

NATIONAL FUTURES ASSOCIATION  
BEFORE THE  
BUSINESS CONDUCT COMMITTEE

**FILED**

SEP 14 2007

NATIONAL FUTURES ASSOCIATION  
LEGAL DOCKETING

In the Matter of: )  
)  
ROYAL FOREX TRADING LLC )  
(NFA ID #370971), )  
)  
and )  
)  
JUSTIN JON MARSCH )  
(NFA ID #300985), )  
)  
Respondents. )

NFA Case No. 07-BCC-028

**COMPLAINT**

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association ("NFA"), and having found reason to believe that NFA Requirements are being, have been or are about to be violated and that the matter should be adjudicated, NFA's Business Conduct Committee ("Committee") issues this Complaint against Royal Forex Trading LLC ("Royal") and Justin Jon Marsch ("Marsch").

**ALLEGATIONS**

**JURISDICTION**

1. At all times relevant to this Complaint, Royal is a National Futures Association ("NFA") Member futures commission merchant ("FCM") located in Boca Raton, Florida. Royal was formerly known as Freedom FX LLC.
2. At all times relevant to this Complaint, Marsch was Royal's chief executive officer ("CEO") and a listed principal, associated person ("AP") and NFA Associate Member.

## **BACKGROUND**

3. Royal has been an NFA Member since August 2006, and acts as the counterparty to off-exchange foreign currency futures ("forex") transactions as a Forex Dealer Member ("FDM").
4. NFA began its initial examination of Royal in October 2006, at which time Royal had approximately 200 customers and approximately \$940,000 in customer liabilities. As alleged below, NFA's examination found that both Royal and its unregistered sales solicitors used misleading and deceptive promotional material and that Royal failed to collect the required security deposit from its customers. In addition, both Royal and Marsch failed to adequately supervise the firm's activities.

## **APPLICABLE RULES**

5. NFA Compliance Rule 2-36(b)(1) provides that no FDM or Associate of an FDM engaging in any forex transaction shall cheat, defraud or deceive, or attempt to cheat, defraud or deceive any other person.
6. NFA Compliance Rule 2-36(c) provides that FDMs and their Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their forex business.
7. NFA Financial Requirements Section 12 provides, in pertinent part, that each FDM shall collect and maintain minimum security deposits for each forex transaction between the FDM and a person that is not an eligible contract participant.
8. NFA Compliance Rule 2-36(e) provides that each FDM shall diligently supervise its employees and agents in the conduct of their forex activities for or on behalf of

the FDM. Each Associate of an FDM who has supervisory duties shall diligently exercise such duties in the conduct of that Associate's forex activities for or on behalf of the FDM.

### COUNT I

#### **VIOLATION OF NFA COMPLIANCE RULES 2-36(b)(1) AND 2-36(c): USING MISLEADING AND FRAUDULENT PROMOTIONAL MATERIAL AND FAILING TO UPHOLD HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE.**

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9. The allegations contained in paragraphs 1 and 3 through 6 are realleged as paragraph 9.
10. NFA's Board of Directors has issued an Interpretive Notice entitled Forex Transactions ("Notice") which prohibits the use of promotional material that deceives the public or contains any material misstatement of fact or omits a fact that makes the promotional material misleading. The Notice specifically prohibits the use of promotional material that includes representations that services are commission free without a proximate and prominent disclosure of how the Member is compensated, references to the benefits of leverage without an equally prominent statement that increasing leverage increases risk, and representations that forex funds deposited with an FDM are given special protection under U.S. bankruptcy laws.
11. During NFA's examination of Royal, NFA Compliance staff reviewed a website that Royal maintained at [www.freedom-fx.com](http://www.freedom-fx.com). NFA's review determined that this website was misleading and deceptive as it falsely implied that customer funds enjoyed special protection, and discussed leverage ratios which were not available to Royal's customers. Additionally, the website included dramatic profit

claims that presented an exaggerated and misleading picture of the potential for making profits trading forex, and contained numerous references to trading options on forex and on-exchange futures contracts, when options were not offered by Royal. Following are several examples of the misleading claims NFA found on Royal's website:

- **Safety of Funds:** Managing your money securely is a top priority at Freedom FX. Freedom FX position as a prime Forex broker by providing its customers assurance and comfort of knowing that their funds are held in a well known financial institution like Wachovia Bank.
- There is never a bear market in the FX world. The recent economic downturn in the global equity markets, has adversely affected the profitability of equity traders. A perfect complement to equity trading, foreign exchange has enormous profit potential due to the high volatility and liquidity of currency exchange rates.
- Until recently, the world's currency market was the exclusive domain of the central and commercial banks, large investment funds and extremely wealthy individuals. The individual investor had no gateway to the exciting world of foreign currency trading. Today, all that has changed...it is now possible for individuals with as little as \$5000 to invest in the OTC FOREX spot market through a self-regulated firm. This means that the opportunity now exists for the individual to potentially realize tremendous profits in this area...there are certainly some respects in which private individuals have a trading edge over larger financial institutions; private investors have the freedom to develop much longer-term positions – and...can sit tight for weeks or even months waiting for the right opportunity to come along.
- Options provide the investor with the benefits of both leverage and predetermined risk...if the exchange rate of the currency moves in the desired direction during your option's time period you will not earn profits on a mere \$5000 worth of currency – in this example using the power of leverage, you can earn profits on \$500,000+!...with our help you can use options as a financial tool that contains risk to a limited amount of risk capital, while allowing the potential for unlimited profits.
- Options not only give you staying power and limited risk, but they can also bring profits far greater than most types of financial opportunities. They are 'high potential' reward vehicles.

12. Under Compliance Rule 2-36(d), an FDM that is the counterparty to retail customers' forex transactions is subject to discipline for the activities of any person that solicits or introduces a customer to the Member, unless that person is an NFA Member or Associate. At the time of NFA's examination, Royal had nine non-Member introducing firms soliciting U.S. customers, three of which had websites.
13. The website for InterBank Group LLC ("InterBank Group"), a non-Member introducing solicitor located in Norwood, Massachusetts, included dramatic profit claims that painted an exaggerated and misleading picture of the potential for making profits trading forex. For example, the website included several examples of potential profitability which featured returns ranging from 65% to 400%.
14. The InterBank Group website was further misleading in that it implied that its customer funds enjoyed an extraordinary degree of protection. Specifically, the website stated that: "At InterBank Group, we realize that safety of funds is a major concern for investors. As a result, we've taken several important measures to ensure the utmost safety of customer deposits." Such statement is misleading because InterBank Group is only a soliciting firm and not the counterparty to forex transactions and as such has no control over customer deposits. Such statement also contravenes the prohibition of the Notice prohibiting Members from representing that forex funds deposited with an FDM are given special protection under the bankruptcy laws.
15. InterBank Group's website also contained statements that falsely implied that customers would be trading in the interbank market. For example, the website included such claims as, "InterBank Group clients routinely benefit from the size

and strength of the one of the world's largest online foreign exchange providers," and "With access to over \$1 billion in liquidity from the world's top FX banks, InterBank Group is able to pass along bank level pricing to our clients through our clearing firms." In reality, customers hardly enjoy "bank level pricing" as InterBank Group widens the spreads from the prices that it receives from Royal by as much as 39 pips. Further, Royal offsets its forex exposure with IFX Markets, Inc., an NFA Member FDM, which in turn offsets its exposure with its parent company, IFX Markets, Ltd. ("IFX Ltd."). Thus, it was misleading for InterBank Group to suggest that its customers receive the same prices that banks and other institutions do, as the spread InterBank Group charges its customers is widened from the spread on prices that IFX Ltd. receives from its counterparties,

16. The website for IntellisourceFX, a non-Member introducing solicitor located in Sunny Isles, Florida, contained the statements indicating "3 wide on all standard and mini" and "all accounts have access to competitive spreads up to 5 pips"; however, a listing of all spreads is included elsewhere on the site, and this list shows spreads as high as 39 pips. Therefore, touting that spreads are 3-5 pips wide is misleading.
17. IntellisourceFX's website also contravened the Notice's prohibition against a Member representing that its services are commission free without prominently disclosing how it is compensated in proximity to that representation. For example, IntellisourceFX's website included the following prohibited statements:
  - zero-commission leveraged forex trading accounts
  - For investors who do not wish to incur the risk or do not have the time to trade themselves, our experienced Account Managers are ready to manage your positions, commission free.

18. The website for Amax Realty & Lending, a non-Member solicitor located in San Jose, California, also contained statements indicating there were "no commission" and "no hidden cost" without prominently disclosing how the firm is compensated. Additionally, the site includes a discussion of the use of stop loss orders as a way to limit a customer's exposure or risk. For example, the website included the statement "Setting trailing stops allows investors to set a limit on the maximum possible loss without setting a limit on the maximum possible gain"; however, the web site failed to indicate that stops are not guaranteed.
19. Royal's procedures indicate that solicitors are required to submit all promotional material to Royal for review and approval prior to use. Additionally, firm personnel represented that Royal reviews all solicitor websites at least once a month to ensure that there is no deceptive or misleading information. Despite these procedures, Royal failed to detect the deficiencies on its solicitors' websites cited above.
20. By reason of the foregoing acts and omissions, Royal is charged with violations of NFA Compliance Rules 2-36(b)(1) and 2-36(c).

## COUNT II

### **VIOLATION OF NFA FINANCIAL REQUIREMENTS SECTION 12: FAILURE TO COLLECT AND MAINTAIN THE REQUIRED SECURITY DEPOSIT.**

21. The allegations contained in paragraphs 1, 3, 4 and 7 are realleged as paragraph 21.
22. NFA Financial Requirements Section 12 indicates, in pertinent part, that FDMs are required to collect and maintain minimum security deposits for forex transactions between itself and retail customers. NFA's examination revealed

that Royal failed to collect the required minimum amount from some of its customers.

23. By reason of the foregoing acts and omissions, Royal is charged with violations of NFA Financial Requirements Section 12.

### **COUNT III**

#### **VIOLATION OF NFA COMPLIANCE RULE 2-36(e): FAILURE TO SUPERVISE.**

24. The allegations contained in paragraphs 1 through 4 and 8 are realleged as paragraph 24.
25. Marsch, as Royal's CEO, had overall responsibility for diligently supervising Royal's employees and agents in the conduct of their foreign currency futures activities for or on behalf of Royal. Marsch also reviewed and approved the firm's website.
26. Royal's compliance officer was responsible for reviewing the solicitors' websites and reporting any deficiencies noted therein to Marsch, who was responsible for determining what corrective action should be taken to address such deficiencies.
27. Royal and Marsch failed to adequately supervise the firm's forex operations, including Royal's website and the websites of its unregistered solicitors, as evidenced by the violations alleged herein.
28. By reason of the foregoing acts and omissions, Royal and Marsch are charged with violations of NFA Compliance Rule 2-36(e).

## **PROCEDURAL REQUIREMENTS**

### **ANSWER**

You must file a written Answer to the Complaint with NFA within thirty days of the date of the Complaint. The Answer shall respond to each allegation in the Complaint by admitting, denying or averring that you lack sufficient knowledge or information to admit or deny the allegation. An averment of insufficient knowledge or information may only be made after a diligent effort has been made to ascertain the relevant facts and shall be deemed to be a denial of the pertinent allegation.

The place for filing an Answer shall be:

National Futures Association  
200 West Madison Street  
Suite 1600  
Chicago, Illinois 60606-3447  
Attn: Legal Department-Docketing

Failure to file an Answer as provided above shall be deemed an admission of the facts and legal conclusions contained in the Complaint. Failure to respond to any allegation shall be deemed an admission of that allegation. Failure to file an Answer as provided above shall be deemed a waiver of hearing.

### **POTENTIAL PENALTIES, DISQUALIFICATION AND INELIGIBILITY**

At the conclusion of the proceedings conducted as a result of or in connection with the issuance of this Complaint, NFA may impose one or more of the following penalties:

- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;

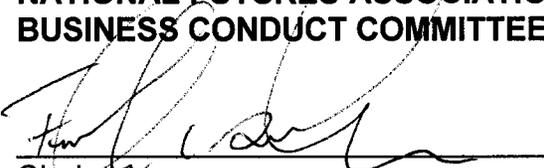
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

The allegations in this Complaint may constitute a statutory disqualification from registration under Section 8a(3)(M) of the Commodity Exchange Act. Respondents in this matter who apply for registration in any new capacity, including as an associated person with a new sponsor, may be denied registration based on the pendency of this proceeding.

Pursuant to the provisions of CFTC Regulation 1.63 penalties imposed in connection with this Complaint may temporarily or permanently render Respondents who are individuals ineligible to serve on disciplinary committees, arbitration panels and governing boards of a self-regulatory organization, as that term is defined in CFTC Regulation 1.63.

**NATIONAL FUTURES ASSOCIATION  
BUSINESS CONDUCT COMMITTEE**

Dated: 9-14-07

By:   
Chairperson

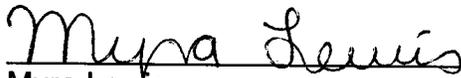
/jac(Complaints\Royal & Marsch)

**AFFIDAVIT OF SERVICE**

I, Myra Lewis, on oath state that on September 14, 2007, I served copies of the attached Complaint, by sending such copies in the United States mail, first-class delivery, and by overnight mail, in envelopes addressed as follows:

Royal Forex Trading LLC  
601 South Federal Highway  
Suite 202  
Boca Raton, FL 33432  
Attn: Michelle Hendricks  
Compliance Director

Justin Jon Marsch  
5505 NW 60<sup>th</sup> Drive  
Coral Springs, FL 33432

  
Myra Lewis

Subscribed and sworn to before me  
on this 14<sup>th</sup> day of September 2007.

  
Notary Public

