

**NATIONAL FUTURES ASSOCIATION  
BEFORE THE  
BUSINESS CONDUCT COMMITTEE**

**FILED**  
  
AUG 10 2017  
  
NATIONAL FUTURES ASSOCIATION  
LEGAL DOCKETING

In the Matter of: )  
)  
NORTHSTAR COMMODITY )  
INVESTMENT CO. LLC ) NFA Case No. 17-BCC-008  
(NFA ID #232746), )  
)  
Respondent. )

**COMPLAINT**

Having reviewed the investigative report submitted by the Compliance Department of 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 Northstar Commodity Investment Co. LLC (Northstar).

**ALLEGATIONS**

**JURISDICTION**

1. At all times relevant to the Complaint, Northstar was a NFA Member introducing broker and commodity trading advisor. As such, Northstar was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.

**BACKGROUND**

2. Northstar is located in Minneapolis, Minnesota and has been a NFA Member since October 24, 1990.
3. On October 19, 2016, the chief financial officer (CFO) of Northstar contacted NFA to inquire about removing an associated person (AP) from NFA's online

registration system. The CFO informed NFA that Northstar had fired an AP employed by the firm on October 3, 2016, after discovering the employee had been transferring profitable trades from customer accounts into his personal trading account. The CFO reported that Northstar had notified and reimbursed the two affected customers and had adopted new policies regarding transfers of trades from clients' accounts.

4. Based on this disclosure, NFA commenced an investigation. NFA's investigation found that on September 28, 2016, another Northstar AP accessed the online portal of the futures commission merchant (FCM) which cleared Northstar's trades and which carried the employee's personal trading account since October 2014.
5. While on the FCM's portal, the Northstar AP noticed five trade transfers consisting of offsetting buy and sell orders. The trade transfers involved the employee's personal account (who, at the time, was out of the office) and the account of a Northstar customer (herein referred to as Customer A). This transfer activity prompted Northstar to review the employee's account and the non-discretionary trading account of Customer A.
6. As part of its review, Northstar contacted the FCM for assistance since the monthly account statements for the employee and the customer did not reflect intra-day transfers that had occurred during the trading session. The FCM provided Northstar with a copy of its trade transfer log.
7. In reviewing the transfer log, Northstar found numerous unusual transfers between the employee's personal account and Customer A's account. Northstar

also identified unusual transfers between the employee's account and the non-discretionary account of another Northstar customer (herein referred to as Customer B), although the transfer activity involving Customer B's account was more limited than the transfer activity involving Customer A's account.

8. From its review, Northstar determined the transfers involved unauthorized day trades that its employee had placed in the accounts of Customers A and B. If the trade showed a gain, the employee would transfer it to his account. If the trade resulted in a loss, the employee would leave the trade in Customer A's or B's account.

9. The following table summarizes the results of Northstar's analysis:

	2014	2015	2016	Number of unauthorized trades	Gains transferred to Employee's Account	Losses left in Customers' Accounts
Customer A	3	60	116	179	\$37,940	\$62,887
Customer B	0	1	6	7	\$767	\$3,496
Total	3	61	122	186	\$38,707	\$66,383

10. Of the 179 unauthorized trades placed in Customer A's account, the employee transferred 110 trades to his personal account and left 69 in Customer A's account. The employee also transferred one losing position from his account to Customer A's account. For Customer B, the employee transferred three of the seven trades that he placed in Customer B's account to his personal account and left four trades in Customer B's account.

11. In an attempt to identify the losing trades that the employee left in the customers' accounts, Northstar reviewed the customers' account statements and noticed

certain losing trades that did not match the customers' typical trading patterns. For example, Customer A was a hedger who predominantly traded hogs, soybeans, and corn and who seldom, if ever, engaged in day trading. Yet, in reviewing the trading in Customer A's account, Northstar noticed losing day trades in cattle, crude oil and wheat occurring after the employee opened his personal trading account in October 2014. Similarly, Northstar noticed losing day trades in Customer B's account even though Customer B did not engage in day trading.

12. After Northstar discovered the wrongdoing and terminated the employee, the employee paid Northstar \$150,000, which Northstar used to reimburse Customers A and B and reimburse itself for expenses incurred in its investigation.
13. NFA reviewed the checks that Northstar issued to Customers A and B. The check to Customer A was for \$100,827 and the check for Customer B was for \$4,263. These checks represented the amount of the losing trades that the employee left in the customers' trading accounts, plus the profitable trades that the employee improperly transferred from their accounts to his personal trading account.
14. NFA also interviewed Customers A and B, who informed NFA that they had no idea that the Northstar employee was making unauthorized trades in their accounts and confirmed they had received the above checks from Northstar.

15. NFA also interviewed the former Northstar employee by telephone. He admitted to making unauthorized trades in Customer A's and B's accounts and transferring the profitable trades to his personal trading account.
16. According to the former employee, he would place a trade in Customer A's or B's account – without their approval – and, after the trade was filled, he would move a profitable trade to his personal trading account. To initiate a trade transfer, he would logon to the FCM's online portal, access the transfer section of the portal, and indicate the reason for the trade transfer request that he had placed the trade in the wrong account.

#### **APPLICABLE RULES**

17. NFA Compliance Rule 2-9(a) provides, in pertinent part, 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.

#### **COUNT I**

#### **VIOLATION OF NFA COMPLIANCE RULE 2-9(a): FAILURE TO SUPERVISE.**

18. The allegations contained in paragraphs 1 through 17 are realleged as paragraph 18.
19. Since at least 2014, Northstar allowed APs to have unrestricted and direct access to its FCM's portal, which includes a "Position Transfer" section through which Northstar APs could make trade transfers, including intra-day trade transfers. Prior to discovering its employee's misconduct, Northstar's procedures only required the firm to review APs' personal trading accounts for "unusual trading patterns" but failed to require the firm and its supervisory personnel to

review and approve APs' intra-day trade transfer requests, either before the transfers were made or promptly thereafter.

20. By reason of the foregoing acts and omissions, Northstar is charged with violating 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 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 filings an Answer shall be:

National Futures Association  
300 S. Riverside Plaza  
Suite 1800  
Chicago, Illinois 60606

Attn: Legal Department - Docketing  
E-Mail: [Docketing@nfa.futures.org](mailto: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 this Complaint, the Committee may impose one or more of the following penalties:

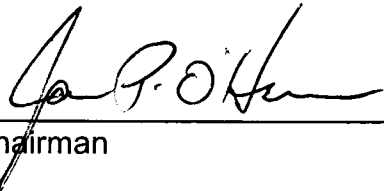
- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with a NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other 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 AP with a new sponsor, may be denied registration based on the pendency of this proceeding.

**NATIONAL FUTURES ASSOCIATION  
BUSINESS CONDUCT COMMITTEE**

Dated: 08/10/2017

By:   
Chairman

m/cxc/Complaints/Northstar Complaint