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

I.

The Commodity Futures Trading Commission ("Commission" or "CFTC") has reason to believe that during the period between September 2012 through February 2013 (the "relevant period"), London Metals Market LLC and its controlling person, Isaac Grossman (collectively, "Respondents"), violated Section 4(a) of the Commodity Exchange Act ("Act"), 7 U.S.C. § 6(a) (Supp. V 2011). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondents engaged in the violations set forth herein, and to determine whether any order should be issued imposing remedial sanctions.

II.

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

¹ Respondents consent to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Respondents do not consent to the use of the Offer, or the findings or conclusions in this Order consented to in the Offer, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor do Respondents consent to the use of the Offer or this Order, or the findings or conclusions in this Order consented to in the Offer, by any other party in any other proceeding.
The Commission finds the following:

A. SUMMARY

During the relevant period, Respondents violated Section 4(a) of the Act by offering to enter into, entering into, confirming the execution of, and conducting an office and business in the United States for the purpose of soliciting, accepting orders for, and otherwise dealing in illegal, off-exchange retail commodity transactions. Specifically, the transactions were financed precious metals transactions with individual investors. Grossman is directly liable for such violations, and he is also liable as the controlling person of London Metals. London Metals received commissions and fees totaling $121,665.75 for these transactions.

B. RESPONDENTS

London Metals Market LLC was a Florida limited liability company formed in May 2010. Its principal place of business was Deerfield Beach, Florida. London Metals was a telemarketing firm that solicited retail customers to invest in financed precious metals transactions. London Metals has never been registered with the Commission in any capacity.

Isaac Grossman is thirty-nine years old and a resident of Parkland, Florida. Grossman was the owner, operator, and controlling person of London Metals. Grossman has never been registered with the Commission in any capacity.

C. OTHER RELEVANT ENTITIES

Hunter Wise Commodities, LLC was formed as a California limited liability company in July 2007 but was converted to a Nevada limited liability company in October 2010. It held itself out on its website as “a physical commodity trading company, wholesaler, market maker, back-office support provider, and finance company.” During the relevant period, Hunter Wise executed and confirmed the execution of retail commodity transactions involving gold, silver, platinum, palladium, and copper throughout the United States using a network of telemarketing solicitors such as London Metals that it referred to as “dealers.”

International Commodities, LLC (“iCommodities”) was a Nevada limited liability company with its principal place of business in Las Vegas, Nevada. iCommodities was an intermediary firm that recruited precious metals dealers to solicit customers who would execute retail commodity transactions through Hunter Wise. iCommodities has never been registered with the Commission.

D. FACTS

During the relevant period, London Metals was a telemarketing firm that solicited retail customers to engage in financed precious metals transactions. Although London Metals offered precious metals on a fully paid basis, the vast majority of its business was in financed precious metals transactions. This Order relates to the financed precious metals transactions executed through Hunter Wise.
London Metals conducted nearly all of its solicitations by telephone. Isaac Grossman, the controlling person of London Metals, directly solicited customers and supervised the other telemarketers involved in solicitation. When soliciting customers for financed precious metals transactions executed through Hunter Wise, Grossman and the other London Metals telemarketers represented that to purchase a certain quantity of metal, the customer needed to deposit only a percentage of the total metal value, typically 25%. London Metals represented that the customer would receive a loan for the remaining 75%, and that the customer would have to pay a finance charge on the loan, as well as a service charge. In addition, in order to purchase the metal, London Metals represented that the customer needed to pay commission on the total metal value, with a maximum commission of 15%, and a mark-up on the spot price of the metal, typically 3%.

If the customer agreed to the transaction, London Metals confirmed the transaction and directed the customer to send London Metals a lump sum, which represented the total of the 25% equity deposit, the commission amount, and the mark-up amount. Upon receipt of those funds, London Metals sent the funds in their entirety to iCommodities, which then sent the funds to Hunter Wise. Hunter Wise then sent iCommodities any commission and fees due. iCommodities took a portion of this payment and sent the remainder to London Metals. During the relevant period, London Metals received $121,665.75 in commissions and fees for the retail financed precious metals transactions executed through Hunter Wise.


IV.
LEGAL DISCUSSION
A. Relevant Statutory Background


Section 742(a) of the Dodd-Frank Act added Section 2(c)(2)(D) to the Act.\(^2\) Section 2(c)(2)(D) broadly applies to any agreement, contract, or transaction in any commodity that is entered into with, or offered to (even if not entered into with), a non-eligible contract participant

\(^2\) Section 2(c)(2)(D) of the Act became effective July 16, 2011.
or non-eligible commercial entity on a leveraged or margined basis, or financed by the offeror, the counterparty, or a person acting in concert with the offeror or counterparty on a similar basis. 7 U.S.C. § 2(c)(2)(D)(i). Section 2(c)(2)(D) further provides that such an agreement, contract, or transaction shall be subject to Sections 4(a), 4(b), and 4b of the Act "as if the agreement, contract, or transaction was a contract of sale of a commodity for future delivery." 7 U.S.C. § 2(c)(2)(D)(iii).

Section 2(c)(2)(D)(ii) of the Act excepts certain transactions from Section 2(c)(2)(D). Section 2(c)(2)(D)(ii)(III)(aa) excepts a contract of sale that "results in actual delivery within 28 days or such other longer period as the Commission may determine by rule or regulation based upon the typical commercial practice in cash or spot markets for the commodity involved."\(^4\) Section 2(c)(2)(D)(ii)(III)(bb) excepts a contract of sale that creates an enforceable obligation to deliver between a seller and a buyer that have the ability to deliver and accept delivery, respectively, in connection with the line of business of the seller and buyer.

The Commission has stated that it is the view of the Commission that the determination of whether "actual delivery" has occurred within the meaning of Section 2(c)(2)(D)(ii)(III)(aa) requires a consideration of evidence beyond the four corners of the contract documents. This interpretation of the statutory language is based on Congress' use of the word "actual" to modify "delivery" and on the legislative history of Section 2(c)(2)(D)(ii)(III)(aa). Consistent with this interpretation, in determining whether actual delivery has occurred within 28 days, the Commission will employ a functional approach and examine how the agreement, contract, or transaction is marketed, managed, and performed, instead of relying solely on language used by the parties in the agreement, contract, or transaction.\(^5\) Unless the Commission provides otherwise, the 28 days for actual delivery is 28 days from the date the agreement, contract, or transaction is confirmed to the buyer or seller, typically, a retail customer.

Other than these exceptions, Congress did not express any intent to limit the reach of Section 2(c)(2)(D). Rather, in enacting the statute Congress expressed its intent that Section 2(c)(2)(D) should be applicable to a broad range of agreements, contracts, and transactions.

Section 2(c)(2)(D) of the Act applies to all agreements, contracts, and transactions entered into with, or offered to, non-ECPs on a leveraged or margined basis, or financed by the offeror, the counterparty, or a person acting in concert with the offeror or counterparty on a similar basis, as those terms are commonly used in the industry.

\(^3\) As is relevant to this matter, Section 1a(18)(xi) of the Act, 7 U.S.C. § 1a(18)(xi), defines an eligible contract participant as an individual who has amounts invested on a discretionary basis, the aggregate of which is in excess of $10,000,000, or which is in excess of $5,000,000 and who enters into the agreement, contract, or transaction in order to manage the risk associated with an asset owned or liability incurred, or reasonably likely to be owned or incurred, by the individual.

\(^4\) The Commission has not adopted any regulations permitting a longer actual delivery period for any commodity pursuant to Section 2(c)(2)(D)(ii)(III)(aa) of the Act. Accordingly, the 28 day actual delivery period set forth in this provision remains applicable to all commodities.

B. The Commission’s Jurisdiction

Respondents offered precious metals transactions to, and entered into such transactions with, persons who were not eligible contract participants or eligible commercial entities. Generally, Respondents’ customers were unsophisticated, individual investors who did not meet the $10 million discretionary investment threshold to be considered ECPs. Moreover, Respondents offered and entered into such transactions on a margined or leveraged basis, or financed by London Metals or Hunter Wise, which acted in concert with Respondents. Respondents’ retail financed precious metals transactions fall squarely within the Commission’s jurisdiction under Section 2(c)(2)(D) of the Act.

Respondents’ retail financed precious metals transactions executed through Hunter Wise did not result in actual delivery to the customer. As found by the district court in Hunter Wise, Hunter Wise had no actual metal to deliver. Hunter Wise, No. 12-81311-CIV, slip op. at 19-20 & n.30 (order granting preliminary injunction); Hunter Wise, No. 12-81311-CIV, slip op. at 15-17 (S.D. Fla. Jun. 21, 2013) (order denying motions to dismiss). Respondents’ transactions are not excepted from the Commission’s jurisdiction under Section 2(c)(2)(D)(ii)(III)(A) of the Act.

C. Respondents Violated Section 4(a) of the Act: Illegal, Off-Exchange Transactions

As stated above, retail commodity transactions within the scope of Section 2(c)(2)(D) of the Act are subject to enforcement under Section 4(a) of the Act, among other provisions, as if such transactions are commodity futures contracts. Section 4(a) of the Act makes it unlawful for any person to offer to enter into, enter into, execute, confirm the execution of, or conduct an office or business in the United States for the purpose of soliciting, or accepting any order for, or otherwise dealing in any transaction in, or in connection with, a commodity futures contract, unless such transaction is made on or subject to the rules of a board of trade that has been designated or registered by the CFTC as a contract market or derivatives transaction execution facility for the specific commodity.

Respondents offered to enter into, entered into, and confirmed the execution of retail financed precious metals transactions. Respondents also conducted an office and business in the United States for the purpose of soliciting, accepting orders for, and otherwise dealing in retail financed precious metals transactions. None of the retail financed precious metals transactions were conducted on or subject to the rules of a board of trade that has been designated or registered by the CFTC as a contract market or derivatives transaction execution facility for precious metals. Respondents therefore violated Section 4(a) of the Act.

D. London Metals Is Liable for the Violations of its Agents

London Metals is liable for the violations of its agents, including Grossman. Under Section 2(a)(1)(B) of the Act, 7 U.S.C. § 2(a)(1)(B), as well as Regulation 1.2, 17 C.F.R. § 1.2, a principal is strictly liable for the violations of its agents made within the scope of the agents’ employment. Rosenthal & Co. v. CFTC, 802 F.2d 963, 966 (7th Cir. 1986). Grossman, along with other London Metals telemarketers, were agents of London Metals, and in the scope of their employment they violated Section 4(a) of the Act. London Metals is therefore liable for these violations.
E. **Grossman Is Liable as the Controlling Person Under Section 13(b) of the Act for London Metals’ Violations**

Grossman is directly liable for violations of Section 4(a) of the Act. In addition, Grossman directly controlled London Metals and directly and knowingly induced London Metals’ conduct constituting violations of the Act; therefore, pursuant to Section 13(b) of the Act, 7 U.S.C. § 13c(b), Grossman is liable for London Metals’ violations of Section 4(a) of the Act. Section 13(b) of the Act states that a controlling person of an entity is liable for the violations of that entity, provided that the controlling person knowingly induced, directly or indirectly, the violations, or provided that the controlling person did not act in good faith. “A fundamental purpose of Section 13b [sic] is to allow the Commission to reach behind the corporate entity to the controlling individuals of the corporation and to impose liability for violations of the Act directly on such individuals as well as the corporation itself.” *CFTC v. R.J. Fitzgerald & Co., Inc.*, 310 F.3d 1321, 1334 (11th Cir. 2002) (internal quotation marks and citation omitted), *cert. denied*, 543 U.S. 1034 (2004).

To establish controlling person liability under Section 13(b), the Division must show both (1) control; and (2) lack of good faith or knowing inducement of the acts constituting the violation. *In re First Nat’l Trading Corp.*, [1992-1994 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 26,142 at 41,787 (CFTC Jul. 20, 1994), *aff’d without opinion sub nom. Pick v. CFTC*, 99 F.3d 1139 (6th Cir. 1996). To establish the first element, control, a defendant must possess general control over the operation of the entity principally liable. *See, e.g.*, *R.J. Fitzgerald*, 310 F.3d at 1334 (recognizing an individual who “exercised the ultimate choice-making power within the firm regarding its business decisions” as a controlling person). Evidence that a defendant is an officer, founder, principal, or the authorized signatory on the company’s bank accounts indicates the power to control a company. *In re Spiegel*, [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,103 at 34,767 (CFTC Jan. 12, 1988). The Division must also show that a defendant possessed specific control, which is “the power or ability to control the specific transaction or activity upon which the primary violation was predicated.” *Monieson v CFTC*, 996 F.2d 852, 860 (7th Cir. 1993) (internal quotation marks and citation omitted). The defendant does not need to participate in or benefit from the wrongdoing; the issue is whether the defendant has the power to address the illegal conduct. *Id.* (finding that, in a trade allocation case, the fact that the defendant could fire or discipline responsible employees, end the placement of orders without numbers as soon as the defendant knew of it, or order a full investigation was sufficient to show specific control).

With respect to control, Grossman was the owner and operator of London Metals. He managed the day to day operations, supervising the solicitation of retail customers and engaging in solicitations himself. Grossman was the ultimate decision maker and controlled all aspects of London Metals’ business. Grossman had both general control over London Metals and specific control over the conduct underlying London Metals’ violations, *i.e.*, London Metals offering to enter into, entering into, and confirming the execution of retail financed precious metals transactions, and London Metals conducting an office and business in the United States for soliciting, accepting, and otherwise dealing in retail financed precious metals transactions.

In addition to control, the Division must show the controlling person knowingly induced, directly or indirectly, the acts constituting the violation or did not act in good faith. To show
knowing inducement, the Division must show that a defendant had actual or constructive knowledge of the core activities that constituted the violation and allowed the activities to continue. *In re Spiegel,* [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) at 34,767. To show lack of good faith, the Division must show that a defendant did not have an adequate system of internal supervision, or that a defendant did not enforce such system with reasonable diligence. *Monieson,* 996 F.2d at 860.

Grossman had actual knowledge that London Metals' business was in off-exchange, retail financed precious metals transactions, because it was the basic nature or essence of the business. He also allowed the business to continue. Thus, Grossman knowingly induced the conduct in violation of Section 4(a) of the Act.

V.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the relevant period, Respondents violated Section 4(a) of the Act, 7 U.S.C. § 6(a).

VI.

OFFER OF SETTLEMENT

Respondents have submitted the Offer in which they, without admitting or denying the findings and conclusions herein:

A. Acknowledge receipt of service of this Order;

B. Admit 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 the Order;

C. Waive:

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 they may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (Supp. V. 2011) and 28 U.S.C. § 2412 (Supp. V 2011), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the
Commission’s Regulations, 17 C.F.R. §§ 148.1-30 (2012), relating to, or arising from, this proceeding;


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;

D. Stipulate that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondents have consented in the Offer; and

E. Consent, solely on the basis of the Offer, to the Commission’s entry of this Order that:

1. makes findings by the Commission that Respondents violated Section 4(a) of the Act, 7 U.S.C. § 6(a);

2. orders Respondents to cease and desist from violating Section 4(a) of the Act, 7 U.S.C. § 6(a);

3. orders Respondents, jointly and severally, to pay restitution of one hundred twenty-one thousand six hundred sixty-five dollars and seventy-five cents ($121,665.75), plus post-judgment interest;

4. orders that Respondents be permanently prohibited from engaging, directly or indirectly, in trading on or subject to the rules of any registered entity (as that term is defined in Section 1a of the Act, 7 U.S.C. § 1a), and all registered entities shall refuse them trading privileges;

5. orders Respondents and their successors and assigns to comply with the conditions and undertakings consented to in the Offer and set forth below in Part VII of this Order.

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

VII.

ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

A. Respondents shall cease and desist from violating Section 4(a) of the Act, 7 U.S.C. § 6(a);
B. Respondents, jointly and severally, shall pay restitution in the amount of one hundred twenty-one thousand six hundred sixty-five dollars and seventy-five cents ($121,665.75) within ten (10) days of the date of entry of this Order ("Restitution Obligation"). Post-judgment interest shall accrue on the Restitution 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.

Respondents shall make their payments of the Restitution Obligation under this Order to Melanie Damian, Esq., the corporate monitor appointed by the court in CFTC v. Hunter Wise Commodities, LLC, No. 12-81311-CIV (S.D. Fla. Feb. 25, 2013) ("Hunter Wise corporate monitor"). Respondents shall make such payments in the name of the "London Metals Market LLC (Hunter Wise Transactions) Settlement Fund" and shall send such payments by electronic funds transfer, or U.S. postal money order, certified check, bank cashier's check, or bank money order to Melanie Damian, Esq., Damian & Valori LLP, 1000 Brickell Ave. Ste. 1020, Miami, FL, 33131, under 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. To the extent any funds accrue to the U.S. Treasury for satisfaction of Respondents' Restitution Obligation, such funds shall be transferred to the Hunter Wise corporate monitor.

C. Respondents are permanently prohibited from engaging, directly or indirectly, in trading on or subject to the rules of any registered entity (as that term is defined in Section 1a of the Act, 7 U.S.C. § 1a), and all registered entities shall refuse them trading privileges;

D. Respondents and their successors and assigns shall comply with the following undertakings as consented to and set forth in the Offer:

1. Public Statements: Respondents agree that neither they nor any of their successors and assigns, or employees under their 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 Respondents': (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondents and their successors and assigns shall undertake all steps necessary to ensure that all of their agents and/or employees under their authority or control understand and comply with this agreement.

2. Respondents agree that they shall never, directly or indirectly:

   a. enter into any transactions involving commodity futures, options on commodity futures, commodity options (as that term is defined in Regulation 1.3(hh), 17 C.F.R. § 1.3(hh)), security futures products, swaps (as that term is defined in Section 1a(47) of the Act, 7 U.S.C. § 1a(47), and as further defined by Regulation 1.3(xxx), 17 C.F.R. § 1.3(xxx)), and/or foreign currency (as
described in Section 2(c)(2)(B) and 2(c)(2)(C)(i) of the Act, 7 U.S.C. § 2(c)(2)(B) and 2(c)(2)(C)(i) ("forex contracts") for their own personal account(s) or for any account(s) in which they have a direct or indirect interest;

b. have any commodity futures, options on commodity futures, commodity options, security futures products, swaps, and/or forex contracts traded on Respondents’ behalf;

c. control or direct the trading for or on behalf of any other person or entity, whether by power of attorney or otherwise, in any account involving commodity futures, options on commodity futures, commodity options, security futures products, swaps, and/or forex contracts;

d. solicit, receive, or accept any funds from any person for the purpose of purchasing or selling any commodity futures, options on commodity futures, commodity options, security futures products, swaps, and/or forex contracts;

e. apply for registration or claim exemption from registration with the Commission in any capacity, and engage in any activity requiring such registration or exemption from registration with the Commission except as provided for in Commission Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9); and/or

f. act as a principal (as that term is defined in Commission Regulation 3.1(a), 17 C.F.R. § 3.1(a)), agent, or any other officer or employee of any person (as that term is defined in Section 1a of the Act, 7 U.S.C. § 1a) registered, exempted from registration, or required to be registered with the Commission except as provided for in Commission Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9).

E. **Cooperation with the Hunter Wise Corporate Monitor:** Respondents shall cooperate with the Hunter Wise corporate monitor as appropriate to provide such information as the Hunter Wise corporate monitor deems necessary and appropriate to identify Respondents’ customers. Respondents shall execute any documents necessary to release funds that they have in any repository, bank, investment or other financial institution, wherever located, in order to make partial or total payment toward the Restitution Obligation.

F. **Cooperation with the Commission:** Respondents shall cooperate fully and expeditiously with the Commission, including the Commission’s Division of Enforcement, and any other governmental agency in this action, and in any investigation, civil litigation, or administrative matter related to the subject matter of this action or any current or future Commission investigation related thereto.

G. **Partial Satisfaction:** Respondents understand and agree that any acceptance by the Commission or the Hunter Wise corporate monitor of partial payment of Respondents’
Restitution Obligation, shall not be deemed a waiver of their 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.

H. **Change of Address/Phone:** Until such time as Respondents satisfy in full their Restitution Obligation as set forth in this Consent Order, Grossman shall provide written notice to the Commission by certified mail of any change to his telephone number and mailing address within ten (10) calendar days of the change.

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

By the Commission.

Melissa Jurgens  
Secretary of the Commission  
Commodity Futures Trading Commission

Dated: September 4, 2013