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8 **COMMODITY FUTURES**

TRADING COMMISSION

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**UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

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**COMMODITY FUTURES
TRADING COMMISSION,**

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Plaintiff,

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v.

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YUEYU BAO,

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Defendant.

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Civil Action No. 2:24-cv-376

**COMPLAINT FOR INJUNCTIVE
AND OTHER EQUITABLE
RELIEF AND FOR CIVIL
MONETARY PENALTIES
UNDER THE COMMODITY
EXCHANGE ACT AND
COMMISSION REGULATIONS**

DEMAND FOR JURY TRIAL

1 The Commodity Futures Trading Commission (“Commission” or “CFTC”), an
2 independent federal agency, invokes the jurisdiction of this Court pursuant to 28 U.S.C.
3 §§ 1331, 1345 and 7 U.S.C. § 13a-1(a), alleging as follows:

4 **I. INTRODUCTION**

5 1. Beginning in October 2021—and ending in November 2021 when his
6 trading account was frozen because of suspicious trading activity—Yueyu Bao
7 (“Bao” or “Defendant”) engaged in a series of illegal transactions on the Chicago
8 Board of Trade (“CBOT”), a Chicago Mercantile Exchange Group (“CME”)
9 exchange, involving at least 33 non-competitive, fictitious sales of 410 futures
10 contracts.

11 2. Through this illegal scheme, Bao illegally coordinated trades of
12 commodity futures contracts with his cousin (“Trader A”) for the sole purpose of
13 transferring profits of, at least, \$159,000 from Trader A’s account into his account.

14 3. On November 14, 2022, Trader A participated in a recorded interview
15 with the CME and admitted the fictitious sales scheme *in toto* (the “CME Interview”).

16 4. Trader A admitted to entering into 33 matched trades with Bao—at
17 Bao’s direction and for his benefit—to transfer profits from Trader A’s account to
18 Bao’s account.

19 5. By engaging in this conduct, Defendant violated Section 4c(a)(2)(A)(ii)
20 of the Commodity Exchange Act (“Act”), 7 U.S.C. § 6c(a)(2)(A)(ii), by entering into
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1 a transaction that is a fictitious sale involving the purchase or sale of any commodity
2 for future delivery.

3 6. Defendant also violated Commission Regulation (“Regulation”) 1.38(a),
4 17 C.F.R. § 1.38(a), by entering into illegal, non-competitive fictitious transactions to
5 buy and sell commodities for future delivery.

6 7. Due to his conduct, Defendant has engaged, is engaging, or is about to
7 engage in acts and practices in violation of certain trade practice provisions of the
8 Act, 7 U.S.C. §§ 1 *et seq.*

9 8. Unless restrained and enjoined by this Court, Defendant is likely to
10 continue to engage in the acts and practices alleged in this Complaint and similar acts
11 and practices, as detailed below.

12 9. Accordingly, pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1, the
13 Commission brings this action to enjoin Defendant’s unlawful acts and practices and
14 to compel Defendant to comply with the Act and Regulations.

15 10. Additionally, the Commission seeks civil monetary penalties and
16 remedial ancillary relief, including, but not limited to, trading and registration bans,
17 disgorgement, post-judgment interest, and such other relief as the Court may deem
18 necessary and appropriate.

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II. JURISDICTION AND VENUE

11. **Jurisdiction.** This Court has jurisdiction over this action under 28 U.S.C. § 1331 (codifying federal question jurisdiction) and 28 U.S.C. § 1345 (providing that U.S. District Courts have original jurisdiction over civil actions commenced by the United States or by any agency expressly authorized to sue by Act of Congress).

12. In addition, Section 6c(a) of the Act, 7 U.S.C. § 13a-1(a), provides that district courts have jurisdiction to hear actions brought by the CFTC for injunctive and other relief or to enforce compliance with the Act whenever it shall appear to the Commission that any person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation, or order thereunder.

13. **Venue.** Venue properly lies with the United States District Court for the Central District of California pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a-1(e) because Defendant is found in, inhabits, or transacts business in this district, and the acts and practices in violation of the Act have occurred, are occurring, or are about to occur within this District. Bao directed and coordinated the illegal scheme with Trader A, who acted on Bao’s instructions to execute the illicit trades from her home in the Central District of California.

1 **III. PARTIES**

2 14. Plaintiff, **Commodity Futures Trading Commission**, is an independent
3 federal regulatory agency charged by Congress with responsibility for administering
4 and enforcing the provisions of the Act, 7 U.S.C. §§ 1 *et seq.* and Regulations, 17
5 C.F.R. §§ 1.1 *et seq.*

6 15. Defendant **Yueyu Bao** currently resides in Shanghai, China. He is the
7 cousin of Trader A.

8 **IV. OTHER RELEVANT ENTITIES**

9 16. **Trader A** resides in Irvine, California. Trader A was formerly registered
10 with FINRA to trade securities. She is Defendant's cousin. On September 22, 2023,
11 the Commission issued an order simultaneously filing and settling charges against
12 Trader A for engaging in the fictitious sales scheme with Defendant described here.

13 17. **FCM No. 1** is Bao's Futures Commission Merchant ("FCM"). Bao
14 opened a trading account at FCM No. 1. for express purposes of trading the
15 Agricultural Futures at the heart of his fictitious trading scheme. As mandated by the
16 Act, FCM No. 1 is registered with the Commission through the National Futures
17 Association ("NFA").

18 18. **FCM No. 2** is Trader A's FCM. As mandated by the Act, FCM No. 2 is
19 registered with the Commission through the NFA.

1 **V. FACTS**

2 **Background**

3 19. A futures contract is an agreement to purchase or sell a commodity for
4 delivery, in the future, at a price determined at the initiation of the contract, that
5 obligates each party to fulfill the contract at the specified price. Futures contracts are
6 used to assume, or shift, price risk and may be satisfied by delivery or offset.

7 20. CBOT is a Designated Contract Market (“DCM”) under Section 5(b)(1),
8 7 U.S.C. § 7(b)(1) and Regulations 38.3(ii) and (iii), 17 C.F.R. §§ 38.3(ii) and (iii).
9 DCMs are routinely called “exchanges.”

10 21. CBOT’s rules prohibit Defendant from executing fictitious sales.

11 22. CBOT utilizes an electronic trading platform called Globex, which is an
12 open-access marketplace that allows traders to (1) view the book of visible orders and
13 prices for futures contracts and options and (2) enter orders to buy or sell futures
14 contracts or options.

15 23. An “order,” in the context of electronic exchange trading, is a request
16 submitted to the exchange to buy (“bid”) or sell (“offer” or “ask”) a certain number of
17 a specified futures contracts. An order may be for one or more contracts (often called
18 “lots”).

19 24. Orders are entered into Globex’s electronic order book and when there is
20 a willing buyer and seller for a contract at a specified price, a transaction occurs, and
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1 the orders are executed. Globex runs continuously and, therefore, it is not restricted
2 by geography or time zones.

3 25. A Futures Commission Merchant (“FCM”) is an individual, association,
4 partnership, corporation, or trust that is, among other things, engaged in soliciting or
5 in accepting orders for regulated transactions including futures, swaps, commodity
6 options, or retail commodity transactions. FCMs hold customer funds to margin
7 futures transactions. As mandated by the Act, all FCMs must register with the
8 Commission through the NFA. *See* 7 U.S.C. § 6d(a)(1).

9 26. FCMs serve as legal agents for their foreign customers “for purposes of
10 accepting delivery or service of any communication issued by or on behalf of the
11 Commission,” 17 C.F.R. § 15.05(b), including “any summons, complaint, order, [or]
12 subpoena,” *id.* at § 15.05(a). FCMs are required to “transmit the communication
13 promptly and in a manner which is reasonable under the circumstances, or in a
14 manner specified by the Commission in the communication, to the foreign
15 [customer].” *Id.* at § 15.05(b).

16 **Defendant’s Fictitious Trading Scheme**

17 27. Beginning in October 2021, and concluding when FCM No. 1 froze his
18 account in November 2021 (the “Relevant Period”) due to suspicious trading activity,
19 Bao entered into at least 33 fictitious, non-competitive sales, involving 410 futures
20 contracts, with Trader A.

1 28. Defendant Bao’s fictitious trading scheme focused on three futures
2 contracts (collectively, the “Agricultural Futures”) traded on the Globex platform
3 used by CBOT:

<u>Name</u>	<u>CBOT Futures Contract Designation</u>	<u>Globex Code</u>
SRW Wheat Futures	Chicago SRW Wheat	ZWN4
Oats Futures	Oats	ZOU2, ZOZ2
Soybean Futures	Soybean Meal	ZMZ4

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9 29. In May 2021, Bao opened an account at FCM No. 1 to trade the
10 Agricultural Futures at the heart of his fictitious trading scheme.

11 30. Bao traded at FCM No. 1, though an account with an account number
12 ending in -5146 (“Bao’s Account”).

13 31. At FCM No. 1, Defendant was assigned a unique trader identification
14 number (known as a “TAG 50” identifier) ending in -2630.

15 32. TAG 50s are used for submitting individualized trading orders to, and
16 from, futures exchanges like CBOT.

17 33. Bao executed fictitious trades, involving the Agricultural Futures, to
18 move the profits from Trader A’s account at FCM No. 2 to Bao’s Account at FCM
19 No. 1.

1 34. Correspondingly, upon Bao’s suggestion, Trader A agreed to engage in
2 these 33 fictitious trades of the Agricultural Futures.

3 35. Trader A traded through an account at FCM No. 2, which was assigned
4 an account number ending in -3297 (“Trader A’s Account”).

5 36. At FCM No. 2, Trader A was assigned a “TAG 50” identifier ending in -
6 9644.

7 37. Bao and Trader A traded, in concert, extremely illiquid futures contracts
8 in the Agricultural Futures.

9 38. Because Bao and Trader A specifically targeted futures contracts trading
10 at low trading volumes, they could reliably trade with each other, rather than an
11 unrelated third party.

12 39. Bao and Trader A worked in tandem, coordinated their trading, and
13 synchronized their fictitious sales by communicating in real time about their bids and
14 offers.

15 40. To accomplish their scheme, Bao would enter orders in the Agricultural
16 Futures and then, based on Bao’s instructions, Trader A would place her own orders
17 in those futures, aggressively “pricing into” Bao’s order by crossing the bid/ask
18 spread.

19 41. In other words, Bao could buy futures contracts at prices lower than
20 other market participants—and sell futures contracts at prices higher than other
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1 market participants—by purposely coordinating and transacting with Trader A within
2 a wide bid/ask spread.

3 42. To do this, Bao and Trader A intentionally executed their orders during
4 periods of low overall trading volume with the express purpose of finding and
5 matching each other's opposite orders on Globex.

6 43. The execution of Bao's fictitious sales scheme—which included nearly
7 three dozen fictitious transactions—is exemplified by his trading activity on November
8 1, 2021.

9 44. On November 1, 2021, in the middle of the night at 12:40 a.m.
10 (00:40:41.322, as represented in the CBOT trading data; all times are expressed in
11 Central Time), Bao placed an order to sell 15 contracts of July 2024 SRW Wheat
12 Futures at \$7.2875 per bushel (there are 5,000 bushels per contract) through his
13 account ending in -5146 at FCM No. 1.

14 45. Almost simultaneously, at 12:41 a.m. (00:41:12.324), Trader A placed
15 an order to buy 10 contracts of July 2024 SRW Wheat Futures, at \$7.29 per bushel,
16 through her account ending in -3297 at FCM No. 2.

17 46. The two orders instantly matched on the CBOT at \$7.2875 for 10
18 contracts and Bao's fictitious sale was consummated.

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1 47. Around thirty-eight seconds later, at 12:41 a.m. (00:41:50.451), Bao
2 placed another order to buy 10 contracts of July 2024 SRW Wheat Futures at \$7.1625
3 per bushel.

4 48. Less than a minute after that, at 12:42 a.m. (00:42:43.843), Trader A
5 placed an order to sell 10 contracts of July 2024 SRW Wheat Futures at \$7.16 per
6 bushel.

7 49. The two orders for 10 contracts matched immediately on the CBOT at
8 12:42 a.m. (00:42:43.843) for \$7.1625, thereby consummating Bao's fictitious sale.

9 50. This series of trades on November 1, 2021, resulted in approximately
10 \$6,250 in profits being transferred from Trader A's Account into Bao's Account.

11 51. In total, Defendant Bao repeated his non-competitive, fictitious sales at
12 least 33 times with Trader A between October and November 2021, resulting in the
13 illegal trading of 410 Agricultural Futures Contracts.

14 52. Through this illegal scheme, Bao successfully coordinated the transfer of
15 at least \$159,000 in profits from Trader A's Account to his own account.

16 **Trader A Has Admitted to the Fictitious Sale Scheme**

17 53. During the CME Interview, Trader A admitted to Bao's fictitious sales
18 scheme *in toto*.

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1 54. Trader A admitted to engaging in this fictitious trading scheme with Bao
2 for the sole purpose of passing money from her account at FCM No. 2 to Bao's
3 Account at FCM No. 1.

4 55. According to Trader A, Bao conceived the scheme to transfer the profits
5 from Trader A's Account to Bao's Account through fictitious trades in the
6 Agricultural Futures.

7 56. Trader A admitted that she agreed to Bao's request. Trader A explained
8 that, in carrying out the scheme, Bao and she communicated in real time with the
9 express purpose of coordinating their trades with one another and that Bao
10 specifically instructed her in terms of what orders to place and at what prices. Trader
11 A further admitted that she, in fact, heeded Bao's instructions to consummate the
12 scheme.

13 **V. VIOLATIONS OF THE COMMODITY EXCHANGE ACT AND**
14 **COMMISSION REGULATIONS**

15 **COUNT I**

16 **Violations of Section 4c(a)(2)(A)(ii) of the Act, 7 U.S.C. § 6c(a)(2)(A)(ii)**
17 **Fictitious Sales**

17 57. Paragraphs 1 through 56 are re-alleged and incorporated herein.

18 58. Section 4c(a)(1) of the Act, 7 U.S.C. § 6c(a)(1), provides: "It shall be
19 unlawful for any person to offer to enter into, enter into, or confirm the execution of a
20 transaction described in paragraph (2) involving the purchase or sale of any
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1 commodity for future delivery (or any option on such a transaction or option on a
2 commodity) or swap, if the transaction is used or may be used to (A) hedge any
3 transaction in interstate commerce in the commodity or the product or byproduct of
4 the commodity; (B) determine the price basis of any such transaction in interstate
5 commerce in the commodity; or (C) deliver any such commodity sold, shipped, or
6 received in interstate commerce for the execution of the transaction.” 7 U.S.C.
7 § 6c(a)(1).

8 59. Section 4c(a)(2) of the Act, 7 U.S.C. § 6c(a)(2), in relevant part,
9 provides: “A transaction referred to in paragraph (1) is a transaction that . . . (i) is, is
10 of the character of, or is commonly known to the trade as, a ‘wash sale’ or
11 ‘accommodation trade’ or (ii) is a fictitious sale[.]” 7 U.S.C. § 6c(a)(2)(A)(i), (ii).

12 60. Fictitious trades include both the unlawful practices specifically
13 enumerated in Section 4c(a)(2) of the Act, 7 U.S.C. § 6c(a)(2), as well as trading
14 techniques that give the appearance of submitting trades to the open market while
15 negating the risk or price competition incident to such a market.

16 61. As referenced above, during the Relevant Period, Defendant Bao
17 violated Section 4c(a)(2)(A)(ii) of the Act, 7 U.S.C. § 6c(a)(2)(A)(ii), by engaging in
18 a series of illegal transactions on the CBOT involving at least 33 fictitious sales and
19 410 Agricultural Futures contracts. Through this illegal scheme, Defendant Bao

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1 successfully coordinated the transfer of at least \$159,000 in profits to his account
2 from Trader A's Account.

3 62. Each non-competitive, fictitious transaction entered into by Bao,
4 including, but not limited to, those specifically alleged herein, is alleged as a separate
5 and distinct violation of Section 4c(a)(2)(A)(ii) of the Act, 7 U.S.C. § 6c(a)(2)(A)(ii).

6 **COUNT II**

7 **Violations of Regulation 1.38(a)**

8 **Non-Competitive Trades**

9 63. Paragraphs 1 through 62 are re-alleged and incorporated herein.

10 64. Regulation 1.38(a), 17 C.F.R. § 1.38(a), requires that all purchases and
11 sales of commodity futures be executed "openly and competitively."

12 65. As referenced above, during the Relevant Period, Defendant Bao
13 engaged in a series of illegal transactions on the CBOT involving at least 33 fictitious
14 sales and 410 Agricultural Futures contracts. Through this illegal scheme, Defendant
15 Bao successfully coordinated the transfer of at least \$159,000 in profits from Trader
16 A's Account to his own account.

17 66. By engaging in fictitious trading as alleged above, Defendant also
18 intentionally engaged in noncompetitive trading.

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1 67. Each noncompetitive trade, including, but not limited to, those
2 specifically alleged herein, is alleged as a separate and distinct violation of
3 Regulation 1.38(a), 17 C.F.R. § 1.38(a).

4 **VI. RELIEF REQUESTED**

5 **WHEREFORE**, the Commission respectfully requests that this Court, as
6 authorized by Section 6c of the Act, 7 U.S.C. § 13a-1, and pursuant to the Court's own
7 equitable powers:

8 A. Find that Defendant violated:

- 9 1. Section 4c(a)(2)(A)(ii) of the Act, 7 U.S.C. § 6c(a)(2)(A)(ii); and
10 2. Regulation 1.38(a), 17 C.F.R. § 1.38(a).

11 B. Enter an Order of Permanent Injunction prohibiting Defendant and any
12 affiliates, agents, servants, employees, successors, assigns, attorneys, and all persons in
13 active concert with him, who receive actual notice of such order by personal service or
14 otherwise, from engaging in conduct in violation of Section 4c(a)(2)(A)(ii) of the Act, 7
15 U.S.C. § 6c(a)(2)(A)(ii); and Regulation 1.38(a), 17 C.F.R. § 1.38(a).

16 C. Enter an order of permanent injunction restraining and enjoining Defendant,
17 and all persons in active concert with him, from directly or indirectly:

- 18 1. Trading on or subject to the rules of any registered entity (as that term
19 is defined by Section 1a(40) of the Act, 7 U.S.C. § 1a(40));
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- 1 2. Entering into any transactions involving “commodity interests” (as
2 that term is defined in Regulation 1.3, 17 C.F.R. § 1.3) in accounts
3 held in the name of Defendant or for accounts in which Defendant
4 has a direct or indirect interest;
- 5 3. Having any commodity interests traded on his behalf;
- 6 4. Controlling or directing the trading for or on behalf of any other
7 person or entity, whether by power of attorney or otherwise, in any
8 account involving commodity interests;
- 9 5. Soliciting, receiving, or accepting any funds from any person for the
10 purpose of purchasing or selling of any commodity interests;
- 11 6. Applying for registration or claiming exemption from registration
12 with the Commission in any capacity, and engaging in any activity
13 requiring such registration or exemption from registration with the
14 Commission except as provided for in Regulation 4.14(a)(9),
15 17 C.F.R. § 4.14(a)(9); and
- 16 7. Acting as a principal (as that term is defined in Regulation 3.1(a),
17 17 C.F.R. § 3.1(a)), agent, or any other officer or employee of any
18 person registered, exempted from registration, or required to be
19 registered with the Commission except as provided for in
20 17 C.F.R. § 4.14(a)(9).

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1 D. Enter an order directing Defendant, as well as any third-party transferee
2 and/or successors thereof, to disgorge, pursuant to such procedure as the Court may
3 order, all benefits received including, but not limited to, salaries, commissions, loans,
4 fees, revenues, and trading profits derived, directly or indirectly, from acts or
5 practices which constitute violations of the Act and Regulations as described herein,
6 including pre-judgment and post-judgment interest;

7 E. Enter an order requiring Defendant to make full restitution to every
8 person who has sustained losses proximately caused by the violations described
9 herein, including pre-judgment and post-judgment interest;

10 F. Enter an order directing Defendant to pay civil monetary penalties
11 assessed by the Court, in an amount not to exceed the penalty prescribed by Section
12 6c(d)(1) of the Act, 7 U.S.C. § 13a-1(d)(1), as adjusted for inflation pursuant to the
13 Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Pub. L.
14 114-74, tit. VII, § 701, 129 Stat. 584, 599–600, *see* Regulation 143.8, 17 C.F.R.
15 § 143.8 (2022), for each violation of the Act and Regulations, as described herein;

16 G. Enter an order requiring Defendant to pay costs and fees as permitted
17 by 28 U.S.C. §§ 1920 and 2413(a)(2); and

18 H. Enter an order providing such other and further relief as this Court
19 may deem necessary and appropriate under the circumstances.

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1 Dated: January 16, 2024

JURY TRIAL DEMANDED,

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3 **COMMODITY FUTURES
TRADING COMMISSION**

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