

FILED

NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE

MAY 28 2015

NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:

RNS HOLDINGS LP
(NFA ID #413256),

and

RAJA MICHAEL MAWAD,
(NFA ID #453527),

Respondents.

)
)
)
)
)
)
)
)
)
)
)

NFA Case No. 15-BCC-021

COMPLAINT

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association (NFA), and having found reason to believe that NFA Requirements are being, have been or are about to be violated and that the matter should be adjudicated, this Committee issues this Complaint against RNS Holdings LP (RNS Holdings) and Raja Michael Mawad (Mawad).

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, RNS Holdings was a registered commodity pool operator (CPO) and NFA Member located in Houston, Texas.
2. At all times relevant to this Complaint, Mawad was a 99% owner, a listed principal, and an associated person of RNS Holdings and an NFA Associate.

BACKGROUND

3. RNS Holdings became a registered CPO in January 2013 and an NFA Member in May 2013. Prior to 2013, the firm operated as an exempt CPO under Commodity

Futures Trading Commission (CFTC) Regulation 4.13(a)(4). The firm operated a commodity pool called RNS Capital LP Fund (the Fund or the RNS Fund).

4. In December 2014, after reviewing one of RNS Holding's pool quarterly reports (PQR), NFA requested the firm to send support for certain balances reported in the PQR. While reviewing the documents the firm sent to NFA to support these balances, NFA noted unusual activity in the Fund's bank account which suggested that Mawad may have been using the Fund's assets for personal expenses.
5. As a result, NFA started an examination of RNS Holdings in January 2015. At that time, the Fund had assets of approximately \$18,000 and thirteen outside participants. During the prior calendar year, the Fund's net asset value (NAV) had been as high as \$14.6 million but dropped significantly in 2014 as a result of trading losses incurred throughout 2014.
6. As alleged in detail below, NFA's examination found that RNS Holdings and Mawad misappropriated pool participant funds and improperly used pool participant funds to pay expenses which should have been paid by RNS Holdings, as the pool operator. Based on the foregoing, NFA's Executive Committee issued a Member Responsibility Action (MRA) and Associate Responsibility Action (ARA) against RNS Holdings and Mawad on April 14, 2015.
7. The MRA/ARA ordered RNS Holdings and Mawad to repay the Fund and pool participants the money they misappropriated and improperly used and also suspended them from NFA membership and associate membership.

APPLICABLE RULES

8. NFA Compliance Rule 2-2(h) provides, in pertinent part, that no Member or Associate shall embezzle, steal, purloin or knowingly convert any money received from or accruing to a customer, client, pool participant in or in connection with commodity futures contracts.
9. 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.
10. NFA Compliance Rule 2-45 provides, in pertinent part, that no Member CPO may permit a commodity pool to use any means to make a direct or indirect loan or advance of pool assets to the CPO or any other affiliated person or entity.
11. NFA Compliance Rule 2-13(a) provides, in pertinent part, that any Member that violates any of CFTC Regulations 4.16 through 4.41 shall be deemed to have violated an NFA requirement.
12. CFTC Regulation 4.22(c) provides, in pertinent part, that each CPO must distribute an annual report to each participant in the pool that it operates and must file a copy of the report with NFA within 90 calendar days after the end of the pool's fiscal year.
13. NFA Compliance Rule 2-5 provides, in pertinent part, that each Member and Associate shall comply with any order issued by the Executive Committee.

COUNT I

VIOLATIONS OF NFA COMPLIANCE RULES 2-2(h), 2-4 AND 2-45: FAILING TO UPHOLD HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE; KNOWINGLY MISAPPROPRIATING CUSTOMER FUNDS; AND CAUSING THE RNS FUND TO MAKE DIRECT OR INDIRECT LOANS AND ADVANCES OF FUND ASSETS TO MAWAD.

14. The allegations contained in paragraphs 1 through 10 are realleged as paragraph 14.
15. At the start of NFA's exam, NFA reviewed RNS Holdings' books and records, including the general ledger for the Fund. According to the Fund's general ledger, the Fund was owed approximately \$7,000 by RNS Holdings, as of November 2014. NFA questioned Mawad about this obligation and he claimed not to know what the \$7,000 represented. Later, Mawad told NFA that the \$7,000 was likely the money he owed the Fund for personal expenses.
16. Mawad explained to NFA that he routinely used the Fund's bank account to pay for personal expenses because he was owed – as the Fund's general partner – a management fee of 1% of the Fund's NAV. According to Mawad, the management fee was calculated on a quarterly basis and payable to him at the start of each quarter. Mawad further explained that because the management fee due to him was usually a substantial amount, he never worried that he would "overdraw" money from the Fund, over and above what he was owed.
17. However, based on a review of the activity in the Fund's bank account and the management fees owed to Mawad, NFA determined that Mawad took substantially more from the Fund than he was entitled to receive as management fees and that he misappropriated this money. Specifically, from 2009 through the

present, Mawad misappropriated approximately \$52,000 from the Fund and used this money to pay for personal expenses such as jewelry, restaurants, travel, car payments, and clothes.

18. In addition, NFA also found that Mawad improperly used the Fund's assets to pay expenses which should have been paid by him, personally, or RNS Holdings. For example, Mawad took approximately \$26,000 from the Fund to pay for client dinners, travel expenses and expenses incurred in connection with the operation of an entirely different commodity pool.
19. In addition, Mawad took approximately \$111,000 from the Fund to pay the salary and payroll taxes of the chief financial officer for the Fund, despite the fact that the Fund's private placement memorandum specifically stated that "[the Fund] does not have its own separate employees and it does not reimburse the General Partner [RNS Holdings] for salaries."
20. Overall, Mawad misappropriated approximately \$189,000 from the Fund and has repaid the Fund approximately \$80,000 of the money he misappropriated. However, Mawad has indicated that, at the present time, he does not have additional money or assets which he can use to repay the Fund. As a result, Mawad and RNS Holdings still owe the Fund approximately \$109,000.
21. By reason of the foregoing acts and omissions, RNS Holdings and Mawad are charged with violations of NFA Compliance Rules 2-2(h) and 2-4 and RNS Holdings is charged with violations of NFA Compliance Rule 2-45.

COUNT II

VIOLATIONS OF NFA COMPLIANCE RULE 2-13(a): FAILING TO FILE ANNUAL POOL REPORTS WITH NFA.

22. The allegations set forth in paragraphs 1 through 7 and 11 and 12 are realleged as paragraph 22.
23. As alleged above, RNS Holdings operates the RNS Fund. As the Fund's CPO, RNS Holdings is obligated to file an annual pool report with NFA within 90 calendar days after the end of the pool's fiscal year.
24. However, RNS Holdings has never filed annual reports for the Fund with NFA for calendar years 2013 or 2014.
25. By reason of the foregoing acts and omissions, RNS Holdings is charged with violations of NFA Compliance Rule 2-13(a).

COUNT III

VIOLATIONS OF NFA COMPLIANCE RULE 2-5: FAILING TO COMPLY WITH AN ORDER ISSUED BY NFA'S EXECUTIVE COMMITTEE.

26. The allegations set forth in paragraphs 1 through 7 and 13 are realleged as paragraph 26.
27. As alleged above, NFA's Executive Committee issued an MRA/ARA against RNS Holdings and Mawad on April 14, 2015.
28. Under the terms of the MRA/ARA, RNS Holdings and Mawad were prohibited from disbursing or transferring any funds of customers, investors, or pools over which they exercise control without prior approval from NFA.
29. Notwithstanding this prohibition, on May 18, 2015, RNS Holdings and Mawad attempted to withdraw \$50,000 from the Fund, which NFA did not authorize.

30. By reason of the foregoing acts and omissions, RNS Holdings and Mawad are charged with violations of NFA Compliance Rule 2-5.

PROCEDURAL REQUIREMENTS

ANSWER

You must file a written Answer to the Complaint with NFA within 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 information 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.

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 as a result of or in connection with this Complaint, NFA may impose one or more of the following penalties:

- (a) expulsion or suspension for a specified period from NFA membership;

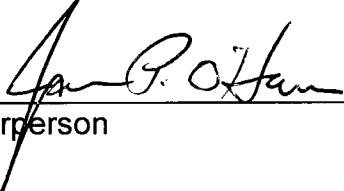
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

The allegations in this Complaint may constitute a statutory disqualification from registration under Section 8a(3)(M) of the Commodity Exchange Act. Respondents in this matter who apply for registration in any new capacity, including as an associated person 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: 05/28/2015

By: 
Chairperson