COMMERCIAL CRIME SERVICES

A specialized division of the International Chamber of Commerce

International Maritime Bureau

Issue 03 01 February 2018

CONFIDENTIAL BULLETIN TO MEMBERS

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2017 TRADE FINANCE FRAUD TRENDS
For IMB Members only - not for circulation

A major part of the IMB's work concerns the authentication of shipping documents such as Bills of Lading (BsL) that have been presented to our members. The IMB handles a considerable number of BL referrals on a daily basis. The following information was obtained through analysis of documentation referred to the bureau in 2017 and are based upon transport documents verified rather than value or quantity of cargoes.

It should be noted that these figures are drawn solely from referrals to the IMB, which although a considerable number, only represents a small percentage of the universe of all transactions. But the overall sample is likely to be representative of the shipments of concern to the diverse, worldwide banking membership of the IMB.

Misrepresented bills of lading

A misrepresented bl is when the material facts on the shipping document have been wilfully misrepresented in a deliberate attempt to disguise a shipment, usually related to sanctions.

The Iran trade accounted for over 90% of the misrepresented BsL referred to the IMB in 2017 and the number of referrals continues to rise each year. The number of misrepresented Iranian BsL identified doubled in 2017 from those seen in 2015 suggesting uncertainty over the Joint Comprehensive Plan of Action and the future direction of the sanctions regime by the US administration. Members have not relaxed their stances on sanctions despite the fact than many vessels are now regularly calling at Iranian ports.

High and low density polyethylene account for almost 30% of misrepresented Iranian BsL referred to the IMB in 2017, followed by bitumen and potash with 9% and 8% respectively. Jebel Ali / Dubai was listed as the load or discharge port in 78% of referrals.

Misrepresented Myanmar BsL accounted for over 6% of referrals, 66% of which covered cargoes of agricultural produce. Over half of the misrepresented Sudanese BsL referred to the IMB covered imports of vehicles and spare parts from India.

Suspect bills of lading

A suspect bl is where the Bureau has been unable to confirm that the shipment has taken place as per the bl referred.

Incidents of suspect BsL identified by the bureau increased by 20% in 2017 compared with 2016.

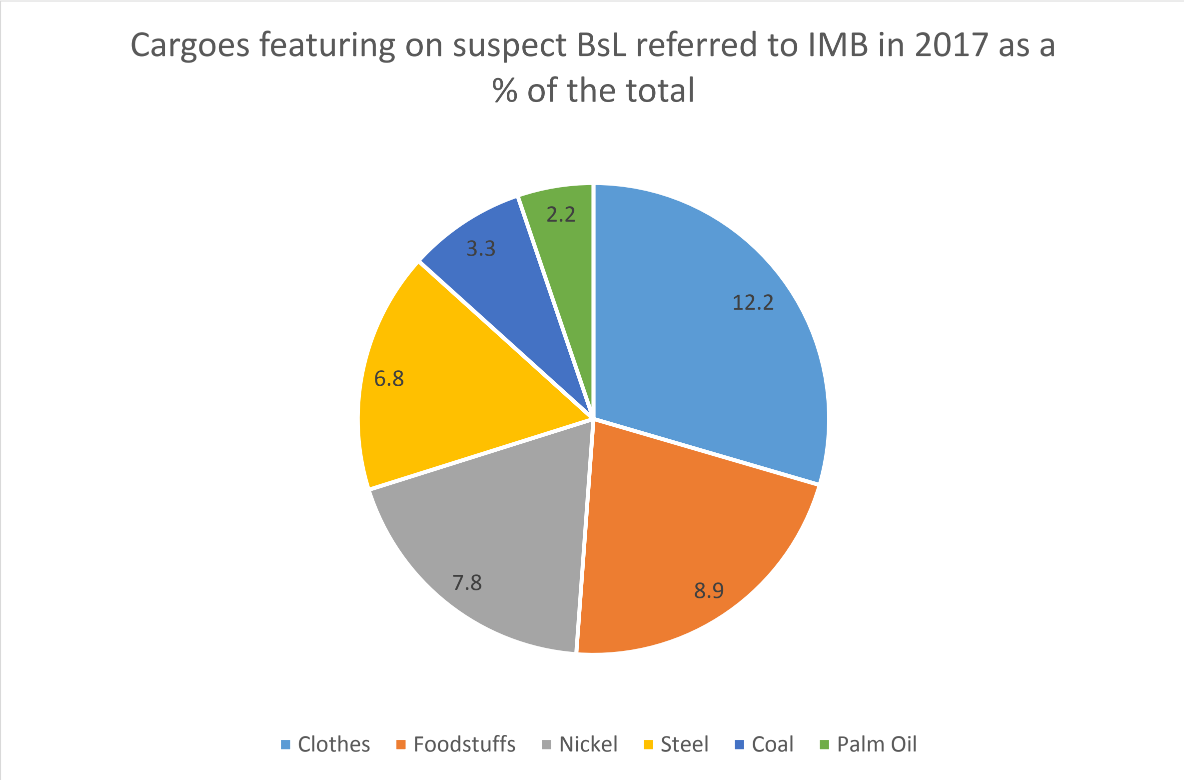
Ports and countries: 39.3% of all suspect bsl referred in 2017 were for shipments from mainland China, up slightly from 2016 and 2015. Shipments from the UAE and India accounted for 7.5% and 5.5% respectively. UAE ports were the destination in 15.6% of suspect BsL followed by Chinese ports in 14.4 % of cases.

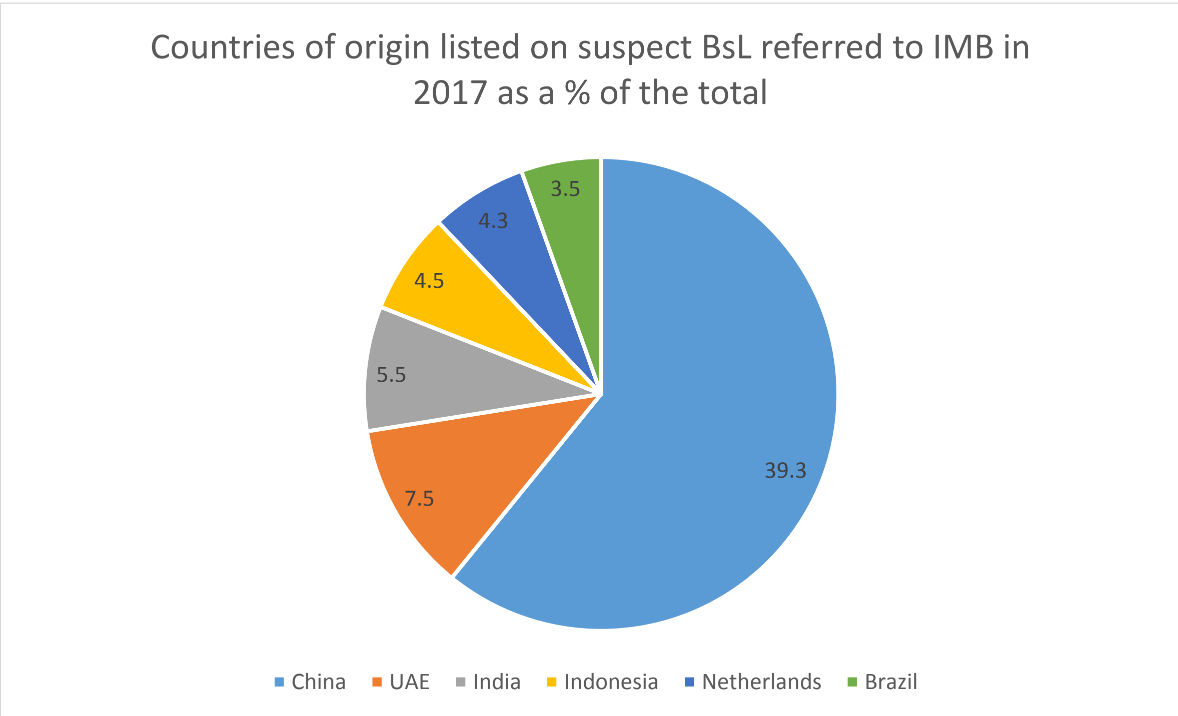
Pre-dated bills of lading: Incidents of pre-dated BsL have increased by 36.5% since 2015. 65% of pre-dated BsL covered exports from China, India and South Korea with vehicles and associated parts the most commonly featured cargo. Vehicles made up over 72% of all pre-dated South Korea exports identified by the bureau.

Cargoes: Shipments of clothing & textiles accounted for 12.2% of all suspect BsL referred to the bureau in 2017, followed by foodstuffs with 8.9%. The trade in high value containerised LME nickel continues to cause concern with numerous suspect BsL identified, the trade accounted for 7.8% of suspect referrals in 2017. There are well established and sophisticated fraud schemes involving nickel and copper cathodes. The Bureau considers shipments of these metals high risk transactions from a trade finance perspective. Cargoes of steel, coal and palm oil were the next most commonly featured cargoes on suspicious BsL.

Fraud and its typologies continues to evolve. Today, it encompasses not only low level opportunistic frauds but also misrepresentation and duplication of documents by legitimate traders, to overcome regional trade barriers / sanctions, or to generate finance unrelated to trade. The identification of these frauds remains a challenge for banks, because in isolation each transaction or group of them appear genuine. It is when they are compared as IMB does, with similar transactions across different banks or regions involving the same parties that meaningful patterns emerge. These patterns are vital for the prevention of fraud.

The verification of transport documents by the IMB identifies misrepresented or suspect transactions. Whilst this assessment can help banks avoid a specific suspicious transaction the bigger value is in understanding the reason why traders are engaging in this activity. It often involves organised schemes of fraud, evading sanctions, money laundering and capital flight which if unchecked can result in serious regulatory breaches. It is in the interest of all parties to a trade transaction including the banks, shipping companies, ports and shipping agents to help identify and discourage this activity.


Cargoes featuring on suspect BsL referred to IMB in 2017 as a % of the total
12.2
8.9
7.8
6.8
3.3
2.2
Clothes
Foodstuffs
Nickel
Steel
Coal
Palm Oil


Countries of origin listed on suspect BsL referred to IMB in 2017 as a % of the total
39.3
7.5
5.5
4.5
4.3
3.5
China
UAE
India
Indonesia
Netherlands
Brazil

1. VIETNAMESE BANKS PROTEST AFTER FRAUD TRIAL

The Vietnam Banks Association (VNBA) has lodged a complaint regarding a request by prosecutors at an ongoing banking fraud trial in Ho Chi Minh City.

During the trial of former Vietnam Construction Bank (VNCB) chairman PHAM CONG DANH, prosecutors requested the court order Sacombank, BIDV and TPBank to return over USD 270 million to Construction Bank (formerly VNCB) after Danh allegedly stole money from the bank to secure loans from the three other banks.

Although the three banks legally seized the money when Danh defaulted on the payments, prosecutors argued that as Danh had illegally obtained the money by stealing it from VNCB, it must be returned and said that it should be down to Danh and his accomplices to repay the three banks.

The VBA sent a letter to the Prime Minister, government agencies and the People's Court of Ho Chi Minh City saying they were deeply concerned by the negative impact the request could have on other banks, saying "The retrieval of over USD 270 million as requested by the procuracy will cause the banks difficulties and impede their activities." It made clear that the seizure of the money by the three banks was in accordance with regulations. The VNBA further stated that it is not the banks' responsibility, nor is it within their capabilities, to verify the source of a customer's money before seizing it when their loan defaults.

2. RANDALL CRATER / MARK GILLESPIE / MY BIG COIN PAY INC

The US Commodity Futures Trading Commission (CFTC) announced the filing of a federal court enforcement action charging commodity fraud and misappropriation related to the ongoing solicitation of customers for a virtual currency known as My Big Coin (MBC).

The complaint charged RANDALL CRATER, MARK GILLESPIE and MY BIG COIN PAY INC of misappropriating over USD 6 million from customers by transferring customer funds into personal bank accounts and using the funds for personal expenses and the purchase of luxury goods.

The CFTC complaint alleges that between January 2014 and January 2018, the Defendants fraudulently solicited potential and existing MBC customers throughout the United States by making false and misleading claims and omissions about MBC's value, usage, and trade status, and that MBC was backed by gold. Defendants also allegedly fraudulently solicited numerous customers in the District of Massachusetts, receiving in excess of USD 5 million from those customers.

The CFTC is seeking civil monetary penalties, restitution, rescission, disgorgement of ill-gotten gains, trading and registration bans, and permanent injunctions against further violations of the federal commodities laws, as charged.

3. NORTH KOREA FACES FRESH SANCTIONS

The US has announced fresh new sanctions against North Korea aimed at preventing the development of the country's nuclear weapons programme.

The US Treasury imposed sanctions on nine entities, sixteen people and six North Korean ships it accused of helping the weapons programs. It also said two China-based companies were involved in exporting metals and other goods used in the weapons programme.

Treasury Secretary Steve Mnuchin released a statement regarding the matter, "Treasury continues to systematically target individuals and entities financing the Kim regime and its weapons programs, including officials complicit in North Korean sanctions evasion schemes. The US government is targeting illicit actors in China, Russia, and elsewhere who are working on behalf of North Korean financial networks, and calling for their expulsion from the territories where they reside".

The sanctions will allow the US to block assets held by those listed and prohibits US citizens of dealing with them. Despite increased sanctions, Japan recently reported a North Korean tanker to the UN that it suspects was in the process of transferring cargo to another tanker in defiance of UN sanctions.

According to intelligence sources, North Korea also allegedly shipped coal to Russia last year which was then delivered to South Korea and Japan in violation of UN Sanctions.

4. FURTHER 3 ARRESTED IN CONNECTION TO SINGAPORE OIL HEIST

Members are referred to Confidential Bulletin 02/18.

A further three suspects have been charged in connection to an oil heist in Singapore in 2017, all linked to one of Singapore's biggest marine fuel suppliers.

The trio are believed to be linked to one of the ships caught transporting stolen fuel, the MT SENTEK 26, managed by SENTEK MARINE & TRADING PTE LTD.

20 people were arrested in connection to the siphoning of oil from a Shell refinery in Singapore with over USD 9 million being siphoned off from the refinery.

The case is the latest in the illegal market which accounts for potentially up to 3 percent, or USD 10 billion, of Southeast Asia's fuel consumption.

5. US OIL REFINERY OWNER FILES FOR BANKRUPTCY

The owner of the largest oil refinery on the US East Coast has filed for bankruptcy as part of a plan to allow it to shed some environmental costs.

PHILADELPHIA ENERGY SOLUTIONS LLC (PES) announced it would file for bankruptcy and pursue restructuring which would allow it to emerge as a new company with the same stakeholders. It aims to achieve this through a sale that will erase up to USD 350 million in compliance costs incurred after the company was forced as part of a federal program to buy USD 832 million of “Renewable Identification Numbers” (RINs) since 2012.

The company noted that the purchase created an “unpredictable, escalating and unintended compliance burden” which amounted to twice the cost of payroll and almost 1.5 times its capital expenditures. The company’s Chief Executive noted that “absent RINs, we’re competitive with anyone in the world.”

PES is seeking to sell off assets while leaving behind up to USD 350 million of compliance liabilities. However, the company may choose to not sell its assets and reorganise on a stand-alone basis which would lead to the company having USD 225 million less in cash and an additional USD 275 million in debt.

6. RECORD CRYPTOCURRENCY THEFT

Japanese authorities have announced they would be investigating all cryptocurrency exchanges in the country for security gaps following the largest recorded cryptocurrency theft earlier in January.

The theft occurred at Tokyo based exchange COINCHECK where hackers stole USD 530 million of different cryptocurrencies. The Financial Services Agency (FSA) ordered improvements to operations at Coincheck which announced they would repay 90 percent of those affected.

The currency was stored in a so-called hot-wallet which is connected to the internet rather than the more secure cold-wallet which operates on platforms not directly connected to the internet. The company also did not use an extra layer of security known as a multi-signature system.

The FSA said it has ordered Coincheck to submit a report on the hack and measures for preventing it happening again. It also said it would conduct hearings with other exchanges after their operators had run their own checks. If any problems with security were to arise during the course of the hearings, the FSA would also conduct onsite inspections.

7. SHIPPING COMPANY LOSES COURT BATTLE OVER USD 1.8 MILLION IN EMAIL SCAM

A shipping company has failed to recover USD 1.8 million that was paid fraudulently after an unknown third party accessed the client's email account in an apparent "whaling" scam.

The Singapore High Court dismissed a claim by MAJOR SHIPPING & TRADING INC (Major) against Standard Chartered Bank over four payments totalling USD 1.84 million, which were made by the bank following the receipt of email instructions. Major is now appealing the case.

According to court documents, the emails were sent from the account of one of the CEOs of Major, Molla Mogammad Majnu. The instructions bore signatures that were consistent with Majnu's specimen with the bank, and the bank attempted to call the telephone numbers given for the first four transactions however all but one call went unanswered. Evidence points to a third party accessing Majnu's account, though he ignored verification codes from his email provider.

Major Shipping & Trading is a British Virgin Islands incorporated company involved in the trading and shipping of cement clinker and owned by Majnu and Mohammed Jahangir Alam.

8. US COAST GUARD UNLOAD 47,000 POUNDS OF COCAINE IN SAN DIEGO

Crew of the Coast Guard Cutter STRATTON have unloaded over 47,000 pounds of cocaine, seized off the coasts of Central America and South America.

The huge haul of cocaine has been valued at more than USD 721 million and packed in various multi coloured nylon mesh as they were unloaded in San Diego. According to reports from the US Coast Guard, the cocaine was seized in23 separate operations between late November 2017 and early January 2018. Officials have stated that the drugs will be handed over to federal agents for further investigations to prosecute drug traffickers, prior to being destroyed.

A senior USCG official has said that crews have seen an increase of smugglers using high speed and low-profile boats to move narcotics. The boats are agile and sit low in the water, some are also painted in grey and blue as a camouflage whilst out at sea and therefore making it difficult to pick up on radar. However, the Cutter Stratton is equipped with a single unmanned aerial vehicle with infra-red and telescope camera to scour the ocean for vessels. This new drone surveillance is said to be a game changer for the USCG, allowing them to scan larges areas of water and hugely increasing their effectiveness with official reports indicating that 13 boats and two semi submersibles have been intercepted this way.

9. KEPPEL CORP: NET PROFIT PLUNGES BY 72%

Members are referred to Confidential Bulletin 01/18

KEPPEL CORP reported a net profit of USD 165.8 million for the financial year of 2017, and revealed that profits have plunged by 72% due to a corruption scandal beginning last year. The financial penalty due following the corruption case, along with legal and accounting costs accounted for the drop in profits.

All Keppel divisions made a profit with the exception of the Offshore & Marine division, which was embroiled in the bribery scandal. This division incurred a net loss of USD 638 million, compared to a net profit of 22 million the year before.

10. HSBC TO PAY USD 101.5 MILLION TO RESOLVE FRAUD CHARGES

HSBC HOLDING PLC has agreed to pay USD 101.5 million to resolve federal fraud charges in New York stemming from the bank's misuse of confidential client information for its own profit.

In one March 2010 transaction it converted approximately GBP 3 billion (USD 7.4 billion) to US dollars for a client, resulting in a 38.4 million profit for HSBC. In a another transaction in December 2011 for Cairn Energy PLC, an Edinburgh-based oil-and-gas company, HSBC converted about USD 3.5 billion to British pounds that resulted in a roughly USD 8 million profit for the bank.

As part of the proposed resolution, the bank entered into a three-year deferred-prosecution agreement with the Justice Department and agreed to pay a USD 63.1 million criminal penalty, continue to cooperate in investigations and prosecutions, strengthen its compliance program and pay back USD 38.4 million in gains.

11. TANZANIA SUSPENDS REGISTRATION OF FOREIGN VESSELS AFTER DRUG SEIZURE

President John Magufuli has ordered an investigation into the 470 ships currently registered as Tanzanian after several vessels were identified carrying drugs and arms in recent months. “We cannot allow the name of our country to be tarnished by individuals pursuing their selfish interests.” Mr. Magufuli stated.

Tanzania is reportedly the second worst globally and rated “high risk” the Paris MOU organisation in its last annual “White, Grey and Black List” that ranks the quality of countries' flags for shipping.

12. PIRATES RELEASE UNION MARITIME TANKER CREW

UNION MARITIME LTD has confirmed that the ship MT BARRET, and its crew were released after a piracy incident in the Gulf of Guinea lasting six days.

"The crew are safely back in Lagos, Nigeria" Union Maritime has said "We are focusing now on supporting the crew and their families." The tanker was at anchor off Benin, West Africa when communications were lost in the early hours of Wednesday 10 January. The emergency response plan was immediately activated and regional maritime authorities, as well as other vessels in the area, were alerted.

"Union Maritime regularly operates from ports in this region. The safety and security of all our crews is our highest priority. We operate to a rigorous safety and security protocol, with crews repeatedly drilled in all emergency procedures."

13. VIETNAM ARRESTS EX-CHAIRMAN OF STATE SHIPBUILDING FIRM AMID GRAFT CRACKDOWN

Vietnam has arrested a former chairman of state-owned Shipbuilding Industry Corporation (SBIC), formerly known as Vinashin, for alleged abuse of power, Vietnamese police have said.

A spate of high-profile arrests have shed light on graft, mismanagement and nepotism in state firms. Vietnam's Ministry of Public Security said in a statement that NGUYEN NGOC SU of SBIC had "abused his rank and position". Su was accused of using Vinashin's deposit in domestic lender Ocean Bank to make profits for some individuals at the shipping firm, police have said.

Lending violations at Ocean Bank have sent dozens of people to jail, even handing a death sentence to its former chief executive NGUYEN XUAN SON.

14. 50-DAY PATROL SEES US COAST GUARD CREW SEIZE USD 180 MILLION WORTH OF COCAINE

A US Coast Guard crew from the State of Oregon seized 12,000 pounds of cocaine during a counter drug patrol.

The 50-day patrol took place in the Eastern Pacific during the end of 2017. The USCG Cutter STEADFAST patrolled along the coasts of Mexico and Central America and intercepted five suspected drug smuggling vessels. During this period, the crew seized of cocaine with an estimated street value of USD 180 million.

Separate from the seizure, the crew also rescued three fishermen stranded 300 miles of the coast of Mexico. On completion of her 50-day patrol, she returned to her port in Astoria, Oregon.

15. AUTHORITIES FROM PORTUGAL AND SPAIN SEIZE COCAINE STUFFED IN PINEAPPLES

Approximately 745 kilos of cocaine were discovered by Portuguese and Spanish police, hidden inside a containerised shipment of pineapples.

A gang of nine individuals, believed to be involved in the smuggling of the drugs from South America, have been arrested. The seizure was made as part of an on-going operation by both authorities running since April 2017.

Police have also discovered a laboratory where the seized drugs were being mixed with additives. According to the Spanish authorities, the cocaine was believed to have been packed in cylinders and later covered in yellow wax to appear like the fruit and further enclosed by pineapple skins. During the raids, almost USD 500,000 of cash was discovered along with various packaging machinery.

Two laboratories have been found in the municipalities of Pint and Nuevo Baztan, close to Madrid. It is believed that the gang is led by two Colombian brothers who transported their narcotics from their storage place in Barcelona to their laboratories every 15-20 days.

According to Police reports, they believe that the shipments originated from Panama by sea to Lisbon.

16. SHIPPING COMPANIES INTENSIFY THEIR BATTLE AGAINST CYBER CRIME

After a year of being exposed to cyber-attacks, shipping companies have increased their measures on their fight against cyber-crime.

A survey answered by 26 senior executive participants of the Danish Shipping’s CEO panel presents that 42 percent of senior executives are worried and extremely worried that their company could be attacked or lose data in the coming 12 months. Responses to the panel further show that their concerns are based on a hardened threat as 69 percent of the companies have been victim to cyber-crime over the last year.

Danish Shipping’s executive director, Maria Skipper Schwenn, has commented, “It is worrying that a majority of shipping companies have been subject to attacks against their IT systems and unfortunately this is a threat that is not expected to diminish in future. At the same time, it is important to emphasize that the attacks experienced by the shipping companies are attacks that any company is at risk of being exposed to. Therefore, it is not the ships and the safety of the crew that is of the greatest concern but attacks on land-based systems and the consequences of these.”

She further comments that she is pleased that many companies have increased their IT security budgets in the past year.

17. NIGERIA'S SENATE LAUNCHES BRASS LNG CORRUPTION INVESTIGATION

Nigeria's Senate has voted to launch an investigation into the Brass LNG project and its banking records, as well as its use of government funds.

According to the Senate motion, while Brass LNG's bank account was intended to be held by the Central Bank of Nigeria, corporate records show it is with Keystone Bank. The Senate documents said that the most recent deposit into the account was USD 648 million in September 2016 and that it currently holds USD 137 million. It did not provide detail on the discrepancy between the September 2016 deposit and the current balance.

The Nigerian National Petroleum Corporation's (NNPC) liquefied natural gas project has been stuck in the planning stages for more than a decade, with some Western partners having pulled out because of tough operating conditions and an unfavourable investment environment.

A Senate committee will examine investments into Brass LNG, returns for the federal government, whether due process was followed and the signatories to the bank account. It is due to report back in four weeks.

18. USD 108 MILLION WORTH OF COCAINE DESTROYED BY SRI LANKAN AUTHORITIES

Sri Lankan authorities made a public display by destroying more than 928kg of cocaine valued at USD 108 million.

According to reports, the cocaine was seized by authorities at the port of Colombo, which has seen an ever-increasing quantity of drugs transiting through the port. It is believed that Colombo has now become a major transit hub for drug smugglers moving their narcotics into Asia. The haul of cocaine, said to be the largest cocaine haul in Asia, was seized in December 2016 and hidden inside containerised shipment of timber, bound for India.

Authorities have taken serious steps in showing their zero-tolerance policy but have however said that they still have a long way to go. A Sri Lanka Minister has acknowledged that the country is being used as a transit hub but has also mentioned that some of those narcotics have come into Sri Lanka. The Minister has stated that they are currently trying to track the distribution process and network of peddlers.

In the past three years, Sri Lankan authorities have seized more than 1,700 kg of narcotics valued at more than USD 140 million.

19. DANIEL GLICK / FINANCIAL MANAGEMENT STRATEGIES INC (FMS) / GLICK ACCOUNTING SERVICES

Members are referred to Confidential Bulletin 23/17

DANIEL GLICK, a defendant in ongoing US Securities and Exchange Commission (SEC) litigation, has pleaded guilty to one count of wire fraud.

From at least 2011 until at least 2017, DANIEL GLICK misappropriated at least USD 5.2 million from clients and financial institutions, and lied to clients about the use and safety of their investments. The funds, mostly belonging to elderly clients, were used by Glick to pay personal and business expenses. Glick and his unregistered investment advisory firm, FINANCIAL MANAGEMENT STRATEGIES INC (FMS) provided clients with false account statements to hide the misappropriation.

In March 2017, the SEC brought an emergency action against Glick and FMS, obtaining a temporary restraining order against them, as well as against GLICK ACCOUNTING SERVICES.

20. DEUTSCHE BANK ORDERED TO PAY USD 30 MILLION PENALTY FOR MANIPULATION AND SPOOFING

The Commodity Futures Trading Commission (CFTC) has issued an Order requiring DEUTSCHE BANK AG (DB AG) and DEUTSCHE BANK SECURITIES INC. (DBSI) (collectively, DB) to pay a USD 30 million civil monetary penalty and undertake remedial relief.

DB was found to have engaged in a scheme from 2008 to 2014 to manipulate the price of precious metal futures contracts through manual spoofing techniques through certain traders on the Commodity Exchange, Inc (COMEX), and by trading in a manner to trigger customer stop-loss orders.

The traders placed orders to buy or sell previous metals futures contracts with the intent to cancel the orders before execution. Generally, the traders placed large bids or offers with the intent to cancel before execution (spoof orders) after another smaller bid or offer (resting order) was placed on the opposite side of the same market. This was intended to create the false impression of market depth, and greater buying or selling interest.

The Order also found that DBSI failed to perform its supervisory duties by not following up on instances of misconduct. Further, DB AG, through a Singapore based trader, placed orders and executed trades to manipulate and attempt to manipulate the price of precious metals futures contracts in order to trigger customers’ stop-loss orders for the benefit of his proprietary trading.

21. HMM SUES FORMER CHAIR FOR BREACH OF DUTY

Hyundai Merchant Marine (HMM) has sued the head of its former mother company Hyundai Group, citing breach of duty.

The company sued five executives including HYUN JEONG-EUN for agreeing to an unfair deal when selling Hyundai Logistics shares in 2014. While HMM was the largest shareholder, with a 47.7 percent share, another Hyundai affiliate Hyundai Global owned 24.4 percent and Hyun and her family owned 13.4 percent. As HMM was struggling financially, they decided to sell their shares through a special purpose corporation (SPC). The SPC then sold Hyundai Logistics to Lotte in 2016.

HMM claims the terms of the deal were unfair on the shipping company. HMM alone was obligated to guarantee USD 15.2 million worth of operating profits from inland and short sea logistics for Hyundai Logistics (now operating as Lotte Global Logistics). HMM also had to invest about USD 100 million won in subordinated debt to raise the sales price of the logistics company, and suffers continuous losses from the unfair deal.

22. CFTC ORDERS USD 15 MILLION PENALTY

The Commodity Futures Trading Commission (CFTC) issued an Order filing and settling charges against UBS AG, requiring UBS to pay an USD 15million civil monetary penalty.

The Order finds that from January 2008 through at least December 2013, UBS attempted to manipulate the price of precious metals futures contracts by utilizing a variety of manual spoofing techniques with respect to precious metals futures contracts traded on the Commodity Exchange, and by trading in a manner to trigger customer stop-loss orders and obtain a profit on proprietary trading. CFTC’s Director of Enforcement, James McDonald, commented: “Today’s enforcement action demonstrates the Commission’s continued commitment to root out manipulation and spoofing in our markets.

The Order finds that this conduct violated the Commodity Exchange Act and Commission Regulations and imposes a civil monetary penalty of USD 15 million, orders UBS to cease and desist from further violations, and to take specified steps to maintain and implement training programs and systems and controls to detect and deter spoofing by UBS personnel.