

BACKGROUND

3. FXLQ is located in Santa Ana, California and has been registered as an FCM and NFA Member since February 2006.
4. During a 2007 audit of FXLQ, the firm and Gray represented to NFA that the bulk of its capital consisted of a corporate bond issued by ABN AMRO, which was held at Malory Investments ("Malory"), a registered broker-dealer. According to FXLQ and Gray, they obtained the ABN AMRO bond from a company called Swiss Imperial Trust A.G. ("Swiss Imperial"). The purported market value of this bond was approximately \$50 million.
5. NFA made repeated requests to FXLQ and Gray to produce the bond. However, FXLQ and Gray failed to do so. Moreover, FXLQ and Gray failed to produce any credible evidence that the bond was held at Malory, that it was owned by FXLQ, that it had a market value of \$50 million, or that it even existed. Thus, FXLQ was unable to demonstrate that it had sufficient capital to meet its minimum net capital requirement.
6. Based on these circumstances, NFA's Executive Committee issued a Member Responsibility Action ("MRA") against FXLQ on December 4, 2007, which prohibited the firm from engaging in new business, placing trades other than for purposes of liquidation, or dispersing any money without NFA's prior approval. The MRA remains in effect.
7. In addition to NFA's MRA, the Commodity Futures Trading Commission ("CFTC") sued FXLQ on December 13, 2007, in federal court in Santa Ana, California,

charging FXLQ with being undercapitalized and failing to maintain required books and records.

8. On December 14, 2007, the Court entered a statutory restraining order against FXLQ and a blanket freeze on FXLQ's assets. The Court also appointed a temporary receiver to marshal FXLQ's assets.
9. In early February 2008, the Receiver filed a report relating to its activities to date. The Receiver's report noted "that FXLQ used incorrect and often untruthful accounting records and supporting documents to inflate its assets, underreport its liabilities, and present a fraudulently calculated capital position to its regulators and to its customers." The Receiver determined that, as of the date of its report, FXLQ had assets of \$28,229,693 and liabilities of \$30,087,487 for a deficit, without accounting for the firm's capital requirement, of \$1,857,794.

APPLICABLE RULES

10. NFA Compliance Rule 2-5 provides, in pertinent part, that each Member and Associate shall cooperate promptly and fully with NFA in any NFA investigation, inquiry, audit, examination or proceeding regarding compliance with NFA requirements or any NFA disciplinary or arbitration proceeding.
11. NFA Compliance Rule 2-10 provides, in pertinent part, that each Member shall maintain adequate books and records necessary and appropriate to conduct its business including, without limitation, the records required to be³ kept under CFTC Regulations 1.18 and 1.32 through 1.37 for the period required under CFTC Regulation 1.31.

12. NFA Compliance Rule 2-36(b)(5) provides that no FDM or Associate of an FDM engaging in any forex transaction shall willfully submit materially false or misleading information to NFA or its agents with respect to forex transactions.
13. NFA Compliance Rule 2-36(c) provides that FDM and their Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their forex business.
14. 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.
15. NFA Financial Requirements Section 11 provides, in pertinent part, that each FDM must maintain adjusted net capital equal to or in excess of the greatest of: (i) \$5,000,000; (ii) 5% of all liabilities owed to customers; (iii) or any other amount required by Financial Requirements Section 1.

COUNT I

VIOLATION OF NFA COMPLIANCE RULES 2-5, 2-10, 2-36(b)(5), 2-36(c), AND 2-36(e), AND NFA FINANCIAL REQUIREMENTS SECTION 11: FAILING TO COOPERATE WITH NFA IN AN INVESTIGATION OF FXLQ'S ACTIVITIES; FAILING TO MAINTAIN CURRENT BOOKS AND RECORDS; PROVIDING FALSE AND MISLEADING INFORMATION TO NFA; FAILING TO UPHOLD HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE; FAILING TO SUPERVISE FXLQ'S FINANCIAL CONDITION, OR ITS PREPARATION AND MAINTENANCE OF REQUIRED BOOKS AND RECORDS; AND FAILING TO MAINTAIN REQUIRED MINIMUM ADJUSTED NET CAPITAL.

16. The allegations contained in paragraphs 1 through 15 are realleged as paragraph 16.
17. In late November 2007, NFA was contacted by FINRA (formerly NASD) which

advised NFA that it was conducting an investigation of Malory. According to FINRA, Malory had been subject to numerous state regulatory actions.

18. FINRA indicated that Malory and FXLQ had some affiliation and furnished NFA with documents that indicated that the ABN AMRO bond and cash, which FXLQ had represented were being held at Malory, were actually being held in Switzerland by Swiss Imperial in an account in the name of Malory.
19. When NFA confronted FXLQ and Gray about the ABN AMRO bond and firm cash being held at Swiss Imperial, the firm and Gray claimed to be unaware of this. NFA informed FXLQ and Gray that the ABN AMRO bond and the cash held by Swiss Imperial did not qualify as current assets because FXLQ did not have sufficient control over these assets. NFA directed FXLQ and Gray to cause all firm assets being held at Swiss Imperial to be transferred to a regulated United States financial institution and provide evidence of such transfer.
20. On December 3, 2007, FXLQ and Gray represented to NFA that the assets held at Swiss Imperial had been transferred to an account at "Commonwealth Financial Network," a registered broker-dealer, and provided NFA with its account number at Commonwealth Financial Network. Then, the following day, FXLQ and Gray furnished NFA with a letter from "Commonwealth Financial P.M.S.," which indicated that FXLQ had \$47.8 million on deposit at Commonwealth Financial P.M.S.
21. NFA subsequently learned that there is no affiliation between Commonwealth Financial Network and Commonwealth Financial P.M.S. Moreover, in speaking with representatives of Commonwealth Financial Network, NFA learned that

FXLQ did not have an account at Commonwealth Financial Network and that the account number that FXLQ and Gray had provided to NFA was fictitious.

22. NFA contacted the individual who signed the letter from Commonwealth Financial P.M.S. – a man by the name of Tom Smith – who told NFA that Commonwealth Financial P.M.S. was a registered broker-dealer and confirmed that FXLQ had an account at the firm but he would not confirm the amount of money in the account. Smith also provided NFA with Commonwealth Financial P.M.S.'s purported CRD number.
23. However, NFA subsequently learned from FINRA that Commonwealth Financial P.M.S. is not currently a registered broker-dealer and that the CRD number provided by Smith was that of a former broker-dealer which has not been registered since 1991.
24. To date, FXLQ and Gray have failed to produce the bond or demonstrate that it even exists, let alone has a market value of \$50,000. Accordingly, FXLQ and/or Gray have failed to cooperate with NFA in its investigation of FXLQ's capital condition; failed to maintain current books and records; provided false and misleading information to NFA; failed to uphold high standards of commercial honor and just and equitable principles of trade; failed to supervise FXLQ's financial condition, or its preparation and maintenance of required books and records; and – in the case of FXLQ – failed to maintain required minimum adjusted net capital.
25. By reason of the foregoing acts and omissions, FXLQ and Gray are charged with violations of NFA Compliance Rules 2-5, 2-36(b)(5), 2-36(c), and 2-36(e). FXLQ

is also charged with violations of NFA Compliance Rules 2-10 and Financial Requirements Section 11.

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

E-Mail: Docketing@nfa.futures.org
Facsimile: 312-781-1672

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;

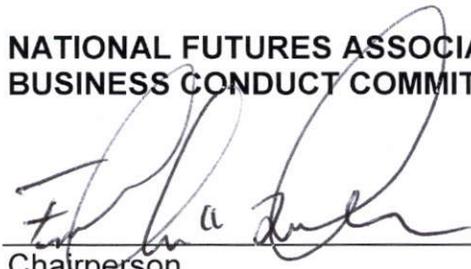
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

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: 09/24/08

By: 
Chairperson

AFFIDAVIT OF SERVICE

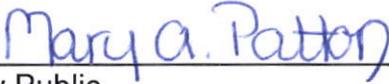
I, Nancy Miskovich-Paschen, on oath state that on September 26, 2008, I served copies of the attached Complaint, by sending such copies in the United States mail, first-class delivery, and by overnight mail, in envelopes addressed as follows:

Forex Liquidity LLC
6 Hutton Centre Drive
Suite 1400
Santa Ana, CA 92707
Attn: Robert Gray, President

Robert F. Gray
26596 Moonridge
Lake Forest, CA 92630


Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 26th day of September 2008.



Notary Public

