

Commodity Futures Trading Commission
CEA CASES

NAME: GRAPPEL TRADING CO.

DOCKET NUMBER: 153

DATE: APRIL 4, 1968

DOCUMENT TYPE: COMPLAINT

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

In re: Grappel Trading Co., Respondent

CEA Docket No. CEA 153

Complaint and Notice of Hearing

There is reason to believe that the respondent, Grappel Trading Co., violated the Commodity Exchange Act (7 U.S.C. 1 et seq.), and the rules and regulations made pursuant thereto (17 CFR, Part I), and in accordance with the provisions of section 6(b) of the said act (7 U.S.C. 9), this complaint and notice of hearing is issued alleging as follows:

I

The respondent, a partnership with offices at 6 Harrison Street, New York, New York, is now and was at all times material to this complaint a registered futures commission merchant under the Commodity Exchange Act with membership privileges on the New York Mercantile Exchange, a duly designated contract market under the said act.

II

At the times hereinafter stated, the respondent in the regular course of its business as futures commission merchant, carried accounts for customers who traded in commodity futures on the New York Mercantile Exchange. Such accounts, the trading therein, and the

handling and disposition of funds in connection therewith, were subject to the provisions of the Commodity Exchange Act and the rules and regulations issued thereunder. At all such times, the respondent had to its credit with a bank or other depository, sums of money in varying amounts, held in segregated account and identified as customers' funds, representing deposits of margin by and trading profits accruing to such customers.

III

On the 64 business days between April 12 and July 13, 1967, both inclusive, the respondent was under-segregated in amounts within the range of \$ 1,086 and \$ 3,606 -- that is, on the 64 business days mentioned the total amount of customers' funds held in segregation by the respondent, as described in paragraph II hereof, was from \$ 1,086 to \$ 3,606 less than the amount necessary to pay all credits and equities due to such customers. The under-segregation mentioned above came about because the respondent used the funds belonging to certain customers to finance the trading of other customers.

IV

Examination of the respondent's records by the Commodity Exchange Authority as of December 30, 1966, disclosed that on 30 business days between April 29 and

July 7, 1966, both inclusive, the respondent was under-segregated in amounts within the range of \$ 49 and \$ 2,101. On February 9, 1967, the Director of the Accounting and Licensing Division

of the Commodity Exchange Authority wrote a letter to the respondent as follows:

The Commodity Exchange Authority audits the records of firms operating as futures commission merchants. The audits are made to determine compliance with the provisions of the Commodity Exchange Act and related regulations. This letter concerns the audit made of your records as of December 30, 1966.

This law, as you know, regulates futures trading in commodities mentioned in section 2. Section 4d(2) provides standards for handling regulated customers' accounts. With reference to the money, securities, and property received from or accruing to such customers, it provides:

1. They shall be treated as belonging to the customer depositing them.
2. They shall be separately accounted for and not be commingled with those of the commission merchant.
3. They shall not be used to margin the trades of any person except the one for whom held.

This requires that money or property held for customers shall be placed in segregated accounts. The money or property held in such accounts must be sufficient to pay amounts due customers.

Sections 1.23 and 1.32 of the regulations provide for a record of segregated condition. Your records show many failures to keep sufficient funds in segregated accounts. They show under-segregation on thirty business days in the period beginning April 29 through July 7, 1966. The amounts of under-segregation range from \$ 49 to \$ 2,101.

Our representative told you that this under-segregation was a serious failure to comply with the law. This letter is to confirm the audit findings as discussed by our accountant. Also, we wish to afford you an opportunity to achieve compliance.

V

By reason of the facts alleged in this complaint, the respondent knowingly and wilfully failed to treat and deal with all money received by it to margin, guarantee, and secure the trades and contracts of customers, or accruing to such customers as a result of such trades and contracts, as belonging to such customers, and used such money to margin and guarantee the trades and contracts and to secure and extend the credit of persons other than those for whom such money was held, in violation of section 4d(2) of the Commodity Exchange Act (7 U.S.C. 6d(2)), and sections 1.20, 1.21, 1.22 of the rules and regulations thereunder (17 CFR 1.20, 1.21, 1.22).

WHEREFORE, it is hereby ordered that this complaint and notice of hearing be served upon the respondent. The respondent will have twenty (20) days after the receipt of this complaint in which to file with the Hearing Clerk, United States Department of Agriculture, Washington, D. C. 20250, an answer with an original and three copies, fully and completely stating the nature of the defense and admitting or denying, specifically and in detail, each allegation of this complaint. Allegations not answered will be deemed admitted for the purposes of this proceeding. Failure to file an answer will constitute an admission of all the allegations of this complaint and a waiver of hearing. The filing of an answer in which all of the material allegations of fact contained in the complaint are admitted likewise shall constitute a waiver of hearing unless a hearing is requested.

The respondent is hereby notified that unless hearing is waived, a hearing will be held at 10:00 a.m., local time, on May 15, 1968, in New York, New York, at a place therein to be specified later, before a referee designated to conduct such hearing. At such hearing, the respondent will have the right to appear and show cause, if any there be, why an order should not be made suspending or revoking the registration of the respondent as futures commission merchant, and directing that all contract markets refuse all trading privileges to the respondent for such period of time as may be determined.

It is ordered that this complaint and notice of hearing be served on the respondent at least twenty (20) days prior to the date set for hearing.

Done at Washington, D. C.

April 4, 1968.

[SEE SIGNATURE IN ORIGINAL]

Assistant Secretary

George L. Mehren

LOAD-DATE: June 16, 2008

