \$75.00 per gallon, Wheat from \$8.00 to \$200.00 per bushel.

29. Furthering its emphasis on profits, the e-mail labeled the returns highlighted in the following passage as being "probable" or the "minimum expected:"

It's not if rates will rise but how quickly, when and by how much. Based on our current Dec 30, 2011 position per 12.5K trading unit the maximum risk per on this trade is -\$3,240 (if the Fed Funds rate

falls to zero on or before Dec 30, 2011) the profit potential per \$12.5 unit on a move to 0.50% = +\$15,927, at 1.00% = +\$57,592, at 2.5% = +\$182, 587.

30. In addition to reviewing the deficient e-mail that former AIM customer Andres M. received, NFA's also reviewed a promotional e-mail received by former PAMC customer David I.
31. This promotional e-mail, which was dated December 10, 2013, was entitled "Capturing the Major Market Move Higher." The e-mail was seven pages long and included hypothetical performance results but the only references to the trading results being hypothetical and/or the risk of loss were generic and appeared at the end of the long e-mail following Catranis' signature page.
32. The e-mail to David I. included two highly profitable performance scenarios, which were hypothetical but were not clearly identified as hypothetical. Moreover, Catranis personally assured David I. that a "Fed's funds contract" trading example included in the e-mail – which showed a \$25,000 investment growing to \$104,449 between September 2011 and November 2013 – reflected actual performance in an existing account, when, in fact, it was hypothetical performance.
33. In addition to portraying hypothetical trading results as actual, the e-mail to David I. was unbalanced in its treatment of profit potential versus risk of loss. For example, the e-mail included the above-referenced highly profitable Fed Fund trading scenario which listed fourteen trades, of which thirteen were shown as being profitable. The e-mail also contained the statement, "Over the last 2 years

we've had 14 opportunities to capture a 30%+ appreciation the value of a Fed's funds contract as this rate repeatedly bounces off its historic low near 0.07%."

34. CFTC Regulations 4.23(a)(9) and 4.33(a)(7) require CPOs and CTAs, such as PAMC, to make and keep the original or a copy of all promotional material distributed or caused to be distributed to any existing or prospective pool participant showing the first date of distribution or receipt if not otherwise shown on the document.

35. Catranis' e-mail to David I. contained video links which Catranis represented linked to videos explaining certain trade scenarios. NFA was unable to review the linked material because the YouTube links were deactivated and Catranis was unable to locate the videos. Further, when NFA asked Catranis to produce all YouTube linked promotional material for both AIM and PAMC, he was unable to produce any of the required material.

36. By reason of the foregoing acts and omissions, AIM, PAMC and Catranis are charged with violations of NFA Compliance Rules 2-29(b)(1), 2-29(b)(3) and 2-29(c). In addition, AIM and PAMC are charged with violations of NFA Compliance Rules 2-10 and 2-13.

COUNT II

VIOLATION OF NFA COMPLIANCE RULE 2-4: FAILING TO OBSERVE HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE.

37. The allegations contained in paragraphs 1 through 15 are realleged as paragraph 37.

38. The observance of high standards of commercial honor and just and equitable principles of trade requires NFA Members and Associates to refrain from recommending and/or placing trades for customers that maximize commissions for the broker but do not serve the best economic interests of customers.
39. NFA reviewed broker statements for current PAMC and AIM accounts and found that – although some accounts were traded pursuant to a POA and others were traded with Catranis having only time and price discretion – all of the accounts had similar trades which resulted in significant net losses for customers which, at the same time, generated high commissions for Catranis, PAMC and/or AIM.
40. Specifically, during 2011, 49 of AIM's 52 customer accounts that year experienced losses. In 2012, every one of AIM's 30 customer accounts that year lost money, while AIM collected approximately \$183,000 in commissions. Similarly, in 2013 and 2014, all of AIM's three customer accounts in those years lost money. In 2013, the customers had approximately \$8,100 in gross trading gains, which were wiped out by more than \$105,000 in commissions. In 2014, customers experienced approximately \$16,200 in gross trading losses, and paid approximately \$17,500 in commissions from January through July.
41. Further, NFA's review of the Primary Assets Fund's monthly trading statements from 2012 to 2014 revealed additional evidence of the abusively high commissions generated by Catranis and PAMC. For example, the Fund, which had a net asset value (NAV) of \$467,000 as of January 31, 2012 was charged \$167,000 (or 38% of the Fund's equity) in commissions between January and June 2012. Although the Fund experienced approximately \$21,000 in gross

trading gains during such five-month period, commissions and fees resulted in the pool's NAV decreasing to \$354,132 by the end of June 2012.

42. During 2013, Primary Assets Fund had approximately \$30,000 in gross trading gains, but was charged approximately \$76,000 in commissions. The Fund's NAV was \$58,715 at the beginning of 2013 and (including a mid-year deposit of approximately \$30,000) was \$42,227 at the end of that year. In the first five months of 2014, the Primary Assets Fund experienced a gross trading loss of approximately \$15,000 and was charged over \$17,000 in commissions, resulting in a \$32,000 net loss. The Fund's NAV dropped to approximately \$5,000 at the end of May 2014.
43. Catranis' trading strategy relied primarily on selling deep in-the-money call spreads which were the equivalent of buying deep out-of-the-money put spreads. Such a trading strategy had a small chance of achieving a profit for the customer, but generated large commission revenue for Catranis. Further, as the amount at risk in the trade was minimal, in the very likely event that the trade lost money, the customer was still left with a reasonable amount of equity which Catranis then used to purchase more deep in-the-money call spreads, until the customer's equity was ultimately consumed by commissions.
44. For example, a trade that occurred in the Primary Assets Fund's account on December 30, 2013 involved buying Mar14 2-year Note 109.875 Calls and selling Mar14 2-year Note 109.5 Calls which created a short credit call spread.
45. The underlying 2Y futures contract was trading around 109.91 at the time that the strategy was initiated. Due to the positioning of the strikes, versus where the

underlying contract was trading, all options were in-the-money. The risk of the trade, not including commissions, was \$5,624.80 (the difference between \$30,000, the value of the spread, and \$24,375.20, the net premium collected). The options had 52 calendar days until expiration, therefore giving Catranis less than two months for his strategy to come to fruition or face a loss as a result of exercise and assignment. The Primary Assets Fund paid \$3,595.20 in commissions as a result of Catranis initiating this trading strategy.

46. On January 8, 2014, the 2-year futures contract traded down to 109.83. Catranis closed out the trade near that level. While the closeout netted a gross profit of \$1,875, it was not enough to cover the commissions needed to initiate the trade and there was a net loss of \$1,721.80. Two days later, Catranis re-entered the exact same strategy with the same strikes and expiration. The underlying 2Y futures contract was trading around 109.88 at the time when this second trade was placed. The risk of this second trade, not including commissions, was \$5,625.20 (the difference between \$30,000, the value of the spread and \$24,374.80, the net premium collected). The risks of both the first and second spread trade were nearly identical. Yet, the Primary Assets Fund paid an additional \$3,595.20 to re-enter this strategy.
47. Over the next six weeks, the 2-year futures contract traded steadily upwards, trading well above 110, where it remained until the options expired on February 21, 2014. Nevertheless, Catranis kept the position in the account. Doing so increased the chances that the short call options would be assigned, which, in turn, would cause an automatic exercise of the long call positions, thereby

generating more commissions and fees and additional losses for the Primary Assets Fund.

48. The outcome described above is, in fact, exactly what happened. All of the short calls were assigned on February 21st and Catranis collected an additional \$1,737.60 in commissions due to the options being converted to a new short futures position. After exercising the long calls to cover the short futures position, the account incurred a gross loss of \$5,625.20, which was the maximum risk of the second trade.
49. The foregoing trading strategy, which Catranis employed in the Primary Assets Fund's account, was not in the best economic interest of the Fund and its participants. There was little chance that such strategy would be successful due to the deep in-the-money strike prices, low interest rates, and little volatility in the short-term rate markets. Catranis also failed to manage the risk associated with his trading strategy in that he failed to close out the position and instead allowed the in-the-money options to expire which generated additional commissions for him. Moreover, Catranis' re-initiation of the exact same strategy within two days at a nearly identical two-year futures price level did nothing to improve the Primary Assets Fund's risk profile. The above strategy resulted in the Primary Assets Fund sustaining a loss of approximately \$12,700 and Catranis making nearly \$9,000 in commissions.
50. Another trade occurred in the Primary Assets Fund's account on February 18, 2014 that involved selling Mar14 Eurodollar (ED) 99.5 calls and buying Mar14 ED 99.75 calls which created a short credit call spread.

51. The underlying ED futures contract was trading at 99.77 at the time when the strategy was initiated. Due to the positioning of the strikes versus where the underlying contract was trading, all options were in-the-money. The risk of the trade, not including commissions, was \$375 (the difference between \$18,750, the value of the spread, and \$18,375, the net premium collected). The customer paid \$2,742 in commissions by initiating the strategy. The options had 27 calendar days until expiration, giving Catranis less than a month for his strategy to come to fruition or face a loss.
52. Over the next four weeks, the ED traded in a very tight range between 99.76 and 99.78 until the options expired on March 17, 2014. Catranis continued to hold the position in the account, increasing the chances that the short call options would be assigned, which, in turn, would cause an automatic exercise of the long call positions, thereby generating additional losses for the Primary Assets Fund due to commissions and fees. All of the short calls were in fact assigned on March 17th and the Primary Assets Fund paid an additional \$1,371.60 in commissions due to options being converted to a new short futures position. After exercising the long calls to cover the short futures position, the Primary Assets Fund incurred a gross loss of \$375, which was the maximum risk of the trade.
53. The foregoing trading strategy, which Catranis employed in the Primary Assets Fund's account, was not in the best economic interest of the Fund and its participants. There was little chance that such strategy would be successful due to the deep in-the-money strike prices, low interest rates, and little volatility in the

short-term rate markets. Catranis also failed to manage the risk associated with his trading strategy in that he failed to close out the position and instead allowed the in-the-money options to expire which generated additional commissions for him. The above strategy resulted in the Primary Assets Fund sustaining a net loss of approximately \$4,500 and Catranis making over \$4,000 in commissions (91.6% of the net loss).

54. NFA noted trades in several other customer accounts of AIM, PAMC and Catranis that were similar to the above described trades in the account of the Primary Assets Fund, i.e., such trades did not provide an economic benefit to the customers but generated additional commissions for Catranis.
55. By reason of the foregoing acts and omissions, AIM, PAMC and Catranis are charged with violations of NFA Compliance Rule 2-4.

COUNT III

VIOLATION OF NFA COMPLIANCE RULE 2-9(a): FAILING TO DILIGENTLY SUPERVISE.

56. The allegations contained in paragraphs 1 through 14 and 16 are realleged as paragraph 56.
57. Catranis had primary supervisory responsibility for supervising the promotional material used by PAMC and AIM and the trading activity conducted in their customers' accounts.
58. Not only did Catranis fail in meeting his responsibility to supervise AIM's and PAMC's promotional material to ensure that the material met NFA Requirements, he was, in fact, the main disseminator of the highly misleading promotional material used by those firms.

59. Moreover, it was Catranis' responsibility to determine what trades would be made on behalf of customers and, once these trades were executed, to monitor them.
60. Catranis failed to evaluate and supervise the trades he selected for customers to ensure that they were in the customers' best interests and conformed to NFA Requirements. However, as was the case with his supervision of his firms' promotional material, it was Catranis, himself, who implemented the abusive trading strategy that maximized commissions but provided little, if any economic benefit to customers. This situation was further aggravated by Catranis' apparent inattention to existing positions which allowed options to expire and to be assigned.
61. Further evidence of PAMC and Catranis' supervisory shortcomings was their failure to conduct adequate due diligence when selecting a CPA to perform the December 31, 2013 annual certified audit for the Primary Assets Fund. Specifically, they hired a CPA firm that was not licensed in Illinois and had no experience conducting audits of commodity pools.
62. In addition, PAMC and Catranis failed to ensure that the certified PFS for the Primary Assets Fund was submitted to NFA in a timely manner. Although the PFS was due on March 31, 2014 it was not received by NFA until April 25, 2014. Further, following the initial submission of the PFS, NFA noted several errors in the PFS which resulted in PAMC resubmitting the document to NFA several times. Another deficiency with respect to the PFS was that the auditor's opinion letter was dated April 25, 2014, yet material changes were made to the PFS after that date.

63. PAMC and Catranis also failed to make an adequate inquiry to determine if their business relationship with the Primary Assets Fund's sole participant was in compliance with NFA Bylaw 1101. The participant, which is a Canadian entity, provided information in its account opening documents that suggested that it was an "investment fund." This information was confirmed by the portfolio manager for the participant who told NFA that the participant was an investment pool in Toronto for Canadian QEP investors.
64. Catranis could have learned that the participant was an investment pool if he had made any inquiry at all. However, he made no such inquiry and claimed to have had no idea that the participant was an investment pool until NFA pointed out that information on the account application. Moreover, Catranis made no effort to ensure that PAMC was in compliance with NFA Bylaw 1101 by taking steps to ascertain whether or not the participant was required to be registered and an NFA Member.
65. By reason of the foregoing acts and omissions, PAMC, AIM and Catranis are charged with violations of NFA Compliance Rule 2-9(a).

PROCEDURAL REQUIREMENTS

ANSWER

You must file a written Answer to the Complaint with NFA within thirty (30) days of the date of the Complaint. The Answer shall respond to each allegation in the Complaint by admitting, denying or averring that you lack sufficient knowledge or information to admit or deny the allegation. An averment of insufficient knowledge or infor-

mation may only be made after a diligent effort has been made to ascertain the relevant facts and shall be deemed to be a denial of the pertinent allegation.

NFA staff is authorized to grant such reasonable extensions of time in which an Answer may be filed as it deems appropriate. The place for filing an Answer shall be:

National Futures Association
300 South Riverside Plaza, Suite 1800
Chicago, Illinois 60606
Attn: Legal Department-Docketing

E-Mail: Docketing@nfa.futures.org
Facsimile: 312-781-1672

Failure to file an Answer as provided above shall be deemed an admission of the facts and legal conclusions contained in the Complaint. Failure to respond to any allegation shall be deemed an admission of that allegation. Failure to file an Answer as provided above shall be deemed a waiver of hearing.

POTENTIAL PENALTIES, DISQUALIFICATION AND INELIGIBILITY

At the conclusion of the proceedings conducted in connection with the Complaint, NFA may impose one or more of the following penalties:

- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

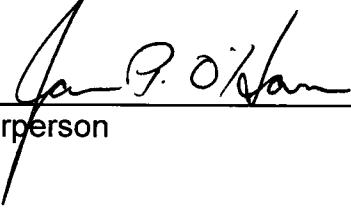
The allegations in the Complaint may constitute a statutory disqualification from registration under Section 8a(3)(M) of the Commodity Exchange Act.

Respondents in this case who apply for registration in any new capacity, including as an AP with a new sponsor, may be denied registration based on the pendency of this proceeding.

Pursuant to CFTC Regulation 1.63, penalties imposed in connection with this Complaint may temporarily or permanently render Respondents who are individuals ineligible to serve on disciplinary committees, arbitration panels and governing boards of a self-regulatory organization, as that term is defined in CFTC Regulation 1.63.

**NATIONAL FUTURES ASSOCIATION
BUSINESS CONDUCT COMMITTEE**

Dated: 3/16/15

By: 
Chairperson