

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

FILED

NOV 17 2022

NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:

OCEAN SOLUTIONS LLC
(NFA ID #510217),

JAMES WILLIAM RONAN
(NFA ID #447017),

and

JOHN MARTIN SCHMIDT III
(NFA ID #447026),

Respondents.

NFA Case No. 22-BCC-015

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 Ocean Solutions LLC (Ocean Solutions), James William Ronan (Ronan) and John Martin Schmidt III (Schmidt).

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, Ocean Solutions was registered with the Commodity Futures Trading Commission (CFTC) as an introducing broker (IB) and approved as an NFA Member. As such, Ocean Solutions 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, Ronan was an associated person (AP) of Ocean Solutions and approved as an NFA Associate. As such, Ronan was required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof. Ocean Solutions is liable for violations of NFA Requirements committed by Ronan in the course of his activities on behalf of the firm.
3. At all times relevant to this Complaint, Schmidt was an AP of Ocean Solutions and approved as an NFA Associate. As such, Schmidt was required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof. Ocean Solutions is liable for violations of NFA Requirements committed by Schmidt in the course of his activities on behalf of the firm.

BACKGROUND

4. Ocean Solutions has been an NFA IB Member since July 2018. It is headquartered in Vero Beach, Florida, and currently has a branch office in Westbury, New York.
5. The firm specializes in the block futures brokerage of forward freight agreements, and oil and metal derivatives for both US and non-US institutional clients.
6. Ronan is an AP of Ocean Solutions and an NFA Associate. He is the manager of the firm's New York branch.
7. Schmidt is an AP of Ocean Solutions and an NFA Associate and is also located at the firm's New York branch.

8. George W. Dorsey III (Dorsey) was a director, the president and chief executive officer (CEO) of Ocean Solutions from at least July 2018 until July 2021, when the firm appointed a new president and CEO.
9. Dorsey was one of nine principals of the firm. He owned 100% of another principal of the firm, named Edgewood Holdings LLC (Edgewood), that itself owned about 70% of Ocean Solutions.
10. NFA commenced an examination of Ocean Solutions in January 2021. The exam found compliance and supervisory deficiencies at Ocean Solutions, which mainly involved the failure to disclose the inherent conflict of interest presented by the firm's brokering of trades on behalf of an affiliate.

APPLICABLE RULES

11. NFA Compliance Rule 2-4 requires all Members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business.
12. NFA Compliance Rule 2-10(a) requires Members to maintain adequate books and records necessary and appropriate to conduct their business including, without limitation, the records required to be kept under CFTC Regulation 1.35 for the period required under CFTC Regulation 1.31.
13. CFTC Regulation 1.35 requires IBs and other CFTC registrants to keep full, complete, and systematic records of all transactions relating to their business of dealing in commodity interests. The Regulation also requires, in pertinent part, certain IBs to keep all oral and written communications provided or received concerning quotes, solicitations, bids, offers, instructions, trading, and prices that

lead to the execution of a transaction in a commodity interest whether transmitted by telephone, voicemail, instant messaging, chat rooms, electronic mail, mobile device or other digital or electronic media.

14. CFTC Regulation 1.31 requires, in pertinent part, IBs that are required to retain oral communications to keep them for a period of not less than one year from the date of the communication, and to retain written communications and other regulatory records for a period of not less than five years from the date they were created.
15. NFA Compliance Rule 2-26 provides that any Member or Associate who violates CFTC Regulation 155.4, among others, is deemed to have violated an NFA Requirement.
16. CFTC Regulation 155.4(b) provides, in pertinent part, that no IB or any of its affiliated persons shall disclose that an order of another person is being held by the IB or any of its affiliated persons, unless such disclosure is necessary to the effective execution of the order.
17. NFA Bylaw 301(b) provides, in pertinent part, that no person may be associated with a Member of NFA unless the person is registered with NFA as an NFA Associate or is an NFA Member.
18. NFA Compliance Rule 2-9(a) requires NFA Members to diligently supervise their employees and agents in the conduct of their commodity interest activities for or on behalf of the Member.

COUNT I

VIOLATIONS OF NFA COMPLIANCE RULE 2-4: FAILURE TO OBSERVE HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE BY FAILING TO DISCLOSE TO CUSTOMERS THE CONFLICT OF INTEREST PRESENTED BY OCEAN SOLUTIONS AND RONAN BROKERING TRADES ON BEHALF OF AN AFFILIATE.

19. The foregoing paragraphs are realleged as if fully stated herein.
20. Members and Associates are expected to understand their responsibilities to observe just and equitable principles of trade and to act honestly, fairly, and in the best interests of customers.
21. When reviewing trades during the exam, NFA became aware of an Ocean Solutions' customer named Tri Omega Maritime LLC (Tri Omega).
22. Further investigation revealed that Dorsey and others formed Tri Omega in March 2019, about eight months after Ocean Solutions was approved as an NFA Member, for the purpose of conducting proprietary trading of commodity derivatives.
23. Ocean Solutions directly owned approximately 40% of Tri Omega. Edgewood, along with Ronan and Schmidt, together owned roughly another 25% of Tri Omega.
24. In addition, Dorsey and three other members of Ocean Solutions' board of directors were members of Tri Omega's board of directors. Ronan was also a director of Tri Omega from May 2019 to at least December 2020.
25. NFA was concerned about how Ocean Solutions handled the inherent conflict of interest related to it brokering trades between its customers and its affiliate.

26. Ocean Solutions provided NFA with a trading protocol that purportedly governed the brokerage services it provided on behalf of its affiliate.
27. The trading protocol mandated certain measures, including that authorized people trading on behalf of Tri Omega could not handle Ocean Solutions' customer orders and that Tri Omega traders were to be physically separated by a partition from the brokerage desk.
28. According to the trading protocol, the foregoing measures were "to prevent the misuse of non-public information and other trading abuses," in apparent recognition of the inherent conflict of interest that existed with Ocean Solutions brokering trades for Tri Omega, opposite the firm's other customers.
29. The trading protocol specified that Ronan would "source and broker" trades for Tri Omega.
30. According to the firm's trade blotter, Ocean Solutions brokered about 100 individual trades on Tri Omega's behalf from October 2019 through December 2020. The blotter attributed all of the Tri Omega trades to Ronan.
31. At the same time Ronan brokered trades for Tri Omega, he also brokered trades for other Ocean Solutions' customers and was one of the highest commission producers overall for Ocean Solutions.
32. Despite this inherent conflict of interest, neither Ronan nor anyone else at Ocean Solutions informed Ocean Solutions' customers that Tri Omega was an affiliate, that Ronan and Schmidt were part owners of Tri Omega, or that Ronan brokered trades for Tri Omega.

33. When asked if Ocean Solutions told its customers about its affiliation with Tri Omega, Ronan replied, "[i]t is customary not to disclose Tri Omega's name."
34. Ocean Solutions likewise failed to inform NFA of this affiliate relationship with Tri Omega, despite NFA asking the firm to disclose any affiliates prior to the start of the exam. The firm's failure to inform NFA of its relationship with Tri Omega is conduct that could have potentially harmed commodity futures customers and hindered NFA's ability to protect them.
35. By reason of the foregoing acts and omissions, Ocean Solutions and Ronan are charged with violations of NFA Compliance Rule 2-4.

COUNT II

VIOLATIONS OF NFA COMPLIANCE RULE 2-10(a): FAILURE TO KEEP FULL, COMPLETE, AND SYSTEMATIC RECORDS OF ALL TRANSACTIONS RELATING TO ITS BUSINESS OF DEALING IN COMMODITY INTERESTS.

36. The foregoing paragraphs are realleged as if fully stated herein.
37. Since at least January 2020, Ocean Solutions has generated sufficient gross revenues to require the firm to keep all oral pre-trade communications for one year, as required under CFTC Regulations 1.35 and 1.31.
38. During the 2021 examination, NFA attempted to reconstruct six block trades brokered by Ocean Solutions on November 23, 2020. NFA was unable to reconstruct three of them because the firm failed to keep oral and written pre-trade communications that APs conducted over cell phones.
39. Given Tri Omega's relationship with Ocean Solutions, NFA also wanted to test trades involving Tri Omega to see whether Ocean Solutions was giving Tri

Omega preferential treatment. However, Ocean Solutions' deficient recordkeeping prevented NFA from reconstructing any of them.

40. For example, based on other chat messages and trade timestamps that Ocean Solutions provided for November 23, 2020 trading activity, it appeared Ocean Solutions might have purchased 5 lots of crude oil futures on behalf of Tri Omega ahead of another customer's buy order on that day.
41. However, in addition to having no communication records for Tri Omega, Ocean Solutions also failed to make and retain the cell phone communications with the customer who was looking to sell the crude oil futures.
42. These missing communication records prevented NFA from determining the exact times on November 23, 2020 that these crude oil futures orders were received and whether Ocean Solutions had given preferential treatment to Tri Omega on its 5-lot purchase.
43. NFA also could not fully reconstruct another Tri Omega trade on October 20, 2020. Available chat messages indicated that Ronan had a buyer and seller who agreed on a trade for 25 lots of crude oil futures at a price of 60. However, instead of executing the trade between these two customers, Ronan executed two trades for the seller, together representing 30 lots, at a lower price of 59.5.
44. The second trade not only involved Tri Omega buying the extra 5 lots at the lower price but also appeared to allow Tri Omega to exit an earlier trading position for a profit.
45. Again, no communication records existed to demonstrate if the seller agreed to a higher volume or lower price. Although it appeared that Ronan had brokered a

favorable trade on behalf of Tri Omega, to the detriment of one of his customers, NFA was unable to reconstruct the trades to verify the precise sequence of events.

46. As alleged above, Ocean Solution's recordkeeping failures were not confined to trades that involved Tri Omega. NFA also attempted to reconstruct a trade from the firm's error log that was busted on February 7, 2020. Doing so required NFA to inspect 16 other trades on that same day and review all of their corresponding communications for content related to the busted trade. However, NFA was unable to reconstruct nearly half of the 16 trades because of missing cell phone communication records.
47. Ocean Solutions confirmed to NFA that it had never made or retained records of oral or written communications that APs conducted by cell phone, including those sent through the WhatsApp application that some APs of the firm utilized.
48. Moreover, Ocean Solutions also represented that all communications with Tri Omega were conducted exclusively by cell phone and, therefore, no oral or written records associated with any of Tri Omega's trades existed.
49. By reason of the foregoing acts and omissions, Ocean Solutions is charged with violations of NFA Compliance Rule 2-10(a).

COUNT III

VIOLATIONS OF NFA COMPLIANCE RULES 2-4 AND 2-26: DISCLOSING CONFIDENTIAL CUSTOMER INFORMATION.

50. The foregoing paragraphs are realleged as if fully stated herein.
51. As alleged above, NFA Compliance Rule 2-26 incorporates CFTC Regulation 155.4(b), which prohibits IBs and affiliated persons from disclosing that an order

of another person is being held by the IB unless such disclosure is necessary to the effective execution of the order.

52. As further alleged above, NFA Compliance Rule 2-4 embodies the expectation that Members and Associates observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business.
53. The term "affiliated person" under Part 155 of the CFTC's Regulations includes, among others, APs and employees of an IB.
54. The confidential nature of customer order information is affirmed in the firm's brokerage services agreements with its customers, which agreements prohibit Ocean Solutions from disclosing information concerning its customers' purchase or sales activities.
55. When reviewing available communications during the exam, NFA noticed many instances where Ocean Solutions' APs Schmidt and Ronan disclosed confidential information concerning some of the firm's customers.
56. To illustrate, on August 4, 2020, Schmidt disclosed the name of an Ocean Solutions customer, in response to another customer asking, "who's on that offer?"
57. Later the same day, Schmidt broadcast a chat announcing an offer. In response to his customer asking if the offer was his, Schmidt disclosed the name of another customer making the same offer.
58. On January 6, 2020, a customer asked Ronan who made a recent bid and offer, to which Ronan replied with both parties' names.

59. NFA found dozens of instances where Ocean Solutions APs disclosed buyers' or sellers' names to the firm's customers or disclosed customers' order prices to others.
60. For April 29, 2020, alone, NFA's communication review revealed over ten instances of Ronan improperly disclosing customer information.
61. For December 8, 2020, alone, NFA's communication review found Schmidt improperly disclosed customer information five times.
62. Ronan's and Schmidt's disclosure of confidential customer information may have provided an unfair trading advantage to those commodity futures customers receiving the information, while at the same time placing those whose information was improperly disclosed at a disadvantage.
63. By reason of the foregoing acts and omissions, Ocean Solutions, Ronan, and Schmidt are charged with violations of NFA Compliance Rule 2-4, and violations of NFA Compliance Rule 2-26, which incorporates CFTC Regulation 155.4(b).

COUNT IV

VIOLATION OF NFA BYLAW 301(b): FAILURE TO REGISTER AN INDIVIDUAL AS AN ASSOCIATED PERSON AND AN NFA ASSOCIATE.

64. The foregoing paragraphs are realleged as if fully stated herein.
65. As alleged above, Dorsey was the firm's CEO from at least July 2018 until July 2021. During that time, all of Ocean Solutions' APs reported directly or indirectly to him.
66. Ocean Solutions' trading protocol, referenced above in Count I, stated that, "George Dorsey is responsible for supervision of all Ocean Solutions brokers. . . ." Ocean Solutions' Sales Practice and Supervisory Procedures (Supervisory

Procedures) likewise stated that "[t]he CEO is ultimately responsible in supervising all Ocean Solutions representatives" but may designate APs in charge of brokerage desks to supervise all transactions.

67. Dorsey was in the line of supervisory authority over APs and should have been registered as an AP of the firm and an NFA Associate but was not.
68. By reason of the foregoing acts and omissions, Ocean Solutions is charged with violation of NFA Bylaw 301(b).

COUNT V

VIOLATIONS OF NFA COMPLIANCE RULE 2-9(a): FAILURE TO SUPERVISE.

69. The foregoing paragraphs are realleged as if fully stated herein.
70. As the violations alleged in Counts I through IV illustrate, Ocean Solutions fell short of fulfilling its supervisory and compliance obligations.
71. The most serious finding involved Ocean Solutions' failure to disclose the conflict of interest inherent in its practice of brokering trades for customers and Tri Omega, an affiliate in which the firm and APs had a material ownership interest.
72. The trading protocol Ocean Solutions purportedly utilized was inadequate for managing the conflict of interest since, among other things, the protocol did not require Ocean Solutions APs to disclose to customers that Tri Omega was an affiliate, or that Ronan and Schmidt were part owners of Tri Omega, or that Ronan brokered trades for Tri Omega and for other Ocean Solutions' customers.
73. In addition to its recordkeeping obligations under NFA and CFTC requirements, Ocean Solutions' Supervisory Procedures required that all telephone

conversations, audio recordings, written and electronic correspondence between APs and potential or existing customers be recorded.

74. However, as alleged above, Ocean Solutions failed to ensure its APs complied with this procedure and its compliance obligations to maintain oral and written communications conducted by cell phones.
75. The Supervisory Procedures also required the firm's compliance officer to review communications at least quarterly and obligated the firm to maintain all required recordings for a period for five years.
76. While the firm claimed that communication reviews were conducted at the main office by the desk heads and periodically by the CEO, and conducted by the compliance officer at the branch prior to January 2021, the firm kept no records to evidence those reviews.
77. In addition, the firm had no written procedures addressing how the communication reviews were to be performed, nor did it have written procedures for reviewing orders and trades or for handling trade errors.
78. By reason of the foregoing acts and omissions, Ocean Solutions is 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 infor-

mation 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

Email: 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 the issuance of this Complaint, one or more of the following penalties may be imposed:

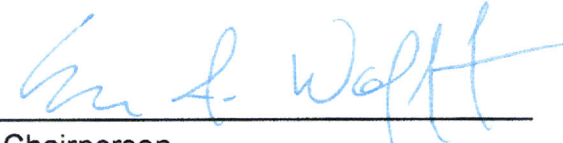
- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$500,000 for each violation found; and
- (e) order to cease and desist or any 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, after opportunity for hearing, be denied registration or conditionally registered 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: 11/17/2022

By: 
Chairperson

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