

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

FILED

DEC 28 2021

NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:)
)
BTU BROKERS INC.)
(NFA ID #445621),)
)
and)
)
CHRISTOPHER ANTHONY)
RIDGEWAY)
(NFA ID #447901),)
)
Respondents.)

NFA Case No. 21-BCC-015

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, NFA's Business Conduct Committee (Committee) issues this Complaint against BTU Brokers Inc. (BTU) and Christopher Anthony Ridgeway (Ridgeway).

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, BTU was a registered independent introducing broker (IB) Member of NFA. As such, BTU 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, Ridgeway was a registered associated person (AP) and a listed principal of BTU, and NFA Associate.

BACKGROUND

3. BTU has been a registered IB located in Salt Lake City, Utah since October 2012, when the firm initially was approved as a swaps-exclusive NFA Member.
4. Ridgeway is the firm's CEO, sole owner and responsible for supervising all aspects of the firm's operations and its APs.
5. Prior to becoming a Member IB, BTU brokered over-the-counter (OTC) swaps since August 2010 in Texas electricity (ERCOT) futures and physical products, which trades it submitted to ICE Futures US (ICE) for clearing.
6. On July 30, 2012, ICE notified market participants that it intended to transition its OTC energy swaps products, including ERCOT products, to futures products no later than January 2013. On October 16, 2012, ICE further notified market participants that it had successfully completed this transition.
7. Besides Ridgeway, the firm has five additional APs: Craig Orr (Orr), Stephen Stenberg (Stenberg), John Mulvey (Mulvey), Dean Weaver (Weaver) and Fermin Miera (Miera).
8. Except for Miera, Ridgeway and the four other above-named individuals became approved as NFA Associates and registered as swaps-exclusive APs in 2012.
9. As swaps-exclusive APs, Ridgeway and the four other individuals (excluding Miera) did not have to take and pass the required National Commodity Futures Examination (Series 3) since their sole activities would be limited to only

solicitating or accepting orders for swaps (or supervising those who did so) on behalf of BTU.

10. As of August 2020, when NFA conducted its most recent examination of BTU, the firm was still operating as a block futures broker focusing on ERCOT futures and physical products. BTU's customer base consisted mainly of institutional banks, energy companies and hedge funds.
11. NFA's examination found that BTU and Ridgeway failed to develop and implement written policies and procedures covering several areas of the firm's operations, including supervision of AP communications, trade reviews, and cybersecurity.
12. More importantly though, NFA found that BTU never met the criteria that would have qualified it as a swaps-exclusive IB, which resulted in five of BTU's APs not taking and passing the required Series 3 for several years. These registration and general supervisory deficiencies are alleged in detail below.

APPLICABLE RULES

13. NFA Registration Rule 401(a) provides, in pertinent part, that any individual applying to become a Member of NFA, or for registration under the Commodity Exchange Act (the Act) as an AP or applying for registration as an Associate, shall not be granted NFA membership, registered under the Act as an AP, or registered as an Associate Member of NFA unless NFA has received satisfactory evidence that the applicant has taken and passed the Series 3 on a date which is no more than two years prior to the date the application is received by NFA.

14. Notwithstanding NFA Registration Rule 401(a), subsection (e) of that Rule provides, in pertinent part, that a person applying to be registered as an AP will satisfy the proficiency requirements (*i.e.*, the Series 3) of the Rule if the applicant's sole activities will be limited to the solicitation or acceptance on behalf of the sponsor of orders for swaps subject to the jurisdiction of the Commodity Futures Trading Commission.
15. Subsection (g) of Registration Rule 401 further provides, in pertinent part, that the applicant's sponsor must supervise the applicant's compliance with the limitations on the applicant's activities set forth in subsection (e) of the Rule and that any failure of the applicant to adhere to such limitations may be cause for, among other things, disciplinary action by NFA against the sponsor for violation of NFA Compliance Rule 2-9.
16. 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 and swaps activities.
17. NFA Interpretive Notice 9070 entitled *NFA Compliance Rule 2-9, 2-36 and 2-49: Information Systems Security Programs* requires, in pertinent part, that NFA Members develop, maintain and implement an appropriate Information Systems Security Program (ISSP) to protect the integrity of their technology systems.
18. 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. The Rule also provides that each Associate with supervisory duties shall diligently exercise such duties in the

conduct of that Associate's commodity interest activities on behalf of the Member.

COUNT I

VIOLATIONS OF NFA COMPLIANCE RULE 2-9(a): FAILURE TO COMPLY WITH NFA REGISTRATION RULE 401 AND FAILURE TO DILIGENTLY SUPERVISE THE ACTIVITIES AND APs OF BTU.

19. The allegations contained in paragraphs 1 through 15 and 17 and 18 are realleged in paragraph 19.
20. On September 26, 2012, Ridgeway filed BTU's Form 7-R to apply as a registered IB and NFA Member. On that form, Ridgeway indicated that BTU's activities would be limited exclusively to swaps transactions.
21. On October 1, 2012, Ridgeway filed a Form 8-R for Stenberg to apply for registration as an AP and an NFA Associate. Later in October and December 2012—after ERCOT products had already transitioned to futures contracts—Ridgeway filed Forms 8-R for himself, Orr, Mulvey and Weaver. On each of those Forms 8-R, Ridgeway indicated that all individuals would limit their "solicitation or the supervision of persons involved in the solicitation of customers to swaps transactions."
22. Under NFA Registration Rule 401, any person applying to be registered as an AP is required to take and pass the Series 3 no more than two years prior to the date the application for registration and membership is filed with NFA. However, subsection (e) of that Rule provides that an individual does not have to pass the Series 3 if the individual, and the individual responsible for supervision, agree to limit the individual's solicitations to exclusively swaps transactions.

23. Therefore, based on the inaccurate information Ridgeway submitted for himself and on behalf of Orr, Mulvey, Stenberg and Weaver, NFA ultimately approved BTU as a Member and the individuals as NFA Associates without requiring any of them to take and pass the Series 3.
24. However, as alleged above, as of October 16, 2012, four APs of BTU were soliciting for and accepting orders for futures—not swaps—transactions and, as a result, none of them could rightfully claim the Series 3 exemption as provided for under Registration Rule 401(e). Ridgeway, as the individual responsible for supervising BTU's APs, also could not rightfully claim the exemption.
25. Despite this regulatory requirement, neither Ridgeway nor the other four APs took the Series 3 until 2020.
26. Further, Ridgeway knew or should have known the Series 3 exemption did not apply since he acknowledged via various regulatory filings submitted to NFA that BTU introduced futures accounts as early as 2014.
27. Specifically, NFA Member firms are required to complete a compliance questionnaire and a registration update at least annually and more frequently, if circumstances warrant. Both the questionnaire and the update require a firm to report what commodity interest products (*e.g.*, futures or swaps) it will broker/trade.
28. Ridgeway completed the compliance questionnaire in 2014 through 2019 and indicated that BTU introduced futures accounts during 2014 and 2017 but not during 2015, 2016, 2018 or 2019. Likewise, Ridgeway completed the registration update in October 2013, 2014, and 2015 and affirmed each year that BTU

exclusively brokered swaps. However, on April 20, 2016—off-cycle of the otherwise annual October registration update—Ridgway certified that BTU's activities now involved futures transactions.

29. When NFA questioned Ridgway in 2021 as to BTU's inconsistent and contradictory responses regarding the firm's commodity interest activities, Ridgway alternately blamed NFA for the wording used on the Form 7-R and in the registration update while also suggesting it may have been a clerical error on his part.
30. Further, when NFA asked Ridgway why neither he nor the other APs promptly took the Series 3 once it was apparent that BTU was not a swaps-exclusive IB, he blamed NFA for not explicitly advising him that it was necessary. Additionally, he told NFA compliance staff to "move on" from any inquiries related to the Series 3 and advised that further questions regarding when he and the other APs took the Series 3 should be directed to NFA Registration staff.
31. Taking and passing the Series 3 is an important prerequisite for attaining NFA membership for those individuals who intend to solicit (or supervise those who do) customers to trade futures transactions. Successful completion of the Series 3 demonstrates that an individual is proficient in key topics such as futures, options on futures, hedging, margin requirements as well market and regulatory rules.
32. Nevertheless, neither Ridgway, Orr, Stenberg, Mulvey or Weaver took the Series 3 until 2020, even though they were obliged to have taken it in 2012

before applying for registration and membership since they knew or should have known at that time that ERCOT products were futures contracts.

33. Based on the above allegations, BTU and Ridgeway failed to comply with NFA's Registration Rules by virtue of the fact that BTU's APs never brokered swaps transactions—but instead only brokered futures transactions from 2012 through the present. Therefore, BTU and Ridgeway would have never been able to limit the activities of BTUs' APs (and Ridgeway's supervision of those APs) to swaps transactions only.
34. In addition to the registration violations alleged above, BTU and Ridgeway failed to adopt and implement adequate written policies and procedures covering several areas of the firm's operations, including supervision of APs and their communications, trade reviews, and ISSP or cybersecurity.
35. Specifically, Ridgeway told NFA during the 2020 exam that BTU had no written supervisory procedures to review AP communications because he did not consider them necessary since he sat in close physical proximity to BTU's APs, where he listened to solicitations conducted via speakerphone. While Ridgeway represented that he would occasionally review APs' written communications (e.g., instant messages), he had no documented process or procedure for determining the scope or frequency of the reviews and could not produce any evidence that he had ever conducted these reviews.
36. Likewise, Ridgeway did not think it was necessary to adopt or implement written procedures regarding trade reviews to identify and prevent possible trade manipulation or fraud. Rather, Ridgeway relied on the fact that he personally

"reviewed every trade that gets executed on every single day." However, Ridgeway was also unable to provide any proof that he had completed these trade reviews in the past. Ridgeway also suggested that written supervisory procedures were not necessary at BTU and that "supervision was not a problem" because its APs have been in the industry for "30 to 40 years each...are among the best in the industry...[and only] process a "whopping three trades per hour."

37. Moreover, Ridgeway did not think it was necessary for BTU to adopt or implement any written procedures regarding ISSP or cybersecurity, despite NFA adopting an ISSP requirement in 2016. Specifically, BTU did not adopt a written ISSP because, according to Ridgeway, the firm "does not operate a website nor connect electronically with other members." Additionally, Ridgeway asserted—though incorrectly—that an ISSP was unnecessary because BTU did not store any personally identifiable information, even though BTU maintains customer names and their billing and email addresses as well as completed IRS Forms W-9.
38. Further, BTU did not adopt or implement cybersecurity training because BTU "does not house any sensitive data," an assertion also inaccurate given that BTU had access to detailed trade positions for its institutional customers, in addition to detailed trade blotters with customer information that includes contract type and quantity, buyer and seller (and their respective traders), commission rates, and futures commission merchant account information.
39. Finally, Ridgeway admitted that he never completed NFA's self-examination questionnaire other than when BTU became an NFA Member in 2012 because

he was not aware of the requirement to do so, even though NFA reminds Member firms of this obligation each year.

40. Completion of the annual self-examination questionnaire is important because it helps Members identify potential problem areas and alerts Members to procedures that may need to be revised or strengthened. Had Ridgeway completed the questionnaire, he may have realized that BTU's compliance framework was deficient in that BTU had not adopted nor implemented several critical policies and procedures.
41. Ridgeway was the only individual responsible for supervision at BTU. However, as evidenced by the foregoing, Ridgeway grossly failed in fulfilling his supervisory obligations by failing to comply with NFA's Registration Rules and by failing to adequately supervise the APs and operations of BTU.
42. By reason of the foregoing acts and omissions, Ridgeway and BTU are charged with violating NFA Compliance Rule 2-9(a).

COUNT II

VIOLATIONS OF NFA COMPLIANCE RULE 2-4: FAILURE TO OBSERVE THE HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE EXPECTED OF NFA MEMBERS AND ASSOCIATES.

43. The allegations contained in paragraphs 1 through 17 and 20 through 41 are realleged in paragraph 43.
44. As alleged above, throughout NFA's examination, Ridgeway dismissed NFA's findings and did not appear to understand the importance of adopting critical supervisory procedures. The breadth and scope of BTU and Ridgeway's supervisory failures indicate that Ridgeway either does not know or fully

understand the importance of his obligation as an NFA Associate to ensure compliance with basic, yet essential, NFA requirements.

45. Further, Ridgeway permitted BTU to broker futures accounts and similarly permitted four APs of BTU to broker futures transactions (and was responsible for supervising those APs) for nearly eight years without having taken the Series 3 himself or requiring BTUs' other APs to comply with the qualification testing requirement. The fact that BTU and Ridgeway allowed this registration violation—as well as the other alleged supervisory deficiencies—to persist for so long is further evidence of their indifference and/or ignorance of fundamental regulatory requirements and constitutes a failure to uphold the high standards of commercial honor and just and equitable principles of trade expected of NFA Members and Associates.
46. By reason of the foregoing acts and omissions, Ridgeway and BTU are charged with violating NFA Compliance Rule 2-4.

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 filing 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

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:

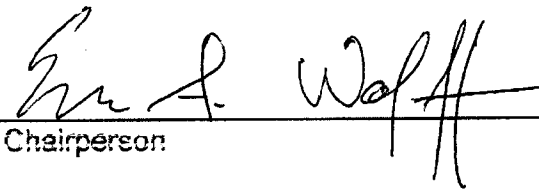
- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$500,000 for each violation found; and
- (e) order to cease and desist or any 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. A respondent in this matter who applies 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 a Respondent who is an individual 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: 12/28/21

By: 
Chairperson

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