

NATIONAL FUTURES ASSOCIATION
BEFORE THE
BUSINESS CONDUCT COMMITTEE

FILED

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NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING

In the Matter of:)

INTEGRITY FX LLC)
(NFA ID #376396),)

and)

LUKE M. COLEMAN)
(NFA ID #398412),)

Respondents.)

NFA Case No. 09-BCC-048

COMPLAINT

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association ("NFA"), and having 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 Integrity FX LLC ("IFX") and Luke M. Coleman ("Coleman").

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, IFX was a commodity trading advisor ("CTA") NFA Member. As such, IFX was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof.
2. At all times relevant to this Complaint, Coleman was a principal and associated person ("AP") of IFX registered with the Commodity Futures Trading Commission ("CFTC") and an Associate of NFA. As such, Coleman was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for

violations thereof. IFX is liable for violations of NFA Requirements committed by Coleman during the course of his activities on behalf of IFX.

BACKGROUND

3. IFX has been an NFA Member CTA since June 5, 2008 and is located in Riverside, California. Tim E. DuBose (“T. DuBose”) is the firm’s president and Candice DuBose (“C. DuBose”) is its chief executive officer. Coleman is listed as the firm’s managing member and is the only individual who is both a listed principal and an AP of the firm.
4. NFA received a complaint against IFX from a participant in Integrity FX, LP (“IFXLP”), a forex pool that IFX operated from September 2007 until June 2009. The customer said that before IFXLP began trading he had loaned money to IFX for the purpose of trading forex through IFX's proprietary accounts and that he had been promised a 50% return on his loan. The customer also told NFA that his loans were converted into shares in IFXLP once the pool began trading in September 2007. The customer told NFA that he invested a total of approximately \$1 million with IFX, in what he had been told was a low risk investment strategy, but that he had lost approximately 90% of his investment.
5. NFA requested information from IFX in order to follow up on the customer's complaint. The firm’s response suggested that – in addition to the customer complainant – IFX might have engaged in unusual loan activity with multiple third parties, which prompted NFA to initiate an audit of IFX.
6. NFA's audit revealed that IFX solicited more than \$4.3 million in loans from various individuals before IFXLP began trading. Approximately 40% of these

loans came from investors who intended to become pool participants once IFXLP became active. Prior to that occurring, their funds were traded in IFX's proprietary forex accounts, which suffered substantial losses. IFX used the remaining loans for working capital. All of the loans were secured by promissory notes that bore very high interest rates.

7. When IFXLP began trading in September 2007, the promissory notes to lenders who had been trading forex through IFX's proprietary accounts were converted into participant shares in IFXLP in amounts that reflected the notes' principal plus accrued interest. Since much of the money that IFX had borrowed from these lenders had already been lost trading forex before IFXLP became active, IFX borrowed still more money to fully fund the pool's trading account – once again at very high interest rates. Ultimately, the pool suffered significant losses and was liquidated in June 2009.
8. In addition to borrowing money to fund IFXLP, IFX continued borrowing money to use as working capital for the firm. NFA determined that IFX borrowed so much money from one entity that IFX should have listed that entity as a principal of IFX in IFX's registration filings.
9. IFX currently has approximately \$1.85 million in liabilities to IFXLP participants and owes its capital lenders approximately \$8.8 million more. In contrast, IFX has current assets of approximately \$3,300 and, as of September 2009, was accruing interest at a rate of approximately \$260,000 per month while generating little or no income.

10. As alleged herein, IFX failed to fully cooperate with NFA in its audit of the firm leaving a number of questions unanswered regarding the firm's operations. Despite these unanswered questions, NFA was able to determine that IFX engaged in a systematic course of borrowing money at high rates of interest, dissipating that money through trading losses and operating expenses, and paying obligations as they came due by borrowing still more money at high interest rates. Further, NFA discovered that IFX received virtually all of its capital from one entity. As a consequence, IFX should have listed that entity as a principal of IFX but it failed to do so. In addition, IFX and its AP/principal Coleman took little, if any, initiative to supervise IFX's operations.

APPLICABLE RULES

11. NFA Compliance Rule 2-5 provides, in pertinent part, that each NFA 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.
12. NFA Compliance Rule 2-39(a) provides, in pertinent part, that Members and Associates who solicit customers, introduce customers to a counterparty, or manage accounts on behalf of customers in connection with forex transactions shall comply with Sections (a), (b), (c), (e), (h), and (i) of NFA Compliance Rule 2-36.
13. NFA Compliance Rule 2-36(c) provides that Forex Dealer Members ("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.

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 Registration Rule 208(a)(2)(A) provides, in pertinent part, that within 20 days after any person becomes a principal of an applicant or registrant subsequent to the filing of Form 7-R in accordance with NFA Registration Rule 204, the applicant or registrant must, if the new principal is an entity, file a Form 3-R to add the new principal.

COUNT I

VIOLATION OF NFA COMPLIANCE RULE 2-36(c): FAILURE TO UPHOLD HIGH ETHICAL STANDARDS.

16. The allegations contained in paragraphs 1, 3 through 10 and paragraphs 12 and 13 are realleged as paragraph 16.
17. IFX solicited customers, introduced customers to counterparties, and/or managed accounts on behalf of customers in connection with forex transactions and, by operation of NFA Compliance Rule 2-39(a), was therefore required to comply with NFA Compliance Rule 2-36(c).
18. The observance of high standards of commercial honor and just and equitable principles of trade by an NFA Member in the conduct of its forex business requires the Member to refrain from engaging in an ongoing practice of borrowing money at exorbitant rates of interest and taking out new high interest loans to

repay earlier loans without a reasonable basis for believing that it will be able to repay the new loans.

19. Between September 2006 and August 2007, IFX financed its operations by borrowing funds from various individuals. Most, if not all, of these lenders attended the same church as the DuBoses or learned of IFX from people who attended that church. The loans that were made to IFX before IFXLP began trading consisted of two types. One type was a loan from an individual who expected to eventually participate in IFXLP. IFX used these loans to trade forex through its proprietary accounts and was to transfer the balance of these loans to IFXLP once the pool became active. The second type of loan was a loan from an individual who did not wish to trade forex. IFX used these loans for operating capital.
20. The above loans purported to yield interest rates ranging from 25% to 65% with the average being 39%. Prior to launching IFXLP, IFX received \$4.35 million in loans. Of this amount, \$1.45 million was borrowed from a non-NFA Member entity named US Capital Management, Inc. ("USCM"). Of the total funds that IFX borrowed, \$1.79 million was lost trading forex through IFX's proprietary accounts, \$134,000 was used to pay back principal and interest to lenders, and \$639,000 was used to pay IFX's operating expenses.
21. Once IFXLP began operations, IFX had an obligation to transfer to IFXLP approximately \$2.12 million of loan balances owed to lenders who wanted to participate in IFXLP. However, as of the end of August 2007, IFX had a shortfall of \$318,000 with respect to the amount that was required to be transferred to

IFXLP and, over the course of the next three months, IFX took in additional loans to cover this shortfall.

22. As of August 24, 2009, IFX owed lenders more than \$8.8 million. Taking into account its liabilities to former participants of IFXLP, IFX's total liabilities were more than \$10.7 million. To make matters worse, as of September 2009, IFX was accruing interest at a rate of approximately \$260,000 per month and was generating little or no revenue. As of September 23, 2009, IFX only had approximately \$3,300 in liquid assets.
23. IFX failed to observe high standards of commercial honor and just and equitable principles of trade in that it engaged in a pattern of sustaining its business by continuously obtaining loans at exorbitant rates of interest and taking out new high interest loans to repay earlier loans without a reasonable basis for believing that it would be able to repay these new loans.
24. By reason of the foregoing acts and omissions, IFX is charged with violations of NFA Compliance Rule 2-36(c), by operation of NFA Compliance Rule 2-39(a).

COUNT II

VIOLATION OF NFA REGISTRATION RULE 208(a)(2)(A): FAILURE TO LIST A PRINCIPAL.

25. The allegations contained in paragraphs 1 and 15 are realleged as paragraph 25.
26. NFA Registration Rule 101(s)(3)(C) defines the term "Principal" as it pertains to a CFTC registrant as including, among other things, an entity that has directly contributed 10% or more of a registrant's capital unless it meets certain enumerated conditions that are not pertinent herein.

27. USCM is an entity that made capital contributions of approximately \$1.1 million to IFX, which is 10% or more of IFX's capital. Therefore, IFX was required to file a Form 3-R adding USCM as a principal of the firm, but it failed to do so.
28. By reason of the foregoing acts and omissions, IFX is charged with violations of NFA Registration Rule 208(a)(2)(A).

COUNT III

VIOLATION OF NFA COMPLIANCE RULE 2-5: FAILURE TO COOPERATE WITH NFA DURING ITS AUDIT OF IFX.

29. The allegations contained in paragraphs 1, 3 through 11 are realleged as paragraph 29.
30. NFA attempted to investigate the source of the funds for the loans and capital that USCM gave to IFX to determine, among other things, whether there were individuals or entities – other than USCM – who should have been listed as principals of IFX by virtue of their funneling capital contributions to IFX through USCM.
31. During NFA's investigation, IFX president, T. DuBose, represented to NFA that all he knew about USCM was that it was a private equity firm. However, USCM's website indicated that T. DuBose and IFX have or had close personal and/or business relationships with USCM and its principal Toby Smith ("Smith"). For example, the USCM website states that:

Through our exclusive partnering and relationship with Integrity FX, LTD., our trading arm, we have been able to create a systematic method taking advantage of opportunities while controlling risk and protecting our clients' principal all the while achieving faster growth.

The conservative nature of these strategies and systematic methods has enabled USCM to always meet its commitments and obligations to its clients. (Emphasis added.)

32. A tab on the USCM website, entitled "Leadership," lists three individuals, including T. DuBose and Smith, and included some background information on each of them. The background information for Smith stated that:

Over the past 15 years, Mr. Smith has developed a strategic partnership with IFX, LTD., owned by Tim Dubose. IFX, LTD. is an investment management firm that trades exclusively in the foreign currency exchange market through its proprietary software system.

Further, in describing T. DuBose's background the USCM website stated that:

Tim DuBose is the Principal, President and Founder, and Managing Member of IFX, LTD. He is a skilled businessman and entrepreneur with over ten years of experience in sales, management, and training. Mr. DuBose began FOREX trading in 2002, forming his own FOREX company, IFX, LTD., in July 2006.

33. Moreover, Smith told NFA that he had known T. DuBose for about twelve years and had met him through their church. Smith also told NFA that USCM invests its clients' money in companies with growth potential. He added that the capital contributions to IFX consisted of proprietary USCM funds and that the loans to IFX were comprised of both proprietary USCM funds and client funds.
34. NFA decided to further investigate the relationship between IFX and USCM based on T. DuBose's misrepresentation that he knew very little about USCM, other than it was a private equity firm, when USCM's website and Smith indicated that T. Dubois had a long and close business relationship with USCM; and the

magnitude of USCM's loans and capital contributions to IFX, which totaled more than \$4 million, when IFX had no apparent ability to repay this sum to USCM.

35. NFA also had concerns about USCM's portrayal of its financial products as conservative, appropriate for retirees, and profitable, as demonstrated by the following statements on USCM's website:

Due to the uniqueness of these products, USCM has attracted clients of all ages and investment objectives. This type of performance is enhancing individuals, families, foundations and businesses short and long-term goals.

Retirees can now have the added security of adequate income without the fear of outliving their nest egg. Our unique approach to investing allows us to "flatten out" the risk to the client as it offers a fixed return instead of the usual variable return often associated with higher than average rates.

Contrary to these statements, at least \$1 million of the funds that USCM gave to IFX was lost trading high risk forex contracts, through IFX's proprietary accounts or through IFXLP.

36. NFA made multiple requests to IFX to produce the cash records of its principal, USCM, to confirm the source of the funds USCM used to make the loans and capital contributions to IFX, and to determine if there were any other entities or individuals behind USCM who should have been disclosed as principals of IFX.
37. IFX failed to produce USCM's cash records to NFA or any definitive evidence showing the source of the funds that USCM used to make loans and capital contributions to IFX. Therefore, NFA was unable to determine if there were individuals and entities behind USCM who should have been listed as principals

of IFX based on their investments with USCM which were ultimately used to fund the loans and capital contributions that USCM made to IFX.

38. NFA also requested IFX to produce the personal financial records of its principals T. DuBose and C. DuBose to determine the amount of money they were paid by IFX and if such amount was in excess of what they were entitled to receive under IFX's compensation agreement with IFLPX. However, IFX failed to produce the personal financial records of its principals T. DuBose and C. DuBose.
39. By failing to produce USCM's cash records and T. DuBose's and C. DuBose's personal financial records to NFA, IFX failed to fully cooperate with NFA in its audit of IFX and impeded NFA's ability to complete its audit.
40. By reason of the foregoing acts and omissions, IFX is charged with violations of NFA Compliance Rule 2-5.

COUNT IV

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

41. The allegations contained in paragraphs 1 through 10 and paragraphs 12 and 14 are realleged as paragraph 41.
42. IFX and Coleman solicited customers, introduced customers to counterparties, and/or managed accounts on behalf of customers in connection with forex transactions and, by operation of NFA Compliance Rule 2-39(a), were, therefore, required to comply with NFA Compliance Rule 2-36(e) which required IFX and Coleman to diligently supervise IFX's business operations.
43. Coleman was the only individual who was a listed principal of IFX as well as an AP of the firm. As such, he was the only individual with a regulatory obligation

- under NFA's Compliance Rules to diligently supervise IFX's employees and agents in the conduct of their forex business on behalf of the firm.
44. The diligent supervision of employees and agents in the conduct of forex activities for or on behalf of an NFA Member, in part, requires the NFA Member and its Associates who have supervisory responsibilities to ensure that the Member adheres to high standards of commercial honor and just and equitable principles of trade, discloses all of the Member's principals in its registration filings with NFA, and cooperates fully and promptly with NFA in any NFA audit of the Member.
 45. Coleman exhibited no involvement in supervising or otherwise running IFX during NFA's audit of the firm. Although Coleman was well aware that NFA was in IFX's office and asking serious questions about the firm and its operations, he showed no interest in listening to NFA's inquiries or responding to them and generally absented himself from any discussions with NFA. In addition, Coleman has had no involvement in responding in any way to NFA's post audit fieldwork inquiries. Virtually all communications between IFX and NFA have been left to individuals other than Coleman.
 46. The allegations contained in paragraphs 17 through 23, 26 and 27, 30 through 39 are realleged as paragraph 46.
 47. By reason of the foregoing acts and omissions, IFX and Coleman are charged with violations of NFA Compliance Rule 2-36(e), by operation of NFA Compliance Rule 2-39(a).

PROCEDURAL REQUIREMENTS

ANSWER

You must file a written Answer to the Complaint with NFA within thirty (30) 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. NFA staff is authorized to grant such reasonable extensions of time in which an Answer may be filed as it deems appropriate.

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 AP 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: 11-17-09

By: _____

Chairperson