UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

COMMODITY FUTURES TRADING COMMISSION,	)	
	)	Case No. 4:24-cv-3539
Plaintiff,	)	JURY
	)	
v.	)	
	)	
JOHN CARTWRIGHT,	)	
	)	
Defendant.	)	

COMPLAINT FOR INJUNCTIVE RELIEF, CIVIL MONETARY PENALTIES,
<u>RESTITUTION, DISGORGEMENT, AND OTHER EQUITABLE RELIEF</u>

Plaintiff Commodity Futures Trading Commission ("CFTC"), by and through its undersigned attorneys, alleges as follows:

I. SUMMARY

1. From at least June 9, 2016, to September 27, 2019 (the "Relevant Period"), John Cartwright ("Cartwright"), an energy broker employed by Classic Energy, LLC ("Classic"), engaged in a fraudulent scheme to misappropriate material, nonpublic information from one of Classic's brokerage customers ("Energy Company"), specifically, Energy Company's block trade orders, which included information about the price and quantity at which Energy Company sought to execute block trades, in certain natural gas futures contracts on the New York Mercantile Exchange ("NYMEX"). Cartwright received this information from an energy trader employed by Energy Company ("Company Trader") and then disclosed this information to Peter Miller ("Miller"), who traded in his own proprietary trading account on behalf of his entity Omerta Capital LLC ("Omerta"), knowing that Miller would trade on this material, nonpublic information. Cartwright facilitated and confirmed the execution of these fictitious, non-arm's

length block trades, designed to enable Miller to make a profit on offsetting trades, in order to receive a share of Miller's profits on these and/or offsetting trades.

2. The fraudulent scheme generally operated in the following manner. The Company Trader disclosed Energy Company's confidential block trade orders, including the prices, quantities, and direction in which Energy Company planned to trade, to Cartwright in order to facilitate block trades on behalf of Energy Company. After receiving this material, nonpublic information belonging to Energy Company from Company Trader, Cartwright misappropriated this information by subsequently disclosing this information to Miller, trading through Omerta.

3. Miller, through Omerta, then entered into fictitious, non-arm's length trades with Energy Company on the basis of this material, nonpublic information at advantageous prices that enabled Miller and Omerta to generate a profit. Miller shared these profits with Cartwright.

4. Cartwright further defrauded Energy Company by engaging in a course of conduct wherein he created the false impression he was brokering block trades for Energy Company in the ordinary course of business, when in fact he was facilitating and executing fictitious, non-arm's length block trades at non-bona fide prices designed to enable Miller to make a profit on offsetting trades, which profits would then be shared with Cartwright.

5. By engaging in this conduct and further conduct described herein, Cartwright has engaged, is engaging, or is about to engage in acts and practices that violate Section 6(c)(1) of the Commodity Exchange Act ("Act"), 7 U.S.C. § 9(1), and Commission Regulation ("Regulation") 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2023).

6. By this conduct and further conduct described herein, Cartwright has engaged, is engaging, or is about to engage in acts and practices that violate Section 4c(a) of the Act, 7 U.S.C. § 6c(a).

7. Accordingly, the CFTC brings this action under Section 6c of the Act, 7 U.S.C. § 13a-1, to enjoin Cartwright's unlawful acts and practices and to compel Cartwright's compliance with the Act and Regulations. The CFTC also seeks civil monetary penalties, disgorgement of the profits Cartwright obtained via Miller through the fraudulent scheme, restitution, trading and registration prohibitions, and any other such equitable and ancillary relief as the Court deems necessary or appropriate under the circumstances.

8. On March 8, 2024, Cartwright executed a tolling agreement with the CFTC that tolled and suspended the running of any statute of limitations applicable to any action or proceeding against Cartwright by the CFTC for a six-month period beginning on February 13, 2024.

II. JURISDICTION AND VENUE

9. The Court has jurisdiction of this action pursuant to 28 U.S.C. § 1331 (codifying federal question jurisdiction) and 28 U.S.C. § 1345 (providing that 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).

10. Section 6c(a) of the Act, 7 U.S.C. § 13a-1 authorizes the CFTC to seek injunctive and other relief against any person whenever it shall appear to the CFTC that such 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.

11. Venue lies properly in this Court pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a-1(c), because Defendant Cartwright resides in this District, transacted business in this District, and certain transactions, acts, practices, and courses of business in violation of the Act and the Regulations occurred, are occurring, or about to occur in this District, among other places.

III. THE PARTIES

12. **Plaintiff Commodity Futures Trading Commission** is an independent federal regulatory agency charged by Congress with the administration and enforcement of the Act and the Regulations promulgated thereunder. One of its core responsibilities is to protect the public interest by ensuring the financial integrity of all transactions subject to the Act and Regulations and protecting market participants from fraudulent practices. Section 3(b) of the Act, 7 U.S.C. § 5(b). The CFTC maintains its principal office at Three Lafayette Centre, 1155 21st Street NW, Washington, D.C. 20581.

13. **Defendant John B. Cartwright** is a resident of Houston, Texas and was a registered Associated Person of Classic Energy, LLC. Cartwright brokered block trades for Classic customers in natural gas futures contracts listed on NYMEX and ICE Futures U.S, Inc. ("ICE"). Cartwright is not currently registered with the CFTC, but was a registered Associated Person of Classic from September 28, 2015 through October 8, 2019, as well as a being listed as a Principal of Classic from March 5, 2019 through October 8, 2019.

IV. OTHER RELEVANT INDIVIDUALS AND ENTITIES

14. **Peter Miller** is an independent energy trader who resides in Dorado, Puerto Rico. Miller trades natural gas futures contracts through Omerta Capital LLC, a limited liability company he established for his own proprietary trading. Miller is the President, Chairman, and

an Authorized Member of Omerta. Miller has never been registered with the CFTC in any capacity.

15. **Omerta Capital LLC** is a Puerto Rico limited liability company, with its principal place of business in Dorado, Puerto Rico. Omerta is a proprietary trading company that owns the futures trading accounts that Miller used during the Relevant Period to trade natural gas futures contracts and other products. Omerta has never been registered with the CFTC in any capacity.

16. **Energy Company** is a business that engages in energy pipeline transport, including the transportation of natural gas and oil products. Energy Company employs traders who trade natural gas products for the benefit of Energy Company's business including, formerly, Company Trader. Energy Company has never been registered with the CFTC.

17. **Company Trader** is a resident of Houston, Texas. During the Relevant Period, Company Trader traded natural gas futures products on behalf of Energy Company. Company Trader has never been registered with the CFTC in any capacity.

18. **Classic Energy LLC** was a registered introducing broker located in Houston, Texas. Among other services, Classic was a voice broker that brokered block trades for customers in energy futures contracts and other products listed on designated contract markets such as NYMEX and ICE. The CFTC issued two separate orders against Classic asserting violations of the Act and Regulations on September 30, 2019, and June 14, 2021. Classic withdrew its registration with the CFTC in November 2019, and was permanently barred from registering with the CFTC on June 14, 2021.

19. **Mathew D. Webb** was the founder, President, sole member, and a registered Associated Person of Classic. Webb brokered block trades for Classic customers in natural gas

futures contracts listed on NYMEX and ICE during the Relevant Period. The CFTC issued orders against Webb asserting violations of the Act and Regulations on September 30, 2019, and June 14, 2021. Webb's registration with the CFTC was temporarily suspended in 2019, and then on June 14, 2021, Webb was permanently barred from registering with the CFTC.

V. FACTS

A. The Fundamentals of the Natural Gas Futures Market Used in the Fraudulent Scheme.

20. Natural gas is an energy commodity traded by buyers and sellers.

21. One way to trade natural gas is to buy or sell a futures contract. A futures contract is an agreement to buy or sell a commodity at a fixed quantity and price for delivery or cash settlement at a specific date and time in the future. Futures contracts are used to assume or shift price risk and may be satisfied by cash settlement, delivery, or offset. Futures contracts are commonly used to hedge risks or to speculate on the price of physical commodities.

22. Futures contracts are traded on exchanges—designated contract markets regulated by the CFTC—including NYMEX, a subsidiary of CME Group, Inc. ("CME"). NYMEX lists different products for trading, including natural gas futures contracts, and both determines and enforces rules and procedures for trading on its exchange.

23. A trader can place an order to either buy (a "bid") or to sell (an "offer") a certain quantity of a specific futures contract. An order is "filled" when a buyer's bid price and a seller's offer price match for a particular futures contract. A trader who purchases a futures contract establishes a "long" position, and a trader who sells a futures contract establishes a "short" position.

24. Offsetting trades are opposite transactions for an equal number of contracts of the same delivery month that liquidate a purchase or sale of a futures contract and close the long or

short position (e.g., 100 "long" futures contracts are offset by 100 of the same "short" futures contracts). The net gain or loss on the trade is equal to the difference between the price of the futures contracts when the position was opened and the price of the futures contracts when the position was closed, or offset.

25. A spread is the price differential between two futures contracts. A spread may involve two contracts for the same commodity but different delivery months, or two contracts for different commodities. A market participant that trades a spread opens a long position in one contract and a short position in another contract. The market participant hopes to profit from the change in the price differential between the two contracts.

26. Natural gas trades at different prices at different physical delivery points throughout the United States. "Henry Hub"—the delivery location near Louisiana's Gulf Coast that connects several intrastate and interstate pipelines—is used as the standard pricing reference for many natural gas futures contracts. NYMEX lists multiple futures contracts that are priced based on the price of natural gas at the Henry Hub delivery point during specified time periods, known as delivery months. Traders and brokers often refer to such contracts as "fixed price" futures contracts.

27. One such contract is the Henry Hub Natural Gas Futures contract ("NG Contract"). Another such contract is the Natural Gas (Henry Hub) Last-Day Financial Futures contract ("HH Contract"). The NG Contract and the HH Contract are both based on the price of natural gas at the Henry Hub delivery point and are identical in nearly all contract specifications. The difference between the NG Contract and the HH Contract is that the NG Contract is physically-settled; meaning that at the expiration of the contract, a person with an open position must take or make delivery of natural gas at the Henry Hub; whereas the HH Contract is

financially-settled, meaning that at the expiration of the contract, a person with an open position receives or pays the difference between the price at which they opened the position and the final settlement price. The prices of the NG Contract and the HH Contract are often very close to one another, but are often not identical. CME considers the NG Contract and the HH Contract to be "closely-related" products, meaning that the two contracts are highly correlated, can serve as substitutes for each other, or are functional economic equivalents.

28. Traders can buy or sell the NG Contract or the HH Contract either for a single delivery month or for a "calendar strip" of multiple consecutive delivery months.

29. With limited exceptions, futures contracts are required to be traded openly and competitively. All futures contracts listed and traded on NYMEX, including natural gas futures contracts, are traded through Globex, the electronic trading platform operated by CME to facilitate electronic trading on CME exchanges. Trading through the Globex platform is colloquially referred to by market participants as trading "onscreen."

30. One exception is block trades, which are permissible, privately-negotiated transactions that meet certain minimum contract number thresholds set by the exchanges. As reflected by the minimum contract size requirements, block trades are significantly larger in number of contracts and are often used by institutional investors. While block trades are not negotiated on the open market, under exchange rules they are required to be executed at fair and reasonable prices, taking into account, among other factors, the circumstances and prices of the market. All block trades are also required to be reported to the exchange that lists the contract, such as NYMEX. Once reported, NYMEX posts publicly the price and quantity at which the block trade was executed, among other data.

B. Cartwright Was a Voice Broker for Classic, Received from Company Trader Confidential Block Trade Order Information Belonging to Energy Company, and Brokered Block Trades for Energy Company.

31. Classic was a voice brokerage firm that facilitated block trades between its customers in natural gas futures contracts and other products, including the HH Contracts involved in the fraudulent scheme.

32. Cartwright was a longtime associate of Webb, the founder of Classic. In May 2015, Webb hired Cartwright as a voice broker at Classic to create a brokerage business for Classic in natural gas basis trading, i.e., the trading of natural gas at delivery points other than Henry Hub. Cartwright had experience both trading and brokering natural gas basis trades, and joined Classic with relationships with other basis traders, including Company Trader at Energy Company. Shortly after joining Classic, Cartwright began brokering natural gas basis trades for Company Trader on behalf of Energy Company.

33. As a voice broker, Cartwright solicited and received requests from Classic's customers to enter into block trades via phone or instant message. Cartwright would then locate potential counterparties for the requested block trades either from among Classic's other customers, or the customers of another voice broker. Once Cartwright located a counterparty, and provided the counterparty's bid or offer for the block trade, the block trade was executed when the customer expressed its acceptance of the bid or offer. Cartwright then submitted the details of the executed block trade to the exchange clearinghouse for clearing. Cartwright earned revenue on these trades by charging Classic's customers a commission for facilitating, executing, and clearing the block trades.

34. In June 2015, Classic provided to Energy Company its standard brokerage agreement, to which Classic considered itself bound, which included an obligation by Classic

(including its individual brokers such as Cartwright) to keep confidential all nonpublic or proprietary information provided by Energy Company to Classic in the course of procuring brokerage services of Classic by Energy Company.

35. As a Classic broker, Cartwright was an agent of Energy Company with the authority to bind Energy Company in transactions, including block trades in natural gas futures. As an agent, Cartwright owed a duty of trust and confidence to Energy Company and was obligated to keep confidential Energy Company's nonpublic information in a manner consistent with his role as a voice broker. Company Trader and Energy Company understood and agreed that Cartwright was acting as an agent of Energy Company with authority to bind Energy Company in transactions involving natural gas futures, including those involved in the fraudulent scheme alleged herein. Energy Company assented to Cartwright's brokering block trades on behalf of Energy Company by communicating, through Company Trader, block trade orders to Cartwright for negotiation and execution. Cartwright in fact brokered these block trades subject to Energy Company's ultimate approval of the terms of the block trades.

36. As an Associated Person of introducing broker Classic, under Regulation 155.4(b)(1), 17 C.F.R. § 155.4(b)(1) (2023), Cartwright was also prohibited from disclosing that the block trade order of Energy Company was being held by Classic unless the disclosure was necessary to the effective execution of that order.

37. Customers of voice brokers such as Energy Company consider the block trade orders they communicate to voice brokers such to be confidential, nonpublic information. These customers must necessarily disclose a block trade order to a broker, including some combination of the specific futures contract, price, quantity, and direction (buy or sell) associated with that order, so that the broker can locate a potential counterparty to that order. However, customers

expect a broker not to disclose their identity in connection with disclosing an order with potential counterparties, because doing so may reveal the trading intentions, plans, and strategies of that customer, information that customers consider confidential and nonpublic.

38. Company Trader was responsible for developing Energy Company's trading plans and strategies for natural gas trading and executing block trades through voice brokers as part of those trading plans and strategies. Energy Company considered the block trade orders it communicated to voice brokers such as Cartwright to be confidential and nonpublic. Energy Company disclosed this information to voice brokers such as Cartwright with the expectation that the voice brokers would use this the information only for the purpose of locating potential block trade counterparties and executing block trades, and not for their own personal benefit.

39. As a voice broker, Cartwright knew and understood that customers consider their block trade order information to be highly confidential. Cartwright further knew and understood that customers disclose this block trade order information to voice brokers for the limited purpose of locating potential counterparties and executing block trades. Cartwright further knew and understood that customers expect that voice brokers will not disclose the identity of the customer placing the order. Cartwright further knew and understood that customers expect that a voice broker will not use confidential block trade order information for the voice broker's own personal benefit.

C. Beginning in August 2015, Webb Engaged in a Fraudulent Scheme with Other Company Traders and Miller to Misappropriate Confidential Block Trade Order Information.

40. In August 2015, Webb and Miller, along with another company trader not employed by Energy Company, discussed a fraudulent scheme in which the company trader would disclose to Webb block trade orders for the HH Contract in a manner that appeared similar

to how the company trader typically communicated with voice brokers. Webb, in turn, understood he was to share this company trader's block trade order information with Miller only, rather than "shop" the block trade order to other market makers or seek better prices from other market participants, as was customary for voice brokers.

41. Miller then traded on the basis of this material nonpublic information by typically trading the HH Contract and NG Contract through Omerta as a spread; simultaneous or near-simultaneous trades for the same volume, but in opposite directions. Miller executed trades in the NG Contract (typically onscreen) and, at or near the same time, executed a fictitious, non-arm's length block trade with the energy company in the HH Contract at a price of his choosing. By trading on the basis of the energy company's information, Miller was able to time his execution of trades in the NG Contract and select a price for the block trade in the HH Contract that enabled Omerta to generate trading profits on Miller's NG Contract/HH Contract spread trades. As part of the scheme, Miller shared these trading profits with both the company trader and with Webb. This fraudulent scheme continued until December 28, 2018.

D. Cartwright Engaged in a Similar Scheme to Defraud Energy Company by Disclosing Confidential Block Trade Order Information to Miller Expecting To Share in Miller's Trading Profits.

42. After Webb began engaging in the fraudulent scheme above, Cartwright observed via Classic's internal recordkeeping system a high volume of HH Contract block trades brokered with Omerta, a company Cartwright was not familiar with. Cartwright approached Webb about this high volume of HH Contract block trades with Omerta. Webb explained to Cartwright the fraudulent scheme involving the other energy company and company trader, and how Webb shared in the profits generated by Miller as part of that scheme. Cartwright told Webb that Company Trader and Energy Company engaged in large volumes of single-month Henry Hub

futures contracts, similar to the other company trader, and suggested to Webb that Energy Company would be a good candidate for a similar fraudulent scheme.

43. Webb and Cartwright agreed that Cartwright would continue to broker natural gas basis trades for Company Trader and Webb would broker Company Trader's fixed price Henry Hub futures block trades. Webb would disclose Company Trader's fixed price Henry Hub futures block trades exclusively to Miller, as he was doing in the other ongoing fraudulent scheme.

44. On September 8, 2015, Company Trader contacted Webb to broker a block trade in a single-month fixed price Henry Hub futures trade. Prior to this date, Webb had never brokered a block trade for Company Trader or any trader at Energy Company. Also prior to this date, Company Trader did not trade the HH Contract listed on NYMEX, but instead traded the Henry LD1 Fixed Price Future listed on ICE (the "H Contract"). The H Contract and HH Contract were equivalent futures contracts, except that the lot size for the HH Contract was four times the size of the H Contract.

45. In the other ongoing fraudulent scheme involving Miller, Webb, and the other company trader, Miller traded—per his preference—the HH Contract on NYMEX, and not the H Contract on ICE. Therefore, Webb requested that Company Trader use the HH Contract instead of the H Contract. At Webb's request, Company Trader began trading the HH Contract, and Webb sent each of these block trade orders for the HH Contract to Miller, who traded the HH Contract/NG Contract spread in the same manner described above.

46. Miller tracked the profits generated by his trading on the basis of Energy Company's HH Contract block trade order information, as well as the amounts to be split with the participants in the fraudulent scheme. Webb similarly kept track of Miller's profits from

these trades. As he did in the other fraudulent scheme, Miller paid Webb in cash during in-person meetings in or around Houston. Webb in turn, shared a portion of these profits with Cartwright because Cartwright brought the Energy Company business to Classic.

47. Beginning around June 9, 2016, Company Trader began using Cartwright instead of Webb exclusively to broker his HH Contract block trades. Initially, Company Trader did so because Webb was unavailable to broker these HH Contract block trades. By September 2016, however, Cartwright was brokering nearly all of Company Trader's HH Contract block trades except for a few limited instances when Cartwright was out of the office and Webb brokered these trades instead.

48. Cartwright handled Company Trader's block trade orders for the HH Contract in the same way as Webb. Cartwright disclosed Company Trader's block trade orders for the HH Contract almost exclusively to Miller. Miller executed block trades in the HH Contract opposite Energy Company while making corresponding screen trades in the NG Contract that allowed Miller to make an immediate profit on the HH Contract/NG Contract spread. Cartwright disclosed Energy Company's block trade orders for the HH Contract to Miller in this manner, and Miller traded on the basis of these orders, until at least September 27, 2019.

49. Miller knew and understood that when Cartwright disclosed a single-month HH Contract order to him, that the trade was part of the fraudulent scheme, and that Miller would therefore trade on the basis of this information. Cartwright likewise disclosed Energy Company's block trade orders to Miller knowing and understanding that Miller would trade on the basis of this information and that Cartwright would then share in the profits Miller generated from his trading in furtherance of the scheme. After Cartwright became primarily responsible for brokering Energy Company's HH Contract block trades and disclosing them to Miller, Miller

began making cash payments directly to Cartwright, in person in and around Houston, for Cartwright's share of the profits from these trades.

50. Cartwright knew or should have known that his disclosure of Energy Company's HH Contract block trade orders to Miller in this manner violated Cartwright's duty of trust or confidence to Energy Company.

E. Miller Traded on the Basis of Energy Company's Material, Nonpublic Information Disclosed by Cartwright.

51. Miller traded on the basis of this material nonpublic information of Energy Company, as disclosed by Company Trader to Cartwright, by typically trading the HH Contract and NG Contract as a spread.

52. By trading on the basis of Energy Company's confidential block trade order information provided by Cartwright, Miller was able to obtain the price for the HH Contract he needed to make this HH Contract/NG Contract spread trade profitable, regardless of whether that price was available in the market for the HH Contract. In addition to obtaining his desired price on the HH Contract based on Energy Company's confidential block trade order information, and ensuring that Cartwright would not shop the price to market makers other than Miller, Miller was also able to make his NG Contract trades—which are highly correlated to HH Contract prices—more profitable (or less unprofitable) than they would have otherwise been had Miller not misappropriated Energy Company's confidential block trade order information in the HH Contract. By trading in this manner, Miller generated profits based on the relative movement of the prices of the HH Contract and the NG Contract. Miller then tracked the profits from these spread trades on a trade-by-trade basis, including the amount he owed to Cartwright from these trades, for the purpose of sharing these profits with Cartwright.

53. Miller traded on the basis of Energy Company's HH Contract block trade orders disclosed by Cartwright in three principal trading patterns.

54. In the first pattern, Miller traded opposite Energy Company in the HH Contract to close an HH Contract/NG Contract spread position that Miller had opened on a previous day. In this pattern, when Company Trader contacted Cartwright via instant message and communicated Energy Company's block trade order for the HH Contract, Cartwright disclosed this order only to Miller, and Miller then gave Cartwright a price for the HH Contract that would close his open HH Contract leg at a favorable price.

55. After Miller received Energy Company's block trade order for the HH Contract from Cartwright, but before or immediately after Cartwright confirmed the execution of the block trade, Miller executed trades onscreen in the NG Contract that closed his open NG Contract leg, thus closing his open spread position. In most of the instances when Miller engaged in this trading pattern, he generated a trading profit for Omerta.

56. Miller's trading on June 12, 2019 illustrates this first pattern. On this day, Miller had an existing open spread position in the July 2019 NG Contract and July 2019 HH Contract. Specifically, Miller was short (sold) fifty lots in the HH Contract and long (bought) fifty lots in the NG Contract. On June 12, 2019, Miller closed this open position with Company Trader as follows:

a. At 11:34:11 AM, Company Trader contacted Cartwright via IM and indicated his interest in selling fifty lots of the July 2019 HH Contract. Starting at 11:34:26 AM, Company Trader, Cartwright, and Miller engaged in various conversations via IM, and, as a result, at 11:35:48 AM Cartwright confirmed that Miller bought fifty lots of the July 2019 HH

Contract at a price of 2.384, closing Miller's open fifty-lot short position in the July 2019 HH Contract.

b. From 11:35:48 AM to 11:35:53 AM, Miller sold fifty lots of the July 2019 NG Contract onscreen, closing his open fifty-lot long position in the July 2019 NG Contract.

c. At 11:36:04 AM, Cartwright confirmed to Company Trader that Energy Company sold fifty lots of the July 2019 HH Contract at a price of 2.384. Cartwright reported the block trade as having been executed at 11:36:04 AM.

d. Omerta earned trading profits on these offsetting trades amounting to $2,230.

57. In the second pattern, Miller traded opposite Energy Company in the HH Contract to open an HH Contract/NG Contract spread position at advantageous prices for Omerta after Cartwright disclosed to Miller the block trade order communicated to Cartwright by Company Trader in the manner described above. Miller then closed this open HH Contract/NG Contract spread position against other market participants, or, in some cases, participants in other similar scheme. By trading in this manner, Miller was able to open positions at better prices than were otherwise available in the market and later offset these positions at a profit.

58. Company Trader's and Miller's trading on August 27, 2019 illustrates this second pattern. Miller opened a position for 100 lots in the September 2019 NG Contract/HH Contract spread, buying the NG Contracts onscreen and selling the HH Contracts via a block trade to Company Trader. Approximately thirty-five minutes after opening these positions, Miller sold

100 lots of the September 2019 NG Contract and bought 100 lots of the September 2019 HH Contract, all onscreen, offsetting the open position.

a. At 1:26:54 PM, Company Trader contacted Cartwright via IM and indicated his interest in buying 100 lots of the September 2019 HH Contract. Starting at 1:27:09 PM, Company Trader, Cartwright, and Miller engaged in various IM conversations, and, as a result, Cartwright confirmed at 1:28:02 PM that Miller sold 100 lots of the September 2019 HH Contract at a price of 2.202, opening a 100-lot short position in the September HH Contract with Energy Company.

b. From 1:27:32 PM to 1:27:50 PM, Miller bought 100 lots of the September 2019 NG Contract onscreen, opening a 100-lot long position in the September 2019 NG Contract.

c. At 1:27:48 PM, Cartwright confirmed to Company Trader that Energy Company bought 100 lots of the September 2019 HH Contract for 2.202. Cartwright reported the block trade as having been executed at 1:27:48 PM.

d. From 1:54:25 PM to 1:54:28 PM, Miller simultaneously sold 100 lots of the September 2019 NG Contract and bought 100 lots of the September 2019 HH Contract onscreen, closing out the open 100-lot September 2019 HH Contract/NG Contract spread position.

e. Omerta earned trading profits on these offsetting trades amounting to $5,350.

59. In the third pattern, Miller traded opposite Energy Company in the HH Contract to both open and close an HH Contract/NG Contract spread position on the same day, after Cartwright disclosed to Miller the block trade order communicated to Cartwright by Company Trader in the manner described above.

60. Miller's trading on September 11, 2019 illustrates this third pattern. On this day, Miller opened a total spread position of 100 lots in the October 2019 NG Contract and October 2019 HH Contract by selling the October 2019 NG Contract onscreen and buying the October 2019 HH Contract via two block trades with Company Trader. A few hours later, Miller offset the 100-lot spread position by buying 100 lots of the October 2019 NG Contract onscreen and selling 100 lots of the October 2019 HH Contract via two block trades with Company Trader.

a. At 8:54:22 AM, Company Trader contacted Cartwright via IM and indicated his interest in selling fifty lots of the October 2019 HH Contract. Starting at 8:54:54 AM, Company Trader, Cartwright, and Miller engaged in various IM conversations, and, as a result, Cartwright confirmed at 8:58:21 AM that Miller bought fifty lots of the October 2019 HH Contract at a price of 2.552, opening a fifty-lot long position in the October 2019 HH Contract.

b. From 8:58:01 AM to 8:59:59 AM, Miller sold fifty lots of the October 2019 NG Contract onscreen, opening a fifty-lot short position in the October 2019 NG Contract.

c. At 8:58:10 AM, Cartwright confirmed to Company Trader that Energy Company sold fifty lots of the October 2019 HH Contract for 2.552.

Cartwright reported the block trade as having been executed at 8:58:10 AM.

d. Approximately one hour and fifteen minutes later, at 10:15:36 AM, Company Trader asked Cartwright if he could sell an additional fifty lots of the October 2019 HH Contract. From 10:17:37 AM to 10:22:40 AM, Company Trader, Cartwright, and Miller engaged in various IM conversations, and, as a result, Cartwright confirmed at 10:22:43 AM that Miller bought an additional fifty lots of the October 2018 HH Contract at a price of 2.582, bringing Miller's open long position in the October 2019 HH Contract to 100 lots.

e. From 10:22:45 AM to 10:22:51 AM, Miller sold fifty lots of the October 2019 NG Contract onscreen, bringing Miller's open short position in the October 2019 NG Contract to 100 lots.

f. At 10:22:58 AM, Cartwright confirmed to Company Trader that Energy Company sold an additional fifty lots of the October 2019 HH Contract at a price of 2.582. Cartwright reported the block trade as having been executed at 10:22:58 AM.

g. Approximately an hour later, at 11:23:47 AM, Company Trader contacted Cartwright via IM and indicated his interest in buying fifty lots of the October 2019 HH Contract. Starting at 11:24:11 AM, Company Trader, Cartwright, and Miller engaged in a series of instant messages, and, as a result, Cartwright confirmed at 11:27:38 AM that Miller sold fifty lots of the October 2019 HH Contract at a price of 2.555, closing out one of Miller's fifty-lot long position in the October 2019 HH Contract.

h. From 11:26:28 AM to 11:26:38 AM, Miller bought fifty lots of the October 2019 NG Contract onscreen, closing out one of his open fifty-lot short positions in the October 2019 NG Contract. At 11:27:24 AM, Cartwright confirmed to Company Trader that Energy Company bought fifty lots of the October 2019 HH Contract at a price of 2.555. Cartwright reported the block trade as having been executed at 11:27:24 AM.

i. Approximately forty minutes later, at 12:05:05 PM, Company Trader contacted Cartwright via IM and indicated his interest in buying another fifty lots of the October 2019 HH Contract. Starting at 12:05:49 PM, Company Trader, Cartwright, and Miller engaged in a series of instant messages, and, as a result, Cartwright confirmed at 12:11:01 PM that Miller sold fifty lots of the October 2019 HH Contract at a price of 2.554, closing out the Miller's other fifty-lot long position in the October 2019 HH Contract.

j. From 12:09:49 PM to 12:10:51 PM, Miller bought fifty lots of the October 2019 NG Contract onscreen, closing out his other open fifty-lot short position in the October 2019 NG Contract. At 12:10:51 PM, Cartwright confirmed to Company Trader that Energy Company bought fifty lots of the October 2019 HH Contract at a price of 2.555. Cartwright reported the block trade as having been executed at 12:10:51 PM.

k. Omerta earned trading profits on these offsetting trades amounting to $3,350.

61. During the Relevant Period, Cartwright disclosed Energy Company's block order trade information to Miller in connection with a total of 450 trading events in which Miller opened and/or closed positions in the HH Contract/NG Contract spread on the basis of Energy Company's block trade order information. These events involved a total of 1,708 block trades in the HH Contract executed with Company Trader. Of these 450 events, 411 were profitable for Miller, resulting in a win rate of over 91 percent. In total, Miller generated net trading profits of $2,189,097 on the 450 events when he traded on the basis of Energy Company's material, nonpublic information.

62. During the Relevant Period, Miller shared between sixty-six percent and eighty percent of these net trading profits with Cartwright. Miller shared the profits generated in Omerta's trading account with Cartwright in the form of cash. Miller typically delivered these cash payments to Cartwright either directly or through Webb, by meeting in person in or around Houston, Texas.

F. Cartwright Engaged in a Deceptive Course of Conduct by Creating the False Impression That He Was Brokering Trades in the Ordinary Course of Business.

63. While acting as a voice broker for Energy Company, Cartwright created the false impression that he was brokering HH Contract block trades for Company Trader and Energy Company in the ordinary course of his brokerage business, instead of in furtherance of the fraudulent scheme.

64. For example, in the course of communicating with Company Trader about his HH Contract block trade orders, Cartwright created the impression that he was seeking competitive bids and offers for Company Trader's orders, when in fact Cartwright was disclosing these

orders only to Miller. In some instances, Cartwright responded to Company Trader's block trade orders by saying he was "checking" available prices. In other instances, Cartwright told Company Trader he was "working" Company Trader's block trade order. In these instant message communications, Cartwright created the false impression that he was seeking competitive bids or offers or trying to locate or obtain favorable prices for Company Trader's block trade orders.

65. At other times, in response to Company Trader's block trade orders, Cartwright created the impression for Company Trader that changing dynamics in the various markets for fixed price Henry Hub futures explained why certain prices were or were not available.

66. In fact, Cartwright only disclosed these orders to Miller, and Miller would communicate a bid or offer price for Company Trader's HH Contract block trade based on whether Miller could immediately profit on the HH Contract/NG Contract spread after executing a trade with Energy Company.

67. In addition to these interactions with Company Trader, Cartwright also prepared trade confirms and issued brokerage statements to Energy Company that reflected standard brokerage commissions Cartwright charged in the ordinary course of business. These brokerage statements created the false impression that Cartwright was being compensated for his brokering of trades for Energy Company only by charging ordinary brokerage commissions, whereas Cartwright was also sharing in Miller's trading profits.

68. Cartwright did not disclose to Energy Company that Cartwright was sharing in the profits generated by Miller as a result of Cartwright's disclosure of Company Trader's block trade orders to Miller.

G. Cartwright's Negotiation and Execution of the Block Trades Negated Market Risk and Caused the Reporting of Non-Bona Fide Prices.

69. Cartwright's role brokering these block trades and executing them via NYMEX provided apparent legitimacy that the block trades were regularly-negotiated and executed, thereby reflecting bona fide prices. But by negotiating and confirming the execution of block trades in the manner described above, Cartwright enabled Miller and Omerta to obtain more advantageous prices and negate market risk for Omerta's trades with Energy Company, effectively allowing Miller to select the price or prices he needed to make his HH Contract/NG Contract spread trading strategy profitable.

70. As a result of executing length block trades with Energy Company that negated market risk, Cartwright caused prices to be recorded by NYMEX for those block trades that were not true and bona fide prices.

VI. VIOLATIONS OF THE COMMODITY EXCHANGE ACT AND CFTC REGULATIONS

<u>COUNT ONE</u>

Violation of Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2023)

(Misappropriation of Material Nonpublic Information)

71. Paragraphs 1 through 70 are realleged and incorporated herein by reference.

72. 7 U.S.C. § 9(1), provides, in relevant part:

> It shall be unlawful for any person, directly or indirectly, to use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance, in contravention of such rules and regulations as the commission shall promulgate . . . .

73. 17 C.F.R § 180.1(a) (2023), provides, in relevant part:

> It shall be unlawful for any person, directly or indirectly, in connection with any swap, or contract of sale of any commodity in interstate commerce, or contract for future delivery on or subject to the rules of any registered entity, to intentionally or recklessly:
>
> (1) Use or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud; . . . or
>
> (3) Engage, or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person . . . .

74. As a voice broker for Classic, Cartwright received from Company Trader Energy Company's block trade orders, which constituted material, nonpublic information belonging to Energy Company, including the prices, quantities, and trading direction in which Energy Company sought to enter into block trades in natural gas futures contracts, including the HH Contract, as well as Energy Company's plans and strategies for trading natural gas futures contracts.

75. As an agent of Energy Company with the authority to bind Energy Company in transactions involving natural gas futures contracts and other products, and under the written brokerage agreement provided to Energy Company, Cartwright owed Energy Company a duty of trust and confidence and was obligated to keep confidential and not misappropriate, or disclose for Cartwright's own personal benefit, Energy Company's confidential block trade orders.

76. Cartwright breached his duty of trust or confidence to Energy Company by disclosing Energy Company's block trade orders for the HH Contract to Miller with the intent that Miller would trade on the basis of this information and Cartwright would share in Miller's profits from this trading.

77. Cartwright also engaged in a course of conduct wherein he created the false impression he was brokering block trades in the HH Contract for Energy Company in the

ordinary course of business, when in fact he was disclosing Energy Company's block trade orders for the HH Contract to Miller so that Miller could trade at non-bona fide, advantageous prices.

78. Each fraudulent or deceptive act, including each instance in which Cartwright misappropriated material, nonpublic information belonging to Energy Company by disclosing it to Miller and Omerta so they could trade on the basis of that information for Cartwright's personal benefit, is alleged as a separate iteration or execution of the fraudulent scheme in which Cartwright engaged in violation of 7 U.S.C. § 9(1) and 17 C.F.R. § 180.1(a)(1) and (3) (2023).

<u>COUNT TWO</u>

Violation of Section 4c(a)(1) and (2), 7 U.S.C. § 6c(a)(1), (2)

(Fictitious Sales)

79. Paragraphs 1 through 70 are realleged and incorporated herein by reference.

80. 7 U.S.C. § 6c(a)(1) provides:

> It shall be unlawful for any person to offer to enter into, enter into, or confirm the execution of a transaction described in paragraph (2) involving the purchase or sale of any commodity for future delivery (or any option on such a transaction or option on a commodity) or swap, if the transaction is used or may be used to—
>
> (A) hedge any transaction in interstate commerce in the commodity or the product or byproduct of the commodity;
>
> (B) determine the price basis of any such transaction in interstate commerce in the commodity; or
>
> (C) deliver any such commodity sold, shipped, or received in interstate commerce for the execution of the transaction.

81. 7 U.S.C. § 6c(a)(2) provides:

> A transaction referred to in paragraph (1) is a transaction that—

> (A)(i) is, is of the character of, or is commonly known to the trade as, a 'wash sale' or 'accommodation trade'; or
>
> (ii) is a fictitious sale; or
>
> (B) is used to cause any price to be reported, registered, or recorded that is not a true and bona fide price.

82. During the Relevant Period, Cartwright violated 7 U.S.C. § 6c(a)(1) and (2) by facilitating and confirming the execution of trades between Energy Company and Omerta that were executed at prices designed to generate profits for Omerta and Miller by trading the HH Contract and the NG Contract as a spread, thereby allowing Cartwright to share in profits derived by Omerta and Miller.

83. By executing trades in this manner, Cartwright allowed Miller and Omerta to obtain advantageous prices and negate market risk.

84. Cartwright sent confirmations of the execution of these trades to Energy Company and submitted these trades to NYMEX for clearing. Cartwright's conduct therefore caused prices to be reported to or recorded by NYMEX that were not true and bona fide prices in violation of 7 U.S.C. § 6c(a)(2)(B).

85. Each fictitious sale, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of 7 U.S.C. § 6c(a)(1) and (2).

VII. RELIEF REQUESTED

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

A. Find that Cartwright violated Sections 4c(a)(1) and (2), and 6(c)(1) of the Act, 7 U.S.C. §§ 4c(a)(1), (2); 9(1), and Regulation 180.1(a)(1) and (3), 17 C.F.R. § 180.1(a)(1), (3) (2023).

B. Enter an order of permanent injunction enjoining Cartwright, and his affiliates, agents, servants, employees, successors, assigns, attorneys, and all persons in active concert with him, who receive actual notice of such order by personal service or otherwise, from engaging in the conduct described above, in violation of 7 U.S.C. §§ 4c(a)(1), (2) and 9(1); and 17 C.F.R. § 180.1(a)(1), (3) (2023);

C. Enter an order of permanent injunction restraining and enjoining Cartwright, and his affiliates, agents, servants, employees, successors, assigns, attorneys, and all persons in active concert with him, from directly or indirectly:

1. Trading on or subject to the rules of any registered entity (as that term is defined in Section 1a(40) of the Act, 7 U.S.C. § 1a(40));
2. Entering into any transactions involving "commodity interests" (as that term is defined in Regulation 1.3, 17 C.F.R. § 1.3 (2023)), for accounts held in Cartwright's name or for accounts in which Cartwright has a direct or indirect interest;
3. Having any commodity interests traded on Cartwright's behalf;
4. Controlling or directing the trading for or on behalf of any other person or entity, whether by power of attorney or otherwise, in any account involving commodity interests;
5. Soliciting, receiving, or accepting any funds from any person for the purpose of purchasing or selling of any commodity interests;
6. Applying for registration or claiming exemption from registration with the CFTC in any capacity, and engaging in any activity requiring such

registration or exemption from registration with the CFTC except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2023); and

7. Acting as a principal (as that term is defined in Regulation 3.1(a), 17 C.F.R. § 3.1(a) (2023)), agent, or any other officer or employee of any person registered, exempted from registration, or required to be registered with the CFTC except as provided for in 17 C.F.R. § 4.14(a)(9) (2023).

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

E. Enter an order requiring Cartwright, as well as any successors thereof, to make full restitution to every person who has sustained losses proximately caused by the violations described herein, including pre-judgment and post-judgment interest.

F. Enter an order directing Cartwright to pay a civil monetary penalty assessed by the Court, in an amount not to exceed the penalty prescribed by Section 6c(d)(1) of the Act, 7 U.S.C. § 13a-1(d)(1), as adjusted for inflation pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Pub. L. No. 114-74, tit. VII, § 701, 129 Stat. 584, 599-600, *see* Regulation 143.8, 17 C.F.R. § 143.8 (2023), as amended 89 Fed. Reg. 4542 (Jan. 24, 2024), for each violation of the Act and Regulations, described herein;

G. Enter an order requiring Cartwright to pay costs and fees as permitted by 28 U.S.C. §§ 1920 and 2412(a)(2); and

H. Enter an order providing such other and further relief as the Court deems proper.

VIII. DEMAND FOR JURY TRIAL

Plaintiff hereby demands a jury trial.

Dated: September 20, 2024

Respectfully submitted,

COMMODITY FUTURES TRADING COMMISSION

/s/Thomas L. Simek

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