

Commodity Futures Trading Commission
CEA CASES

NAME: HUGH P. KING

DOCKET NUMBER: 220

DATE: DECEMBER 21, 1973

DOCUMENT TYPE: COMPLAINT

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

In re: Hugh P. King Respondent

CEA Docket No. 220

Complaint and Notice of Hearing Under Section 6(b) and 6(c) of the Commodity Exchange Act

There is reason to believe that the respondent, Hugh P. King, attempted to manipulate and did manipulate the market price of a commodity for future delivery on or subject to the rules of a contract market, in wilful violation of the Commodity Exchange Act (7 U.S.C. 1 et seq.). In accordance with the provisions of section 6(b) and 6(c) of the said Act (7 U.S.C. 9 and 13b), this complaint and notice of hearing is issued stating the charges in that respect as follows:

I

Respondent Hugh P. King, an individual whose business address is 141 West Jackson Boulevard, Room 1470, Chicago, Illinois 60604, is now, and was at all times material to this complaint, a member of the Board of Trade of the City of Chicago and a registered floor broker under the Commodity Exchange Act.

II

The Board of Trade of the City of Chicago, hereinafter referred to as the Board of Trade, is now, and was at all times material to this complaint, a Board of Trade duly designated as a contract market under the Commodity Exchange Act.

III

The futures transactions and positions referred to in this complaint relate to the July 1972 oat future on the Board of Trade. The last day for trading in the July 1972 oat future on the Board of Trade was July 20, 1972.

IV

The futures transactions and positions of the respondent referred to in this complaint were speculative and did not constitute hedging transactions or positions.

V

The only class of oats deliverable with respect to the July 1972 oat future on the Board of Trade were white oats and the only delivery point acceptable under the rules of the Board of Trade then in existence was Chicago, Illinois. At all times material to this complaint, the value of white oats on the marketplace in Chicago, Illinois, was less than the cumulative cost of acquiring and transporting such oats from any place beyond the geographic area immediately surrounding that city. On account of this, the stocks of deliverable white oats in deliverable position in Chicago, Illinois, constituted substantially all of the oats available for delivery on the July 1972 oat future on the Board of

Trade. As of July 17, 1972, such stocks amounted to approximately 329,000 bushels.

VI

During the period from July 7 up until July 17, 1972, the respondent took delivery of approximately 270,000 bushels of oats in partial satisfaction of a "long" position held by him in the July 1972 oat future on the Board of Trade, and in addition, received and stopped notices that delivery would be made to him of another 40,000 bushels of oats. Such deliveries constituted all of the oats delivered on the July 1972 oat future up until July 17, 1972. As a result thereof, the respondent owned or controlled at such time around 310,000 bushels of oats, or approximately 94.2 percent of the total stocks of oats available in Chicago, Illinois, for delivery on the July 1972 oat future.

VII

At the commencement of trading on July 17, 1972, the open interest on the Board of Trade in the July 1972 oat future amounted to 1,235,000 bushels. Of this total, the respondent held a "long" position in such future which amounted to 1,220,000 bushels, representing approximately 99 percent of the open interest therein.

VIII

In view of the size of the respondent's "long" position in the July 1972 oat future and the amount of deliverable oats which he had taken through delivery as of the commencement of trading on the Board of Trade on July 17, 1972, a representative of the Commodity Exchange Authority of this Department telephoned the respondent at approximately 8:50 a.m. of that day to express concern over the respondent's "long" position and

his control of the deliverable supply of oats; to advise him that an orderly liquidation of the July 1972 oat future was dependent upon his trading activities; and to admonish him against any attempt to manipulate the market price of such future. During the course of such telephonic communication, the respondent informed the Commodity Exchange Authority's representative that he intended to liquidate his "long" position in the July 1972 oat future by selling July oat futures only at a price of 4 cents per bushel over that of the September oat future, and that he would probably hold his cash receipts for delivery on the September oat future since there was no demand for them at such time. A written confirmation of the July 17, 1972, telephonic communication was personally delivered to the respondent at approximately 12:40 p.m. of the same day.

IX

Subsequent to the telephonic communication referred to in paragraph VIII hereinabove, the respondent took delivery of approximately 40,000 bushels of oats on July 17, 1972, and approximately 25,000 bushels of oats on July 19, 1972. By virtue of these additional deliveries, the respondent owned or controlled as of the commencement of trading on July 20, 1972, around 335,000 bushels of oats, or almost all of the total stocks of oats available in Chicago, Illinois, for delivery on the July 1972 oat future.

X

At all relevant times leading up to and including July 20, 1972, there was an insufficient supply of deliverable oats in deliverable position not owned or controlled by the respondent to permit holders of "short" contracts in the July 1972 oat future to satisfy such "short" contracts without purchasing from the respondent either July oat futures or deliverable stocks of oats. The respondent was aware of this situation on account of, among other things, the

remarks of the representative of the Commodity Exchange Authority during the telephonic communication referred to in paragraph VIII hereinabove.

XI

Subsequent to the telephonic communication referred to in paragraph VIII hereinabove, the respondent also sold 30,000 bushels of July oat futures on July 17, 1972; sold 170,000 bushels of July oat futures on July 18, 1972; and sold 55,000 bushels of July oat futures on July 19, 1972, while buying 5,000 bushels of July oat futures on that day.

XII

At the close of trading on July 17, 1972, the open interest on the Board of Trade in the July 1972 oat future amounted to 1,160,000 bushels; at the close of trading on July 18, 1972, the open interest therein amounted to 995,000 bushels; and at the close of trading on July 19, 1972, the open interest therein amounted to 905,000 bushels. By virtue of the deliveries of oats taken by the respondent as set forth in paragraph IX hereinabove and his sales of July oat futures as set forth in paragraph

XI hereinabove, the respondent's "long" position in the July oat future amounted to 1,150,000 bushels as of the close of trading on July 17, 1972, representing approximately 99.1 percent of the open interest therein; his "long" position in such future amounted to 980,000 bushels as of the close of trading on July 18, 1972, representing approximately 98.5 percent of the open interest therein; and his "long" position in such future amounted to 905,000 bushels as of the close of trading on July 19, 1972, representing all of the open interest therein.

XIII

On or about July 18 or 19, 1972, the respondent entered into negotiations with Stephen J. Klemen, Jr., General Partner of the Pacific Trading Co., 141 West Jackson Boulevard, Room 1070, Chicago, Illinois 60604, for the disposition of approximately 350,000 bushels of deliverable oats which the respondent received or would receive in partial satisfaction of his "long" position in the July 1972 oat future. The negotiations involved the sale of such oats by Stephen J. Klemen, Jr., as broker for a set commission, to the Consolidated Grain and Barge Co., 120 Merchants Exchange Building, 5100 Oakland Avenue, St. Louis, Missouri 63110, at a price of 74 cents per bushel without regard to premiums or discounts for grades thereof. As part of such sale, Consolidated Grain and Barge Co. was to transport the said oats to various places outside of Chicago, Illinois.

XIV

The respondent entered into the negotiations referred to in paragraph XIII hereinabove for the sale of approximately 350,000 bushels of deliverable oats at 74 cents per bushel without regard to premiums or discounts for grades thereof despite the fact that the price of the July 1972 oat future ranged from 75 1/8 cents to 75 5/8 cents per bushel during the trading on July 17 and 18, 1972, and from 76 3/8 cents to 76 7/8 cents per bushel during the trading on July 19, 1972.

XV

Prior to the commencement of trading on July 20, 1972, Consolidated Grain and Barge Co. withdrew from the negotiations referred to in paragraph XIII hereinabove. The respondent thereupon entered into an agreement with Stephen J. Klemen, Jr., for the direct sale to him of the aforesaid 350,000 bushels of deliverable oats. In accordance with such agreement, the respondent sold such oats to Stephen J. Klemen, Jr., for his own account, at a price of 74 cents per bushel without regard to premiums or discounts for grades thereof, and in addition, charges were paid by the respondent for the storage of such oats up until September 1, 1972. Taking into consideration the approximately 130,000

bushels of oats of a premium grade which were part of the sale to Stephen J. Klemen, Jr., and the storage charges paid by the respondent, the actual value of the respondent's sale of the 350,000 bushels of oats to Stephen J. Klemen, Jr., amounted to approximately 72 1/2 cents per bushel.

XVI

Besides the sale of 350,000 bushels of oats by the respondent to Stephen J. Klemen, Jr., as referred to in paragraph XV hereinabove, there were very few cash transactions involving oats in Chicago, Illinois, throughout the entire month of July 1972, and in fact, there was only a slight demand for cash oats in Chicago, Illinois, at all relevant times during such period. The respondent was aware of this circumstance as evidenced, among other things, by his remarks during the telephonic communication referred to in paragraph VIII hereinabove.

XVII

Notwithstanding the fact (1) that there was only a slight demand for cash oats in Chicago, Illinois, at all relevant times during the month of July 1972, and it was economically unsound to bring oats into that city from places not in the immediate vicinity thereof, (2) that the aforementioned agreement entered into by the respondent with Stephen J. Klemen, Jr., called for the sale of approximately 350,000 bushels of deliverable oats at an actual sales value of only approximately 72 1/2 cents per bushel, and (3) that a strong warning had been given to the respondent by the Commodity Exchange Authority regarding the orderly liquidation of his sizable "long" position, the respondent, as the sole person selling July 1972 oat futures throughout the trading session on July 20, 1972, placed orders with certain floor brokers before or during such trading to sell July oat futures at a price of 4 1/8 cents per bushel over that of the September oat future; failed and refused to offer to execute sales

and thereby liquidate his "long" position in the July oat future at a price less than 77 1/4 cents per bushel at any time during the trading on July 20, 1972, prior to the closing bell at 12:00 noon of that day; and sold on that date 505,000 bushels of July oat futures ranging in price from 77 1/4 cents to 78 1/4 cents per bushel.

XVIII

The trading activities described in paragraph XVII hereinabove were taken by the respondent at a time when his holdings on the July 1972 oat future constituted all of the open interest therein and his holdings of deliverable oats constituted almost all of the available stocks thereof.

XIX

At the expiration of trading on July 20, 1972, the open interest on the Board of Trade in the July 1972 oat future amounted to 405,000 bushels. As a result of the trading activities described in paragraph XVII hereinabove, the respondent held a final "long" position in such future which amounted to 405,000 bushels, representing all of the open interest therein. Including those oats received through delivery prior to July 20, 1972, the respondent ultimately took delivery of approximately 735,000 bushels of oats, which such deliveries constituted all of the oats delivered on the July 1972 oat future. Of this total, approximately 620,000 bushels thereof were eventually redelivered on the September 1972 oat future, further indicating the lack of demand for oats which existed in Chicago, Illinois, at the time of the aforesaid trading activities of the respondent on July 20, 1972.

XX

The respondent engaged in the acts and practices described in the paragraphs set forth hereinabove for the purpose and with the intent of causing prices in the July 1972 oat future which were arbitrary and artificial, and demanded and

received such prices in connection with the trading in such future. By reason thereof, the respondent attempted to manipulate and did, in fact, manipulate the price of a commodity for future delivery on or subject to the rules of a contract market, in wilful violation of section 6(b) and 6(c) of the Commodity Exchange Act (7 U.S.C. 9 and 13b).

WHEREFORE, it is hereby ordered that this complaint and notice of hearing be served upon the respondent and this proceeding shall be governed by sections 0.1, 0.2., 0.4(b), 0.5 through 0.22 and 0.28 of the rules of practice under the Commodity Exchange Act (17 CFR 0.1, 0.2, 0.4(b), 0.5 through 0.22, 0.28). 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 five 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 the material allegations of fact contained in this complaint

are admitted likewise shall constitute a waiver of hearing unless a hearing is requested. The respondent is hereby notified that unless the hearing is waived, a hearing will be held in Chicago, Illinois, at a place therein and date to be specified later, before an Administrative Law Judge 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 appropriate order should not be issued in accordance with the Commodity Exchange Act (1) prohibiting the respondent from trading on or subject to the rules of any contract market, and directing that all contract markets refuse all trading privileges to the respondent for such period of time as may be determined, (2) directing that the respondent shall cease and desist from violating the Commodity Exchange Act in the manner alleged herein, and (3) suspending or revoking the registration of the respondent as a floor broker.

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.

December 21 1973

[SEE SIGNATURE IN ORIGINAL]

CLAYTON YEUTTER

Assistant Secretary

LOAD-DATE: June 12, 2008

