

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:)
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Oppenheimer & Co. Inc.)

Respondent.)
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CFTC Docket No. 24-04

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9:17 am, Mar 19, 2024

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO
SECTION 6(c) AND (d) OF THE COMMODITY EXCHANGE ACT, MAKING
FINDINGS, AND IMPOSING REMEDIAL SANCTIONS**

I. INTRODUCTION

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from at least 2019 to the present (“Relevant Period”), Oppenheimer & Co. Inc. (“Oppenheimer” or “Respondent”) violated, as set forth below, Section 4g of the Commodity Exchange Act (“Act”), 7 U.S.C. § 6g, and Commission Regulations (“Regulations”) 1.31, 1.35, and 166.3, 17 C.F.R. §§ 1.31, 1.35, 166.3 (2023). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Respondent admits the facts set forth in Section II below, acknowledges that its conduct violated the Act and Regulations and consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.¹

¹ Respondent agrees that the findings of fact and conclusions of law in this Order shall be taken as true and correct and be given preclusive effect without further proof in this proceeding and any other proceeding brought by the Commission or to which the Commission is a party or claimant, including but not limited to, a proceeding in bankruptcy or receivership. Respondent does not consent to the use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

II. FINDINGS

The Commission finds the following:

A. SUMMARY

The Act and Regulations impose recordkeeping and supervision requirements on Commission registrants to ensure that they responsibly discharge their crucial role in our markets. Compliance with these requirements is essential to the Commission's efforts to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets through sound regulation.

During the Relevant Period, Oppenheimer employees, including those at senior levels, communicated both internally and externally using unapproved methods, including via personal text messages and, in the case of at least one employee, WhatsApp messages. These written communications were sent and received by Oppenheimer employees and included messages related to Oppenheimer's business as a Commission registrant that were required to be maintained under Commission-mandated recordkeeping requirements. These written communications via unapproved methods generally were not maintained and preserved by Oppenheimer, and Oppenheimer generally would not have been able to furnish the communications promptly to a Commission representative if and when requested. As a result, Oppenheimer violated, as set forth below, Section 4g of the Act, 7 U.S.C. § 6g, and Regulations 1.31 and 1.35, 17 C.F.R. §§ 1.31, 1.35 (2023).

In addition, the use of unauthorized communication methods by Oppenheimer employees to conduct firm business violated Oppenheimer's own policies and procedures, which prohibited such communications. Oppenheimer did not maintain adequate internal controls with respect to the use of unapproved communication methods for business-related communications. Indeed, some of the very same supervisory personnel at Oppenheimer responsible for ensuring compliance with Oppenheimer's policies and procedures themselves utilized unapproved methods of communication to engage in business-related communications, in violation of firm policy. Because Oppenheimer failed to implement a diligent supervisory system to ensure compliance with Commission recordkeeping requirements and the firm's own policies and procedures, and because the use of unauthorized communication methods resulted in the firm's failure to maintain Commission-required records, Oppenheimer failed to diligently supervise matters related to its business as a Commission registrant in violation of Regulation 166.3, 17 C.F.R. § 166.3 (2023), as set forth below.

B. RESPONDENT

Oppenheimer & Co. Inc. is a financial services institution with its main office in New York, New York. Oppenheimer has been registered with the Commission as an Introducing Broker ("IB") since July 1, 2014.²

² Oppenheimer has filed a Form 7-W requesting to withdraw its registration as an IB.

C. FACTS

In connection with the Commission's investigation, Oppenheimer disclosed that it conducted a review of the use of unapproved communications methods by its employees. That review demonstrated that there was longstanding use of unapproved communication methods by employees—including senior-level employees—to engage in firm business, including relating to trading in CFTC regulated derivatives markets.

Importantly, during the Relevant Period, Oppenheimer's policies and procedures broadly prohibited employees from using unapproved communication methods, such as personal text messages and WhatsApp, to engage in business-related communications.

Messages sent through Oppenheimer-approved communications methods were monitored, subject to review, and when appropriate, archived. By contrast, messages sent using unapproved communication methods, including over personal WhatsApp and text messages, were generally not monitored, subject to review, or archived.

As a result of Oppenheimer's failure to ensure that its employees—including supervisors and senior-level employees—complied with the firm's communications policies and procedures, Oppenheimer failed to maintain hundreds if not thousands of business-related communications, including communications in connection with its commodities business, and thus failed diligently to supervise its businesses as a Commission registrant. These supervision failures resulted in the use of unapproved methods of communication by many Oppenheimer employees in violation of the firm's policies and procedures, as well as a failure to maintain certain records required to be maintained pursuant to Commission recordkeeping requirements.

A sampling analysis, for example, of the personal devices of twelve Oppenheimer employees, including one associated person of Oppenheimer's CFTC-registered business, illustrates the breadth of Oppenheimer's supervision and recordkeeping failures. Of those twelve employees, which included numerous senior-level employees, all had violated Oppenheimer's communications policies and procedures by using personal text message and other unapproved methods to communicate with coworkers and market participants. Further, those employees' communications revealed that numerous Oppenheimer employees (including numerous managers and senior supervisors) conducted firm business via unapproved methods (including in text messages).

The Commission's investigation concluded that certain of the communications by Oppenheimer employees using unapproved communication methods constituted records that were required to be kept pursuant to Commission recordkeeping requirements, but were not preserved and maintained by Oppenheimer.

Oppenheimer's recordkeeping and supervision failures were firm-wide and involved employees at all levels of authority. Moreover, employees' use of unapproved communication methods was not hidden within the firm. To the contrary, certain supervisors—the very people responsible for supervising employees to prevent this misconduct—communicated using unapproved methods on their personal devices. In fact, senior supervisors responsible for implementing Oppenheimer's policies and procedures, and for overseeing employees'

compliance with those policies and procedures, themselves failed to comply with firm policies by communicating using unapproved methods on their personal devices about the firm's Commission-regulated business.

III. LEGAL DISCUSSION

A. Oppenheimer's Failure to Keep Required Records in Violation of Section 4g of the Act and Regulation 1.35

Section 4g of the Act requires FCMs, IBs, and other registrants to create and keep books and records pertaining to transactions and positions in such form and manner and for such period as may be required by the Commission. 7 U.S.C. § 6g. Regulation 1.35(a)(1)-(3), 17 C.F.R. § 1.35(a)(1)-(3) (2023), sets forth some of the books and records that are required to be created and maintained by certain IBs. Specifically, an IB such as Oppenheimer, which is subject to Regulation 1.35(a)(3), must keep "(i) All commodity interest and related records;³ and (ii) All written pre-trade communications."⁴ With the exception of pre-trade communications, all such records are required to be "kept in a form and manner that allows for the identification of a particular transaction." Regulation 1.35(a)(5), 17 C.F.R. § 1.35(a)(5) (2023).

As a result of the use of unapproved methods of communication by firm employees, which communications were not preserved and maintained, Oppenheimer failed to keep full, complete, and systematic records of all transactions relating to its business of dealing in commodity interests, in violation of Section 4g of the Act and Regulation 1.35.

B. Oppenheimer's Failure to Keep Records in Required Manner in Violation of Regulation 1.31

Regulation 1.31(b)(4), 17 C.F.R. § 1.31(b)(4) (2023), requires that registrants keep all books and records that are required to be maintained under the Act and Regulations in such manner as to make them "readily accessible" for a period of two years for paper records and for the duration of the retention period for electronic records. Upon request of the Commission, all of these documents are required to be "promptly" produced. Regulation 1.31(d), 17 C.F.R. § 1.31(d) (2023).

By failing to keep all Commission-required records in such a manner as to make them "readily accessible," Oppenheimer violated Regulation 1.31.

³ "Commodity interest and related records" include "full, complete, and systematic records . . . of all transactions relating to [an IBs] business of dealing in commodity interests . . . which shall include all orders (filled, unfilled, or canceled), . . . and all other records, which have been prepared in the course of its business of dealing in commodity interests." Regulation 1.35(a)(1)(i).

⁴ "Written pre-trade communications" include 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, facsimile, instant messaging, chat rooms, electronic mail, mobile device, or other digital or electronic media." Regulation 1.35(a)(1)(iii).

C. Oppenheimer’s Failure to Diligently Supervise in Violation of Regulation 166.3

Regulation 166.3 states:

Each Commission registrant, except an associated person who has no supervisory duties, must diligently supervise the handling by its partners, officers, employees and agents (or persons occupying a similar status or performing a similar function) of all commodity interest accounts carried, operated, advised or introduced by the registrant and all other activities of its partners, officers, employees and agents (or persons occupying a similar status or performing a similar function) relating to its business as a Commission registrant.

17 C.F.R. § 166.3 (2023).

A violation under Regulation 166.3 is an independent violation for which no underlying violation is necessary. *See In re Collins*, CFTC No, 94-13, 1997 WL 761927, at *10 (Dec. 10, 1997). A violation of Regulation 166.3 is demonstrated by showing either that: (1) the registrant’s supervisory system was generally inadequate; or (2) the registrant failed to perform its supervisory duties diligently. *In re Murlas Commodities, Inc.*, CFTC No. 85-29, 1995 WL 523563, at *9 (Sept. 1, 1995); *Sansom Refining Co. v. Drexel Burnham Lambert, Inc.*, CFTC No. 82-R448, 1990 WL 282783, at *11 (Feb. 16, 1990) (noting that, under Regulation 166.3, registrants have a “duty to develop procedures for the detection and deterrence of possible wrongdoing by [their] agents” (internal quotation omitted)); *In re GNP Commodities, Inc.*, CFTC No. 89-1, 1992 WL 201158, at *17–19 (Aug. 11, 1992) (providing that, even if an adequate supervisory system is in place, Regulation 166.3 can still be violated if the supervisory system is not diligently administered); *see also In re Rosenthal Collins Grp., LLC*, CFTC No. 12-18, 2012 WL 1242406, at *6 (Apr. 12, 2012) (consent order) (respondent failed to perform supervisory duties diligently by not following its compliance procedures that were in place). Evidence of violations that “should be detected by a diligent system of supervision, either because of the nature of the violations or because the violations have occurred repeatedly” is probative of a failure to diligently supervise. *In re Paragon Futures Assoc.*, CFTC No. 88-18, 1992 WL 74261, at *14 (Apr. 1, 1992) (“The focus of any proceeding to determine whether Rule 166.3 has been violated will be on whether [a] review [has] occurred and, if it did, whether it was ‘diligent.’”).

Oppenheimer failed diligently to supervise its business as a Commission registrant by failing to maintain adequate supervisory systems to ensure that employees complied with Oppenheimer’s Commission recordkeeping requirements and firm policies and procedures that prohibited business-related communications on unapproved methods of communication. The inadequacy of Oppenheimer’s supervisory systems is demonstrated by the longstanding and repeated violations of Oppenheimer’s Commission recordkeeping obligations and firm policies and procedures and the fact that the supervisory failures resulted in the repeated failure to maintain Commission-required records, to ensure that the required records were readily accessible, and that the records could be promptly produced upon request. By this conduct, Oppenheimer failed to supervise diligently its officers, employees, and agents in violation of Regulation 166.3.

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the Relevant Period, Oppenheimer violated Section 4g of the Act, 7 U.S.C. § 6g, and Regulations 1.31, 1.35, and 166.3, 17 C.F.R. §§ 1.31, 1.35, 166.3 (2023).

V. OFFER OF SETTLEMENT

Respondent has submitted the Offer in which it:

- A. Acknowledges service of this Order;
- B. Admits the facts described in Section II above and acknowledges that its conduct violated the Act and Regulations;
- C. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- D. Waives:
 - 1. The filing and service of a complaint and notice of hearing;
 - 2. A hearing;
 - 3. All post-hearing procedures;
 - 4. Judicial review by any court;
 - 5. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 - 6. Any and all claims that they may possess under the Equal Access to Justice Act, 5 U.S.C. § 504, and 28 U.S.C. § 2412, and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2023), relating to, or arising from, this proceeding;
 - 7. Any and all claims that they may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, tit. II, §§ 201–253, 110 Stat. 847, 857–74 (codified as amended at 28 U.S.C. § 2412 and in scattered sections of 5 U.S.C. and 15 U.S.C.), relating to, or arising from, this proceeding; and
 - 8. Any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief, including this Order;

- E. Agrees for purposes of the waiver of any and all rights under the Equal Access to Justice Act and the Small Business Regulatory Enforcement Fairness Act of 1996, specified in paragraphs 6 and 7 above, that the Commission is the prevailing party in this action;
- F. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;
- G. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
 - 1. Makes findings by the Commission that Oppenheimer violated Section 4g of the Act, 7 U.S.C. § 6g, and Regulations 1.31, 1.35, and 166.3, 17 C.F.R. §§ 1.31, 1.35, 166.3 (2023);
 - 2. Orders Oppenheimer to cease and desist from violating Section 4g of the Act, 7 U.S.C. § 6g, and Regulations 1.31, 1.35, and 166.3;
 - 3. Orders Respondent to pay, jointly and severally, a civil monetary penalty in the amount of one million US dollars (\$1,000,000), plus post-judgment interest within thirty days of the date of entry of this Order; and
 - 4. Orders Respondent and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order; and
- H. Represents that Respondent has engaged in a review of certain recordkeeping failures and begun a program of remediation.

Upon consideration, the Commission has determined to accept the Offer.

VI. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. Oppenheimer and its successors and assigns shall cease and desist from violating Section 4g of the Act, 7 U.S.C. § 6g, and Regulations 1.31, 1.35, and 166.3, 17 C.F.R. §§ 1.31, 1.35, 166.3 (2023).
- B. Respondent shall pay a civil monetary penalty in the amount of one million US dollars (\$1,000,000) ("CMP Obligation"), within thirty days of the date of the entry of this Order. If the CMP Obligation is not paid in full within thirty days of the date of entry of this Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961.

Respondent shall pay the CMP Obligation and any post-judgment interest by electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made other than by electronic funds transfer, then the

payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

MMAC/ESC/AMK326
Commodity Futures Trading Commission
6500 S. MacArthur Blvd.
HQ Room 266
Oklahoma City, OK 73169
9-AMC-AR-CFTC@faa.gov

If payment is to be made by electronic funds transfer, Oppenheimer shall contact Tonia King or her successor at the above email address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. The paying Respondent shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581;

C. Respondent and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:

1. Oppenheimer shall conduct, within 150 days of the entry of this Order:

- a. A comprehensive review of Oppenheimer's supervisory, compliance, and other policies and procedures designed to ensure that Oppenheimer's electronic communications, including those found on personal electronic devices, including without limitation, cellular phones ("Personal Devices"), are preserved in accordance with the requirements of the Act, the Regulations, and Oppenheimer's policies and procedures.
- b. A comprehensive review of training conducted by Oppenheimer to ensure IB personnel are complying with the requirements regarding the preservation of electronic communications, including those found on Personal Devices, in accordance with the requirements of the Act and the Regulations, and Oppenheimer's policies and procedures, including by ensuring that Oppenheimer IB personnel certify in writing on a quarterly basis that they are complying with preservation requirements.
- c. An assessment of the surveillance program measures implemented by Oppenheimer to ensure compliance, on an ongoing basis, with the requirements found in the Act, the Regulations, and Oppenheimer's IB policies and procedures to preserve electronic communications, including those found on Personal Devices.
- d. An assessment of the technological solutions that Oppenheimer has begun implementing to meet the record retention requirements of the Act, the

Regulations, and Oppenheimer's policies and procedures, including an assessment of the likelihood that Oppenheimer IB personnel will use the technological solutions going forward and a review of the measures employed by Oppenheimer to track employee usage of new technological solutions.

- e. An assessment of the measures used by Oppenheimer to prevent the use of unauthorized communications methods for business communications by IB personnel. This assessment should include, but not be limited to, a review of the firm's policies and procedures to ascertain if they provide for any significant technology and/or behavioral restrictions that help prevent the risk of the use of unapproved communications methods on Personal Devices (e.g., trading floor restrictions).
- f. A review of Oppenheimer's electronic communications surveillance routines to ensure that electronic communications through approved communications methods found on Personal Devices are incorporated into Oppenheimer's overall IB communications surveillance program.
- g. A comprehensive review of the framework adopted by Oppenheimer to address instances of non-compliance by Oppenheimer IB employees with Oppenheimer's policies and procedures concerning the use of Personal Devices to communicate about Oppenheimer business in the past. This review shall include a survey of how Oppenheimer determined which employees failed to comply with Oppenheimer policies and procedures, the corrective action carried out, an evaluation of who violated policies and why, what penalties were imposed, and whether penalties were handed out consistently across business lines and seniority levels.

2. Written Report of Findings:

- a. Within forty-five (45) days after completion of the review set forth in subparagraphs 1.a. through 1.g. above, Oppenheimer shall submit a detailed written report of its findings to the Commission staff (the "Report"). The Report shall include a description of the review performed, the names of the individuals who performed the review, the conclusions reached, and a summary of the plan for implementing the recommended changes in or improvements to Oppenheimer's policies and procedures.
- b. Oppenheimer shall adopt all recommendations contained in the Report within one hundred and thirty-five (135) days of the date of the Report.
- c. The Report will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended

to remain and shall remain non-public, except: (1) pursuant to court order; (2) as agreed to by the parties in writing; (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities; or (4) is otherwise required by law.

3. One-Year Evaluation: Oppenheimer shall assess its program for the preservation, as required under the Act, Regulations, and Oppenheimer's policies and procedures, of electronic communications, including those found on Personal Devices, commencing one year after submitting the Report required by Paragraph 2.a above. Oppenheimer shall require this review to evaluate Oppenheimer's progress in the areas described in Paragraph 1.a. through 1.g. above. After this review, Oppenheimer shall submit a report (the "One Year Report") to the Commission staff and shall ensure that the One Year Report includes an updated assessment of Oppenheimer's policies and procedures with regard to the preservation of electronic communications (including those found on Personal Devices), training, surveillance programs, and technological solutions implemented in the prior year period.
4. Reporting Discipline Imposed: For two years following the entry of this Order, Oppenheimer shall notify the Commission staff as follows upon the imposition of any discipline imposed by Oppenheimer, including, but not limited to, written warnings, loss of any pay, bonus, or incentive compensation, or the termination of employment, with respect to any IB personnel found to have violated Oppenheimer's policies and procedures concerning the preservation of electronic communications, including those found on Personal Devices: (1) at least 48 hours before the filing of a Form 8-T; or (2) within ten (10) days of the imposition of other discipline.
5. Recordkeeping: Oppenheimer shall preserve, for a period of not less than six (6) years from the end of the fiscal year last used, the first two (2) years in an easily accessible place, any record of compliance with these undertakings.
6. Public Statements: Respondent agrees that neither it nor any of its successors and assigns, agents or employees under their authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's: (1) testimonial obligations; or (2) right to take legal positions in other proceedings to which the Commission is not a party. Respondent and its successors and assigns shall comply with this agreement, and shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.
7. Cooperation, in General: Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, in this action, and in any current or future Commission investigation or action related thereto.

Respondent shall also cooperate in any investigation, civil litigation, or administrative matter related to, or arising from, the subject matter of this action.

8. Partial Satisfaction: Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of their obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
9. Deadlines: For good cause shown, Division staff may extend any of the procedural dates relating to the undertakings. Unless otherwise specified, deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.
10. Change of Address/Phone: Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Order, Respondent shall provide written notice to the Commission by certified mail of any change to their telephone numbers and mailing addresses within ten calendar days of the change.

The provisions of this Order shall be effective as of this date.

By the Commission.



Robert N. Sidman
Deputy Secretary of the Commission
Commodity Futures Trading Commission

Dated: March 19, 2024