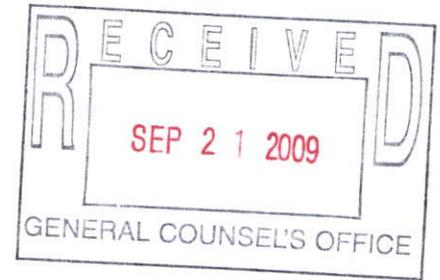




FRONTLINE ADVISORS

August 28, 2009



Frank Gelber  
Chairperson  
Business Conduct Committee  
National Futures Association  
300 South Riverside Plaza  
Suite 1800  
Chicago, IL 60606  
Attn: Legal Department-Docketing

E-Mail [Docketing@nfa.futures.org](mailto:Docketing@nfa.futures.org)  
Facsimile: 312-781-1672

RE: NFA Case No. 09-BBC-032

Dear Mr. Gelber,

Following is the response to the August 26, 2009 Complaint received from Mr. Gelber regarding Frontline Financial, Inc. (NFA ID# 392261, Frontline Advisors, LLC (NFA ID# 401162 and Charles G. Rice (NFA ID# 393572). This letter contains a response for each item listed in the Complaint. Where the item was true it is so acknowledged. Where the item needed clarification, clarification was added with the objective to provide information that may not have been available at the time the complaint was drafted. There may be additional information to be added to my response that was not thought of at this time. My hope is this response has been appropriately completed. Should there be additional information, clarification or a different response format used, please advise.

Allegations

Jurisdiction

1. True.
2. True.

Background

3. True.
4. Frontline Financial, Inc was the managing member and operated one commodity pool, Frontline Advisors Fund I, LLC. Frontline Financial, Inc. was the managing

member and managed one investment fund Frontline Advisors Fund, LLC (“the Fund”). Frontline Advisors Fund, LLC through the investments made in commodity pools per NFA regulations should have been a commodity pool. When the Fund was formed it anticipated making investments in other funds that were commodity pools and did not anticipate making investments directly in the commodity or Forex market.

Frontline Advisors, LLC as managing member operates two commodity pools.

5. True.
6. First sentence – true. Second sentence – Based on Frontline Advisors Fund, LLC having made the investments in commodity pools, Frontline Advisors Fund, LLC should have disclosed the Fund’s operations to NFA. At the time Frontline did not know that investing in other commodity pools required the Fund to make NFA aware of its operations. Third sentence – Pool funds were allocated to Luis Rivas who did trade those funds. I do not know what “other activities” were engaged in that benefitted Frontline Financial and Rice. The funds allocated to Luis Rivas were detrimental to investors.
7. First sentence - Rice and Frontline Financial allocated funds to individuals and did monitor those individuals. Rice and Frontline communicated with those individuals on a regular basis and was aware of the losses as incurred. The funds could have and should have been invested more prudently. Second sentence – Rice and Frontline were aware of the trading losses incurred when incurred. Rice and Frontline was unaware of Luis Rivas’ improper prior conduct. Rice and Frontline to date are not aware of any improper conduct of the other individuals that managed money for the funds.

#### Applicable Rules

8. True.
9. True.
10. True.
11. True.
12. True.
13. True.

#### Count I

14. Agreed.

15. True.
16. True.
17. First sentence – Frontline and Rice acted in the best possible manner during the life of the investment. The results benefited Frontline and Rice, and were at the expense of the outside investors, Frontline and Rice. Second sentence – I believe to be true. Third sentence – true. Fourth sentence – true. Note that Frontline was the only investor in the Fund through February 28, 2008 and the interest earned through February 28, 2008 was paid to that one investor. Had there been other investors, the interest would have been paid on a proportional basis.
18. First sentence – true, at that time it was expected the interest payments would continue. This is based on continuing conversations with employees of The Forex Project that were working to maintain the company. Second sentence – true, Frontline and Rice continued to carry the \$50,000.00 investment on the books until such time it was determined that in fact the investment and accrued interest was a loss. At the time the additional participants made an investment in the fund, there was not a disclosure providing detailed information regarding the Forex Project investment.
19. First sentence - Frontline and Rice did continue to receive management fees based on the face value of The Forex Project investment under the belief that the note would be repaid. During this period of time Frontline and Rice worked to determine the status of The Forex Project investment. The fees were paid until it was determined The Forex Project investment was a loss. Through this time and for sometime thereafter Rice and Frontline worked to secure repayment of the funds from the Forex Project on behalf of the participants. Second sentence – The management fee on the note in the amount of \$125.00 per month for three months and the management fee on the accrued interest in the amount of \$75.00 for a total of \$525.00. Frontline received withdrawals from the Fund through February 2008 while Frontline was the only investor in the Fund. The fees received by Rice and Frontline were paid as stated in the private placement memorandum. Again, had the outside participants been investors in the fund during the periods when the interest income was received, they would have been allocated their pro-rata share of the interest received and principal returned upon maturity. There was no intent on the part of Rice and Frontline to enrich themselves at the expense of the participants.
20. First sentence – true. There was a reasonable expectation from talking with employees at The Forex Project that the interest would be paid. Second sentence – true. At the time that it was determined that principal and interest would not be received, the note was written off. Third sentence – true. Fourth sentence – Frontline and Rice did disclose to the Fund participants the losses in the Fund in a timely manner through the monthly financial statements and the year end tax return before the NFA audit commenced. In fact, Frontline and Rice communicated to the Fund participants that the losses were the result of investing

in the Forex market and that these losses were the responsibility of Frontline and Rice. In the fourth quarter of 2008 and then again in the first quarter of 2009 it was communicated in writing to the Fund participants that Frontline and Rice had determined the amount of the losses incurred through each Forex investment and that Frontline and Rice would repay to each participant the losses incurred through each Forex investment. This was communicated prior to the NFA audit and also communicated to the NFA audit team. It is true that the NFA audit team did request and Frontline and Rice readily complied to provide additional detailed disclosures in writing regarding The Forex Project and other individuals regarding Forex investments.

21. First sentence – Frontline and Rice did conduct due diligence prior to investing Fund assets with The Forex Project. In fact Frontline and Rice traveled to Chattanooga, TN during June of 2007 and spent three days at the offices of The Forex Project, attended a three day educational training session, spoke with each of the employees of the firm at the Chattanooga location, watched Luis Rivas trade accounts, listened to the presentations by Luis and other members of the firm, looked on the NFA web site and found that Luis Rivas had a listing dating from 1983, 1984 and 1986 (print out enclosed) and that there was nothing negative regarding what was seen on the NFA site. There were no regulatory actions, arbitration awards or CFTC reparations cases. There were no other known as, doing business as or negative history on the NFA web site. Frontline and Rice then revisited The Forex Project in Chattanooga, TN later in 2007 and made a final visit in early 2008. During this time and up until The Forex Project investment was written off Frontline and Rice communicated with employees of The Forex Project. Frontline and Rice reviewed the list of investors and found investors ranged from sophisticated professionals such as lawyers to small individuals. Frontline and Rice found that The Forex Project had maintained an educational training session schedule and support centers in multiple cities for some period of time. After attending The Forex Project educational training session, The Forex Project supplied support for individuals who then managed their own Forex accounts. Based on these educational training sessions many individuals did just that, managed their own accounts. Frontline and Rice reviewed a company that had over 25 employees, multiple locations and hundreds of educational training session attendees. At the time The Forex Investment was made, Frontline and Rice had met several of the educational training session attendees. Second sentence – Frontline and Rice did do a web search for Luis Rivas the middle of 2007 and at that time found nothing. There was no mention on the Luis Rivas NFA web site page that the firms noted in the complaint with whom Luis Rivas had an association had in fact been “infamous boiler rooms in the 1980’s. The fact that this was not mentioned on the NFA web site under a Luis Rivas name did not necessitate further research. Had the NFA web site noted under regulatory actions, NFA arbitration awards, CFTC reparations cases or anywhere else that in fact Luis Rivas was a problem then my belief is many people would have made different decisions in 2007. What is being communicated in the complaint is the fact that the NFA knew Luis Rivas to be a bad guy and yet did not state that fact on the NFA web site. The information was not available through the search process on the NFA web site. Rice and Frontline

know that an employee of a local police department did a search on Luis Rivas and found nothing, know that a Knoxville law firm did a search on Luis Rivas and found nothing and know that the bankruptcy trustee for the Luis Rivas estate has stated that unless you knew a very specific search method for doing a background check on anyone and specifically Luis Rivas, that the twenty year old history would have been difficult to find. Third sentence – Frontline and Rice based the ability to receive a ten percent per month interest rate for one year from The Forex Project investment on their review of The Forex Project.

22. First sentence – The fact that Rivas was a convicted felon might have been learned by Frontline and Rice with further due diligence. This fact was also missed by other sophisticated investors. Please see #21. Second sentence in parentheses - this event occurred after The Forex Project Investment was made.
23. Frontline and Rice did invest \$190,000.00 with six individuals who had worked at The Forex Project. Frontline and Rice came to know each of these individuals. These individuals were employees of The Forex Project that during their employment at The Forex Project became familiar with the Forex market, trading in the Forex market and developed Forex trading strategies through their employment. To date none of these individuals have been cited as being “cohorts” or partners of Luis Rivas through the investigation of The Forex Project or Luis Rivas. In fact, each of these individuals have been forthright with the authorities, have responded to each and every inquiry, have made themselves available upon request for any meeting, have provided all the information at their disposal to further the authorities work and cooperated openly. Through the demise of The Forex Project in 2008, Frontline and Rice kept in close contact with two of The Forex Project employees to determine the status of The Forex Project. Through this time Frontline and Rice determined that the employees were just that, employees. They came to work each day, did their job and learned the business of managing money in the Forex market. Frontline and Rice then met with each of these individuals to review their experience at The Forex Project, what they did at The Forex Project, who they were as individuals, met or talked with their family members and reviewed their Forex investment management experience. Frontline and Rice found each of these individuals to be conscientious and responsible people who took the initiative to do something and also ended up associated with Luis Rivas. They believed in the work they were doing. Frontline and Rice reviewed their personal trading accounts to know their trading history. Frontline and Rice have kept in contact with these six individuals to date. As noted above, Frontline and Rice have taken responsibility with the participants to repay the losses from all Forex investments. It should be noted that these individuals have made the same commitment to me to do the same. The Forex Project outcome was bad. My further due diligence has revealed that the people that worked there were good people, that saw an opportunity from which they could profit and thus pursued that opportunity. Note that one of these individuals provided their kidney for their mother earlier this year. These are real people.
24. True.

25. Frontline and Rice did remain in contact with each of the six traders on a regular basis and worked to maintain its fiduciary responsibility for the Fund's investments. Frontline and Rice did monitor the investment results of the six traders on a monthly or more frequent basis through regular phone calls and review of their investment results. Frontline and Rice received monthly statements and accounting from one trader and did receive statements upon request. Frontline and Rice did monitor investment results on a monthly or more frequent basis. Frontline and Rice should have done a better job of monitoring the six traders.
26. Frontline and Rice did monitor the trading activities and was aware that the money lent to them was lost and was made aware on a timely basis the account balances. Frontline and Rice did loan the money to the traders and should have instead had them manage money in a Fund account with a power of attorney.
27. The Private Placement Memorandum did not disclose that money would be loaned to third parties in exchange for promissory notes. The Private Placement Memorandum does not prohibit making such an investment. The Private Placement Memorandum does state that unaffiliated advisors may be used by the Fund and that the investment performance will depend on the unaffiliated investment advisor. That the manager will not be in a position to monitor the daily investment activity of the unaffiliated investment advisor. That the fund manager has full discretion regarding the management of the fund. Frontline and Rice did communicate that the Fund would be investing with four of the six traders.
28. Frontline and Rice maintained the valuation for the loans through the end of 2008. The loans matured December 1, 2008 and December 31, 2008. Until that time, Frontline and Rice worked to secure these notes. During this time the management fees were about \$375.00 per month or \$1,875.00 in total. The fund still expects to be repaid by the lost funds through one or more of the unaffiliated investment advisors.
29. True. Again, the unaffiliated investment advisors as a group have affirmed the responsibility to repay the funds lost through their management.
30. First sentence – True. Second sentence – Frontline and Rice did communicate the total losses to the participants. Frontline and Rice did communicate that the losses did result from the management of the money in the Forex market by the unaffiliated investment advisors. Frontline and Rice did not provide further details regarding the losses.
31. First sentence – True, Frontline reduced its interest in the Fund through the year. These withdrawals paid the operating costs of the managing member. Second sentence – the interest income earned by the Fund through February 1, 2008 was paid out to the only participant or investor through that point in time, Frontline.

Had there been other investors in the Fund up to February 1, 2008, they too would have shared in this return.

32. True.

33. Acknowledged.

## Count II

34. Acknowledged.

35. Sentence one – true. Sentence two – true. Sentence three – Frontline did provide the fund participants an annual financial statement in addition to monthly financial statements. Frontline did not provide financial information to the NFA.

36. Acknowledged.

My hope is that this response complies with the Procedural Requirements.

## Summary

My apologies to the participants/investors, the NFA and others affected by my actions last year is the starting point. On a monthly or more frequent basis I have and will continue to communicate with the participants/investors and NFA.

The participants in the Fund are not participants, most are long time friends some for more than twenty years. I know their children, been through the death of a wife, the loss of a job, cancer survival, grandchildren and much more. There was no intent on my part to cheat, defraud, deceive or short change these friends in any way. They relied on me to manage their assets. Are they disappointed, yes. One has withdrawn from the fund yet retains me as his advisor for financial issues and the investment account withdrawn from the fund.

Personally and professionally, my mistakes are my responsibility and my burden. It is now a matter of working to correct the mistakes with those affected. Regrets are to be remembered each day forward. The responsibility to repay the money lost through the Forex investments through my business has been communicated to the participants of the Fund. This process began the second quarter of 2009. An account within the Fund was established where deposits will be made on behalf of the participants to repay the Forex losses. This has been clearly communicated to the participants. Through this time Rice and Frontline have had regular written, verbal and in person communications with the participants.

Decisions were made that now have to be made right. When the Fund's document is updated, the document will specifically restrict the Fund's investments to marketable securities through an investment brokerage firm such as TDAmeritrade.

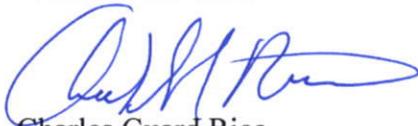
At this time the Fund has liquidated all Forex and commodity investments. The fund has two accounts, one with Prosperity Bank and the other with TDAmeritrade. There are no assets invested or held outside these two accounts. This has been communicated to the participants.

Enclosed is a CD entitled Lizard Brains. It was given to the auditors. I listened to the information on this CD in late 2008. If I had listened to it in early 2008, my belief is the only investment that would have been made in the Forex market would have The Forex Project investment. The information on the CD addresses why people make bad investment decisions. It should be required listening for every person who manages money. My prayer is that you will take the time to listen to the CD in the car or somewhere. My goal is to read and/or listen to information that broadens my professional situation three hours each day. The information on this CD has been listened to by me more than ten times. Mistakes are made that are not intended to be made. The information on the CD has allowed me to cognitively avoid investment mistakes from the day listened to forward. Though several mistakes were made, the information on the CD would have helped me to avoid the investment mistakes in the Forex market that followed The Forex Project investment.

Mr. Gelber, this is my response to the complaint receive from you on behalf of the NFA Business Conduct Committee. This response has been thought through and at this time my belief is it to be an accurate and complete response. Should I have additional thoughts to add to this response, they will be provided to you at that time. Should you need further information or clarification, please advise.

Sincerely,

Frontline Advisors



Charles Guard Rice

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## Details

**LUIS H RIVAS**

NFA ID: 0110580

<b>Current Status</b>
NO CURRENT STATUS

<b>Regulatory Actions</b>		<b>NFA Arbitration Awards</b>		<b>CFTC Reparations Cases</b>	
<b>Agency</b>	<b>Number</b>	<b>Role</b>	<b>Number</b>	<b>Total</b>	<b>0</b>
NFA	0	Claimant	0		0
CFTC	0	Respondent	0		<a href="#">details...</a>
Exchanges	0	Representative	0		
	<a href="#">details...</a>		<a href="#">details...</a>		

<b>Also Known As</b>	<b>Security Futures Proficiency Training</b>
No other names	No proficiency information available

<b>Doing Business As</b>
No other names

<b>History</b>	
<b>Status</b>	<b>Effective Date</b>
BEST COMMODITIES SERVICES INC	
• ASSOCIATED PERSON WITHDRAWN	04/19/1984
CHICAGO COMMODITY CORP	
• ASSOCIATED PERSON PENDING STATUS WITHDRAWN	07/07/1986

• NFA ASSOCIATE MEMBER PENDING STATUS WITHDRAWN	07/07/1986
• ASSOCIATED PERSON PENDING	04/18/1986
• NFA ASSOCIATE MEMBER PENDING	04/18/1986
FIRST COMMODITY CORP OF BOSTON ✓	
• ASSOCIATED PERSON WITHDRAWN	04/19/1983
INVESTMENT SYNDICATION CORPORATION	
• ASSOCIATED PERSON PENDING STATUS WITHDRAWN	03/04/1986
• NFA ASSOCIATE MEMBER WITHDRAWN	03/04/1986
• NFA ASSOCIATE MEMBER APPROVED	03/04/1986
• ASSOCIATED PERSON TEMPORARY LICENSE	03/04/1986
• NFA ASSOCIATE MEMBER PENDING	02/26/1986
• ASSOCIATED PERSON PENDING	02/25/1986
MURLAS COMMODITIES INC ✓	
• ASSOCIATED PERSON WITHDRAWN	05/27/1983
UBS FINANCIAL SERVICES INC	
• ASSOCIATED PERSON WITHDRAWN	04/13/1984
US AG & FINANCIAL FUTURES CORPORATION	
• ASSOCIATED PERSON WITHDRAWN	02/24/1983

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**RULE 2-36. REQUIREMENTS FOR FOREX TRANSACTIONS**

*[Adopted effective June 28, 2002. Effective dates of amendments: December 1, 2003; November 30, 2005; February 13, 2007; October 25, 2007; and April 1, 2009.]*

**(a) General Prohibition**

No Forex Dealer Member shall engage in any forex transaction that is prohibited under the Commodity Exchange Act.

**(b) Fraud and Related Matters**

No Forex Dealer Member or Associate of a Forex Dealer Member engaging in any forex transaction shall:

- (1) Cheat, defraud or deceive, or attempt to cheat, defraud or deceive any other person;

The offering memorandum at the time given to each participant was what was believed to be necessary at that time.

- (2) Willfully make or cause to be made a false report, or willfully to enter or cause to be entered a false record in or in connection with any forex transaction;

There was no intent nor was there a willful effort to make a false report to anyone.

- (3) Disseminate, or cause to be disseminated, false or misleading information, or a knowingly inaccurate report, that affects or tends to affect the price of any foreign currency;

N/A

- (4) Engage in manipulative acts or practices regarding the price of any foreign currency or a forex transaction;

N/A

- (5) Willfully submit materially false or misleading information to NFA or its agents with respect to forex transactions;

N/A

- (6) Embezzle, steal or purloin or knowingly convert any money, securities or other property received or accruing to any person in or in connection with a forex transaction.

N/A

(c) Just and Equitable Principles of Trade

Forex Dealer Members and their Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their forex business.

Rice and Frontline worked to manage the Fund in the best possible manner.

**RULE 2-2. FRAUD AND RELATED MATTERS.**

*[Effective date of amendments: March 21, 1983 and July 24, 2000.]*

No Member or Associate shall:

- (a) Cheat, defraud or deceive, or attempt to cheat, defraud or deceive, any commodity futures customer;

Rice and Frontline did not work to cheat, defraud or deceive any fund participant.

**RULE 2-4. JUST AND EQUITABLE PRINCIPLES OF TRADE.**

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.

Rice and Frontline tried to accomplish this each day of the Fund's operations. When decisions and judgment proved to be unacceptable to Rice and Frontline, Rice and Frontline proactively took action to correct the situation with the participants.

**RULE 2-13. CPO/CTA REGULATIONS.**

*[Adopted effective September 29, 1982. Effective date of Amendments: April 11, 1983; July 5, 1984; April 4, 1988; August 24, 1995; October 10, 1996; July 24, 2000 and December 14, 2003.]*

(a) Any Member who violates any of CFTC Regulations 4.1, 4.7, 4.12 and 4.16 through 4.41 shall be deemed to have violated an NFA requirement.

(b) Each Member CPO which delivers or causes to be delivered a Disclosure Document under CFTC Regulation 4.21 must include in the Disclosure Document a break-even analysis which includes a tabular presentation of fees and expenses. The break-even analysis must be presented in the manner prescribed by NFA's Board of Directors and must be accurate as of the date of the Disclosure Document.

(c) Each Member required to file any document with or give notice to the CFTC under CFTC Regulations 4.7, 4.12, 4.22, 4.26 or 4.36 shall also file one copy of such document

with or give such notice to NFA at its Chicago office no later than the date such document or notice is due to be filed with or given to the CFTC. Any CPO Member may file with NFA a request for an extension of time in which to file the annual report required by CFTC Regulation 4.22(c) or a request for approval of a change to its fiscal-year election.

When the original offering document was written it was not the intention of the Fund to be deemed a commodity pool and thus did not register with the Fund with the NFA.