

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

UNITED STATES OF AMERICA

CRIMINAL NO. 3:21-cr-187 (OAW)

v.

VIOLATIONS:

18 U.S.C. § 1343 (Wire Fraud)

NATWEST MARKETS PLC

15 U.S.C. §§ 78j(b) & 78ff (Securities Fraud)

INFORMATION

The United States of America charges:

General Allegations

1. From approximately January 2008 to May 2014, and for approximately three months in 2018, the defendant, NATWEST MARKETS PLC engaged in schemes to defraud in connection with the secondary market for the purchase and sale of bills, notes, bonds, and certain related instruments issued by the United States Department of the Treasury and/or the market for contracts for the purchase and sale of U.S. Treasury Securities for future delivery.

NatWest Markets Plc

2. At all relevant times, NATWEST MARKETS PLC (formerly known as The Royal Bank of Scotland plc) was a global banking and financial services company that was headquartered in London, England. NATWEST MARKETS PLC was a subsidiary and the international investment banking arm of NatWest Group plc (formerly known as The Royal Bank of Scotland Group plc), which was a banking holding company based in Edinburgh, Scotland. NATWEST MARKETS PLC also maintained a branch in Singapore.

3. NATWEST MARKETS PLC had a subsidiary, NatWest Markets Securities Inc. ("NWMSI," formerly RBS Securities Inc.), which was a registered U.S. broker-dealer based in Stamford, Connecticut. NWMSI entered into a Non-Prosecution Agreement with the United States Attorney's Office for the District of Connecticut on October 25, 2017. Under the terms of

that Non-Prosecution Agreement, NWMSI agreed that, among other things, it and its parents, subsidiaries, and corporate affiliates would not commit any federal felony or violate the anti-fraud provisions of the securities law for one year and it would comply with certain reporting obligations.

4. NATWEST MARKETS PLC was a financial institution within the definition of Title 18, United States Code, Section 20.

U.S. Treasuries

5. At all relevant times, to raise capital to operate the federal government and finance the national debt, the United States Department of the Treasury issued and sold marketable securities in the form of bills, notes, bonds, and certain related instruments at public auction (collectively, “U.S. Treasury Securities”). U.S. Treasury Securities were subject to fixed terms at fixed interest rates determined by the prevailing rates in the marketplace at the time of issuance. After U.S. Treasury Securities were auctioned, institutional and individual investors could buy and sell these securities over-the-counter in the secondary (or “cash”) market on a number of trading platforms.

6. Investors also could trade derivatives that tracked the prices of U.S. Treasury Securities. These derivatives included futures contracts that were standardized agreements for the purchase and sale of U.S. Treasury Securities for future delivery, including futures contracts for the 5-year U.S. Treasury note, 10-year U.S. Treasury note, and 30-year U.S. Treasury bond, as well as the Ultra U.S. Treasury bond futures contract (the “Ultrabond”) (all four futures contracts, collectively, “U.S. Treasury futures contracts,” and together with U.S. Treasury Securities, “U.S. Treasuries”). U.S. Treasury futures contracts were commodities that traded on markets designated and regulated by the United States Commodity Futures Trading Commission, including the Chicago Board of Trade (“CBOT”), which was an exchange operated by the CME Group, Inc. (“CME”).

The Schemes to Defraud

7. Between approximately January 2008 and May 2014, a NATWEST MARKETS PLC trader in London (“Trader-1”) and a NWMSI trader in Stamford (“Trader-2”), whose identities are known to the United States, independently engaged in schemes to defraud in connection with the placement of U.S. Treasury futures contracts on CBOT.

8. Separately, for approximately three months in 2018, two traders employed at NATWEST MARKETS PLC’s branch in Singapore (“Trader-3” and “Trader-4,” whose identities are known to the United States) engaged in a scheme to defraud in connection with the purchase and sale of U.S. Treasury Securities in the cash market.

9. In furtherance of these schemes to defraud and as described below, Trader-1, Trader-2, Trader-3, and Trader-4 (collectively, the “Subject NatWest Traders”) knowingly, willfully, and with the intent to defraud placed orders to buy and sell certain U.S. Treasuries with the intent to cancel those orders before execution (“Spoof Orders”), including in an attempt to profit by deceiving other market participants through false and fraudulent pretenses and representations concerning the existence of genuine supply and demand for U.S. Treasuries.

10. More specifically, on hundreds of occasions, the Subject NatWest Traders placed one or more orders for U.S. Treasuries that they intended to execute (“Genuine Orders”). Sometimes, but not always, the Genuine Orders were “iceberg” orders, so that other market participants could see only a portion of the order’s full size at any given time. An “iceberg” order was a type of order that a trader could place on certain trading platforms and exchanges that did not display the order’s full size to other market participants. Only a pre-set portion of an iceberg order was visible at any given time. When the visible portion was filled, the next pre-set portion of the order became visible, and so forth.

11. During the same trading sequences, the Subject NatWest Traders also placed one or more Spoof Orders on the opposite side of the market from the Genuine Orders. The Spoof Orders were not iceberg orders, and so the full order size was visible to other market participants.

12. By placing Spoof Orders, the Subject NatWest Traders intended to inject materially false and misleading information about the genuine supply and demand for U.S. Treasuries into the markets, and to deceive other participants in those markets into believing something untrue, namely that the visible order book accurately reflected market-based forces of supply and demand.

13. This materially false and misleading information was intended to, and at times did, trick other market participants into reacting to the apparent change and imbalance in supply and demand by buying and selling U.S. Treasuries at quantities, prices, and times that they otherwise likely would not have traded.

14. By placing Spoof Orders to *buy* U.S. Treasuries, Subject NatWest Traders intended to create the false and misleading impression in the market of increased demand in an effort to drive *up* the prices of U.S. Treasuries.

15. By placing Spoof Orders to *sell* U.S. Treasuries, the Subject NatWest Traders intended to create the false and misleading impression in the market of increased supply in an effort to drive *down* the prices of U.S. Treasuries.

16. In either situation, the Subject NatWest Traders placed Spoof Orders with the intent to move the price of U.S. Treasuries fraudulently and artificially in a manner that would increase the likelihood that one or more of their own Genuine Orders on the opposite side of the market would be filled by other market participants, allowing the Subject NatWest Traders to generate trading profits and avoid losses for themselves and, ultimately, NATWEST MARKETS PLC.

17. Once the Subject NatWest Traders successfully used their Spoof Orders to get their Genuine Orders filled (either in whole or in part), they attempted to, and generally did, quickly cancel their Spoof Orders before they could be executed.

18. In most instances, the Subject NatWest Traders placed both their Spoof Orders and their Genuine Orders in either the cash market or the futures market. In some instances, however, at least one of the Subject NatWest Traders—namely, Trader-2—took advantage of the close correlation between U.S. Treasury Securities and U.S. Treasury futures contracts to engage in cross-market manipulation by placing Spoof Orders in the futures market and Genuine Orders in the cash market.

19. The Spoof Orders placed by the Subject NatWest Traders exposed NATWEST MARKETS PLC to (a) new and increased risks of loss, including in the form of: (i) fees, costs, and expenses incurred through investigations, litigation, and proceedings arising from the underlying conduct; (ii) losses associated with the financial risk that the Spoof Orders would be executed (despite the traders' intent to cancel the Spoof Orders before execution); and (iii) reputational harm; and (b) actual loss, including fees, costs, and expenses actually incurred through investigations, litigation, and proceedings arising from the underlying conduct.

20. The Spoof Orders placed by the Subject NatWest Traders were transmitted electronically via international and interstate wire communications from NATWEST MARKETS PLC's offices in Connecticut, London, and Singapore to computer servers operated by various over-the-counter trading platforms in New Jersey and elsewhere and to computer servers operated by the CME in Illinois.

21. In placing the Spoof Orders, the Subject NatWest Traders were acting within the scope of their employment as employees and agents of NATWEST MARKETS PLC, including its U.S. broker-dealer, and with the intent, at least in part, to benefit NATWEST MARKETS PLC.

Examples of Unlawful Trading in Furtherance of the Schemes to Defraud

22. One example of unlawful trading by the Subject NatWest Traders in the futures market occurred on June 24, 2013, at 3:45:13.965 a.m.,¹ when Trader-1, who was in London, placed an iceberg Genuine Order to buy 100 10-year U.S. Treasury note futures contracts at \$125.40625, displaying two contracts to the market. Next, 10.156 seconds later, Trader-1 placed a Spoof Order to sell 1,000 10-year U.S. Treasury note futures contracts at \$125.421875 with the intent to create the illusion of supply, deceive other market participants, and artificially move the market price lower. Then, 25 milliseconds later, Trader-1's Genuine Order to buy was filled in its entirety. Last, 3.663 seconds later, Trader-1 cancelled his Spoof Order in its entirety.

23. Trader-1 sometimes referenced his deceptive trading practices in electronic chats with colleagues at NATWEST MARKETS PLC, especially when his Spoof Orders were filled by other market participants despite his intentions and before he could cancel them. For instance, in a chat on June 13, 2011, he explained to a colleague that, in order to execute a Genuine Order to sell, he had placed a buy order (a "bid") into the market. The colleague asked, "why you try and bid? to spoof?" Trader-1 answered: "y[es] . . . i was doing lot of that last week & was saying myself, gonna get caught soon, should stop." In a chat two weeks later, on June 29, 2011, Trader-1 mentioned to the same colleague that he had been "caught spoofing few times," and in a chat on August 15, 2012, he complained that he had "dropped little \$ alraedy this am spoofing."

¹ All dates, times, and numbers in this Statement of Facts are approximate. Unless otherwise specified, all times are in Central Standard Time or Central Daylight Time.

24. Another example of unlawful trading by the Subject NatWest Traders in the futures market occurred on July 25, 2012, at 10:05:01.416 a.m., when Trader-2, who was in Stamford, placed a Genuine Order to buy 10 Ultrabond futures contracts at \$175.90625. Next, 158.716 seconds later (*i.e.*, nearly 3 minutes), Trader-2 placed a Spoof Order to sell 500 Ultrabond futures contracts at \$175.93750 with the intent to create the illusion of supply, deceive other market participants, and artificially move the market price lower. Then, 24 milliseconds later, Trader-2's Genuine Order to buy was filled in its entirety. Last, 858 milliseconds later, Trader-2 canceled his Spoof Order in its entirety.

25. An example of Trader-2's cross-market manipulation occurred on May 14, 2014, at 12:33:44.593 p.m., when he placed a Spoof Order to buy 210 Ultrabond futures contracts at \$149.59375, with the intent to create the illusion of demand in the futures market, deceive other market participants, and artificially move the correlated cash market price higher. Trader-2 canceled the Spoof Order in its entirety 3.131 seconds later. In the interim, in the cash market, Trader-2 filled Genuine Orders to sell a total of 2,000,000 30-year U.S. Treasury bonds.

26. An example of unlawful trading by the Subject NatWest Traders in the cash market occurred on July 2, 2018, at 5:28:48.789 a.m. Coordinated Universal Time, when Trader-3, who was in Singapore, placed Genuine Orders to sell a total of 50,000 10-year U.S. Treasury notes at \$100.234375. Next, 799.767 seconds later (*i.e.*, over 13 minutes), Trader-3 willfully placed Spoof Orders to buy a total of 500,000 10-year U.S. Treasury notes at \$100.21875 with the intent to create the illusion of demand, deceive other market participants, and artificially move the market price higher. Then, one and two milliseconds later, his Genuine Orders to sell were filled in their entirety. Last, 2.627 seconds later, Trader-3 canceled his Spoof Orders in their entirety.

27. In addition to the four Subject NatWest Traders, each of whom placed Spoof Orders on numerous occasions, a NWMSI supervisor in Stamford (“Supervisor-1,” whose identity is known to the United States) placed orders on three occasions in 2018 that had the potential to distort the U.S. Treasury Securities cash market.

Reaction of Supervisor-1 to Exposure of the Scheme to Defraud

28. On July 26, 2018, a market participant complained to NATWEST MARKETS PLC about trading activity in the cash market during Asia trading hours. In response, NATWEST MARKETS PLC immediately commenced an internal review, which led to the suspension and ultimate termination of both of the Singapore-based traders, Trader-3 and Trader-4.

29. On July 26, 2018, Supervisor-1 called Trader-3 and described the complaint in the following terms:

The basic complaint . . . is they’re trying to run a business that’s based on real market signals . . . and you’re giving them fake market signals. We could debate whether what you are doing is fair or not fair In a Darwinian sense I don’t have any issue with it . . . but the fact is they do provide liquidity to . . . to the global business . . . and if they cut us off because of your activity . . . then I do have a problem with it. . . . [S]omeone who really wants to see you out of a job could make a strong argument of spoofing and then we go down the path of the nature of spoofing and whether you have a job after it as well.

30. Later in that call, Supervisor-1 advised Trader-3 on how to hide his fraudulent scheme from NATWEST MARKETS PLC’s compliance personnel:

[S]end an e-mail to [Supervisor-1’s supervisor], me, [and another trader]. . . . Just email the three of us and say you and I spoke and you know just that the trading behavior, just don’t go into details, just say your trading style is gonna be adjusted to, put something in the e-mail that . . . makes it clear to all three of us, without saying anything that is going to make . . . some surveillance person say “hey I wanna get involved in what they’re talking about.” Just say, “[Supervisor-1] and I spoke about best practices and you know we’re all good going forward,” or something like that. You know what I mean like just, just you could even make it say, “[Supervisor-

1] and I spoke last night and we are all set going forward,” right, just put something in writing that says I got the message. Relay this to [Trader-4] . . . and we’re all set and I think I’ll get you turned on you know in a few days.

31. Supervisor-1 was employed by NWMSI. Under the terms of its Non-Prosecution Agreement, NWMSI was required to report any illegal conduct by its employees or the employees of its parents, subsidiaries, and corporate affiliates that came to the attention of its compliance personnel. If Supervisor-1’s attempt to hide the Singapore-based traders’ fraudulent scheme from NWMSI’s and NatWest’s compliance department had been successful, it also could have concealed that criminal conduct from law enforcement.

32. On July 28, 2018, in an email to Trader-4, Supervisor-1 agreed that “things have gotten blown out of proportion.”

Losses Caused by the Schemes to Defraud

33. In total, NATWEST MARKETS PLC’s schemes to defraud described above resulted in losses of approximately \$6,761,967 to other U.S. Treasuries market participants, specifically, \$6,165,913 in losses to U.S. Treasury futures contracts market participants and \$596,054 in losses to U.S. Treasuries Securities market participants, corresponding to unlawful profits to NATWEST MARKETS PLC of approximately \$2,841,368.

COUNT ONE
(Wire Fraud)

34. Paragraphs 1–33 are incorporated by reference.

35. Between approximately January 2008 and May 2014, in the District of Connecticut, and elsewhere, the defendant NATWEST MARKETS PLC, knowingly and with the intent to defraud, having devised and intending to devise a scheme and artifice to defraud, and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, transmitted and caused to be transmitted certain writings, signs, signals, pictures, and

sounds by means of wire communication in interstate and foreign commerce for the purpose of executing the scheme and artifice to defraud in connection with the placement of U.S. Treasury futures contracts.

All in violation of Title 18, United States Code, Section 1343.


COUNT TWO
(Securities Fraud)

36. Paragraphs 1–33 are incorporated by reference.


37. For approximately three months in 2018, in the District of Connecticut and elsewhere, the defendant NATWEST MARKETS PLC knowingly and willfully, directly and indirectly, by the use of means and instrumentalities of interstate commerce and of the mails, in connection with the purchase and sale of U.S. Treasury Securities, would and did use and employ manipulative and deceptive devices and contrivances in violation of Title 17, Code of Federal Regulations, Section 240.10b-5 by (i) employing devices, schemes and artifices to defraud, and (ii) engaging in acts, practices and courses of business which would and did operate as a fraud and deceit on purchasers and sellers of such U.S. Treasury Securities.

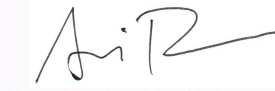
All in violation of Title 15, United States Code, Sections 78j(b) and 78ff.

UNITED STATES OF AMERICA


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