CFTC V. Gibraltar Monetary Corp. and Vicarious Liability Under the Commodity Exchange Act

Jason E. Friedman

Follow this and additional works at: https://ir.lawnet.fordham.edu/flr

Part of the Law Commons

Recommended Citation
Available at: https://ir.lawnet.fordham.edu/flr/vol79/iss2/9

This Comment is brought to you for free and open access by FLASH: The Fordham Law Archive of Scholarship and History. It has been accepted for inclusion in Fordham Law Review by an authorized editor of FLASH: The Fordham Law Archive of Scholarship and History. For more information, please contact tmelnick@law.fordham.edu.
This Comment analyzes CFTC v. Gibraltar Monetary Corp., a 2009 decision in which the U.S. Court of Appeals for the Eleventh Circuit introduced a control requirement into the Commodity Exchange Act's vicarious liability provision. In so doing, the court rejected the U.S. Commodity Futures Trading Commission’s long-held totality of the circumstances approach, in which any one factor, including control, is not dispositive of an agency relationship. This decision has created an undesirable situation in which retail foreign exchange dealers and futures commission merchants need not investigate the character of their introducing entities before retaining them, allowing them to easily avoid liability for frauds committed in furtherance of mutual profit.

TABLE OF CONTENTS

INTRODUCTION............................................................................................................. 738

I. CLIMBING UP GIBRALTAR: COMMODITIES REGULATION, THE
    COMMODITY EXCHANGE ACT’S VICARIOUS LIABILITY

    PROVISION, AND CHEVRON DEFERENCE .................................................... 740

     A. Overview of the Commodity Futures and Options Markets ...... 740

     1. Commodities: More Than Just the Bacon in Your BLT... 742

     2. Commodities Derivatives Contracts: Futures, Forwards,
        and Options ................................................................. 744

     3. Categories of CFTC Registrants ......................................... 745

     4. CFTC Enforcement Actions and Reparations
        Proceedings ........................................................................... 748

           a. CFTC Administrative Proceedings ................... 748

                   b. Enforcement Actions in Federal Court .......... 750

     B. Secondary Liability Under the Commodity Exchange Act ...... 751

* J.D. Candidate, 2011; B.A., 2005, Tufts University. I am grateful to Professor Steven Thel for his unceasing mentorship and guidance throughout this Comment’s various incarnations, to Tricia for her endless patience and loving support, and to my parents, Alan and Sheila, for everything.
1. The CEA’s Vicarious Liability Provision .......................... 751
2. Controlling Person and Aiding and Abetting Liability under the CEA ......................................................... 754
C. Chevron Doctrine ............................................................ 754

II. BREAKING DOWN CFTC v. GIBRALTAR MONETARY CORP. ................................................................. 756
A. Gibraltar’s Fraud and FxCM ............................................ 757
B. The District Court’s Decision ............................................ 760
C. Arguments from the Briefs .............................................. 762
   1. The CFTC’s Brief ....................................................... 762
   2. FxCM’s Brief ........................................................... 766
D. The Eleventh Circuit’s Decision ..................................... 769

III. RIPPLE EFFECT OR EROSION?: THE IMPACT OF THE ELEVENTH CIRCUIT’S GIBRALTAR DECISION .......................................................... 770
A. Case Law and Chevron Doctrine Support Application of the Commission’s Totality of the Circumstances Test and the Absence of a Control Requirement ........................................ 770
B. The Aftermath of the Gibraltar Decision ......................... 772

CONCLUSION ........................................................................... 774

INTRODUCTION

The ascription of agency [under the Commodity Exchange Act] is a purposive, policy-oriented act rather than an exercise in semantics. The Commission has deemed [the introducing entity] an agent of [the futures commission merchant] in soliciting investors through fraudulent means . . . because [the vicarious liability provision’s] words allow this interpretation and the interpretation may reduce the amount of fraud in the sale of commodity future contracts, whether directly or through commodity pools. Commodities brokers will be more careful about whom they grasp to their bosoms as branch managers and commodity solicitors and this will be (or so the Commission is authorized to conclude) all to the good.

- Judge Richard Posner, writing for the Seventh Circuit in Rosenthal & Co. v. CFTC.1

One summer day in 2002, the Gibraltar Monetary Corporation mailed a package of informational materials to Brook McDonald after she responded to their Internet advertisement on foreign exchange (forex) trading.2 The package contained a letter touting the “potential for a 200%–300% return” and the limited risk involved in options trading.3 It also boasted of Gibraltar’s relationship with Forex Capital Markets (FxCM), a futures commission merchant registered with the U.S. Commodity Futures Trading

1. 802 F.2d 963, 969 (7th Cir. 1986).
3. Id. at *15.
Commission (CFTC or Commission), which highlighted the fact that all of Gibraltar’s clients send their documents and funds directly to FxCM and that all options purchased through Gibraltar are cleared through the firm.\(^4\)

Shortly after these promotional materials arrived, McDonald received a call from a Gibraltar sales representative who baited her with promises of quick profits.\(^5\) She decided to open an account with the firm, mailed the required documentation to FxCM, and granted Gibraltar power of attorney to make forex trading decisions on her behalf.\(^6\) The sales representative transferred McDonald’s account to Edward Johnson, a senior account executive, who gained her trust by telling her, untruthfully, that his clients had never lost money.\(^7\) After her initial investment, Johnson called McDonald repeatedly, pressing her to complete additional options trades.\(^8\) Shockingly, when Mrs. McDonald lost “nearly all of the money she invested” with Gibraltar, Johnson urged her to sell her car.\(^9\)

Gibraltar’s representatives, however, omitted the unpleasant facts that forex options could expire worthless, that nearly all of Gibraltar’s customers were losing money, and that several Gibraltar employees had formerly worked for firms which were penalized for sales fraud.\(^10\) During the CFTC’s investigation of Gibraltar and FxCM, the Commission asked Mrs. McDonald to detail her trading experiences with the two firms.\(^11\) She lambasted Gibraltar, but did not “express any dissatisfaction with FxCM in regards to her trading” or “confusion between the roles played in her trades by FxCM and Gibraltar.”\(^12\)

In *CFTC v. Gibraltar Monetary Corp.*,\(^13\) the court found Gibraltar and its principals liable for their role in the solicitation fraud perpetrated against Mrs. McDonald and many others.\(^14\) Both the district court and the U.S. Court of Appeals for the Eleventh Circuit, however, determined that the

\(^4\) Id. at *14–15.
\(^5\) Id. at *15. Specifically, the Gibraltar sales representative, Al Gropman, informed McDonald “that she could double her money by investing with Gibraltar if she invested quickly to take advantage of the rise in the Euro that resulted from the September 11, 2001 terrorist attacks.” Id.
\(^6\) Id. at *17.
\(^7\) Id. at *15–16. Johnson “repeatedly pressured McDonald to invest more money. He regularly indicated that he had background in trading [foreign exchange (forex)] options, and because of McDonald’s inexperience with such trading that he needed to “drive the train.” Despite his aggressiveness—which included calling up to three times in a single day—McDonald trusted Johnson, because of his representations that as a senior [account executive], with years of trading experience, none of his clients ever lost money.” Id.
\(^8\) Id. at *16. Because Gibraltar’s profits were driven by commissions Forex Capital Markets (FxCM) paid Gibraltar for each options trade Gibraltar’s clients placed with FxCM; it did not matter to the firm whether its discretionary trades were profitable—only that they were executed. See id. at *8.
\(^9\) Id. at *16.
\(^10\) Id. at *16–17; see Charles Lunan, *Broker Accused of Fraud: 97% of Investors Ended Up as Losers*, SUN-SENTINEL, May 6, 1992, at A1.
\(^12\) Id. at *18.
\(^14\) See id. at *42-60, *73.
Commodity Exchange Act’s (CEA or the Act) vicarious liability provision did not permit the imposition of Gibraltar’s frauds to FxCM because the CFTC failed to demonstrate that FxCM exerted sufficient control over the firm. The Eleventh Circuit in *Gibraltar* became the first circuit court of appeals to adopt such a restrictive construction of the provision, concluding that the CEA requires an element of control to establish an agency relationship. In so doing, the court declined to defer to the Commission’s long-held liberal interpretation of the statute—one to which the Seventh Circuit paid deference and credited with reducing the amount of commodities fraud by compelling futures commission merchants to “be more careful about whom they grasp to their bosoms.”

Part I of this Comment provides an overview of commodities regulation, the CEA’s vicarious liability provision, and judicial review under the framework set forth in *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.* Part II analyzes in detail the Eleventh Circuit’s *Gibraltar* decision, and the proceedings leading up to that decision. Part III advocates that case law and *Chevron* doctrine support the Commission’s interpretation of the provision and contends that good policy dictates broad application of vicarious liability for commodities fraud.

I. CLIMBING UP GIBRALTAR: COMMODITIES REGULATION, THE COMMODITY EXCHANGE ACT’S VICARIOUS LIABILITY PROVISION, AND CHEVRON DEFERENCE

To better understand the fraud Gibraltar perpetrated against Mrs. McDonald, the role of FxCM in facilitating that fraud, and the law underlying each party’s arguments in the *Gibraltar* case, Part I provides a wealth of background information. Part I.A provides an overview of the CFTC’s regulation of the commodity futures and options markets, Part I.B provides an overview of secondary liability under the CEA, and Part I.C explores judicial review of the CFTC’s interpretation of the CEA under *Chevron* doctrine. Information specific to transactions in foreign exchange, which were at issue in the *Gibraltar* case, is also included throughout this part.

A. Overview of the Commodity Futures and Options Markets

Often overshadowed by the larger and better-funded Securities and Exchange Commission on which it was modeled, the CFTC plays a crucial

---

17. See id. at 1188.
18. Rosenthal & Co. v. CFTC, 802 F.2d 963, 969 (7th Cir. 1986) (stating that “[s]ome deference must be paid to the special knowledge which the Commission brings to the regulation of the commodities markets”).
20. In fiscal year 2007, the SEC’s operating budget was $876 million. By contrast, the CFTC’s stood at just $98 million. *Hearing before the S. Appropriations Subcomm. on Fin.*
role in fighting fraud, abuse, and manipulation in the U.S. financial markets.\textsuperscript{21} Established by the Commodity Futures Trading Commission Act of 1974 (CFTCA)\textsuperscript{22} to replace the outmoded Commodity Exchange Commission,\textsuperscript{23} Congress granted to the CFTC exclusive jurisdiction over the commodity futures and options markets and empowered the new agency to initiate administrative disciplinary proceedings and seek injunctions in federal district court to enforce the CEA.\textsuperscript{24}

Since the CFTC’s inception in 1974, the trading volume on U.S. futures exchanges has increased by a staggering 8000\% to approximately five trillion dollars each day.\textsuperscript{25} Financial engineers have developed derivative instruments of increasing size and complexity, and these contracts are traded electronically around the globe twenty-four hours a day.\textsuperscript{26} As the futures and options markets have grown, so too has commodities fraud.\textsuperscript{27} Poor Mrs. McDonald, who was fleeced out of thousands in Gibraltar’s forex options trading scam, is certainly not alone.\textsuperscript{28}

The sections below provide a basic overview of the commodities markets by introducing commodities, commodities futures and options, the CEA’s various classes of registrants, and CFTC enforcement actions and reparations proceedings.

\textsuperscript{21} Michael S. Sackheim, Administrative Enforcement of the Federal Commodities Laws by the Commodity Futures Trading Commission, 12 SETON HALL L. REV. 445, 445–46 (1982) (stating that Congress modeled the U.S. Commodity Futures Trading Commission (CFTC or Commission) in the image of the U.S. Securities and Exchange Commission and created the agency to shield investors in the commodities markets from “abusive and criminal practices”).


\textsuperscript{24} 7 U.S.C. § 2(a)(1)(A) (2006) (“The Commission shall have exclusive jurisdiction . . . with respect to . . . [commodity] ‘option[s]’ . . . and transactions involving contracts of sale of a commodity for future delivery . . . .”); id. § 9 (empowering the CFTC to initiate administrative disciplinary hearings); id. § 13a-1 (empowering the CFTC to initiate injunctions in federal court); see Markham, supra note 23 at 92–94; Sackheim, supra note 2121, at 445–46.

\textsuperscript{25} Lukken Testimony, supra note 20, at 1, 6. During that time, the CFTC’s staffing levels have actually fallen by twelve percent. Id. at 6.

\textsuperscript{26} Id. at 1.


\textsuperscript{28} See supra Introduction.
1. Commodities: More Than Just the Bacon in Your BLT

What are commodities? Commodities are agricultural products like coffee that you had for breakfast; wheat, which is used to make bread; pork bellies, which is used to make bacon, which you might find in a bacon and lettuce and tomato sandwich; and then there are other commodities, like frozen orange juice and gold. Though, of course, gold doesn’t grow on trees like oranges. That clear so far?29

- Mortimer Duke

Though informative, Mortimer Duke’s explanation of commodities simplifies the statutory definition. As originally enacted in 1936, the Commodity Exchange Act defined “commodity” as “wheat, cotton, rice, corn, oats, barley, rye, flaxseed, grain sorghums, mill feeds, butter, eggs and Solanum tuberosum (Irish potatoes).”30 Over the next four decades, this definition gradually expanded to embrace wool tops in 1938,31 fats and oils (including lard, tallow, cottonseed oil, peanut oil, soybean oil, and all other fats and oils), cottonseed meal, cottonseed, peanuts, soybeans, and soybean meal in 1940,32 wool in 1954,33 onions in 1955,34 and livestock, livestock products, and frozen concentrated orange juice in 1968.35

Congress again enlarged the definition of “commodity” as part of its major overhaul of the CEA in 1974 to include all “goods and articles, except onions . . . and all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in.”36 The expansion

29. TRADING PLACES (Paramount Pictures 1983) (describing the commodities business to Eddie Murphy’s character, Billy Ray Valentine).
36. Commodity Futures Trading Commission Act of 1974, Pub. L. No. 93-463, § 201(a)-(b), 88 Stat. 1389, 1395 (codified as amended at 7 U.S.C. § 1a(4)). This broad definition of “commodity,” enacted as part of the CFTCA, “expanded the definition of commodity to encompass virtually anything that is or becomes the subject of futures trading, intangible as well as tangible.” 1 PHILIP MCBRIDE JOHNSON & THOMAS LEE HAZEN, COMMODITIES REGULATION § 1.02[1], at 1-7 (3d ed. Supp. 2002-2). The purpose of
of the statute to include nonagricultural commodities irked the Treasury Department, which urged Congress to exclude off-exchange currency transactions from the statute’s grasp. The enactment of the Treasury Amendment that same year was intended to insulate off-exchange currency trading between sophisticated institutional investors, but the provision ultimately “made it difficult for the CFTC to bring fraud actions against off-exchange foreign currency scams aimed at retail customers.”

Congress modified the Treasury Amendment as part of the Commodity Futures Modernization Act of 2000 (CFMA), and granted the CFTC limited jurisdiction over off-exchange forex futures and options transactions. By the words of the statute, certain forex transactions, like those between Mrs. McDonald and FxCM, were expressly subject only to the CEA’s anti-fraud provisions. As such, many courts determined that the Act’s vicarious liability provision should not apply to such transactions. In part to resolve this dispute, Congress passed the CFTC Reauthorization Act of 2008 (CRA), which amended the CEA to clarify that off-exchange forex transactions are indeed subject to the CEA’s vicarious liability provision as well.
2. Commodities Derivatives Contracts: Futures, Forwards, and Options

The Commodity Exchange Act charges the CFTC with exclusive jurisdiction over certain commodities derivatives contracts, including futures and options. Section 2(a)(1) of the CEA grants the CFTC jurisdiction over “transactions involving contracts of sale of a commodity for future delivery,” commonly referred to as futures contracts. These instruments are simply agreements to buy or sell a specified quantity of a commodity at a particular price for delivery at a set future date. Like the underlying commodities themselves, futures contracts are fungible because they are written in standard, uniform terms and each party’s obligations to the other are guaranteed by an intermediary.

Despite being a contract of sale for future delivery, futures contracts rarely result in actual delivery of the commodity because either party may extinguish its obligations by taking an offsetting position. As Judge Posner wryly stated, this process “enables people who are not agriculturalists, and wouldn’t know an ear of corn from a soybean if it slapped them in the face, to speculate in the prices of commodities.”

The CEA excludes from its definition of futures contract “any sale of any cash commodity for deferred shipment or delivery.” These instruments, called forwards, are contracts in which a sale occurs, but the parties agree


45. 7 U.S.C. § 2(a)(1)(A) (“The Commission shall have exclusive jurisdiction . . . with respect to . . . transactions involving contracts of sale . . . for future delivery . . . .”).


47. See Salomon Forex, Inc. v. Tauber, 8 F.3d 966, 971 (4th Cir. 1993) (defining a commodity futures contract as “an executory, mutually binding agreement providing for the delivery of a commodity on a date certain where the grade, quantity, and price at the time of delivery are fixed”); Chi. Mercantile Exch. v. SEC, 883 F.2d 537, 542 (7th Cir. 1989) (“A futures contract, roughly speaking, is a fungible promise to buy or sell a particular commodity at a fixed date in the future.”); 1 JOHNSON & HAZEN, supra note 36, § 1.02[3], at 1-19; Kozinn, supra note 46, at 250.

48. See 1 JOHNSON & HAZEN, supra note 36, § 1.02[3], at 1-19; Kozinn, supra note 46, at 250.

49. See Salomon Forex, 8 F.3d at 971; Chi. Mercantile Exch., 883 F.2d at 542; 1 JOHNSON & HAZEN, supra note 36, § 1.02[4], at 1-21 (stating that nearly ninety-five percent of futures contracts are closed out through the offsetting process).

50. Nagel v. ADM Investor Servs., Inc. 217 F.3d 436, 440 (7th Cir. 2000).

51. 7 U.S.C. § 1a(19) (2006); see Nagel, 217 F.3d at 440 (“The Act defines a futures contract as a contract for future delivery, but defines future delivery to exclude ‘any sale of any cash commodity for deferred shipment or delivery,’ that is, any forward contract.” (internal citations omitted)); 1 JOHNSON & HAZEN, supra note 36, § 1.02[3], at 1-18.1 (Supp. 2002-2).
that actual delivery of the specified commodity will be delayed until some later date. In contrast with futures contracts, parties to a forward contract actually contemplate the physical delivery of the commodity. This subtle distinction is often the subject of litigation, for if a court deems the transaction in question a forward and not a future, the instrument would generally lie outside the CFTC’s regulatory jurisdiction.

In addition to futures, Congress has charged the CFTC with the exclusive authority to regulate trading in commodity options—contracts that confer a right, but not an obligation, to either buy or sell an underlying commodity (or future) at a fixed price and date. To purchase an option, the trader pays a premium to the writer, which will expire unless its holder chooses to exercise his right to complete the transaction. An option holder can simply allow the option to lapse if it is unprofitable, thus limiting her loss to the premium paid to the writer of the option. Commodity options further differ from commodity futures in that commodity options trading is not limited to organized exchanges. This fact enabled Gibraltar to route Mrs. McDonald’s forex options trades through FxCM’s off-exchange forex trading platform.

3. Categories of CFTC Registrants

In addition to defining “commodities” and “futures,” the CEA introduces a hodgepodge of statutory classifications of individuals or entities required

---

52. See 7 U.S.C. § 1a(19); Nagel, 217 F.3d at 440; 1 Johnson & Hazen, supra note 36, § 1.02[3], at 1-181 (Supp. 2002-2).
53. See Lachmund v. ADM Investor Servs., Inc., 191 F.3d 777, 786 (7th Cir. 1999) (“[C]ash forward contracts . . . contemplate or result in the physical transfer of the underlying commodity.”).
54. See, e.g., CFTC v. Erskine, 512 F.3d 309 (6th Cir. 2008) (rollovers of currency sales); CFTC v. Zelener, 373 F.3d 861 (7th Cir. 2004) (rollovers of currency sales); Nagel, 217 F.3d at 440 (rollovers of grain sales); Lachmund, 191 F.3d at 786 (same).
57. 1 Johnson & Hazen, supra note 36, § 1.02[9], at 1-62.6 (Supp. 2003); Carolyn H. Jackson, Note, Have You Hedged Today?: The Inevitable Advent of Consumer Derivatives, 67 Fordham L. Rev. 3205, 3212 (1999).
58. 1 Johnson & Hazen, supra note 36, § 1.02[9], at 1-62.6 (Supp. 2003).
59. Id. at 1-62.8 (Supp. 2003).
60. Id.; Jackson, supra note 57, at 3212.
61. 1 Johnson & Hazen, supra note 36, § 1.02[9], at 1-62.8 (Supp. 2003).
to register with the CFTC and comply with its rules and regulations.\(^{62}\)

Among the first of the CEA’s required registrants was the futures commission merchant, which was added to the statutory scheme in 1936.\(^{63}\) A futures commission merchant is the commodities equivalent of a brokerage house—\(^{64}\) it is an individual or entity that solicits or accepts orders from clients to buy or sell commodity futures or options and accepts payment in connection with those orders.\(^{65}\) Although the largest futures commission merchants are affiliates of multinational banks and insurance companies, other futures commission merchants, such as FxCM, are standalone entities dealing exclusively with retail customers.\(^{66}\)

The CFTCA introduced registration and reporting requirements for several classes of commodities professionals: associated persons, commodity pool operators, and commodity trading advisors.\(^{67}\) A commodity pool operator is an individual or entity that operates or solicits funds for a commodity pool—an enterprise that, like a mutual fund, combines investor funds for the purpose of trading commodity futures or options contracts.\(^{68}\) A commodity trading advisor is an individual or entity engaged in the business of giving advice or issuing reports or analyses with respect to trading in commodity futures or options.\(^{69}\) An associated person is anyone other than an introducing broker engaged in soliciting and

---


\(^{63}\) See Commodity Exchange Act, Pub. L. No. 74-675, § 4(d), 49 Stat. 1491, 1494 (1936) (“It shall be unlawful for any person to engage as [a] futures commission merchant . . . unless . . . such person shall have registered [and complied with the Act’s regulations].”); 1 JOHNSON & HAZEN, supra note 36, § 1.06[1], at 1-137 (Supp. 2001) (stating that futures commission merchants “first came under regulation when the Commodity Exchange Act was amended in 1936”). Such regulations include segregation of customer accounts, mandatory disclosures, and minimum net capital requirements. See 7 U.S.C. §§ 6d, 6f, 6g.

\(^{64}\) 1 JOHNSON & HAZEN, supra note 36, § 1.06[1], at 1-137 (Supp. 2001) (explaining that a futures commission merchant “if in the securities business, would probably be called a brokerage house”). An individual investor wishing to trade on the commodities markets opens an account with a futures commission merchant, which receives trading orders directly from its customers or through an intermediary such as an introducing broker. Id.


\(^{67}\) See Pub. L. No. 93-463, 88 Stat. 1389, 1396–97; S. REP. NO. 93-1131 (1974), reprinted in 1974 U.S.C.C.A.N. 5843, 5871-75; 1 JOHNSON & HAZEN, supra note 36, § 1.08[2], at 1-157 (Supp. 2003) (associated persons); id. § 1.10[1], at 1-175 (commodity trading advisors); id. § 1.11[1], at 1-184 (commodity pool operators).

\(^{68}\) 7 U.S.C. § 1a(5); 1 JOHNSON & HAZEN, supra note 36, § 1.11[2], at 1-185 (Supp. 2002-2); 13 MARKHAM, supra note 56, § 17A-1, at 17A-1. Commodity pools are attractive to investors because they offer: (1) easy entry to the complex commodity markets; (2) limited liability; (3) diversification; (4) lack of margin calls; and (5) no responsibility to make or take delivery on futures contracts. Id. at 17A-1 to -2. As of 2005, there were roughly 3500 commodity pools with about $600 billion in assets under management. Id. at 17A-2.

\(^{69}\) 7 U.S.C. § 1a(6); 1 JOHNSON & HAZEN, supra note 36, § 1.10[2], at 1-175 to -178 (Supp. 2003).
accepting orders or supervising those activities on behalf of another entity regulated by the CFTC.\textsuperscript{70}

Until the CEA was again amended in 1982, futures commission merchants solicited business from the public primarily through their associated persons and loosely affiliated “agents.”\textsuperscript{71} These “agents” were mostly unregistered and unregulated and the futures commission merchants for which they solicited clientele would generally disclaim all responsibility for their violations of the commodities laws.\textsuperscript{72} In response, Congress created a new class of registrants, known as introducing brokers, as part of the Futures Trading Act of 1982.\textsuperscript{73} An introducing broker is an individual or entity that solicits or accepts orders to buy or sell commodity futures or options but does not accept money or other assets as payment for the order.\textsuperscript{74} Generally, those who solicit “customers for futures commission merchants must register with the CFTC as introducing brokers and either meet capital requirements or obtain a guarantee of their obligations from their futures commission merchant.”\textsuperscript{75} These restrictions did not apply, however, in the off-exchange market; a loophole that allowed the Gibraltar firm to solicit customers for FxCM without registering with the Commission.\textsuperscript{76}

\textsuperscript{70} 7 U.S.C. § 6k (declaring it “unlawful for any person to be associated with a futures commission merchant,” introducing broker, commodity pool operator, or commodity trading advisor in a sales capacity if such person is not registered with the CFTC as an associated person).

\textsuperscript{71} See H.R. REP. No. 97-565, pt. 1, at 49 (1982), reprinted in 1982 U.S.C.C.A.N. 3871, 3898 (“Although agents may perform the same functions as branch officers of futures commission merchants, agents generally are separately owned and run.”); 1 JOHN & HAZEN, supra note 36, § 1.08[2], at 1-157 (Supp. 2003).


\textsuperscript{73} See H.R. REP. No. 97-565, pt. 1, at 49 (1982), reprinted in 1982 U.S.C.C.A.N. 3871, 3898 (“Under [The Act], persons now considered agents would be required to register directly with the Commission as introducing brokers . . . .”); 1 JOHN & HAZEN, supra note 36, § 1.08[2], at 1-157 (Supp. 2003). Although the CFTC had lobbied Congress to require all of these former “agents” to register as associated persons, Congress instead decided to create the introducing broker. See H.R. REP. No. 97-565, pt. 1, at 49 (1982), reprinted in 1982 U.S.C.C.A.N. 3871, 3898. Congress chose this structure in part to shield futures commission merchants from liability, but expressed that a futures commission merchant could be held liable as principal when its introducing broker acts as a de facto branch office of the futures commission merchant or when the introducing broker is not truly acting an independent business entity. See id. at 3982.

\textsuperscript{74} 7 U.S.C. § 1a(23) (2006).


\textsuperscript{76} 7 U.S.C. § 6d(a)(1); 17 C.F.R. §§ 1.17(a)(1)(iii), (2)(ii) (2010)). In a 2002 advisory release, the CFTC also explained that although most soliciting brokers must register with the CFTC as an associated person of the futures commission merchant or an introducing broker, “entities that introduce retail customers solely to trade off-exchange foreign currency futures and options with registered futures commission merchants that act solely as counterparties, are not required to register under the Act as introducing brokers, but may do so voluntarily.” Division of Trading & Markets, CFTC, Advisory Concerning Foreign Currency Trading by
The CRA, which clarified the Commission’s jurisdiction over retail forex transactions, also created the retail foreign exchange dealer designation, a new category of CFTC registrant for firms serving as counterparties in retail forex transactions.\(^77\) Retail foreign exchange dealers must register with the Commission as a retail foreign exchange dealer and maintain a minimum of $20 million in adjusted net capital.\(^78\)

4. CFTC Enforcement Actions and Reparations Proceedings

This section introduces CFTC administrative proceedings and enforcement actions in federal court and discusses their differences, including judicial review, to help readers better understand the causes and effects of the Commission’s decision in *Gibraltar* to file suit in federal court rather than proceeding administratively.

a. CFTC Administrative Proceedings

Section 6(b) of the Commodity Exchange Act, amended in 1974 as part of the CFTCA, empowers the CFTC to initiate administrative disciplinary proceedings against any person who violates the CEA or the regulations promulgated thereunder.\(^79\) The disciplinary hearing is held before an administrative law judge designated by the Commission\(^80\) who is empowered to prohibit violators from trading on contract markets, revoke or suspend their registrations, assess monetary penalties, and require restitution.\(^81\)

The CFTCA also established a reparations procedure, giving aggrieved investors the opportunity to seek redress before the Commission for a CFTC registrant’s alleged violations of the CEA or CFTC regulations.\(^82\)

---


\(^{78}\) See id.


\(^{80}\) See 7 U.S.C. § 9 (2006); 13A M. MARKHAM, supra note 56, § 23:1, at 23-2 (explaining that the administrative law judge “oversees all initial motions, discovery and the hearing of the factual evidence”).


\(^{82}\) See Commodity Futures Trading Commission Act of 1974, Pub. L. No. 93-463, § 106, 88 Stat. 1389, 1393 (codified as amended at 7 U.S.C. § 18); Markham, supra note 23 at 87–88 (stating that the CFTC Act created a reparations procedure and made the Commission their adjudicative body); Markham & Meltzer, supra note 81, at 1116–17 (same).
a reparations proceeding, administrative law judges are authorized to render an award for “actual damages proximately caused by” a registrant’s violation that a claimant may enforce in federal district court. If the award is not timely paid, the registrant faces an automatic bar from trading and suspension of her registration.

Following both disciplinary and reparations hearings, the administrative law judge may render an initial decision, which either party can appeal to the Commission. The Commission’s final orders are further appealable to the appropriate court of appeals, which reviews the Commission’s orders (like other agency actions) in accordance with the deferential standard set forth in Section 706 of the Administrative Procedure Act (APA).

Under the APA, reviewing courts must set aside agency actions and conclusions found to be “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law” or “in excess of statutory jurisdiction.” Findings of fact are reviewed under the substantial evidence standard, in which reviewing courts set aside any finding “unsupported by substantial evidence.” In the Commission’s case, findings of fact are upheld so long as supported by the weight, or preponderance, of the evidence.

83. 7 U.S.C. § 18(a)(1).
84. Id. § 18(d).
85. Id. § 18(f).
86. 17 C.F.R. § 10.84 (disciplinary proceedings); id. § 12.314 (reparations hearings). Unless the Commission specifically adopts the reasoning of an administrative law judge’s initial decision, it does not represent Commission precedent and is “not an appropriate basis for inferring limitations on reasoning included in a Commission decision.” In re Three Eight Corp., [1992-1994 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,749 at 40,444 (June 16, 1993).
87. 17 C.F.R. § 10.102 (discussing disciplinary proceedings); id. § 12.401 (reparations hearings). The Commission “may affirm, reverse, modify, set aside or remand for further proceedings.” Id. § 10.104 (disciplinary proceedings); id. § 12.406 (reparations hearings).
88. 7 U.S.C. § 9 (“After the issuance of the order by the Commission, the person against whom it is issued may obtain a review of such order or such other equitable relief as to the court may seem just by filing in the United States court of appeals of the circuit in which the petition is doing business.”); id. § 18(e) (stating that any order of the Commission entered in connection with a reparations hearing “shall be reviewable on petition of any party aggrieved thereby, by the United States Court of Appeals for any circuit in which a hearing was held, or if no hearing was held, any circuit in which the appellee is located”).
89. 5 U.S.C. § 706; see Purdy v. CFTC, 968 F.2d 510, 518 n.21 (5th Cir. 1992) (explaining that “judicial review of the Commission’s final rulings are governed by the Administrative Procedures Act (‘APA’), which applies to all administrative agencies, including the Commodity Futures Trading Commission”). Section 706 charges reviewing courts to “decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of an agency action.” 5 U.S.C. § 706.
90. 5 U.S.C. § 706.
91. Id.
92. See 7 U.S.C. § 9 (“[T]he findings of the Commission as to the facts, if supported by the weight of evidence, shall . . . be conclusive.”); 13A MARKHAM, supra note 56, § 23:20, at 23-79 to -85 (listing cases).
Section 6(c) of the CEA, also enacted as part of the CFTCA, empowers the CFTC to seek both temporary and permanent injunctions in federal district court whenever the Commission believes anyone “has engaged, is engaging, or is about to engage in” a violation of the CEA or the regulations promulgated thereunder—thereby equipping the agency with a powerful weapon to protect the investing public and deter future violations of the CEA. The CFTC may also request, and the district court may award, civil penalties and ancillary remedies such as disgorgement, an accounting, or the appointment of a receiver. In the Gibraltar case, which is further detailed below, the CFTC chose to commence its enforcement action in the district court, seeking to enjoin Gibraltar, its principals, and FxCM from violating the CEA.

Review of a district court’s decision to issue an injunction, assess monetary fines, or award ancillary remedies differs from judicial review of CFTC administrative proceedings. Unlike the Commission’s issuance of an order, filing suit in federal court is not considered an agency action, a distinction which deprives the Commission of the deferential standard of review set forth in the APA. Instead, appellate courts review a district court’s factual findings for clear error and questions of law de novo.

---

93. 7 U.S.C. § 13a-1(a); see CFTC v. Cassidy, No. 08-CIV-9962 (GBD), 2010 U.S. Dist. LEXIS 52455, at *6-7 (S.D.N.Y. March 8, 2010) (explaining that “7 U.S.C. § 13a-1 . . . authorizes the Commission to seek injunctive relief against any person, or, to enforce compliance with the Act, whenever it shall appear to the Commission 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”); CFTC v. Efrosman, No. 05 Civ 08422 (KMW), 2009 U.S. Dist. LEXIS 84529, at *19 (S.D.N.Y. Sept. 16, 2009) (“Section 13a-1 states that courts have jurisdiction to hear claims arising from the CEA whenever it ‘shall appear’ to the CFTC that there has been a violation of the CEA.”); see also Michael S. Sackheim, Judicial Equitable Enforcement of the Commodities Laws, 32 AM. U. L. REV. 945, 948-50 (1983).

94. Sackheim, supra note 93, at 950 (stating that “[a] permanent injunction granted in an action brought by the CFTC is a harsh form of equitable relief designed to prevent future violations of the [CEA]”).

95. Id. at 956.


97. 5 U.S.C. § 551(13) (incorporated by reference in id. § 701(b)(2)) (defining an “agency action” as “the whole or a part of an agency rule, order, license, sanction, relief, or the equivalent or denial thereof, or failure to act”).


99. See CFTC v. Equity Fin. Grp., 572 F.3d 150, 154 n.8 (3d Cir. 2009) (“We review the District Court’s findings of fact for clear error, and we exercise plenary review over its interpretation of the law and its legal conclusions.”); CFTC v. Gibraltar Monetary Corp., 575 F.3d 1180, 1186 (11th Cir. 2009) (stating that “[t]he district court’s determination of the correct standard for vicarious liability under the relevant vicarious liability provisions is a matter of law,” but its “determination regarding the scope of vicarious liability and the principal-agent relationship is a question of fact”).
B. Secondary Liability Under the Commodity Exchange Act

1. The CEA’s Vicarious Liability Provision

Since the inception of commodity futures trading in the United States in the mid-1850s,100 farm groups and their supporters in Congress have been suspicious of the practice and demanded its regulation.101 To curb perceived market abuses, legislators introduced over 200 bills calling for the “prohibition, supervision, or regulation” of commodities futures trading between 1884 and 1921.102 Despite the mounting populist pressure, however, comprehensive federal regulation of commodities trading was delayed until 1921, when roller-coaster commodity prices finally created enough momentum for legislation in the area.103

The Future Trading Act of 1921,104 which taxed grain futures contracts, sought to curb market manipulation and excessive speculation, prevent fraud, and promote market stability.105 Among other things, this Act contained a vicarious liability provision in its definitions section, under a subsection entitled “[p]rincipals responsible for acts of agents.”106 Section 2 of the Future Trading Act provides:

The act, omission, or failure of any official, agent, or other person acting for any individual, association, partnership, corporation, or trust within the scope of his employment or office shall be deemed the act, omission, or failure of such individual, association, partnership, corporation, or trust, as well as such official, agent, or other person.107

---

101. See id.
102. See Note, Federal Regulation of Commodity Futures Trading, 60 YALE L.J. 822, 832 n.46 (1951); see also Note, Prevention of Commodity Futures Manipulation Under the Commodity Exchange Act, 54 HARV. L. REV. 1373, 1374 n.4 (1941). Farm-belt congressmen advocated such legislation “to break up the . . . system of swindling small farmers and poor people by alluring them into making ‘wind contracts’ with rich men about agricultural products that result nearly always in the strong wolves devouring the weak lambs.” 23 CONG. REC. 5076 (June 6, 1892) (statement of Rep. Tillman). Rep. George D. Tillman of South Carolina delivered this statement in connection to the proposed “anti-option” bill of 1892, which despite strong support in the House, ultimately failed in the Senate. See Johnson, supra note 100, at 266 n.2.
103. See Johnson, supra note 100, at 266; 61 CONG. REC. 1312 (May 11, 1921) (statement of Rep. Tincher) (stating that “[t]here never was a time where there was more vicious fluctuations in the market”).
107. Id. Neither the bill itself nor the extensive congressional record elaborated on the identity of those other persons, besides officers and agents, who would fall within the scope of the statute. See 61 CONG. REC. 1312-31 (May 11, 1921); see also Jing Bian v. MG Fin.,
This provision, which is nearly identical to other vicarious liability provisions in Title 7 of the United States Code,\textsuperscript{108} reflects “the evolution of legal thinking about a firm’s liability for the acts of agents.”\textsuperscript{109} Although the U.S. Supreme Court invalidated the Future Trading Act as an unconstitutional application of Congress’s taxing power soon after its passage,\textsuperscript{110} the Court retained in full its vicarious liability provision in the reformulated Grain Futures Act of 1922.\textsuperscript{111} Congress used the provision again when it enacted the Commodity Exchange Act in 1936\textsuperscript{112} and the provision has remained virtually unchanged ever since.\textsuperscript{113} In 1976, when

\textsuperscript{108} See, e.g., 7 U.S.C. § 63 (2006) (discussing cotton standards); id. § 87d (grain standards); id. § 136(b)(4) (environmental pesticide control); id. § 223 (live poultry dealers and handlers); id. § 473c-3 (cotton statistics and estimates); id. § 499p (perishable agricultural commodities); id. § 511l (tobacco inspection); id. § 2139 (transportation of animals); id. § 8313(c) (animal health protection). Few courts have addressed these nearly identical provisions, although it is clear from courts’ decisions that the provisions’ language imposes a strict liability regime like § 2(a)(1)(B). See, e.g., Koam Produce, Inc. v. United States, 269 Fed. App’x 35, 37 (2d Cir. 2008) (noting that a corporation may be held vicariously liable under PACA for its employees violative acts even if it was not aware of them); Kleiman & Hochberg, Inc. v. United States Dep’t of Agric., 497 F.3d 681, 689 (D.C. Cir. 2007) (stating that PACA’s vicarious liability provision “simply makes applicable to wholesale produce merchants the principle of respondat superior”); Post & Taback, Inc. v. Dep’t of Agric., 123 Fed. App’x 406, 408 (D.C. Cir. 2005) (stating that the plain language of § 499p makes clear that employers need not have knowledge of their employees’ misconduct to be held vicariously liable); Rosenthal & Co. v. CFTC, 802 F.2d 963, 966 (7th Cir. 1986) (stating that § 2(a)(1)(B) imposes strict liability on principals); United States v. Corbin Farm Serv., 444 F. Supp. 510, 526 (E.D. Cal.), aff’d 578 F.2d 259 (9th Cir. 1978) (per curiam) (explaining that independent contractors may be held liable under the Federal Insecticide, Fungicide, and Rodenticide Act’s vicarious liability provision, § 136(b)(4)).


\textsuperscript{110} See Hill, 259 U.S. at 44.

\textsuperscript{111} Pub. L. No. 67-331, § 2(a), 42 Stat. 998 (codified at 7 U.S.C. § 2(a)(1)(B)). This time, Congress grounded the Act in its commerce power. The U.S. Supreme Court upheld the constitutionality of the Grain Futures Act of 1922 in Board of Trade v. Olsen, 262 U.S. 1 (1922).

\textsuperscript{112} See, e.g., Board of Trade v. Olsen, 262 U.S. 1 (1922); see CFTC v. Gib. Monetary Corp., 575 F.3d 1180, 1188 (11th Cir. 2009) (explaining that the CEA was enacted “to expand [the federal government’s] jurisdiction over commodities trading and introduce additional mechanisms to prevent fraud and manipulation”).

the CFTC promulgated its own vicarious liability provision, Regulation 1.2,\textsuperscript{114} it adopted language nearly identical to that of § 2(a)(1)(B).\textsuperscript{115}

With the passage of the Futures Trading Act of 1982, Congress sought to distinguish the meaning of the Act’s long-standing vicarious liability provision from the CEA’s new controlling person provision, 7 U.S.C. § 13c(b).\textsuperscript{116} The report states that the provision “in essence provides respondent superior and general principal-agent standards for imposing liability on employers and principals for the acts of their employers or agents.”\textsuperscript{117} Although commentators considering the CEA’s vicarious liability provision once surmised that “[s]uits brought under section 2(a)(1) . . . trigger an agency law analysis,”\textsuperscript{118} the Commission and the federal courts now understand the provision as broader than the common law.\textsuperscript{119}

\textsuperscript{114} 17 C.F.R. § 1.2 (2009) (“The act, omission, or failure of any official, agent, or other person acting for any individual, association, partnership, corporation or trust within the scope of his employment or office, shall be deemed the act, omission, or failure of such individual, association, partnership, corporation, or trust as well as of such official, agent, or other person.”).

\textsuperscript{115} Id. Congress further expressed that the provision should become the sole “basis for imputing liability to a controlling person,” id., but its passage has not affected the scope of § 2(a)(1)(B). See Rosenthal & Co. v. CFTC, 802 F.2d 963, 966–67 (7th Cir. 1986) (explaining that “[t]he legislative history makes plain . . . that these additions were intended to supplement rather than displace the respondent superior liability created by section 2(a)(1)(B)”).


\textsuperscript{117} Id. Article further expressed that the new provision should become the sole “basis for imputing liability to a controlling person,” id., but its passage has not affected the scope of § 2(a)(1)(B). See Rosenthal & Co. v. CFTC, 802 F.2d 963, 966–67 (7th Cir. 1986) (explaining that “[t]he legislative history makes plain . . . that these additions were intended to supplement rather than displace the respondent superior liability created by section 2(a)(1)(B)”).

\textsuperscript{118} See Markham & Meltzer, supra note 81, at 1125–34. Under common law agency, principals are only subject to liability to third parties harmed by an agent’s tortious conduct when it is within the scope of the agent’s actual or apparent authority or when the agent is an employee and the tort was committed within the scope of its employment. See Restatement (Third) of Agency § 7.03 (2005). Apparent authority exists where, based on manifestations traceable to the principal, the third party reasonably believes that the actor has authority to act on the principal’s behalf. See id. § 2.0. Actual authority, either express or implied, exists where both the principal and agent consent to the agency relationship and the principal exercises or has the right to exercise control over the agent. See id. §§ 1.01, 2.01.

\textsuperscript{119} See Committee on Futures Regulation, Association of the Bar of the City of New York, Secondary and Supervisory Liability Under the Commodity Exchange Act: An Update, 56 RECORD 240, 242 (2001) (“[T]he CFTC and courts have continued to interpret this vicarious liability provision broadly and aggressively. . . . [T]hey have expanded the application of Section 2(a)(1) vicarious liability to futures industry participants who might not be liable under traditional agency principles.”); Guttman v. CFTC, 197 F.3d 33 (2d Cir. 1999); Dohmen-Ramirez v. CFTC, 837 F.2d 847 (9th Cir. 1988); Stotler & Co. v. CFTC,
2. Controlling Person and Aiding and Abetting Liability under the CEA

Apart from § 2(a)(1)(B), the CEA provides two additional forms of secondary liability—aiding and abetting liability and controlling person liability. Section 13(b) of the CEA, the CEA’s controlling person provision, provides that anyone who “directly or indirectly” controls another who has violated the CEA “may be held liable for such violation . . . to the same extent as [the] controlled person.”120 This provision applies only in CFTC enforcement actions, in which the Commission must prove the controlling person’s lack of good faith.121 To be liable as a controlling person under this section, the person need only possess the power to direct the primary violator; actual involvement in the primary violator’s illegal acts is not required.122

Section 13(a) of the Act provides that anyone who willfully aids and abets a violation of the commodities laws “may be held responsible for such violation as a principal.”123 To be liable under the provision, the purported aider and abetter must have acted willfully.124 Unlike the CEA’s controlling person provision, aiding and abetting liability under the Act is not limited to CFTC enforcement proceedings. Rather, like § 2(a)(1)(B), the CEA contains a private cause of action for aiding and abetting liability.125

C. Chevron Doctrine

In appeals from Commission orders or district court decisions, the meaning of a particular provision of the CEA is often at issue—the CFTC will offer one meaning of the statute and the defendant, presumably to avoid liability, will offer another.126 In these situations, where an

120. 7 U.S.C. § 13c(b) (2006); see CFTC v. Baragosh, 278 F.3d 319, 330 (4th Cir. 2002); Monieson v. CFTC, 996 F.2d 852, 859–60 (7th Cir. 1993). Under the CEA, the term “person” includes “individuals, associations, partnerships, corporations, and trusts.” 7 U.S.C. § 1a(28).
121. 7 U.S.C. § 13c(b); see Baragosh, 278 F.3d at 330; 2 JOHNSON & HAZEN, supra note 36, § 5.09[11], at 5-243 to -244 (Supp. 2003).
122. See Baragosh, 278 F.3d at 330; 2 JOHNSON & HAZEN, supra note 36, § 5.09[11], at 5-244 (Supp. 2003). Those categorized as controlling persons would generally include the firm itself, its principal officers and supervisors, the president of the firm, or its sole shareholder, if any. See id.
123. 7 U.S.C. § 13c(a).
124. See id. 2 JOHNSON & HAZEN, supra note 36, § 5.09[10], at 5-240 (Supp. 2002-2); Markham & Meltzer, supra note 81, at 1153.
125. See 7 U.S.C. § 25; 2 JOHNSON & HAZEN, supra note 36, § 5.09[10], at 5-240 (Supp. 2002-2) (explaining that “aiders and abettors may be sued under section 22’s private remedy for injured investors”). Originally, the provision only applied in administrative proceedings, but a 1983 amendment to the law removed the term. See Fleming v. Bank of Boston Corp., 127 F.R.D. 30, 37 (D. Mass. 1989); see also Markham & Meltzer, supra note 81, at 1147–48 (providing background information on the provision’s enactment).
administrative agency proffers its own construction of a statute it is authorized to administer, reviewing courts are guided by the two-step framework articulated by the Supreme Court in the landmark case, *Chevron U.S.A., Inc. v. Natural Resources Defense Council.*

Under *Chevron* doctrine, the reviewing court must first determine whether “Congress has directly spoken to the precise question at issue.” If so, the court must yield “to the unambiguously expressed intent of Congress.” If, however, the court concludes that the statute is silent or ambiguous, it shall defer to the agency’s interpretation so long as it is “based on a permissible construction of the statute.”

Professors Thomas W. Merrill and Kristin E. Hickman have further identified an antecedent step, fittingly dubbed Step Zero, where courts determine whether *Chevron* applies at all. The Court has explained that an agency’s interpretation merits *Chevron* deference only “when it appears that Congress delegated authority to the agency generally to make rules carrying the force of law, and that the agency interpretation claiming deference was promulgated in the exercise of that authority.”

---

128. *Id.* at 842.
129. *Id.* at 843. When Congress explicitly leaves “a gap for the agency to fill, there is an express delegation of authority to the agency” to promulgate regulations in that area. Courts must give such regulations “controlling weight unless they are arbitrary, capricious, or manifestly contrary to the statute.” *Id.* at 843–44.
130. *Id.* at 843. Courts have justified this doctrine of deference to executive agencies on the grounds that interpretation of ambiguous statutes is an exercise in policymaking, which is outside the realm of the courts. See *id.* at 843 (stating that when Congress charges “an administrative agency to administer a congressionally created” scheme, it “necessarily requires the formulation of policy and the making of rules to fill any gap left, implicitly or explicitly, by Congress” (quoting Morton v. Ruiz, 415 U.S. 199, 231 (1974))); Pauley v. BethEnergy Mines, Inc., 501 U.S. 680, 696 (1991) (“[R]esolution of ambiguity in a statutory text is often more a question of policy than of law.” (citing Cass R. Sunstein, *Law and Administration After Chevron,* 90 COLUM. L. REV. 2071, 2085–88 (1990))); Richard J. Pierce, Jr., *Administrative Law Treatise* 160–61 (5th ed. 2010) (explaining that Congress often leaves many policy decisions unaddressed when enacting a statute on account of “inadequate expertise, inadequate time, inadequate foresight, or problems inherent in collective decisionmaking”).
132. *United States v. Mead Corp.*, 533 U.S. 218, 226–27 (2001). The Mead Court continued: “Delegation of such authority may be shown in a variety of ways, as by an agency’s power to engage in adjudication or notice-and-comment rulemaking, or by some other indication of a comparable congressional intent.” *Id.* at 227. The *Mead* test has
While the Court has determined that an agency’s construction of a statute articulated by way of formal adjudicative proceedings and notice-and-comment rulemaking generally qualify for *Chevron* deference, agency interpretations that lack the force of law such as those advanced in opinion letters, policy statements, agency manuals, enforcement guidelines, customs ruling letters, and litigating positions do not. Where, as in *Gibraltar*, the CFTC has advanced a construction of the CEA derived from a formal adjudication or notice-and-comment rulemaking, courts have generally deferred to the Commission so long as its interpretation was reasonable.

II. BREAKING DOWN CFTC v. GIBRALTAR MONETARY CORP.

In *Gibraltar*, the Eleventh Circuit observed that there is no consensus among the circuit courts as to the appropriate standard for vicarious liability
under the CEA.\textsuperscript{140} The Second, Seventh, and Ninth Circuit Courts of Appeal have seemingly embraced the CFTC’s totality of the circumstances approach, in which any one factor, including control, is not dispositive of an agency relationship.\textsuperscript{141} The Eighth Circuit, by contrast, has looked to common law agency principles when considering vicarious liability in the commodities context—without specific reference to the CEA’s vicarious liability provision, 7 U.S.C. § 2(a)(1)(B).\textsuperscript{142}

The Eleventh Circuit in \textit{Gibraltar}, however, became the first federal court of appeals to determine that, like common law agency, a finding of agency under the CEA’s vicarious liability provision requires control of the agent by the principal.\textsuperscript{143} Moreover, in dismissing the CFTC’s totality of the circumstances approach, the court essentially disregarded a key element of both parties’ briefs—namely, whether the CFTC’s interpretation of the CEA’s vicarious liability provision warranted judicial deference in accordance with \textit{Chevron} doctrine.\textsuperscript{144} Before discussing the Eleventh Circuit’s opinion, this Part provides an overview of \textit{Gibraltar’s} facts, summarizes the district court’s opinion, and sets forth key points from the parties’ appellate briefs.

\textbf{A. Gibraltar’s Fraud and FxCM}

Ten years prior to forming Gibraltar, Jayson Kline and Charles Fremer worked together at Bachus & Stratton Commodities, Inc. of Pompano Beach, Florida.\textsuperscript{145} Touting its “financial wizard whose ‘Einstein software’ made commodities trading almost a sure bet,”\textsuperscript{146} Bachus and its employees reaped $5.9 million in commissions from churning its customers’ accounts while its customers lost most—if not all—of their investments.\textsuperscript{147} The CFTC and the National Futures Association (NFA) charged the firm with sales solicitation fraud and revoked its registration, and the U.S. District

\begin{flushleft}
\textsuperscript{140} See \textit{Gib. Monetary Corp. v. CFTC}, 575 F.3d 1180, 1187 (11th Cir. 2009) (“[A]ppellate case law reveals no clear precedent . . . . District courts, as expected, are split on the issue as well.”).
\textsuperscript{141} See id. at 1187 & nn.15–16; see, e.g., Gutman v. CFTC, 197 F.3d 33, 39–40 (2d Cir. 1999); Stotler & Co. v. CFTC, 855 F.2d 1288, 1292–93 (7th Cir. 1988); Dohmen-Ramirez v. CFTC, 837 F.2d 847, 858 (9th Cir. 1988); Rosenthal & Co. v. CFTC, 802 F.2d 963, 967–68 (7th Cir. 1986).
\textsuperscript{143} See \textit{Gib. Monetary Corp.}, 575 F.3d at 1189.
\textsuperscript{144} See id. at 1188.
\textsuperscript{146} Lunan, supra note 10, at A1.
\textsuperscript{147} See id.
\end{flushleft}
Court for the Southern District of Florida permanently enjoined Kline from violating the Commodity Exchange Act. 148 

New York-based Forex Capital Markets, a registered futures commission merchant and Forex Dealer Member of the NFA since 2001, 149 is among the world’s largest dealers of retail off-exchange foreign currency futures and options transactions. 150 As a dealer, FxCM trades, for its own account, spot forex and forex options with members of the public, many of whom are unsophisticated retail traders like Mrs. McDonald. 151 Since commencing operations in 1999, FxCM has twice settled charges with the NFA for rule violations. The first charge—using deficient promotional material—settled in 2005 for $110,000. 152 The second—for not implementing a written anti-money laundering program and for failure to supervise—settled in 2007 for $175,000. 153

In February 2002, Kline and Fremer established the Gibraltar Monetary Corporation in Boca Raton, Florida to generate commission income by soliciting members of the public to trade forex with an outside firm. 154 At

149. See Gib. Monetary Corp., 2006 U.S. Dist. LEXIS 45129, at *7; Complaint at 1–2, In re Forex Capital Markets LLC, Case No. 06-BCC-046 (NFA Dec. 8, 2006). The NFA’s Forex Dealer Members (FDM) are futures commission merchants that “are the counterparty or offer to be the counterparty to” retail off-exchange foreign currency transactions. NFA BYLAW 306 (2010), available at http://www.nfa.futures.org/nfamanual/NFAManual.aspx?RuleID=BYLAW%20306&Section=3; see NFA BYLAW 1507(b), available at http://www.nfa.futures.org/nfamanual/NFAManual.aspx?RuleID=BYLAW%201507&Secti on=3 (defining forex as foreign currency transactions entered into with persons that are not eligible contract participants and not executed or subject to the rules of a contract market).
153. See In re Forex Capital Markets LLC, Case No. 06-BCC-046 (NFA Sept. 27, 2006). In this case, the NFA Panel found that FxCM violated Compliance Rules 2-9(c) and 2-36(e). Rule 2-9(c) requires futures commission merchant members to “develop and implement a written anti-money laundering program.” NFA COMPLIANCE RULE 2-9(c) (2010), available at http://www.nfa.futures.org/nfamanual/NFAManual.aspx?RuleID=RULE%202-9&Section=4. Rule 2-36(e) provides that FDMs and their associates with supervisory duties “shall diligently supervise its employees and agents in the conduct of their forex activities for or on behalf of the Forex Dealer Member.” NFA COMPLIANCE RULE 2-36(e) (2010), available at http://www.nfa.futures.org/nfamanual/NFAManual.aspx?RuleID=RULE%2036&Section=4.
the time, neither Gibraltar nor its employees were registered with the CFTC or NFA in any capacity.\textsuperscript{155} The Gibraltar scheme was launched in earnest when, in April of that year, FxCM reached an agreement with Fremer in which Gibraltar received hefty commissions for referring its customers to open options accounts with FxCM on an exclusive basis.\textsuperscript{156}

Luring prospective investors with claims of two hundred to three hundred percent returns and other false promises,\textsuperscript{157} Gibraltar’s salespeople persuaded Mrs. McDonald and over 270 others to open accounts with FxCM, and to trade forex under Gibraltar’s “expert” guidance.\textsuperscript{158} Once the customers agreed to open an account there, the firm mailed them several forms, including FxCM’s account opening documentation and a limited power of attorney granting Gibraltar discretion to trade its customers’ accounts.\textsuperscript{159} Those customers then returned the signed paperwork to Gibraltar, but sent their money directly to FxCM.\textsuperscript{160} Gibraltar would later forward the account opening documentation to FxCM, which reviewed the materials to ensure that Gibraltar’s customers satisfied its customer qualification standards.\textsuperscript{161}

Those that satisfied FxCM’s standards must have soon regretted their decisions to open accounts there. Gibraltar’s “expert” traders actually had little trading experience,\textsuperscript{162} and some even had criminal backgrounds.\textsuperscript{163} They placed large bets on risky options, which ultimately resulted in “nearly ninety-five percent of Gibraltar’s customers los[ing] most if not all” of the three million dollars they invested.\textsuperscript{164} Meanwhile, Gibraltar and

\begin{itemize}
    \item \textsuperscript{155} Id. at *8. “Gibraltar generated at least $879,379.50 in commissions from at least 267 members of the retail public, who invested $3,022,998.39 to engage in trading of foreign currency option contracts through FxCM . . . FXCM charged Gibraltar’s customers $50 per round turn on trades and it received at least $200,000 in commissions.” \textit{CEA Complaint, supra} note 145, at 2.
    \item \textsuperscript{157} Id. at *45–46. Gibraltar’s misrepresentations to its customers included the following:
        \begin{enumerate}
            \item that Gibraltar customers could obtain 200% to 300% returns on their investments in a short period of time;
            \item for every $.01 movement in the foreign currency market Gibraltar customers could make $ 1,000.00 in profit;
            \item political conditions, such as the September 11, 2001 terrorist attacks and the then-expected war with Iraq, would affect the foreign currency markets in a manner that would increase the likelihood that Gibraltar’s customers would realize profits;
            \item that most other Gibraltar customers were profiting from their investments; and
            \item that as a result of Gibraltar’s, and/or Johnson’s, extensive trading experience none of Gibraltar’s clients lost money.
        \end{enumerate}
    \item \textsuperscript{158} Id. at *3–4.
    \item \textsuperscript{159} Id. at *9–10.
    \item \textsuperscript{160} Id.
    \item \textsuperscript{161} Id.
    \item \textsuperscript{162} Id. at *45.
    \item \textsuperscript{163} Id. at *44–51; \textit{CEA Complaint, supra} note 145, at 10–13.
    \item \textsuperscript{164} \textit{Gib. Monetary Corp.}, 2006 U.S. Dist. LEXIS 45129, at *47; see \textit{CEA Complaint, supra} note 145, at 10–13.
\end{itemize}
FxCM made out like thieves, together generating over one million dollars in commissions and fees.\(^{165}\)

**B. The District Court’s Decision**

Seeking injunctive relief, monetary fines, and various ancillary remedies against Gibraltar, Fremer, Kline, Johnson, and FxCM,\(^{166}\) the CFTC filed suit in the U.S. District Court for the Southern District of Florida on February 10, 2004.\(^{167}\) The parties presented their case during a two-week jury trial that culminated on September 12, 2005, and the district judge issued an opinion on May 30, 2006.\(^{168}\)

The district judge held that Gibraltar and its principals, Kline, Fremer, and Johnson, were liable for the company’s repeated material misrepresentations and omissions in soliciting members of the public to trade and invest with the firm.\(^{169}\) Specifically, the court determined that Johnson, Gibraltar’s account executive, violated 7 U.S.C. § 6c(b), which makes it unlawful to participate in commodity options transactions in violation of CFTC rules, and also Regulations 32.9(a) and (c), which forbid engaging in fraud and deceit in connection with such transactions.\(^{170}\) The court held Kline and Fremer liable as controlling persons of Johnson pursuant to 7 U.S.C. § 13c(b).\(^{171}\)

The court, however, declined to hold FxCM vicariously liable for Gibraltar’s frauds. Deciding that the CFMA foreclosed application of § 2(a)(1)(B) to the off-exchange forex transactions in question,\(^{172}\) the court

\(^{165}\) **CEA Complaint, supra** note 145, at 2. Gibraltar generated at least $879,379.50 in commissions from this arrangement and FxCM generated more than $200,000. Id.

\(^{166}\) Id. at 3.

\(^{167}\) Id. at 21. As explained above, the CFTC’s decision to litigate in federal court instead of initiating an administrative disciplinary proceeding, empowered the agency to seek an injunction but deprived them of the APA’s deferential standard of review. See supra Part I.A.4.


\(^{169}\) Id. at *42–60.

\(^{170}\) Id. at *42–57; 7 U.S.C. § 6c(b) (2006) (making it unlawful to “offer to enter into, enter into or confirm the execution of, any transaction involving any commodity [option] . . . contrary to any rule, regulation, or order of the [CFTC] prohibiting any such transaction or allowing any such transaction under such terms and conditions as the [CFTC] shall prescribe”); 17 C.F.R. § 32.9 (2010) (declaring it “unlawful for any person directly or indirectly: (a) [t]o cheat or defraud or attempt to cheat or defraud any other person . . . [or] (c) [t]o deceive or attempt to deceive any other person by any means whatsoever; in or in connection with an offer to enter into, the entry into, or the confirmation of the execution of, any commodity option transaction”).

\(^{171}\) **Gib. Monetary Corp.,** 2006 U.S. Dist. LEXIS 45129, at *55–60; 7 U.S.C. § 13c(b) (providing that “[a]ny person who, directly or indirectly, controls any person who has violated any provision of [the CEA] or any of the rules, regulations, or orders [promulgated thereunder] may be held liable for such violation in any action brought by the Commission to the same extent as such controlled person”).

\(^{172}\) **Gib. Monetary Corp.,** 2006 U.S. Dist. LEXIS 45129, at *60–61, 62 n.7 (explaining that although the Commodity Futures Modernization Act of 2000 (CFMA) “did not make the vicarious liability provision of the CEA applicable to [certain] off-exchange foreign currency transaction[s] . . . vicarious liability may be imposed pursuant to CFTC regulation 1.2.”); see 7 U.S.C. § 2(c)(2)(C). Although the CFMA only specifically subjected those transactions to the CEA’s anti-fraud provisions when the district court decided *Gibraltar* in 2006, a 2008
instead analyzed the FxCM-Gibraltar relationship under CFTC Regulation 1.2, a vicarious liability provision that parrots the language of § 2(a)(1)(B).\textsuperscript{173} Although the court embarked on its vicarious liability analysis with the mantra that “whether one is an agent for another depends on an assessment of the totality of circumstances[.]”\textsuperscript{174} the court ultimately undertook a common law agency analysis,\textsuperscript{175} in part because the CFTC itself had argued common law agency principles in its response to FxCM’s summary judgment motion.\textsuperscript{176}

The court first determined that express actual authority was lacking because the parties never executed an express agreement to form an agency relationship.\textsuperscript{177} It also rejected agency under an implied actual authority theory, finding that, from the parties’ course of conduct, they failed to consent to the formation of an agency relationship, FxCM did not provide a sufficient degree of operational support to Gibraltar, and FxCM exercised little control over the firm.\textsuperscript{178} The court last considered the relationship


\textsuperscript{174} Id. at *63 (citing Stotler & Co. v. CFTC, 855 F.2d 1288, 1292 (7th Cir. 1988)). In so doing, the district court cited a number of cases supporting that approach, including the Second Circuit’s Gutman decision and the Seventh Circuit’s Rosenthal and Stotler decisions. See id. at *62–63. Unlike Gibraltar, which began as an action for injunctive relief in federal district court, each of those cases were appeals from Commission orders expansively applying the totality of the circumstances approach. See Gutman v. CFTC, 197 F.3d 33 (2d Cir. 1999); Stotler & Co. v. CFTC, 855 F.2d 1288 (7th Cir. 1988); Rosenthal & Co. v. CFTC, 802 F.2d 963 (7th Cir. 1986). As such, those courts had far less latitude to second-guess the finding of vicarious liability in the Commission’s order than the district court did in the first instance in Gibraltar. See supra note 167.

\textsuperscript{175} See Gib. Monetary Corp., 2006 U.S. Dist. LEXIS 45129, at *63–71 (examining the FxCM-Gibraltar relationship under actual authority—both express and implied—and apparent authority theories and concluding that an agency relationship did not exist).

\textsuperscript{176} See id. at *64 (“The CFTC relies upon both actual and apparent authority theories to support its argument that an implied agency relationship existed between Gibraltar and FxCM.”); Plaintiff’s Memorandum in Support of Response to FXCM’s Motion for Summary Judgment at 8–10, CFTC v. Gib. Monetary Corp., No. 04-80132-CIV-DIMITROULEAS (S.D. Fla. May 12, 2005). The CFTC’s reference to common law agency principles in its response to FxCM’s summary judgment motion is indeed quite puzzling. The argument was absent from the Commission’s argument in its response to FxCM’s motion to dismiss and in its brief to the Eleventh Circuit. See Brief of Appellant CFTC, supra note 75, at 33 (explaining that “the statutory and regulatory language—‘official, agent or other person’—indicates that section 2(a)(1)(B) and Rule 1.2 can extend to persons who may not technically be agents at common law”); Plaintiff CFTC’s Response to Defendant Forex Capital Markets LLC’s Motion to Dismiss at 9–11, CFTC v. Gib. Monetary Corp., No. 04-80132-CIV-DIMITROULEAS (S.D. Fla. June 14, 2004).

\textsuperscript{177} Gib. Monetary Corp., 2006 U.S. Dist. LEXIS 45129, at *63.

\textsuperscript{178} Id. at *64–67. To guide its implied actual authority analysis, the court applied a framework articulated by a CFTC administrative law judge in an initial decision. See id. at *64 (“To demonstrate the existence of implied actual authority a party must provide evidence that: (1) the purported agent and purported principal acquiesced to the relationship, (2) the purported principal gave sufficient support to the purported agent, and (3) the purported principal exercised sufficient control over the purported agent.” (citing Buckner v. Refco, Inc., [2000–2002 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 28,532 (April 25, 2001))). As the Eleventh Circuit correctly pointed out, this framework is actually found in a
under an apparent authority theory, concluding that the evidence adduced at trial was insufficient to support a finding of apparent agency because the CFTC never made clear which, if any, representations of FxCM were relied upon by Gibraltar’s customers in opening accounts there.179

The court ultimately granted the CFTC’s request for permanent injunctions against all defendants—with the exception of FxCM—prohibiting future violations of the CEA and barring the defendants from engaging in any commodities-related activities.180 Turning to the issue of ancillary remedies, the court first held Kline, Fremer, and Johnson jointly and severally liable for restitution to Gibraltar’s clients in the amount of $2,752,377.50, the amount of its customers’ total losses.181 The court also imposed civil monetary penalties against Fremer for $352,011, Johnson for $191,367, and Kline for $240,000.182 Disappointed over the district court’s refusal to hold FxCM liable for Gibraltar’s frauds, the Commission decided to appeal.183

C. Arguments from the Briefs

The section below recounts the arguments offered by the CFTC and FxCM in the briefs they submitted to the Eleventh Circuit on appeal.

1. The CFTC’s Briefs

The Commission filed its principal brief with the Eleventh Circuit Court of Appeals on February 9, 2007.184 The CFTC contended that the district court misapplied the legal standard for determining agency relationships under the CEA’s vicarious liability provision,185 a decision the CFTC claimed would encourage “foreign currency dealers wishing to work with...
disreputable marketing companies . . . to model their working relationship on the one here.186

After muddling its stance earlier in the litigation,187 the Commission articulated its long-held position that vicarious liability under § 2(a)(1)(B) is broader than common law principal-agent liability.188 Whereas principals at common law are vicariously liable only for the tortious acts of their agents and employees, the CEA also makes them liable for the acts of an “official, agent, or other person,”189 such as an independent contractor,190 so long as the “agent” is acting in furtherance of the agency.191

Noting that “[t]he ascription of agency is a purposive, policy-oriented act,”192 the Commission argued that the imposition of vicarious liability to FxCM was necessary in this case to further the valuable policy of encouraging futures commission merchants to weed out swindling soliciting brokers like Gibraltar.193 This policy was particularly relevant here, the CFTC noted, because entities like Gibraltar that solicit customers solely for off-exchange forex dealers like FxCM are not required to register with the CFTC as introducing brokers.194

---

186. Id. at 32. The Commission also conveyed the policy implications of the district court’s decision:

The district court creates an opening for regulated foreign currency dealers to spin off marketing functions to unregulated agents who may have little capital and less incentive to deal fairly and honestly with customers. At the same time, the court’s error allows unscrupulous futures commission merchants to enjoy the fruits of their agents’ conduct without fear of recourse if the agents break the law. In these circumstances, futures commission merchants have little incentive to assure that their agents obey the law.

Id. at 18.

187. Compare Plaintiff’s Memorandum in Support of Response to FXCM’s Motion for Summary Judgment, supra note 176, at 8–10 (evaluating FxCM-Gibraltar under Florida agency law, and considering the concepts of actual and apparent authority), with Plaintiff CFTC’s Response to Defendant Forex Capital Market LLC’s Motion to Dismiss, supra note 176, at 3 (stating that vicarious liability under the CEA, which does not require control, is determined “on an overall assessment of the totality of the circumstances of each case” (quoting Berisko v. Eastern Capital Corp., [1984–1986 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 22,772 at 31,223 (Oct. 1, 1985))).

188. Brief of Appellant CFTC, supra note 75, at 32–33.


191. Brief of Appellant CFTC, supra note 75, at 33 (citing Stotler and Co. v. CFTC, 855 F.2d 1288, 966 (7th Cir. 1986)).

192. Id. at 34 (citing Dohmen-Ramirez v. CFTC, 837 F.2d 847, 858 (9th Cir. 1988)).

193. Id. at 34–35.

194. See id. at 34–35; supra notes 75–76 and accompanying text.
The CFTC maintained that courts should employ a totality of the circumstances test, which has long been utilized by the Commission to analyze agency under § 2(a)(1)(B). This approach, under which any one factor, including control, is not dispositive of an agency relationship, has been applied by the CFTC since its first articulation in the Commission’s 1984 Bogard decision. Perhaps more importantly, the Commission’s use of the test had been upheld by several courts of appeal in subsequent years. Under this framework, the Commission argued, the traditional common law framework of actual and apparent authority does not apply.

In support of that position, the CFTC analogized Gibraltar with Reed v. Sage Group, Inc., a 1987 reparations action in which the Commission articulated a framework for analyzing futures commission merchant-introducing broker relationships for purposes of establishing agency under § 2(a)(1)(B). In Reed, the Commission relied on several factors to
determine that the introducing broker was the futures commission
merchant’s agent, including “the introducing broker’s use of account-
opening documents provided by the futures commission merchant, the
futures commission merchant’s provision of market information to the
introducing broker for the use of customers, and use of a form contract
drafted by the futures commission merchant to govern the parties’
relationship.” The CFTC asserted that those factors, particularly
FxCM’s use of Gibraltar as a conduit for its account opening forms and the
parties’ exclusive dealing, were also present in Gibraltar, thus indicating
that the court ought to hold FxCM liable for Gibraltar’s frauds.

Last, but certainly not least, the Commission argued that Chevron
document required the court to defer to the Commission’s interpretation of
the CEA’s vicarious liability provision because of its exclusive
administration of the CEA and its specialized expertise of commodities law
and practice. Although the agency seemingly relied on a Skidmore
rationale to support the agency deference argument in its principal brief,
the Commission reformulated and expanded on that argument in its reply,
contending that its interpretation of the provision was grounded in formal
adjudications, that the statute was ambiguous, and that its construction of
the provision was a reasonable one.

The Commission contended that its interpretation of § 2(a)(1)(B) was not
a mere litigating position devised for the lone purpose of holding FxCM
liable for Gibraltar’s frauds, but rather an interpretation long articulated by

Reed, a reverend, to invest with Murlas by promising that he would make “a ‘hell’ of a lot of
Fut. L. Rep. (CCH) ¶ 23,144 at 32,364 (July 9, 1986). Not surprisingly, Thiessen’s claims
were nothing but a load of hot air. The preacher ultimately lost virtually all of the $23,800

201. See Reply Brief of Appellant CFTC at 12, CFTC v. Gib. Monetary Corp., 575 F.3d
1180 (11th Cir. 2009) (No. 06-14270-C). The CFTC also directed the court to the Seventh
Circuit’s decision in Stotler & Co. v. CFTC, in which the court upheld a Commission order
holding Stotler & Co., a futures commission merchant, vicariously liable for frauds
committed by Richard C. Allen, a commodity pool operator and commodity trading advisor
with whom the firm had a business relationship. See 855 F.2d 1288, 1289 (7th Cir. 1988).
The court highlighted that the commission-sharing agreement and Stotler’s distribution of
forms and literature through Allen supported a finding of agency. Id. at 1294. Other factors
indicative of an agency relationship included Allen’s exclusivity agreement with Stotler,
Stotler’s assigning to Allen a salesman number, reference to Allen as a salesman in Stotler’s
internal records, and Allen’s ability to place an order directly to the trading floor. Id. at 1290,
1293–94. As the totality of the circumstances suggested that Allen was Stotler’s agent, and
the fraudulent activities occurred within the scope of the agency, the court held Stotler
vicariously liable for Allen’s frauds under § 2(a)(1)(B). Id. at 1294–95.

202. See Brief of Appellant CFTC, supra note 75, at 41.

203. See id. at 46–48.

204. See id.; supra note 138.

205. See Reply Brief of Appellant CFTC, supra note 201, at 3–6 (citing Chevron, U.S.A.,
information on Chevron doctrine, see supra Part I.C.

After addressing Step Zero, the CFTC attacked \textit{Chevron’s} first prong, asserting, of course, that \textsection\ 2(a)(1)(B) is ambiguous.\footnote{See id. at 7 (citing cases). The CFTC noted that the Ninth Circuit has explicitly recognized this requirement, and the Seventh Circuit has implicitly done so. \textit{See id.}} The Commission explained that while the imposition of liability for the actions of “any official, agent, or other person acting for” makes clear that the provision is broader than common law agency, its reference to “other person acting for” has created an ambiguity because the statute offers no guidance on the identity of those undefined other persons.\footnote{See id. at 10.} Importing a distinct meaning to each of the statute’s words, the CFTC argued, reveals the existence of a gap waiting to be filled by the CFTC.\footnote{See id. at 7–10.}

Concluding its \textit{Chevron} analysis, the Commission asserted that its long-held construction of the provision was a reasonable one.\footnote{See id. at 6–10.} Its interpretation that \textsection\ 2(a)(1)(B) does not require control was reasonable, the CFTC maintained, because whereas the common law requires that an agent both act for the principal and be subject to its control, the CEA only contains the “acting for” requirement, without requiring control.\footnote{See id. at 10.} Likewise, the CFTC contended that its totality of the circumstances test was reasonable because only relevant circumstances are considered under the approach, courts use totality of the circumstances tests in a variety of situations, and a flexible standard is necessary to achieve the provision’s policy objectives.\footnote{See supra notes 133–39 and accompanying text (explaining that while \textit{Chevron} applies to legal interpretations adopted by agencies in formal adjudications, courts do not apply \textit{Chevron} to pure litigating positions).}

2. FxCM’s Brief

Forex Capital Markets, the appellee, filed its brief on March 9, 2007.\footnote{See Answer Brief of Defendant-Appellee Forex Capital Markets, LLC at 49, CFTC v. Gib. Monetary Corp., 575 F.3d 1180 (11th Cir. 2009) (No. 06-14270-CC).} FxCM devoted the first part of its argument to refuting the Commission’s position that the agency’s interpretation of the CEA’s vicarious liability


207. \textit{See supra} notes 133–39 and accompanying text (explaining that while \textit{Chevron} applies to legal interpretations adopted by agencies in formal adjudications, courts do not apply \textit{Chevron} to pure litigating positions).


210. \textit{Id.} at 4 (quoting United States v. Fuentes-Rivera, 323 F.3d 869, 872 (11th Cir. 2003)).

211. \textit{Id.} at 6–10.

212. \textit{Id.} at 7 (citing cases). The CFTC noted that the Ninth Circuit has explicitly recognized this requirement, and the Seventh Circuit has implicitly done so. \textit{See id.}

213. \textit{Id.} at 7–10.
position was time-tested and warranted the court’s deference in accordance with *Chevron*.

Rather, FxCM argued, the district court correctly applied common law standards to its analysis of vicarious liability under Regulation 1.2, § 2(a)(1)(B)’s twin, and under that standard, the district court did not clearly err in determining that Gibraltar was not FxCM’s agent.

In its response to the Commission’s abbreviated opening *Chevron* argument, FxCM alleged that the CFTC’s interpretation of the provision was a mere litigating position, and thus not entitled to the court’s deference. According to the firm, the CFTC had utterly failed to set forth a consistent interpretation of § 2(a)(1)(B) in the decades since the provision’s first enactment in 1921.

FxCM pointed out that the CFTC offered “no relevant case law, or even legislative history, to support its theory.”

Before rebutting the remainder of the Commission’s argument, FxCM attacked the CFTC’s position in the district court as plainly conflicting with its position on appeal. FxCM noted that, in the Commission’s response to FxCM’s summary judgment motion, the CFTC actually advocated for the application of common law agency principles rather than a totality of the circumstances approach.

FxCM likewise contended that each of the cases relied on by the CFTC applied common law principles. Regarding *Dohmen-Ramirez v. CFTC*, which the CFTC cited to show that control is not required to establish agency under the CEA, FxCM claimed that the court applied an apparent authority theory rather than a broad totality of the circumstances test. Control was unnecessary in that case, FxCM argued, solely because apparent authority requires that the purported principal “creates the appearance that the acts are authorized” and nothing else.

According to FxCM, *Reed* similarly did not support the agency’s position. The firm asserted that *Reed*, a reparations action decided long

---

215. See id. at 16–32. It reserved the remainder of its brief to arguing that neither § 2(a)(1)(B) nor Regulation 1.2 applied to the retail forex transactions in question. See id. at 33-48. As noted above, that argument has since been rendered moot by the amendment to Section 2 of the CEA in the CRA of 2008. See supra notes 40–43 and accompanying text.


217. See id. at 27–32.

218. See id. at 18 (citing Bowen v. Georgetown Univ. Hosp., 488 U.S. 204, 212 (1988)); CFTC v. Zelener, 373 F.3d 861, 867 (7th Cir. 2004)).

219. See id. at 20 n.8 (citing cases).

220. Id. at 17.

221. See id. at 19.

222. Id. at 19 (stating that “the CFTC never suggested that the district court should apply any standard requiring less, or different, proof than was required under the common law” and arguing that the court should not consider the CFTC’s “‘broader’ vicarious liability standard for the first time on appeal”); see Plaintiff CFTC’s Response to Defendant Forex Capital Markets LLC’s Motion to Dismiss, supra note 176, at 9–11.


224. Id. at 21. For a summary of the facts of *Dohmen-Ramirez*, see supra note 197.

225. Id. (quoting *Dohmen-Ramirez*, 837 F.2d 847, 858 (9th Cir. 1988)).

226. Id. at 22.
before the CFTC gained partial jurisdiction over forex, only supports the position that those factors common to all futures commission merchant-introducing broker relationships do not themselves suffice to establish an agency relationship under the CEA.\textsuperscript{227} Additional indicia of an agency relationship must be present for a finding of agency—none of which were present here.\textsuperscript{228} In any case, FxCM contended, the Commission applied an apparent authority theory in \textit{Reed} (even if it never said as much) because the introducing broker represented to his client that he was “part of” the futures commission merchant.\textsuperscript{229} No such claim was made in this case.

FxCM claimed that, in addition to \textit{Dohmen-Ramirez} and \textit{Reed}, several other federal court opinions—as well as CFTC case law—supported its position that common law agency is the correct test for agency under the CEA.\textsuperscript{230} Rather than statutorily creating a broader scope of liability as the CFTC insists, the CEA’s vicarious liability provision merely codifies the common law rule.\textsuperscript{231} Congress, the firm noted, has also long understood § 2(a)(1)(B) as “in essence provid[ing] respondeat superior and general principal-agent standards for imposing liability on employers and principals for the acts of their employ[ees] or agents.”\textsuperscript{232} What’s more, FxCM argued, the case law indicated that control is indeed essential to a finding of agency under the CEA.\textsuperscript{233} Under that standard, FxCM argued, the firm could not

\begin{itemize}
  \item \textsuperscript{229} Id. at 23.
  \item \textsuperscript{233} Id. at 26–27; see Asa-Brandt, Inc. v. ADM Investor Servs., Inc., 344 F.3d 738, 743 (8th Cir. 2003) (noting that “in determining whether an agency relationship exists, the question hinges on the principal’s right to exercise control over the activities of the agent” (citing Gunderson v. ADM Investor Servs., Inc., No. 99-4032, 2000 U.S. App. LEXIS 20971, at *2 (8th Cir. Aug. 16, 2000))); Pac. Trading Grp., [2003–2004 Transfer Binder] Comm. Fut. L. Rep. (CCH) at 56,751 (“Agency is the fiduciary relation which results from the manifestation of consent by one person to another that the other shall act on his behalf and subject to his control, and consent by the other so to act.” (quoting RESTATEMENT (SECOND) OF AGENCY § 1 (1958))).
\end{itemize}
be held liable as principal under the CEA for Gibraltar’s frauds because of the absence of control.\textsuperscript{234}

\textit{D. The Eleventh Circuit’s Decision}

On appeal to the Eleventh Circuit, the court reviewed de novo the district court’s application of common law agency principles under the CEA’s vicarious liability provision.\textsuperscript{235} The court’s determination that FxCM was not liable for Gibraltar’s frauds, however, was considered a purely factual matter that the appeals court reviewed under the very deferential clearly erroneous standard.\textsuperscript{236}

Because the issue of whether vicarious liability under the CEA requires an element of control was a matter of first impression, the court began its analysis with a discussion of the relative case law from her sister circuit courts.\textsuperscript{237} The court acknowledged a circuit split with respect to the appropriate standard for the establishment of agency relationships under the provision, pointing out that some courts follow the totality of the circumstances approach, while others apply the test for common law agency.\textsuperscript{238} The court further noted that the majority of circuit court decisions, like the district court below, have actually employed language that conflates the two contrasting approaches.\textsuperscript{239}

The court noted that the majority of CFTC case law indicated the application of a totality of the circumstances test and that control is not required to establish agency under the CEA.\textsuperscript{240} While the court considered this authority somewhat “helpful” to its determination, it did not defer to the agency’s interpretation of § 2(a)(1)(B) because “there was [no] gap in which the agency needed to regulate.”\textsuperscript{241} Its own reading of the provision’s legislative history suggested the contrary; “that the vicarious liability statute and [identical] regulation codify common law principal agent liability.”\textsuperscript{242}

Holding that the CEA codified common law principal-agent liability, the court explained that “actual agency, either implied or express, requires: (1) consent to the agency by both principal and agent; and (2) the control of the agent by the principal,” and concluded that this standard had been correctly applied by the district court.\textsuperscript{243} Because the facts adduced at trial failed to

\begin{footnotesize}
\begin{enumerate}
\item Id. at 27–32. For a brief overview of common law principal-agent liability, see supra note 118.
\item CFTC v. Gib. Monetary Corp., 575 F.3d 1180, 1186 (11th Cir. 2009) (citing United States v. Trainor, 376 F.3d 1325, 1330 (11th Cir. 2004)).
\item Id. (citing Wood v. Holiday Inns, Inc., 508 F.2d 167, 173 (5th Cir. 1975)).
\item Id. at 1187.
\item Id.
\item Id.
\item Id. at 1188–89 (discussing the legislative history of the CFTCA). The court stated that the legislative “history indicates that Congress conceived of this language as a standard governing principals and agents, or a common law agency standard, and that Congress had not altered the conception despite the changes in commodities regulation.” Id.
\item Id. (noting that the CFTC’s vicarious liability rule, which the court below applied, is interpreted the same way as § 2(a)(1)(B)).
\item Id. at 1189 (citing \textsc{Restatement (Second) of Agency} § 1 (1958)).
\end{enumerate}
\end{footnotesize}
indicate that FxCM exercised sufficient control over Gibraltar to establish an agency relationship, the appeals court upheld the district court’s findings as plausible in light of the record below.244

III. RIPPLE EFFECT OR EROSION?: THE IMPACT OF THE ELEVENTH CIRCUIT’S GIBRALTAR DECISION

As detailed above, the Gibraltar court skirted lengthy Chevron analysis in holding that the CEA’s vicarious liability provision, 7 U.S.C. § 2(a)(1)(B), merely codifies common law principal-agent liability.245 In disregarding a long-held CFTC position, the Eleventh Circuit dismissed the totality of the circumstances approach and became the first appeals court to read a control requirement into the CEA’s vicarious liability provision.246 Although the decision has temporarily created a situation where forex dealers need no longer be “careful about whom they grasp to their bosoms as branch managers and commodity solicitors,”247 subsequent federal and administrative decisions as well as proposed CFTC regulations governing firms like Gibraltar suggest that the case’s impact will ultimately be nominal.248

A. Case Law and Chevron Doctrine Support Application of the Commission’s Totality of the Circumstances Test and the Absence of a Control Requirement

On appeal to the Eleventh Circuit in Gibraltar, FxCM contended that the Commission’s totality of the circumstances test was a mere litigating position, not worthy of the court’s deference.249 The CFTC, of course, asserted that its interpretation of § 2(a)(1)(B) did qualify for Chevron deference because the provision is ambiguous, and its interpretation of the provision, expressed through two decades of formal adjudicative proceedings, is a permissive one.250 Despite the issue’s prevalence in the parties’ briefs, the appeals court disposed of Chevron with a half sentence buried in a lengthy paragraph about the long-standing statute’s legislative history.251

Upon closer inspection, however, the CFTC’s contention—that the court ought to have deferred to its interpretation of the CEA’s vicarious liability provision—is persuasive. As a preliminary matter, the CFTC’s position that control is not required to establish “agency” and that courts should assess agency under the CEA based on a totality of the circumstances is decidedly not a mere litigating position as FxCM contended.252

244. See id. at 1189–90.
245. See supra notes 235–44 and accompanying text.
246. See supra note 141 and accompanying text.
247. See supra note 18 and accompanying text.
248. See infra notes 288–94 and accompanying text.
249. See supra notes 215–20 and accompanying text.
250. See supra notes 203–13 and accompanying text.
251. See supra notes 240–42 and accompanying text.
demonstrated by numerous administrative proceedings before the Commission since the mid-1980s—a number of which were upheld by U.S. courts of appeals\textsuperscript{253}—the totality of the circumstances test has been firmly established as the test for determining agency relationships under the CEA’s vicarious liability provision.\textsuperscript{254}

FxCM’s contention that the case law on which the CFTC relied, including \textit{Dohmen-Ramirez} and \textit{Reed}, supported the proposition that common law agency rules apply,\textsuperscript{255} ignores the plain truth: These cases—and others—demonstrate that courts interpret the CEA’s vicarious liability provision “broadly and aggressively,” holding liable “futures industry participants who might not be liable under traditional agency principles.”\textsuperscript{256}

Nevertheless, the Eleventh Circuit declined to defer to the CFTC’s interpretation of the provision because, after reviewing its legislative history, it determined that “there was [no] gap in which the agency needed to regulate,” i.e., the statute clearly and unambiguously provides for common law principal-agent liability.\textsuperscript{257}

The legislative history, however, is not as clear as the court suggested. When Congress first enacted the vicarious liability provision in the Grain Future Act of 1921, it was included under a heading titled “[p]rincipals responsible for acts of agents.”\textsuperscript{258} The legislation was enacted to combat fraud and manipulation in the commodities markets at a time of unprecedented volatility, in which a robust vicarious liability provision was necessary to provide the Commission with the ammunition needed to combat these market abuses.\textsuperscript{259}

Not until sixty years later, in connection with the addition of controlling person liability to the CEA’s statutory scheme, did Congress offer additional guidance on the provision, stating that it “in essence provides respondeat superior and general principal-agent standards for imposing liability on employers and principals for the acts of their employers or agents.”\textsuperscript{260} The spotty congressional record, which is essentially devoid of any reference to the provision until six decades after its enactment, is simply not enough to divine congressional intent.\textsuperscript{261} In any case, the 1982 statement does not conflict with the Commission’s broader reading of the statute, in which respondeat superior-like strict liability is applied to other persons acting for another.\textsuperscript{262}

Giving meaning to each of the provision’s words further reveals its ambiguity. Because § 2(a)(1)(B) imputes the acts and omissions of “any official, agent, or other person” acting in furtherance of the “agency” to

\begin{itemize}
\item \textsuperscript{253} See supra notes 119, 141 and accompanying text.
\item \textsuperscript{254} See supra note 240 and accompanying text.
\item \textsuperscript{255} See supra notes 223–29 and accompanying text.
\item \textsuperscript{256} Committee on Futures Regulation, supra note 119, at 242.
\item \textsuperscript{257} See supra notes 240–42 and accompanying text.
\item \textsuperscript{258} See supra notes 104–07 and accompanying text.
\item \textsuperscript{259} See supra note 107 and accompanying text.
\item \textsuperscript{260} See supra notes 116–17 and accompanying text.
\item \textsuperscript{261} See supra notes 104–17 and accompanying text.
\item \textsuperscript{262} See supra notes 108–09 and accompanying text.
\end{itemize}
their putative principals, its plain meaning suggests that, under the CEA, principals are liable for the acts of both common law agents and others. Although the provision clearly extends that liability to other persons acting for the principal, the statute does not elaborate on their possible identities or provide a test to be used by the Commission in identifying them. This gap is waiting to be filled by the CEA’s sole administrator, the CFTC.

Had the district court applied the CFTC’s totality of the circumstances approach, however, it might still have reasonably concluded that the connection between Gibraltar and FxCM was in fact too tenuous to establish an agency relationship under the CEA. That said, the appeals court went astray in Gibraltar not only by glancing over the Chevron issue and not affording any deference to the CFTC’s long-held totality of the circumstances approach, but also by introducing a control requirement for determining principal-agent liability under the CEA.

B. The Aftermath of the Gibraltar Decision

While courts within the Eleventh Circuit are compelled to embrace the Gibraltar court’s introduction of a control requirement and the rejection of the CFTC’s totality test with respect to the CEA’s vicarious liability provision, those outside of the Circuit have explicitly dismissed it. The U.S. District Court for the Southern District of New York, for instance, recently rejected the Gibraltar court’s holding in In re Amaranth Natural Gas Commodities Litigation, in which a putative class of commodity futures and options holders sued a hedge fund and its associates for manipulating the price of natural gas futures in violation of the CEA. Looking to the Second Circuit’s Guttman decision for guidance, the court deemed it unnecessary to “determine whether [one] exercised control over [another] . . . to find [an agency relationship] within the meaning of the

---

263. See supra notes 107, 209–10 and accompanying text.
264. See supra notes 107, 209–10 and accompanying text.
265. See supra notes 209–10 and accompanying text.
266. See supra Introduction.
267. See supra notes 143–44, 235–44 and accompanying text.
CEA. "[I]t is enough if [he] was “acting for” [her]’ within the scope of his employment."  

The Commission has also remained steadfast in its approach, similarly rejecting the Eleventh Circuit’s introduction of a control requirement into the CEA’s vicarious liability provision and continuing to apply its totality of the circumstances test in its administrative proceedings. In Jing Bian v. MG Financial, LLC, a reparations proceeding by an aggrieved investor against a registered futures commission merchant and its unregistered and unregulated introducing agent, an administrative law judge reaffirmed the Commission’s long-standing approach, finding the futures commission merchant vicariously liable for its introducing agent’s frauds under a set of facts quite similar to Gibraltar’s.  

Even though courts have not widely embraced the Gibraltar decision, the case has negative policy implications; it has greatly reduced the incentive for futures commission merchants and retail foreign exchange dealers (at least those in the Eleventh Circuit) to screen those individuals or companies that solicit business for them and enabled them to escape liability for frauds committed by their ill-intentioned “branch managers and commodity solicitors.”  

As Judge Posner stated in the Seventh Circuit’s Rosenthal decision, “the ascription of agency is a purposive, policy-oriented act rather than an exercise in semantics.”  

The purpose of the CEA is to protect the investing public from fraud and manipulation in the commodities markets. A robust vicarious liability rule is necessary to protect unsophisticated investors like Mrs. McDonald, “to ensure that futures commission merchants bear responsibility for the wrongdoing by their agents and employees,” and to incentivize futures commission merchants to “be more careful about whom they grasp to their bosoms as branch managers and commodity solicitors.” Gibraltar was owned and operated

---

272. Id. at *25 (quoting Guttmann v. CFTC, 197 F.3d 33, 39 (2d Cir. 1999) (internal citations omitted)).
273. See Jing Bian v. MG Fin., LLC, No. 08-R17, 2009 CFTC LEXIS 76, at *26 n.6 (Oct. 28, 2009) (stating that “while Gibraltar is the law in that circuit, it does not control in this case”).
274. No. 08-R17, 2009 CFTC LEXIS 76 (Oct. 28, 2009).
275. See id. at *5.
276. See supra notes 268–73 and accompanying text.
277. See supra notes 192–94 and accompanying text.
278. See supra note 1 and accompanying text.
279. See supra note 1 and accompanying text.
280. See 7 U.S.C. § 5(b) (2006) (“It is the purpose of [the CEA] to . . . deter and prevent price manipulation . . . [and] to protect all market participants from fraudulent or other abusive sales practices and misuses of customer assets[.]”).
282. See supra notes 1, 18 and accompanying text; Lobb v. J.T. McKerr & Co., [1987–1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,568 at 36,444 (Dec. 14, 1989) (“Section 2(a)(1)(B)’s imposition of secondary liability on a principal for the wrongdoing of its agent protects the interests of customers by providing a source of compensation that is generally more stable and reliable than ‘often judgment-proof (or fine-proof) employees’ . . . [and] encourages principals to take steps to limit their potential liability. As a result, principals are more likely to investigate the character and ability of agents before they are
by a couple of known swindlers whose disciplinary history and checkered past was publicly available to anyone over the Internet.283 A simple investigation by FxCM into Kline and Fremer’s backgrounds would have most likely nipped Gibraltar’s frauds in the bud, preventing the tragic losses incurred by Mrs. McDonald and its other investors.284

This problem is especially acute in situations like Gibraltar, because in the off-exchange forex business, soliciting brokers are not required to register with the CFTC as introducing brokers.285 Such brokers have not been required to meet capital requirements or obtain a guarantee of their obligations from their futures commission merchant or retail foreign exchange dealer.286

The Commission is currently seeking to close this gap through new rulemaking,287 having proposed a swath of rules to overhaul its regulation of the off-exchange retail forex markets.288 The proposed regulations mandate that all brokers soliciting business for a retail foreign exchange dealer or a futures commission merchant dealing in forex, like Gibraltar, register with the CFTC as introducing brokers.289 The new rules would require these forex introducing brokers to solicit business for only one retail foreign exchange dealer or futures commission merchant, like FxCM, with whom they must have a guarantee agreement.290 Were these restrictions in place when Kline and Fremer were developing their scheme, the frauds committed against Mrs. McDonald and others likely never would have occurred.291

CONCLUSION

Because the case law and Chevron doctrine so directs, federal courts addressing the issue ought to follow the Second, Seventh, and Ninth Circuits in paying deference to the CFTC’s interpretation of § 2(a)(1)(B) and applying its flexible totality of the circumstances test without requiring control.292 That said, in light of recent federal and CFTC administrative decisions rejecting the Gibraltar court’s conclusion and the forthcoming CFTC rules governing retail foreign exchange, it appears that the case’s negative implications will be only negligible, “and this will be . . . all to the good.”293

283. See supra notes 145–48 and accompanying text.
284. See id.; supra notes 5–10 and accompanying text.
285. See supra notes 75–76 and accompanying text.
286. See supra notes 75–76 and accompanying text.
287. See infra notes 288–89 and accompanying text.
289. See id.
290. See id. at 3287.
291. See supra notes 2–12, 145–62 and accompanying text.
292. See supra notes 119, 141 and accompanying text.
293. See supra note 1 and accompanying text.