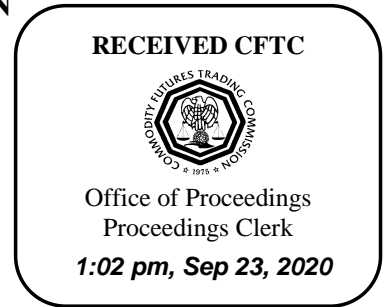


UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION



In the Matter of:)
)
)
MAREX NORTH AMERICA LLC,)
) **CFTC Docket No. 20-64**
Respondent.)
)

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

I. INTRODUCTION

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from June 5, 2015 to June 28, 2019 (“Relevant Period”), Respondent Marex North America LLC (hereinafter “Respondent” or “Marex”) violated Section 4f(b) of the Commodity Exchange Act (“Act”), 7 U.S.C. § 6f(b) (2018), and Regulation 1.17(a)(1)(i)(B), 17 C.F.R. § 1.17(a)(1)(i)(B) (2019) of the Commission Regulations (“Regulations”) promulgated thereunder. Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.¹

¹ Respondent consents to the use of the findings of fact and conclusions of law in this Order in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party or claimant, and agrees that they shall be taken as true and correct and be given preclusive effect therein, without further proof. Respondent does not consent, however, to the use of this Order, or the findings or conclusions herein, as the sole basis for any other proceeding brought by the Commission or to which the Commission is a party or claimant, other than: a proceeding in bankruptcy or receivership; or a proceeding to enforce the terms of this Order. Respondent does not consent to the use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

II. FINDINGS

The Commission finds the following:

A. SUMMARY

Marex, a registered futures commission merchant (“FCM”) with the Commission, enters orders and executes trades on a number of designated contract markets on behalf of customers.

During the Relevant Period, Marex improperly accounted for deductions arising out of an agreement it entered to guarantee a line of credit for an affiliated company (the “Restatement Agreement”), in computing its adjusted net capital. Consequently, Marex failed to meet its adjusted net capital requirements during thirty-three months of the Relevant Period by failing to properly deduct the amount of the guaranteed drawdown under the revolving line of credit (hereinafter “drawdown”) in calculating its adjusted net capital. Marex continued to operate as a FCM while failing to maintain the minimum adjusted net capital required of a FCM.

Accordingly, Respondent violated Section 4f(b) of the Act, 7 U.S.C. § 6f(b) (2018) and Regulation 1.17(a)(1)(i)(B), 17 C.F.R. § 1.17(a)(1)(i)(B) (2019).

B. RESPONDENT

Marex North America LLC is registered with the Commission as a FCM, with its principal place of business located at 360 Madison Ave., 3rd Floor, New York, New York 10017. It has been continuously registered as a FCM since November 23, 2010.

C. FACTS

On June 5, 2015, Marex entered into the Restatement Agreement under which it agreed to guarantee drawdowns of a revolving line of credit provided to an affiliated company by a banking syndicate. Marex subsequently entered a “Release Agreement” (the “Release Agreement”) on June 28, 2019, with the same syndicate of banks, which terminated Marex’s obligations under the Restatement Agreement.

During the time period in which Marex was bound as a guarantor of drawdowns of the revolving line of credit, funds were periodically drawn on the line of credit for the benefit of the affiliated company, in amounts ranging from ten million dollars to one-time ninety-five million dollars. Marex did not deduct the amount of the guaranteed drawdown in its calculation of adjusted net capital during any month during the Relevant Period in which there was a drawdown. If the drawdowns had been accurately reflected in Marex’s calculation of adjusted net capital, Marex’s adjusted net capital would have been below the required amount in thirty-three of the forty-eight months it was bound by the Restatement Agreement. The resulting deficits in adjusted net capital ranged from approximately \$4 million to \$75 million dollars in particular months. Marex continued to operate as an FCM throughout these months despite these deficits.

III. LEGAL DISCUSSION

A. Marex Failed to Meet its Minimum Financial Requirements

FCMs function as the commodity market's equivalent of a securities brokerage house, soliciting and accepting orders and funds for futures contracts and extending credit in connection therewith. *See First American Discount Corp. v. CFTC*, 222 F.3d 1008, 1010 (D.C. Cir. 2000). The Act and Regulations set forth minimum financial requirements for FCMs to insure that FCMs meet their obligations as registrants. *See Revised Adjusted Net Capital Requirements for Futures Commission Merchants and Introducing Brokers [Final Rule]*, 74 Fed. Reg. 69279 (Dec. 31, 2009). Marex failed to reflect a guarantee of an affiliate's liability as a deduction in computing Marex's adjusted net capital. Reflecting the amount of the guarantee would have resulted in Marex being undercapitalized and in violation of the minimum financial requirements as set forth in the Act and Commission Regulations. Marex continued to operate as a FCM while undercapitalized.

1. Marex Should have Taken a Deduction in Computing Net Capital for the Drawdowns

Section 4f(b) of the Act, 7 U.S.C. § 6f(b) (2018), provides in part:

[N]o person desiring to register as futures commission merchant or as introducing broker shall be so registered unless he meets such minimum financial requirements as the Commission may by regulation prescribe as necessary to insure his meeting his obligations as a registrant, and each person so registered shall at all times continue to meet such prescribed minimum financial requirements

Regulation 1.17(a)(1)(i), 17 C.F.R. § 1.17(a)(1)(i) (2019), provides in relevant part that, an FCM's adjusted net capital requirement is the greater of \$1,000,000 or the "futures commission merchant's risk-based capital requirement, computed as eight percent of the total risk margin requirement for positions carried by the futures commission merchant in customer accounts and noncustomer accounts."

Adjusted net capital is calculated by deducting total liabilities from total current assets to arrive at net capital, from which certain charges are deducted as a cushion against potential decreases in market value to arrive at adjusted net capital. *See Regulation 1.17(c)(1) and (5)*, 17 C.F.R. § 1.17(c)(1), (5) (2019). *E.g., In re First Commercial Fin. Grp., Inc.*, CFTC No. 95-10, 1999 WL 325338, n.3 at *9 (May 20, 1999).

Marex was required to take a deduction in computing its adjusted net capital equal to the amount of the drawdowns on the line of credit subject to the Restatement Agreement. Regulation 1.17(f)(4), 17 C.F.R. § 1.17(f)(4) (2019), states: "No applicant or registrant shall guarantee, endorse, or assume directly or indirectly any obligation or liability of a subsidiary or affiliate unless the obligation or liability is reflected in the computation of adjusted net capital pursuant to [. . .] this section."

2. **Marex Failed to Meet its Minimum Financial Requirements Because it Failed to Take a Deduction in Computing its Adjusted Net Capital for the Drawdowns**

If the Restatement Agreement had been reflected as a deduction in the calculation of Marex's adjusted net capital during the months when there were drawdowns on the line of credit, Marex would be deemed to have failed to meet its minimum capital requirement for thirty-three months during the Relevant Period.

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the Relevant Period, Marex violated Section 4f(b) of the Commodity Exchange Act ("Act"), 7 U.S.C. § 6f(b) (2018), and Regulation 1.17(a)(1)(i)(B), 17 C.F.R. ¶ 1.17(a)(1)(i)(B) (2019).

V. OFFER OF SETTLEMENT

Respondent has submitted the Offer in which it, without admitting or denying the findings and conclusions herein:

- A. Acknowledges service of this Order;
- B. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- C. Waives:
 - 1. The filing and service of a complaint and notice of hearing;
 - 2. A hearing;
 - 3. All post-hearing procedures;
 - 4. Judicial review by any court;
 - 5. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 - 6. Any and all claims that it may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2018), and 28 U.S.C. § 2412 (2018), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2019), relating to, or arising from, this proceeding;
 - 7. Any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, tit. II, §§ 201-253, 110 Stat. 847, 857-74 (codified as amended at 28 U.S.C. § 2412 and in scattered

sections of 5 U.S.C. and 15 U.S.C.), relating to, or arising from, this proceeding;
and

8. Any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief, including this Order.
- D. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;
- E. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
1. Makes findings by the Commission that Respondent violated Section 4f(b) of the Act, 7 U.S.C. § 6f(b) (2018), and Regulation 1.17(a)(1)(i)(B), 17 C.F.R. § 1.17(a)(1)(i)(B) (2019);
 2. Orders Respondent to cease and desist from violating Section 4f(b) of the Act and Regulation 1.17(a)(1)(i)(B);
 3. Orders Respondent to pay a civil monetary penalty in the amount of two hundred fifty thousand dollars (\$250,000), within ten days of the date of entry of this Order plus post-judgment interest if not paid within that time; and
 4. Orders Respondent and its successors and assigns to comply with the conditions consented to in the Offer and as set forth in Part VI of this Order.

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

VI. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

1. Respondent and its successors and assigns shall cease and desist from violating Section 4f(b) of the Act, 7 U.S.C. § 6f(b) (2018), and Regulation 1.17(a)(1)(i)(B), 17 C.F.R. § 1.17(a)(1)(i)(B) (2019).
2. Respondent shall pay, a civil monetary penalty in the amount of two hundred fifty thousand dollars (\$250,000) (the "CMP Obligation"), within ten days of the date of the entry of this Order. If the CMP Obligation is not paid in full within ten days of the date of entry of this Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961 (2018).²

² Consistent with the Division's Civil Monetary Penalty Guidance issued on May 20, 2020, in determining whether to accept the Respondent's Offer of Settlement, the Commission considered the fine imposed by Chicago Mercantile

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

MMAC/ESC/AMK326
Commodity Futures Trading Commission
Division of Enforcement
6500 S. MacArthur Blvd.
HQ Room 181
Oklahoma City, OK 73169
(405) 954-6569 office
(405) 954-1620 fax
9-AMC-AR-CFTC@faa.gov

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

3. Respondent and its successors and assigns shall comply with the following conditions set forth in the Offer:
 1. **Public Statements:** Respondent agrees that neither it nor any of its successors and assigns, agents or employees under its authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondent and its successors and assigns shall comply with this agreement, and shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.
 2. **Cooperation, in General:** Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, in this action, and in any current or future Commission investigation or action related

Exchange's Audit Committee in its related disciplinary action against Respondent, captioned CME 10-CH-1906, effective January 24, 2020.

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

3. Partial Satisfaction: Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
4. Change of Address/Phone: Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Consent Order, Respondent shall provide written notice to the Commission by certified mail of any change to its telephone number and mailing address within ten calendar days of the change.

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

By the Commission.



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

Dated: September 23, 2020