



PRESS RELEASE

Co-Founder And Chief Investment Officer Of London-Based Hedge Fund Charged With FX Market Manipulation And Fraud

Thursday, September 1, 2022

For Immediate Release

U.S. Attorney's Office, Southern District
of New York

Damian Williams, the United States Attorney for the Southern District of New York, and Michael J. Driscoll, the Assistant Director-in-Charge of the New York Field Office of the Federal Bureau of Investigation (“FBI”), announced the unsealing of an Indictment charging NEIL PHILLIPS, the co-founder and chief investment officer of a hedge fund based in the United Kingdom, with conspiracy to commit commodities fraud, conspiracy to commit wire fraud, commodities fraud, and wire fraud in connection with a scheme to artificially manipulate the United States dollar (“USD”) / South African rand (“ZAR”) exchange rate to fraudulently trigger a \$20 million payment under a barrier options contract. PHILLIPS was arrested in Spain earlier this week at the request of the United States.

U.S. Attorney Damian Williams said: “As alleged, Neil Phillips – the co-founder and chief investment officer of a prominent U.K. hedge fund – manipulated the FX market in order to unlawfully obtain millions of dollars in payments for his hedge fund under an options contract. Market manipulation is pernicious in all of its forms and today’s charges are a reminder that the

Southern District of New York will steadfastly investigate and prosecute such activity whether it occurs in the equity market, the FX market, or elsewhere in the financial system.”

FBI Assistant Director Michael J. Driscoll said: “As alleged, Mr. Phillips maliciously manipulated global markets in order to defraud financial institutions for illicit profit. The FBI is determined to root out these types of frauds so financial markets remain a level playing field. As shown today, the FBI will find fraudulent actors no matter where in the world they are located and seek to bring them back to the United States to face the consequences of their actions in our federal criminal justice system.”

As alleged in the Indictment unsealed in Manhattan federal court:^[1]

Background on Hedge Fund-1 and the FX Markets

At all relevant times, PHILLIPS was the co-founder and co-Chief Investment Officer of a hedge fund based in the United Kingdom (“Hedge Fund-1”), which was a global “macro” fund that focused on macroeconomic trends and emerging markets, foreign currency exchange (“FX”) markets, and currency and commodity products. Hedge Fund-1 was at all relevant times a registered commodity pool operator with the Commodity Futures Trading Commission (the “CFTC”) and PHILLIPS was himself registered with the CFTC as well.

The FX market is a global market in which participants trade currencies in pairs. In a currency pair, each currency is valued relative to the other, and the ratio that expresses the value of one currency against the other is referred to as the “exchange rate” or the “rate.” FX “spot” trades involve one party agreeing to receive a particular currency in exchange for delivering a different currency, at an agreed-upon price and quantity.

The \$20 Million One Touch Option

In late October 2017, Hedge Fund-1 purchased a “one touch” digital option for the USD/ZAR currency pair that was set to expire on January 2, 2018. The option had a notional value of \$20 million and a barrier rate of 12.50 ZAR to USD (the “\$20 Million One Touch Option”). Under the terms of the \$20 Million One Touch Option, if the USD/ZAR exchange rate went below the rate of 12.50 at any point prior to January 2, 2018, Hedge Fund-1 would be entitled to a \$20 million payment. Hedge Fund-1 subsequently allocated a portion of the \$20 million notional value to a client (“Client Fund-1”), thereby entitling Client Fund-1 to receive \$4,340,000 in the event that the \$20 Million One Touch Option was triggered.

Other financial institutions were party to the transaction: Hedge Fund-1 purchased the \$20 Million One Touch Option through a financial services firm (“Intermediary Firm-1”) that facilitates trades on behalf of underlying clients; a subsidiary of a bank headquartered in Manhattan, New York (“Bank-1”) was obligated to pay the \$20 million in the event the \$20 Million One Touch Option was triggered; and a bank headquartered in Manhattan, New York

("Bank-2") acted as Hedge Fund-1's prime broker in connection with the \$20 Million One Touch Option.

Hedge Fund-1 and Bank-2 entered into a letter agreement that set forth the terms and conditions of the transaction. This letter agreement provided that Hedge Fund-1 would be "acting in good faith and in a commercially reasonable manner" as the "Calculation Agent" in connection with the \$20 Million One Touch Option and that Hedge Fund-1 would determine whether a barrier event occurred in good faith and in a commercially reasonable manner.

PHILLIPS Intentionally Manipulates the USD/ZAR Rate on Boxing Day 2017

With the \$20 Million One Touch Option set to expire in a matter of days without having been triggered, on December 26, 2017 (Boxing Day), PHILLIPS engaged in a scheme to intentionally and artificially manipulate the USD/ZAR rate to drive the rate below 12.50 and trigger payment under the \$20 Million One Touch Option. PHILLIPS caused and sought to cause the USD/ZAR exchange rate to fall below 12.50 by engaging in FX spot trades in which he caused hundreds of millions of USD to be exchanged for ZAR. PHILLIPS engaged in this USD/ZAR FX spot trading for the express purpose of artificially driving the USD/ZAR rate below 12.50. On December 26, 2017, in the hours that followed the completion of the USD/ZAR FX spot trading directed by PHILLIPS, the USD/ZAR rate once again increased and returned to levels above the 12.50 barrier and did not go below that rate for the remainder of the day.

In particular, during the span of less than an hour between shortly before midnight London time on December 25, 2017 (Christmas day), and approximately 12:45 a.m. London time on December 26, 2017 (Boxing Day), PHILLIPS personally directed a Singapore-based employee ("CC-1") of a bank ("Bank-3") to sell, on behalf of Hedge Fund-1, a total of approximately \$725 million USD in exchange for approximately 9,070,902,750 ZAR. During the course of that approximately one-hour period, PHILLIPS, through his trading, caused the USD/ZAR rate to fall substantially until the rate went just below 12.50. As soon as PHILLIPS had achieved his objective and the USD/ZAR rate fell below 12.50 due to PHILLIPS' manipulative spot trading activity, PHILLIPS immediately directed that CC-1 cease trading. PHILLIPS provided trading instructions to CC-1 through Bloomberg chat messages while PHILLIPS was located in South Africa and while CC-1 was located in Singapore. In these Bloomberg chat messages, PHILLIPS explicitly directed CC-1 to continue selling until the USD/ZAR rate fell below 12.50 and PHILLIPS expressly stated that PHILLIPS' purpose in directing these trades was to drive the USD/ZAR rate below 12.50 stating, among other things, "my aim is to trade thru 50," "[n]eed it to trade thru 50. 4990 is fine," and "[g]et it thru." Once PHILLIPS was informed by CC-1 that the USD/ZAR had traded at below 12.50, PHILLIPS immediately instructed CC-1 to "stop" trading and asked for proof "of the print."

PHILLIPS Causes the Fraudulent Triggering of the \$20 Million One Touch Option

Minutes after PHILLIPS artificially caused the USD/ZAR exchange rate to fall below 12.50 through his manipulative trading, PHILLIPS instructed another employee of Hedge Fund-1 (“CC-2”) to notify Intermediary Firm-1 that the \$20 Million One Touch Option had been triggered. Consistent with PHILLIPS’ directive, CC-2 contacted an employee of Intermediary Firm-1 to confirm that the \$20 Million One Touch Option had been triggered and, in so doing, omitted the fact that the triggering event – the USD/ZAR rate falling below 12.50 – had occurred as a result of the manipulation of the USD/ZAR exchange rate by PHILLIPS. Furthermore, Bank-2, which was serving as Hedge Fund-1’s prime broker in connection with the \$20 Million One Touch Option and with whom Hedge Fund-1 had executed the relevant letter agreement governing the transaction, required confirmation from both the executing broker and from Hedge Fund-1 that the \$20 Million One Touch Option had, in fact, been triggered. In this regard, on or about December 27, 2017, an employee of Hedge Fund-1 notified Bank-2, that “[t]he below option level of 12.50 was hit yesterday” and sought to process payment in connection with the triggering of the \$20 Million One Touch Option. This representation by Hedge Fund-1 to Bank-2 that the \$20 Million One Touch Option had been triggered likewise omitted the fact that the triggering event – the USD/ZAR exchange rate falling below 12.50 – had occurred as a result of the manipulation of the USD/ZAR exchange rate by PHILLIPS.

As a result of the fraudulent triggering of the \$20 Million One Touch Option by PHILLIPS, Hedge Fund-1 ultimately received a wire transfer of \$15,660,000 and Client Fund-1 received a wire transfer of \$4,340,000.

* * *

PHILLIPS, 52, of the United Kingdom, is charged with one count of conspiracy to commit commodities fraud, which carries a maximum sentence of five years in prison; one count of commodities fraud, in violation of Title 7, United States Code, Sections 9(1) and 13(a)(5), which carries a maximum sentence of 10 years in prison; and one count of conspiracy to commit wire fraud and one count of wire fraud, each of which carry a maximum sentence of 20 years in prison.

The statutory maximum sentences are prescribed by Congress and are provided here for informational purposes only, as any sentencing of the defendant will be determined by a judge.

Mr. Williams praised the investigative work of the FBI. He also thanked the Justice Department’s Office of International Affairs, as well as authorities in Spain. Mr. Williams further thanked the Commodity Futures Trading Commission for their cooperation and assistance in this investigation.

This case is being handled by the Office’s Securities and Commodities Fraud Task Force. Assistant United States Attorney Noah Solowiejczyk is in charge of the prosecution.

The allegations in the Indictment are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

[1] As the introductory phrase signifies, the entirety of the text of the Indictment, and the description of the Indictment set forth herein, constitute only allegations, and every fact described should be treated as an allegation.

Contact

Nicholas Biase
(212) 637-2600

Updated September 1, 2022

Attachment

[us v. phillips indictment.pdf](#) [PDF, 11 MB]

Topic

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Press Release Number: 22-276

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