

## **WORKING RELATIONSHIPS**

Strong working relationships with other organizations and jurisdictions involved in commodity futures and option trading, law enforcement, and domestic and international financial regulation increase the Commission's ability to build knowledge, develop insight, share information, and participate in developing standard practices and policies across these industries.

### **President's Working Group on Financial Markets**

The President's Working Group on Financial Markets is a forum for the coordination of federal financial regulation across markets. It brings together the leaders of the federal financial regulatory agencies, including the Secretary of the US Treasury, who chairs the group, and chairs of: the Board of Governors of the Federal Reserve System (FRB), the CFTC, and the SEC. Meetings of the principals also include the heads of the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the working group and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies.

On April 19, 1999 the working group published its report entitled, *Hedge Funds, Leverage, and the Lessons of Long Term Capital Management*. The report contained eight recommendations. Commission staff are drafting a proposal to implement the recommendations.

On November 9, 1999, the working group published its report entitled *Over-the-Counter Derivatives Markets and the Commodity Exchange Act*. The report contained a series of joint recommendations intended to provide legal certainty to the OTC derivatives market, to reduce systemic risk, and to foster the development of electronic trading systems. It is anticipated that the recommendations may provide the basis for significant action by Congress.

### **Information Sharing with Other Financial Regulators**

The Commission benefits from established intergovernmental partnerships, sharing information, and consulting on issues of importance to the Commission and other organizations.

The Commission routinely shares information with other financial market regulators, particularly the SEC, the US Treasury Department, the Federal Reserve Board, the New York Federal Reserve

Bank, and the FDIC. Biweekly staff conference calls are held with these organizations to review developments in the cash and futures markets for US Treasury securities. Quarterly staff meetings also are held to review major expirations of financial futures markets. Staff of the US Department of Agriculture (USDA) and the Department of Energy (DOE) regularly attend weekly market surveillance briefings of the Commission and share pertinent data as needed. The Market Analysis staff of the Commission routinely share information regarding contract market terms and conditions with these and other financial market regulators and other agencies pursuant to statutory requirements for consultation and to obtain information from other agencies that have expertise with regard to a particular commodity under review.

The Market Research staff of the Commission have played a consulting role in the USDA Risk Management Education initiative which was authorized by the 1996 Federal Agricultural Improvement and Reform (FAIR) Act.

The Market Analysis staff of the Commission are participating in a working group established by the USDA's National Agricultural Statistics Service for the purpose of identifying the particular data that will be collected in the 2002 Census of Agriculture.

### **National Futures Association**

NFA is an industry-wide SRO for the futures industry and the only registered futures association. The CEA authorizes the Commission to delegate registration functions to NFA and requires that NFA perform certain self-regulatory functions. NFA is the principal direct regulator, under Commission oversight, of those industry professionals who are not members of another SRO. Commission Rule 170.15 specifically requires membership in a registered futures association of each person required to register as an FCM. That rule, combined with the by-laws of the NFA, operates to compel membership in a registered futures association by all industry professionals who deal with the public with respect to commodity interest transactions. The statutory structure is designed to promote a partnership between any registered futures association and the CFTC to assure high standards for industry professionals. NFA monitors registrants for compliance with the CEA and rules promulgated thereunder, as well as NFA rules. NFA also monitors the activities of NFA members registered as CPOs, CTAs, IBs, FCMs that are not members of a futures exchange, as well as APs of any of the foregoing.

The Commission specifically has delegated to NFA virtually all of its registration functions, including processing registration applications and related documentation and taking adverse actions against registrants and applicants for registration based upon disqualifying conduct. The authority delegated by the Commission covers all reg-

## President's Budget

---

istrants, even those over whom NFA does not exercise primary front-line jurisdiction, such as FCMs who are exchange members, FBs and FTs, and CTAs who are not NFA members. The most recent Commission delegation of authority to NFA concerning registration involves ATOMs and their APs, a delegation made in April 1998 in connection with the Commission's promulgation of rules to govern a three-year pilot program of trading agricultural trade options.

The Commission oversees the NFA registration program through frequent contacts with NFA staff members on specific matters, as well as through formal reviews by the Commission of NFA programs. Reviews are presented to the Commission and made public. In late 1995, a Registration Working Group was established that includes staff members of the Commission and of NFA. This group convenes quarterly to discuss issues of mutual interest concerning registration.

The Commission has forged partnerships with NFA in other areas by delegating additional responsibilities while maintaining vigorous oversight programs to assure that newly delegated responsibilities are discharged fairly and effectively. Since 1993, pursuant to statutory mandate, all individual registrants have been required to attend ethics training. In December 1995, the Commission delegated to NFA functions relating to: 1) reviewing certifications required to be filed by persons seeking to become ethics trainers; 2) monitoring activities of ethics trainers; and 3) maintaining records of registrants' attendance at ethics training sessions. In September 1997, the Commission delegated the review of applications of individual foreign firms for an exemption from registration, as well as certain other tasks related to activities in the foreign futures and option areas. In November 1997, the Commission also delegated to NFA the function of reviewing CPO and CTA disclosure documents.

The Commission is working with NFA to provide enhancements to the design and execution of programs operated by NFA and various regulatory issues. The projects include a redesign of the *Clearinghouse of Disciplinary Information*, the name of which was changed to Background Affiliation Status Information Center (BASIC), which was put on-line in February 1999 to enhance public access to disciplinary information on registrants, including providing access to such information through the Internet. Further enhancements to the system are planned. The Commission delegated to NFA regulatory responsibilities associated with Commission Regulation 9.11. The Commission has issued an advisory informing the exchanges that they can directly file Regulation 9.11 notices with NFA, either electronically or in writing, rather than with the Commission. The Commission has also issued an order delegating to NFA the duty to collect, process, and maintain Regulation 9.11 notices submitted by exchanges.

Also, the Commission is working with NFA on performance reporting and disclosure enhancements, sales practice and telemarketing issues, audit priority system enhancements, arbitration rule amendment proposals, and a redesign of the comprehensive registration database, the Membership Registration Receivables System (MRRS).

### **US Department of Agriculture**

Consistent with the mandate of the Federal Agricultural Improvement and Reform (FAIR) Act of 1996, the Commission and its staff have been working with the USDA Risk Management Agency, the USDA Cooperative State Research, Education, and Extension Service, and the USDA Office of Outreach in a risk management education effort. The FAIR Act initiated a phase-out of the price support programs that had provided a safety net for American agriculture since the 1930s. Recognizing that the disappearance of these programs would force producers to become more self-reliant in risk management, the FAIR Act required the Secretary of Agriculture, "in consultation with the Commodity Futures Trading Commission," to provide producers with appropriate "...education in management of the financial risks inherent in the production and marketing of agricultural commodities... ."

This risk management education effort is intended to be broad in scope and content, focusing on integrating basic information from all relevant sectors, including crop insurance, futures, and options. Recent initiatives include development of educational materials and programs for ultimate delivery to farmers through the funding of a number of grants for risk management education projects as well as planning and conducting a number of regional risk management education conferences and seminars. Longer term strategies for the delivery of educational materials to producers currently are being developed and implemented and include the establishment of Web site tutorials, the use of television and radio infomercials, and local meetings and seminars. Commissioner David Spears serves as the Commission's designee to the Risk Management Education Steering Committee which oversees this entire risk management education effort.

### **Educational Opportunities & Outreach Efforts**

Commission staff have provided technical assistance to foreign market authorities and foreign exchange representatives to promote the creation of effective international regulatory standards by allowing other regulators to benefit from the vast regulatory experience of the Commission. Each year, the CFTC hosts numerous delegations from foreign jurisdictions seeking to learn about various aspects of the CFTC regulatory program. Each year, the CFTC also conducts a one-week training seminar for foreign regulators and exchange representatives. The seminar provides intensive training on the full scope of the CFTC regulatory program and broader policy issues.

## **President's Budget**

---

The Commission has authorized staff to travel to foreign locations to provide on-site assistance to foreign regulatory authorities. Commission staff served on the faculty for a training session conducted by the Japanese Ministry of Finance for a target audience of Asian developing market jurisdictions. Commission staff also participated as faculty in training seminars conducted by the Brazilian Securities Commission and the Polish Securities and Exchange Commission. In these instances, Commission staff provided information on market surveillance and market integrity issues.

During FY 1999, staff members of the CFTC Trading and Markets, Enforcement, and OIA programs attended meetings of the SEC-SRO Internet Working Group. This is a forum for sharing information concerning regulatory and enforcement initiatives involving securities and futures activities on the Internet.

The Commission also participated in multiple forums of industry professionals, attorneys, and accountants who practice in the futures area, as well as end-users of futures markets. The forums included discussions of the CEA, Commission rules, pending rule changes and market developments. Commission members or staff have made presentations at conferences sponsored by the Practicing Law Institute, the AICPA, the Securities Industry Association, Chicago-Kent College of Law, IOSCO, the Managed Funds Association, and the FIA. The Commission staff also have assisted the AICPA in drafting an audit practice aid specifically for futures industry audits and agreed-upon procedures to measure Year 2000 readiness.

### **Agricultural Advisory Committee**

The CFTC Agricultural Advisory Committee (AAC) represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The 25 member organizations of the AAC represent a major portion of the American agricultural community. Since 1985, the twice yearly meetings of the AAC have fostered an ongoing dialogue between that community and the Commission.

### **Technology Advisory Committee**

In October 1999, the Commission established an advisory committee on technology to advise the Commission on the impact and implications of technological innovation in the financial services and commodity markets. The Technology Advisory Committee is a successor to the former Financial Product Advisory Committee. More specifically, the advisory committee objectives include: 1) assisting the Commission in reviewing emerging technologies utilized by financial services and commodity markets; 2) identifying technology providers

for the financial services and commodity markets; 3) analyzing the impact of emerging technologies on the financial services and commodity markets, as well as on the market professional and market users, particularly in the areas of system capacities and readiness, order flow practices, and clearing and payment activities; 4) reviewing the CEA and the regulations promulgated thereunder to assess their applicability to electronic issues and to ensure the Commission's ability to exercise appropriate fraud and manipulation authority; and 5) examining ways that the Commission may respond to the increasing use of technology and financial services and commodity markets through appropriate legislative proposals and/or regulatory reform.

### **Global Markets Advisory Committee**

The GMAC was created by the Commission on February 25, 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business. As stated in GMAC's charter, "[t]he objectives and scope of activities of [GMAC] shall be to conduct public meetings and to submit reports and recommendations on matters of concern to the exchanges, firms, market users, and the Commission regarding the regulatory challenges of a global marketplace ... including ... avoiding unnecessary regulatory or operational impediments faced by those doing global business, ... ." Membership of the GMAC consists of 30 individuals representing US futures exchanges, self-regulators, financial intermediaries, market users, and traders.

The Committee met three times during FY 1999, on December 9, 1998, on May 12, 1999, and on July 21, 1999. At the December meeting, the Committee's three working groups reported to the full Committee on impediments to cross-border business, initiatives of the IOSCO, and placement of foreign electronic terminals in the US. At the May meeting, the Committee discussed the FIA-proposed rules governing access to automated boards of trade. Comments and views on the FIA proposal were presented from the perspective of retail customers, foreign exchanges and US exchanges. In July, the committee discussed, among other things, resolutions adopted by its AD Hoc Subcommittee on Regulatory Parity concerning proposed exemptive relief for domestic exchanges.

### **Memoranda of Understanding, International Arrangements**

During the past year, the Commission continued to cooperate with a variety of foreign regulatory and enforcement authorities through formal Memoranda of Understanding (MOUs) and other arrangements to combat cross-border fraud and other illegal practices that could harm customers or threaten market integrity. Cross-border information-sharing among regulators and enforcement authorities plays an integral role in the effective surveillance of global markets

## **President's Budget**

---

linked by products, participants, and technology. Indeed, information-sharing arrangements can be critical to combating cross-border fraud and manipulation, addressing the financial risks of market participants, and sharing regulatory expertise on market oversight and supervision. As a matter of course, the Commission makes and receives a significant number of requests for assistance and information to and from foreign authorities in connection with various marketplace and enforcement issues.

The Commission has entered into MOUs and cooperative arrangements with many jurisdictions including 18 formal cooperative enforcement arrangements, four arrangements relating to financial information-sharing, and nine cooperative arrangements for sharing information on matters related to the implementation of the Commission's Part 30 regulations, which grant foreign firms an exemption from certain Commission rules. Moreover, the Commission was instrumental in the development of the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organizations and its companion exchange MOU, a multinational, large exposure, information-sharing arrangement.

On February 4, 1999, the Commission signed an MOU concerning consultation and cooperation in the administration and enforcement of futures laws with the Comissão do Mercado de Valores Mobiliários (CMVM), the Portuguese federal securities and futures regulator. The MOU provides a framework for the exchange of assistance between the authorities to the fullest extent permitted by US and Portuguese law. The assistance includes providing access to information in Commission and CMVM files, taking statements, obtaining information and documents, and conducting inspections or examinations of futures contracts, futures businesses, and futures processing businesses.

## **International Organization of Securities Commissions**

The Commission is an active participant in IOSCO, an organization of approximately 164 members from 95 countries. The main purposes of IOSCO are to provide machinery for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets, to establish standards of best practices, to ensure market integrity, and to promote effective supervision. IOSCO deals with issues affecting both developed and emerging markets, secondary markets, financial intermediaries, international enforcement concerns, and investment management issues. Work is driven by IOSCO members and is carried out in working groups of its Technical Committee. The Chairman of the Commission serves as a member of the Technical Committee.

IOSCO conducts its work primarily through individual working parties (WP) that specialize in issues related to multinational disclosure

and accounting, the regulation of secondary markets, the regulation of market intermediaries, enforcement and the exchange of information, and investment management. The Commission has been active in work related to secondary markets, market intermediaries and enforcement, and the exchange of information. Illustrative ongoing work includes Year 2000 preparations, regulatory issues for electronic trading systems, guidance in integrating value at risk models into capital regulatory frameworks, and efforts to identify legal and regulatory measures that can be useful and effective in the detection, investigation and prosecution of price manipulation. In addition, the Commission has actively participated in a special task force established to respond to issues raised by the activities of hedge funds and other highly leveraged institutions in securities and derivatives markets.

In FY 1999, the Commission continued to participate in IOSCO's Working Party on Enforcement and Exchange of Information (WP4). The Commission has contributed to WP4's work on its two current mandates, concerning cooperation between law enforcement and regulatory authorities, and approaches to the detection, investigation, and prosecution of price manipulation. Commission staff are also helping to propose and formulate mandates for future consideration by WP4.

## **Cooperative Enforcement**

### **Domestic**

The Commission's cooperative enforcement efforts are an important part of the Commission's ability to promote compliance with, and deter violations of, federal commodities laws. Cooperative enforcement enables the Commission to maximize its ability to detect, deter, and impose sanctions against wrongdoers involving US markets, registrants, and customers. The benefits of cooperative enforcement include: 1) the use of resources from other sources to support Commission enforcement actions; 2) coordination in filing actions with other authorities to further the impact of enforcement efforts; and 3) development of consistent and clear governmental responses and avoidance of duplication of efforts by multiple authorities.

As in the past, the staff of the Enforcement program have coordinated with numerous federal, state, and self-regulatory authorities. In the past year, the staff have sought assistance from or provided assistance to various federal agencies such as the SEC, the US Postal Inspection Service, and the Internal Revenue Service. Similarly, Enforcement program staff have provided assistance to and/or received assistance from state authorities such as agencies responsible for the regulation of corporations, securities, and banking.

## President's Budget

---

The Commission has also provided federal and local law enforcement authorities with assistance in connection with criminal investigations. Enforcement program staff have worked with the DOJ and various US Attorney's offices throughout the US, the FBI, the offices of numerous state attorneys general as well as local police authorities and task forces focusing on issues such as boiler rooms. Although the Commission cannot publicly describe the nature of the assistance obtained or given in connection with pending investigations, the following is a sampling of cases filed in FY 1999 in which the Enforcement program coordinated its efforts with domestic authorities:

- *CFTC v. Noble Wealth Data Information Services, Inc., et al.* In October 1998, the Commission filed a four-count civil injunctive complaint against Noble Wealth Data Information Services, Inc. (Noble Wealth); International Advanced Investment, Inc. (IAI); and Esfand Baragosh, who is a principal of both firms. The complaint was later amended to add defendant Currex International Corporation (Currex). The complaint alleged that, from August 1994 through the filing of the complaint, the defendants violated the anti-fraud provisions of the CEA and Commission regulations by defrauding customers, offering and selling illegal futures contracts on foreign currencies, misappropriating customer funds, and bucketing orders. Specifically, the complaint alleged that the defendants placed newspaper classified advertisements for "traders" who were given training and materials that made false claims regarding Noble Wealth and the potential of extraordinary profits from trading foreign currencies. The complaint further alleged that the "traders" were urged to open personal trading accounts with Noble Wealth and to solicit additional funds from friends and family. However, the customer funds so solicited were not used to invest in foreign currencies but were in fact misappropriated. The Maryland Division of Securities provided valuable assistance to the Commission during its investigation of the matter. *CFTC v. Noble Wealth Data Information Services, Inc., et al.*, No. PJM 98-3316 (D. Md. filed October 1, 1998, amended October 21, 1998). For a more detailed case description, see the "Illegal Instruments" section of the Annual Performance Plan, page 201.
- *CFTC v. Swartz, et al.* In November 1998, the Commission filed a three-count civil injunctive complaint against Ronald J. Swartz and Vetrix, Inc., a dissolved corporation of which Swartz was president. The complaint alleged that, from at least August 1997 through the filing of the complaint, the defendants defrauded investors of \$165,000 in their solicitations for and operation of a fictitious commodity pool and defrauded other investors of \$80,000 in connection with discretionary commodity trading accounts in which Swartz was a joint owner. The Commission received assistance in its investigation from the FBI and the NFA.

*CFTC v. Swartz, et al.*, No. 98C 7505 (N.D.Ill. filed November 23, 1998). For a more detailed case description, see the "Unregistered Activity and/or Fraud" section of the Annual Performance Plan, page 187.

- *In re Soule, et al.* In December 1998, the Commission filed a three-count administrative complaint against Kyler F. Lunman II; his company, Hold-Trade, Inc. (also known as Hold Trade, Ltd.) (Hold-Trade); and Steven G. Soule, a former employee of Coastal Corporation (Coastal). The complaint was later amended to add respondent Robert C. Rossi, the principal owner and manager of Refined Energy Executions, Inc. and Refine Executions, Inc. (collectively, Refined), which provided Coastal with FB services on the NYMEX. The complaint alleged that, from September 1993 through December 1994, the respondents defrauded Coastal by misappropriating its energy futures trades and wrongfully allocating them to accounts they controlled. The Commission coordinated the amendment of its complaint with the commencement of a criminal action by the US DOJ against Rossi, Soule, and Lunman based on the same conduct. In the criminal action, a federal grand jury sitting in Houston returned an 18-count indictment against the three, charging them with conspiracy, commodity fraud, wire fraud, and money laundering. *In re Soule, et al.*, CFTC Docket No. 99-4 (filed December 22, 1998, amended February 4, 1999). For a more detailed case description, see the "Cooperative Enforcement-Domestic" section of the Annual Performance Plan, page 205.
- *United States v. Schroeder, et al.* In July 1999, the US Attorney's Office for the Central District of California indicted commodities trader Edward W. Schroeder on 26 counts of mail fraud, contempt of court, and money laundering. Carl Hermans was also indicted on 11 counts of mail fraud and money laundering. Hermans is an ex-financial advisor and insurance agent who solicited investors for Schroeder. The indictment alleged that Schroeder and Hermans solicited people to invest in a "managed spread program" that purportedly invested in treasury bond futures. Schroeder told investors that he would purchase futures in different types of bonds to take advantage of "price-yield disparities" that would guarantee profits to the investors. Schroeder claimed that his investment program had never had a losing month and that it generated returns of up to 36 percent per year. In fact, Schroeder lost more than \$1.5 million of his investors' money in the commodities market. Schroeder and Hermans operated a Ponzi scheme, and Schroeder allegedly also siphoned off funds for his own benefit. The CFTC sued Schroeder in 1996. As a result of that suit, Schroeder was, among other things, barred from trading commodities for two years. The indictment alleged that during the CFTC's investigation and lawsuit, Schroeder continued to engage in illegal trading by laundering money through

## **President's Budget**

---

hidden accounts set up with Hermans' assistance. *United States v. Edward W. Schroeder and Carl Hermans*, No. Cr 99-742 ABC (C.D. Cal. filed July 22, 1999). The CFTC filed a related action against Hermans in 1997, and obtained a default judgment against him. *CFTC v. Schroeder, et al.*, No. 96-4563 HLH (CTx), Judgment (C.D. Cal. entered August 19, 1997); *CFTC v. Schroeder, et al.*, No. 96-4563 HLH (CTx), Order of Appointment of Receiver (C.D. Cal. entered November 10, 1997); and *CFTC v. Hermans*, No. 97-0777 HLH (CTx), Judgment by Default for Permanent Injunction, Ancillary and Monetary Relief (C.D. Cal. entered June 24, 1997).

- *United States v. Martin A. Armstrong*. In September 1999, the US Attorney's Office for the Southern District of New York unsealed a 14-count indictment charging Martin A. Armstrong, the founder and chairman of Princeton Economics International, Ltd. (PEI), with conspiracy, securities fraud, and wire fraud in connection with the sales of approximately \$3 billion of so-called "Princeton Notes" to foreign investors. The indictment also charges that at least \$1 billion or more of "Princeton Notes" were sold while Armstrong concealed the fact that he had suffered hundreds of millions of dollars in trading losses. *United States v. Martin A. Armstrong*, No. 99 Cr 997 (S.D.N.Y. filed Sept. 30, 1999). The criminal action is related to the Commission case *CFTC v. Princeton Global Management Ltd., et al.*, No. 99CIV9669 (S.D.N.Y. filed Sept. 13, 1999). The Commission coordinated its enforcement efforts with the US DOJ, the SEC (which has also filed a related action), and the Japanese Financial Supervisory Authority. For a more detailed description of the Commission's case, see the "Quick Strike Cases" section of the Annual Performance Plan, page 196.
- *CFTC v. Berzins*. In August 1999, the Commission filed an injunctive complaint against Peter Berzins alleging that he violated anti-fraud provisions of the Act and Commission regulations by fraudulently soliciting and accepting from investors in excess of \$500,000 to participate in a commodity pool to trade commodity futures contracts and options on futures contracts. The CFTC's action against Berzins arose from a referral by the State Securities Board of the State of Texas. *CFTC v. Berzins*, No. 3:99cv592 (E.D. Va. filed Aug. 24, 1999). For a more detailed description of the Commission's case, see the "Quick Strike Cases" section of the Annual Performance Plan, page 196.

## **International**

The Commission continues to coordinate enforcement activities with foreign authorities. In FY 1999, the Commission made 26 new enforcement-related requests for assistance to 16 foreign authorities.

In addition, the Commission received 25 new enforcement-related requests from 23 authorities in foreign jurisdictions. The information and assistance exchanged between the Commission and foreign authorities during the fiscal year includes information on the disciplinary history, registration, and corporate status of US and foreign firms and individuals, evidence for use in investigations and enforcement actions, and details from investigation and litigation files. Foreign authorities also have assisted the Commission in locating and serving defendants outside the US. In FY 1999, for example, the Enforcement program sought information and assistance from foreign authorities in the following matter:

- *In re Global Minerals & Metals Corp., et al.* In May 1999, the Commission filed a one-count administrative complaint against Global Minerals and Metals Corporation (Global); Global's president and chief executive officer R. David Campbell; and Global's chief copper trader Carl Alm, alleging that the respondents manipulated, cornered, and attempted to manipulate and attempted to corner the copper market in late 1995. The complaint also names Merrill Lynch & Co. Inc., Merrill Lynch International Inc. (Merrill International), and Merrill Lynch, Pierce, Fenner and Smith (Brokers & Dealers) Limited of London, England (Merrill (B&D)), alleging that they aided and abetted Global, Campbell, and Alm in the worldwide copper market manipulation and attempted manipulation. The complaint alleges that between October and December 1995, Global, Campbell, and Alm, together with Sumitomo Corporation of Japan, manipulated and attempted to manipulate upward the worldwide price of copper and copper futures contracts in violation of sections 6(c), 6(d), and 9(a) of the CEA, as amended. According to the complaint, the manipulation of copper prices was the culmination of a long and deliberate scheme by Campbell and Sumitomo's former chief copper trader, Yasuo Hamanaka, to acquire large market positions and liquidate them at distorted and artificially high prices. In June 1999, the Commission issued an order accepting the offer of settlement of Merrill (B&D) and Merrill International and dismissing the proceedings as to respondent Merrill Lynch & Co., Inc. The order found, in part, that the settling respondents had aided and abetted the manipulators' violations, and imposed penalties including a \$15 million civil monetary penalty. The case against Global is ongoing. As in the related, previously filed *Sumitomo* matter,<sup>6</sup> Commission

---

<sup>6</sup> On May, 11, 1998, the CFTC issued an opinion and order against Sumitomo Corporation of Japan, to which Sumitomo consented without admitting or denying the findings therein, finding that Sumitomo had violated the CEA by manipulating upward the price of copper and copper futures and by imposing sanctions including a cease and desist order and civil monetary penalty of \$125 million; and the establishment of an escrow account in the amount of an additional \$25 million to be used for the benefit of victims of the market manipulation or as a penalty. See *In re Sumitomo Corporation*, CFTC Docket No. 98-14 (CFTC filed May 11, 1998).

## **President's Budget**

---

staff worked closely with authorities in the United Kingdom and Japan. *In re Global Minerals & Metals Corp., et al.*, CFTC Docket No. 99-11 (CFTC filed May 20, 1999). For a more detailed case description, see the "Cooperative Enforcement-International" section of the Annual Performance Plan, page 209.

### **Other Cooperative Efforts**

In addition to direct cooperation with domestic law enforcement and regulatory authorities, the Enforcement program also represents the Commission on a variety of domestic and international efforts including task forces and working groups designed to keep market participants abreast of new developments in financial crimes and to coordinate governmental responses. Several examples of the efforts of the Enforcement program in this regard follow:

- ***Telemarketing and Internet Fraud Working Group.*** The Telemarketing and Internet Fraud Working Group consists of representatives from state and federal regulatory and criminal authorities. At the working group's quarterly meetings, members discuss all aspects of telemarketing and Internet fraud, including issues such as new scams, new uses of technology, geographical hot-spots for certain types of fraudulent activity, effective enforcement techniques, and recent cases that establish relevant precedent in the area. In the past, the working group served as a vehicle to introduce authorities to, and train them to use, the Consumer Sentinel Database, a clearinghouse for consumer complaints relating to, among other things, telemarketing and Internet fraud.
- ***Telemarketing Fraud Initiative.*** Another example of the Commission's efforts with regard to telemarketing fraud is its participation in the December 1998 announcement of a major initiative by federal and state agencies targeting telemarketing fraud. The DOJ's initiative, named "Senior Sentinel II – Double Barrel," began in June 1996. As part of the announcement, participating agencies, including the Commission, described their efforts to combat telemarketing fraud during the last two years and six months. During that time, the CFTC filed a total of 21 civil injunctive and administrative actions involving telemarketing fraud and released two consumer advisories warning the public of the prevalence of fraudulent schemes marketing futures. Operation Double Barrel was a cooperative effort involving the Commission, the DOJ, the FBI, the Postal Inspection Service, the FTC, and the SEC.
- ***Securities and Commodities Fraud Working Group.*** The Securities and Commodities Fraud Working Group is a vehicle for public and private sector participants to discuss current trends in financial crime in the securities, futures, and options industries

and to exchange ideas about enforcement techniques. The group, organized by the Fraud Division of the DOJ, meets on a quarterly basis and its members include criminal and regulatory authorities from state and federal agencies and representatives from various exchanges and other self-regulatory organizations. In September 1999, the Division hosted a meeting of the group in Washington, which included a presentation concerning the recent Princeton/Armstrong cooperative enforcement action, as well as an update on retail foreign exchange fraud.

- Surf Day. In November 1998, the Commission participated in Internet Surf Day, a public and private initiative to help investors avoid hyped investments touted on Web sites and Usenet groups. The Commission, along with the FTC, two national securities associations, and 30 state securities regulators in the US and Canada, examined over 400 Web sites and Usenet group messages looking for bogus claims and illegal representations about investment opportunities. Commission staff examined hundreds of Web sites and identified dozens for follow-up review. The sites reviewed by Commission staff promoted a range of investment opportunities ranging from investments in foreign currency to computer trading systems, and many made promises of quick riches with little risk. The Commission's participation in Surf Day highlighted its continuing commitment to monitoring all forms of media and rooting out fraudulent solicitations wherever they are made.
- Money Laundering Working Group & Financial Action Task Force. The Commission also participates in the Money Laundering Working Group (MLWG), a forum for discussing money laundering issues among relevant US governmental agencies. The MLWG is chaired by the US Treasury Department and the DOJ and is attended by US banking, securities, and futures regulators and state and federal law enforcement agencies. The MLWG discusses money laundering issues affecting the financial sector and legal developments relating to the detection, investigation, and prosecution of the offense. Participants also comment on international anti-money laundering initiatives undertaken by the Financial Action Task Force (FATF).

FATF is an international organization, presently comprised of over 25 countries, created by the Group of Seven Industrialized Nations (G-7) to formulate recommendations for combating money laundering. During the fiscal year, the Commission commented on an FATF project concerning feedback to financial institutions that report suspicious financial activity to governmental authorities on either a voluntary or mandatory basis. In addition, the Commission reviewed a US government update to FATF regarding the reporting and recordkeeping requirements applica-

ble to US financial institutions and US compliance with FATF recommendations.

- ***Bank Secrecy Act Advisory Group.*** The US Treasury Department's Bank Secrecy Act Advisory Group (BSAAG) recently invited the Commission to provide a representative to the group, and the Enforcement program's Chief Counsel has been serving in this capacity since November 1998. The BSAAG was formed in 1994 in order to provide a forum for law enforcement and financial regulators to discuss, with members of the private sector, practical ways to enhance government money laundering programs.
- ***G-7 Financial Crimes Working Group.*** At the June 1997 Denver Economic Summit, the heads of state and government of the G-7 issued a statement calling for improved international cooperation between law enforcement authorities and financial regulators. In response to this mandate, the G-7 Finance Ministers formed the Working Group on Financial Crime and charged it with identifying obstacles to cooperation and information-sharing across regulatory and enforcement lines and developing recommendations for overcoming the obstacles. The Commission, as a participant in the working group, along with the US Treasury Department, the SEC, and several US banking regulators, provided advice and expertise to this initiative. The work of the group resulted in the development of key elements for effective cooperation between law enforcement authorities and financial regulators. In FY 1999, Commission staff continued to work with the other US members of the working group to finalize language for the key elements of cooperation.

### **US Treasury Department Strategy to Combat Money Laundering and Related Financial Crime**

The Money Laundering and Financial Crimes Strategy Act of 1998, among other things, designates the US Treasury Department to develop a strategy to combat money laundering and related financial crime in consultation with the DOJ, other federal government entities, state and local officials, and the private sector. Commission staff provided input to the US Treasury Department to assist in developing the first annual anti-money laundering strategy for the US.

The US Treasury Department also launched during FY 1999 a project involving several federal agencies to estimate the amount of money laundering in the US economy. The associate chief counsel of the Division of Trading and Markets represents the Commission on the economic policy committee for this project and he consults with staff of the Commission's Division of Economic Analysis. There is also a law enforcement and intelligence committee for this project, in which the Office of Chief Counsel of the Division of Enforcement represents the Commission.

## **US Treasury Department Financial Stability Agenda**

The Commission contributes to the initiatives of the US Treasury Department to encourage global financial stability as called for in the 1997 Denver Statement of the G-7 Heads of State and Government. Since the Denver Summit, the G-7 has focused on a range of measures to promote stability in the international financial system. The Commission contributed to the development of *Ten Key Principles for Information Exchange*, adopted by the G-7 in 1998 and continues to contribute to various financial stability initiatives coordinated by the US Treasury Department, including an initiative to improve the transparency and quality of international financial reporting practices of financial intermediaries. Commission staff were also part of a US Treasury Department delegation to Japan seeking to encourage financial reform.

## **International Financial Regulators**

Upon request from various international financial regulators, the Commission provides information on the Commission's programs and comments on various reports. For example, comments were provided to the International Monetary Fund regarding its review of transparency arrangements; to the World Bank, International Finance Corporation, and regional development banks regarding training initiatives; and to the World Trade Organization regarding its review of financial services markets.

## **Year 2000 Outreach Program**

The Commission is represented on the President's Council on Year 2000 Conversion by the director and a deputy director of the Trading and Markets program. The council represents the group within the executive branch that is responsible for addressing the Year 2000 problem through a coordinated governmental approach. Toward this end, the council serves as a clearinghouse for information concerning the Year 2000 activities of its member agencies. The Commission actively contributes to the work of the council and also serves on two subgroups, the Financial Institutions Sector Group and the Food Supply Sector Group.

In addition, the Commission forged a relationship with FIA in helping to achieve industry-wide testing, contingency plans and Year 2000 preparation generally. The Commission also consulted with the SEC and the Securities Industry Association (SIA) concerning the interplay between Year 2000 activities in the securities and futures markets. Lastly, the Commission has been engaged in international Year 2000 initiatives through its participation in IOSCO and the Joint Year 2000 Council.

## **Executive Direction & Support**

The Commission participates in external groups and professional organizations to enhance its ability to remain informed about the latest advances in technology and administrative policies and practices both in the federal and private sectors. Examples include:

### **Office of the Chairman**

The Chairman participates in bi-monthly meetings of heads of small agencies. These meetings provide a forum for a diverse group of agency leaders to discuss administrative, statutory, and other substantive issues of mutual concern and to share experiences for overcoming common obstacles.

### **Office of the Executive Director**

OED actively participates in the Small Agency Council, an organization of approximately 70 small federal agencies that promotes cooperation and provides a mechanism for sharing information and expertise on administrative management.

In FY 1999, the Commission developed and implemented programs to enhance employee performance, promote employee morale, and improve the quality of services provided by the Commission. For example, in response to a Federal Women's Program initiative, the agency established a committee to advise on the content and structure of the Career Development Center. The agency completed sexual harassment awareness training for all employees in headquarters and regional offices. The agency continued to enhance health services through health fairs and seminars and the addition of a fitness center to the Chicago and Los Angeles regional offices. The agency also provided expanded information and services to employees through the new intranet site, called *Open Interest*. Among other things, the intranet gives employees on-line access to the agency's news clips, benefits information, CFTC policies and forms, training news, individual leave balances, consumer and health information, and a wide-variety of research and reference tools.

### **Office of Financial Management**

OFM is active in two important user groups, the Federal Financial Systems Users' Group and the Travel Manager Interagency User Group. Participation in these groups enables the Commission to stay abreast of developments in, and enhancements of, these complex software systems as well as the latest developments and trends in federal financial management. In addition, the Commission learns how other agencies and financial organizations are addressing new initiatives and changing system requirements.

**Offices of Administrative Services & Information Resources  
Management**

OIRM belongs to the FTS 2001 Coordinators Group. Both OAS and OIRM belong to the Definity Users Group. Both groups deal with telecommunications issues. The FTS 2001 group provides a means to communicate government-wide issues to the commercial phone services companies, such as Sprint and MCI. The Definity Group provides a vehicle for communicating with other Lucent Definity phone system users.

**Office of Human Resources**

Participatory working relationships maintained by OHR foster high level support of management initiatives. In providing a wide variety of services to managers and employees, OHR staff continues its active engagement in a number of interagency organizations. Among the many relationships established are the:

- Small and Independent Agency Personnel Directors Group. Assesses how various human resources law, regulatory, and OPM policies impact small agencies.
- Small Agency Council on Training. Provides training opportunities to member small agencies.
- International Personnel Management Association. Serves as a reference in obtaining current human resource information in the federal government.
- National Council of Hispanic Employment Program Managers. Promotes diversity in workplace issues that affects Hispanic employment.
- Interagency Alternative Dispute Resolution Working Group. Encourages agencies to use ADR techniques in resolving workplace disputes.
- Committee for Automated Payroll/Personnel Systems. Promotes efficiency and effectiveness through enhanced system design and operations of the USDA's National Finance Center.
- Office of Personnel Management. Establishes interagency network groups that collect agency input on trends and proposals in specific human resources subject-matter areas.
- National Academy of Public Administration, Center for Human Resources Management. Brings together more than 50 agencies to generate cost-effective research, information, educational programs, and consulting services throughout the public sector.

## **President's Budget**

---

### **Office of the Inspector General**

The Inspector General is an active participant on the Executive Council on Integrity and Efficiency, an organization of agency-appointed Inspectors General, which meets regularly to discuss common problems and solutions.

### **CFTC Library**

The library is a member of the Federal Library and Information Center Network (FEDLINK), a group which negotiates contracts with vendors of library materials and services on behalf of all federal libraries. FEDLINK is also the mode by which the CFTC Library accesses the OCLC, a worldwide shared cataloging and interlibrary loan network. The library also participates in the Metropolitan Library Network and the Law Librarians Society of Washington, DC, a network which permits rapid location and use of documents not held by the Commission.