

FILED

AUG 26 2009

**NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE**

**NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING**

In the Matter of:)
)
FRONTLINE FINANCIAL, INC.)
(NFA ID #392261),)
)
FRONTLINE ADVISORS LLC) NFA Case No. 09-BCC-032
(NFA ID #401162),)
)
and)
)
CHARLES G. RICE)
(NFA ID #393572),)
)
Respondents.)

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 issues this Complaint against Frontline Financial, Inc. ("Frontline Financial"), Frontline Advisors LLC ("Frontline Advisors") and Charles G. Rice ("Rice").

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, Frontline Financial and Frontline Advisors were NFA Member commodity pool operators and commodity trading advisors located in Dallas, Texas.

2. At all times relevant to this Complaint, Rice was the president, sole principal and sole owner of both firms. Rice is also an associated person of Frontline Financial and Frontline Advisors and an NFA Associate.

BACKGROUND

3. Frontline Financial became an NFA Member in March 2008, and Frontline Advisors became an NFA Member in August 2008.
4. Frontline Financial and Frontline Advisors operate four pools, one of which is the Frontline Advisors Fund LLC ("the Fund").
5. As of February 28, 2009, the Fund had sixteen limited partners and a net asset value of over \$700,000. The Fund's investments at that time included a TD Ameritrade securities account, an investment in an unaffiliated commodity pool, and investments in two funds operated by Frontline Advisors.
6. NFA commenced an audit of Frontline Financial and Frontline Advisors in March 2009 and found significant deficiencies concerning Rice's operation of the firms and their funds. For example, Frontline Financial failed to disclose its commodity pool to NFA or comply with other regulatory requirements associated with its pool. In addition, NFA found that Frontline Financial allocated pool funds to Luis Rivas ("Rivas"), a convicted felon, who was to trade these funds, and engaged in other activities that benefitted Frontline Financial and Rice, yet were detrimental to investors.
7. Moreover, Rice and Frontline Financial imprudently invested other Fund assets with individuals whom they failed to monitor. As a result, Rice and Frontline Financial were unaware of the trading losses that these individuals incurred as well as improper conduct in which these individuals engaged.

APPLICABLE RULES

8. NFA Compliance Rule 2-39(a) provides, in pertinent part, that Members and Associates who solicit customers, introduce customers to counterparties, or manage accounts on customers' behalf in connection with forex transactions shall comply with other NFA Rules, including Compliance Rules 2-36(b) and 2-36(c).
9. NFA Compliance Rule 2-36(b) provides, in pertinent part, that no Forex Dealer Member ("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.
10. 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.
11. NFA Compliance Rule 2-2(a) provides that no Member or Associate shall cheat, defraud or deceive, or attempt to cheat, defraud or deceive, any commodity futures customer.
12. NFA Compliance Rule 2-4 provides that Members and Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business.
13. NFA Compliance Rule 2-13 provides, in pertinent part, that any Member who violates any of Commodity Futures Trading Commission ("CFTC") Regulations 4.1, 4.7, 4.12 and 4.16 through 4.41 shall be deemed to have violated an NFA requirement.

COUNT I

**VIOLATION OF NFA COMPLIANCE RULES 2-36(b), 2-36(c), 2-2(a) AND 2-4:
FAILURE TO DISCLOSE MATERIAL INFORMATION TO FUND PARTICIPANTS
CONCERNING THE FUND'S INVESTMENTS WITH CONVICTED FELON, LUIS
RIVAS, AND WITH OTHER FOREX TRADERS, WHO WERE AFFILIATED WITH
RIVAS, INCLUDING INFORMATION ABOUT THE LOSSES INCURRED WITH
RESPECT TO THESE INVESTMENTS AND FRONTLINE FINANCIAL'S
REDEMPTION OF MOST OF ITS INTEREST IN THE FUND**

14. The allegations contained in paragraphs 1 through 12 are realleged as paragraph 14.
15. In September 2007, the Fund invested \$50,000 in The Forex Project, which was operated by Rivas. The Forex Project promised to pay 10% interest each month for twelve months and return the principal balance of \$50,000 after the last interest payment.
16. At the time of the initial investment in The Forex Project, Frontline Financial was the sole participant in the Fund. During March 2008, however, the Fund acquired ten new participants who contributed approximately \$1 million in additional assets, which reduced Frontline Financial's investment in the Fund to less than 5%.
17. Throughout the life of this investment, Frontline Financial and Rice acted to protect and further their own interests at the expense of the outside investors. For example, from October 2007 to February 2008, The Forex Project paid \$5,000 in interest each month to the Fund for a total interest payment of \$25,000. During this same time, Frontline Financial took regular monthly redemptions from the Fund of approximately \$4,800 per month. By the end of March 2008, the

Fund had redeemed about \$28,700, which was more than the \$25,000 in interest which The Forex Project had paid to the Fund.

18. Shortly after the new participants invested in the Fund, The Forex Project ceased making interest payments to the Fund. Nevertheless, Rice and Frontline Financial continued to reflect on the Fund's books the \$50,000 investment in The Forex Project, as well as accrued interest, without giving any disclosure to Fund participants that The Forex Project had ceased making interest payments.
19. Moreover, despite The Forex Project's cessation of interest payments, Rice and Frontline Financial continued to enrich themselves whenever they could while ignoring their fiduciary obligations to the outside participants. For example, Frontline Financial and Rice not only withdrew approximately \$28,700 from the Fund, they also charged pool participants a monthly management fee even after The Forex Project ceased making interest payments.
20. Frontline Financial and Rice continued to accrue for interest until May 31, 2008 (even though The Forex Project had ceased making interest payments in February 2008). On May 31, 2008, Frontline Financial and Rice wrote off the investment with The Forex Project. However, by then, the Fund's investment accounted for less than 5% of the Fund's assets, which meant that the outside investors bore the brunt of the write-off. Additionally, Frontline Financial and Rice failed to make any meaningful disclosure about the write-off to the other Fund participants until April 2009 when NFA requested them to do so.
21. Frontline Financial and Rice conducted no due diligence prior to investing Fund assets with The Forex Project. Had they made a simple inquiry about Rivas' background, they would have found that he had previously worked for several

disciplined futures firms, including First Commodity Corp. of Boston and Murlas Commodities, Inc., two infamous boiler rooms in the 1980s. Rice also should have suspected that Rivas' promise of a 10% monthly interest rate, or a 120% annual rate of return, was too good to be true.

22. Had Frontline Financial and Rice conducted any meaningful due diligence, they might also have learned that Rivas was a convicted felon. (Rivas was also indicted in June 2008 by federal grand juries in South Carolina and Tennessee on allegations of mail fraud, money laundering, and other charges in connection with his operating The Forex Project, an alleged Ponzi scheme.)
23. At about the time that Rivas' trouble with authorities was coming to light, Rice decided to invest \$190,000 with six other forex traders, all of whom he knew were Rivas' cohorts who had worked at The Forex Project.
24. Specifically, the Fund entered into written agreements (which were essentially promissory notes) with these six traders, who agreed to pay the Fund 50% to 75% of the profits they earned, as well as repay the principal balance. In the end, however, the traders actually repaid to the Fund only a small portion of the money loaned (approximately \$7,600).
25. As was the case with The Forex Project, Frontline Financial and Rice completely failed to exercise their fiduciary responsibilities with regard to the Fund's investments with the six traders. For example, the forex traders promised to provide the Fund and Rice with copies of their monthly trading statements, but Frontline Financial and Rice never received or asked for these statements. As a result, Rice was unable to monitor the traders' trading activity.

26. Because Rice did not monitor the trading of the traders, he was completely unaware that all six traders had lost most of the money lent to them by the Fund, and he also failed to notice that the traders had opened accounts in their own names rather than in the Fund's name and did not deposit all the loaned funds into their trading accounts.
27. Frontline Financial made no disclosure to prospective investors through the Private Placement Memorandum for the Fund or by any other means that the pool would loan money to third parties in exchange for promissory notes.
28. With respect to the Fund's investments with the six forex traders, Frontline Financial and Rice again acted to protect their own interests at the expense of the outside participants. For months Frontline Financial and Rice valued these investments from approximately \$150,000 to \$190,000 on the Fund's balance sheet, without having any support for these valuations.
29. In addition, between March and December 2008, Frontline Financial and Rice withdrew about \$46,000 from the Fund and collected approximately \$3,000 in management fees by valuing the investments with the six forex traders at face value, when these investments were seriously impaired due to trading losses.
30. On December 31, 2008, Frontline Financial finally wrote off the \$190,000 loss attributable to the investments with the six forex traders. However, Frontline Financial and Rice once again gave no explanation at all to Fund participants about the write-off or about the details of the investments with the forex traders.
31. By the time Frontline Financial wrote off the investments with the six forex traders, its interest in the Fund was negligible due to its previous redemptions and receipt

of management fees. Taken all together, Frontline Financial made just under \$25,000 on its initial \$50,000 investment in the Fund, which is about a 50% gain.

32. In contrast, the Fund, lost about \$250,000, or about 25% of its value overall, which losses were borne by the Fund's other participants.
33. By reason of the foregoing acts and omissions, Frontline Financial and Rice are charged with violations of NFA Compliance Rules 2-36(b), 2-36(c), 2-2(a) and 2-4. Frontline Advisors and Rice are charged with violations of NFA Compliance Rules 2-36 and 2-36(c).

COUNT II

VIOLATION OF NFA COMPLIANCE RULE 2-13: FAILURE TO FILE AN EXEMPTION NOTICE, DISCLOSURE DOCUMENT OR ANNUAL FINANCIAL STATEMENT FOR THE FUND WITH NFA AND FAILURE TO FURNISH PARTICIPANTS WITH A FINANCIAL STATEMENT FOR THE FUND.

34. The allegations contained in paragraphs 1 and 13 are realleged as paragraph 34.
35. Frontline Financial failed to file an exemption notice for the Fund, or otherwise disclose the Fund's existence to NFA, or comply with regulatory requirements applicable to the Fund. For example, Frontline Financial solicited investors with a disclosure document that did not comply with Part 4 of the CFTC Regulations and that NFA had not approved. Frontline Financial also failed to provide Fund participants with an annual financial statement or file one with NFA.
36. By reason of the foregoing acts and omissions, Frontline Financial is charged with violations of NFA Compliance Rule 2-13.

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
300 South Riverside Plaza
Suite 1800
Chicago, Illinois 60606
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:

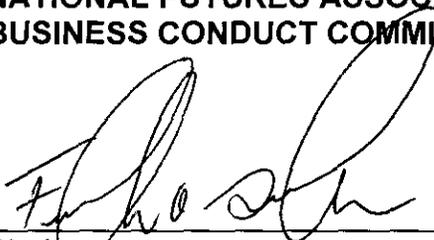
- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any 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: 08/26/09

By: 
Chairperson

/jac(Complaints\FrontlineFinancial_FrontlineAdvisors_Rice)

AFFIDAVIT OF SERVICE

I, Nancy Miskovich-Paschen, on oath state that on August 26, 2009, 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:

Frontline Financial, Inc.
3198 Royal Lane
Suite 207
Dallas, TX 75229
Attn: Charles G. Rice, President

Frontline Advisors LLC
3198 Royal Lane
Suite 207
Dallas, TX 75229
Attn: Charles G. Rice, President

Charles G. Rice
3315 Duchess Trail
Dallas, TX 75229


Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 26th day of August 2009.



Notary Public

