

**BEFORE THE
NATIONAL FUTURES ASSOCIATION**

In the Matter of:)	
)	
SYSTEM CAPITAL, LLC)	
(NFA ID #408682))	
)	NFA Case No. 10-MRA-003
and)	
)	
JOSHUA WILLIAM WALLACE)	
(NFA ID #397996))	

**NOTICE OF MEMBER RESPONSIBILITY ACTION AND ASSOCIATE
RESPONSIBILITY ACTION UNDER NFA COMPLIANCE RULE 3-15**

National Futures Association ("NFA") hereby gives notice to System Capital, LLC ("SC"), a commodity trading advisor ("CTA") NFA Member located in Lake Oswego, Oregon and Joshua William Wallace ("Wallace"), an associated person ("AP") and NFA Associate, that, pursuant to NFA Compliance Rule 3-15, the President of NFA, with the concurrence of NFA's Executive Committee, has taken a Member Responsibility Action ("MRA") against SC and an Associate Responsibility Action ("ARA") against Wallace, whereby:

1. Wallace and SC are prohibited from soliciting or accepting any funds from customers or investors, soliciting investments for any commodity pools or other investment vehicles, or placing any trades on behalf of customers, commodity pools, or investors except liquidation or risk reducing trades;
2. Wallace and SC are prohibited from disbursing or transferring any funds of customers, investors, or commodity pools over which they exercise control, or participants in any such commodity pools, without prior approval from NFA; and
3. Wallace is required to provide copies of this MRA/ARA via overnight courier to all: a) customers of Wallace and SC; b) all persons who solicit on behalf of Wallace or SC; and c) banks and other financial institutions in which money is on deposit in the name of Wallace, SC, or any other entity over which Wallace exercises control.

This action is effective immediately and is deemed necessary to protect customers of Wallace and SC based on the fact that Wallace and SC solicited and continue to solicit customers with patently false and misleading information. In addition,

SC and Wallace have deliberately misled NFA throughout its investigation and examination of SC by providing NFA with contradictory and false information.

In support of these actions, NFA attaches the affidavit of Brandon Tasco ("Tasco"), who is a Supervisor in NFA's Compliance Department, and based thereon alleges as follows:

Background

1. SC is a CTA NFA Member located in Lake Oswego, Oregon. SC has been an NFA Member since March 2009. SC registered as a CTA in April 2009. From March 2009 until February 2010, SC was also registered as a commodity pool operator ("CPO").
2. Wallace has been the sole AP, principal and employee of SC since March 2009. Prior to that, Wallace was an AP at another NFA Member CPO/CTA. Wallace has been an NFA Associate since May 2008.
3. On March 11, 2010, Wallace submitted SC's annual questionnaire ("NFA Questionnaire") to NFA, which indicated that SC had approximately \$3.6 million in assets under management ("AUM") and 17 customer accounts. In addition, about two months later, Wallace submitted SC's April 30, 2010 disclosure document ("DD") which showed that SC had listed actual AUM of approximately \$19 million with a nominal value of approximately \$22 million.¹
4. On May 11, 2010, NFA received three separate pieces of information regarding SC from another NFA Member. The NFA Member provided NFA with: (1) a one page tear sheet which included statistical information for SC's trading program ("tear sheet"); (2) an SC due diligence questionnaire dated May 1, 2010 ("DDQ"); and (3) a document which purported to show an audit that a nationally recognized public accounting firm had conducted of SC's "proprietary performance" from June 1999 to December 2009 ("NRPAF Report").
5. NFA became concerned after reviewing the content of these documents since they differed significantly from the information NFA had on file for SC. For example, while SC's DD dated April 30, 2010 indicated that SC had AUM of approximately \$19 million with a nominal value of approximately \$22 million, the tear sheet showed that SC had \$32 million in AUM. In addition, the DDQ dated May 1, 2010, claimed that SC is the general partner of a pool with \$8 million in assets. However, at the time, SC was no longer even registered as a CPO and in fact in February 2010, shortly after withdrawing SC's CPO status, Wallace sent an e-mail to NFA indicating that SC's listed pool never opened or operated.

¹ Nominal value refers to the fully funded value of the account (actual assets + notional funding level).

6. In addition, after reviewing the "NRPAF Report," NFA noted typographical errors and inconsistencies within the report which led NFA to suspect that the report was most likely fraudulent.
7. Based on these inconsistencies and errors, NFA decided to commence an examination of SC. On Thursday, May 13, NFA arrived at SC's business location as indicated in NFA's Online Registration System ("ORS"). However, Wallace was not present, and the receptionist indicated that she had not recently seen Wallace. In fact, according to her, Wallace usually only stopped by once a month in order to pay the rent.
8. NFA then visited Wallace's personal residence as indicated in ORS. However, no one was home. As a result, NFA called and e-mailed Wallace. He called NFA back almost immediately and indicated that he was in Las Vegas, Nevada and would be there through the rest of the week. NFA informed Wallace that NFA was attempting to conduct an examination of SC. NFA had several phone conversations with Wallace later that day. At the end of the phone calls on Thursday, NFA told Wallace that NFA would need to meet with him in person to complete audit testing. Wallace agreed to meet NFA at SC's offices on Tuesday, May 18.
9. In all, during the course of NFA's investigation, Wallace misled and lied to NFA regarding the content of SC's DD, SC's DDQ, SC's tear sheet and the purported "NRPAF Report." The nature and timeline of Wallace's lies are set forth below in detail.

SC's DD, DDQ and Tear Sheet

10. On Thursday, May 13, NFA asked Wallace to explain the discrepancy between the information contained in SC's NFA Questionnaire and the information contained in SC's DD. Wallace claimed that the \$3.6 million in AUM (as indicated in the NFA Questionnaire) was customer funds and the \$19 million indicated in the DD was "proprietary funds." Wallace further defined "proprietary funds" as money he traded on behalf of his family and friends.
11. On the same day, NFA questioned Wallace with respect to the information contained on SC's DDQ. Wallace did not know that NFA had the DDQ, so NFA only told Wallace that it had a document which indicated that SC was the general partner in a "private CPO" with assets of \$8 million (which was represented in the DDQ). Wallace stated that this information was absolutely not true, and that neither he nor SC was the general partner in any pool. While Wallace initially claimed to have no idea how that information wound up in any written report, he later speculated that maybe his third-party marketing consultant prepared this information for him.

12. NFA then asked Wallace to explain why this written report (the DDQ dated May 1, 2010) showed that SC had AUM of approximately \$30 million, yet according to the DD dated April 30, 2010, and the NFA Questionnaire submitted on March 11, 2010, SC had significantly less in AUM. Wallace stated that while he used to have about \$30 million in AUM, losses in those accounts caused customers to revoke power of attorney, thereby reducing SC's AUM to about \$19 million.
13. Later that day, Wallace provided NFA with carrying broker statements via e-mail that showed AUM of less than \$1 million, which was obviously far below his earlier claim of approximately \$19 million in AUM. Wallace attempted to explain this discrepancy by claiming that the \$1 million actually had a nominal value of \$12 million. However, NFA's testing showed that the nominal value of these accounts was significantly less.
14. NFA also questioned Wallace about the proprietary trading information contained on the SC tear sheet. As he had done when explaining the so-called "proprietary" trading information listed on SC's DDQ, Wallace also claimed that the "proprietary" performance on the tear sheet represented accounts he traded on behalf of his family and friends.
15. On Tuesday, May 18, NFA met with Wallace at SC's offices. During this meeting, Wallace finally admitted to NFA that the information he had provided to NFA on Thursday, May 13, was untrue. Despite earlier claims to the contrary, Wallace admitted to preparing the DDQ, never trading any "proprietary" funds, inflating all of SC's AUM calculations and to submitting false performance information to the party that prepared SC's tear sheet.

The "NRPAF Report"

16. On Thursday, May 13, NFA questioned Wallace with respect to the purported "NRPAF Report." Specifically, NFA asked Wallace if NRPAF had ever prepared any reports for SC. Wallace indicated that NRPAF had never prepared a report for SC. NFA told Wallace that NFA had information which indicated that SC had hired NRPAF to conduct an audit. Wallace replied that he "knew what NFA was referring to," but that the report had not actually been "approved by NRPAF."
17. NFA asked Wallace to elaborate, and Wallace said he would rather explain in person later. NFA then asked Wallace to at least explain what he meant when he said the report was "not approved by NRPAF." Wallace then admitted that it was a "false NRPAF Report." NFA asked Wallace to explain what he meant by this, and Wallace said that a friend of his who worked at NRPAF had prepared the report for him without NRPAF's knowledge.
18. NFA asked Wallace if he had provided the report to anyone, and Wallace said he had given it to an individual who Wallace believed was in the

process of becoming an introducing broker so that he could solicit on behalf of SC. Wallace also said that he relies on these types of third-parties to market his CTA trading program.

19. On Tuesday, May 18, Wallace finally admitted that he had fabricated the content of the "NRPAF Report" and attempted to pass it off as legitimate because the individual referenced in paragraph 19 wanted verification of SC's trading performance.
20. Wallace has admitted to NFA that he provides SC's tear sheet to potential third-party solicitors. The information on this tear sheet, along with the other materials referenced above, shows significantly profitable performance, which has been falsely represented as actual. Although Wallace has claimed to NFA that he intends to discontinue his current operation and contact his third-party solicitors to tell them that he is no longer trading, Wallace has not provided NFA with any evidence that he has done so. In addition, he has taken no steps to withdraw his personal registration status or SC's registration status.

The MRA and ARA will remain in effect until such time as SC and Wallace have demonstrated to the satisfaction of NFA that they are in complete compliance with all NFA Requirements.

SC and Wallace are entitled to a prompt hearing on this matter before NFA's Hearing Committee if they so request. The request for a hearing shall be made in writing to:

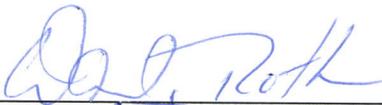
National Futures Association
300 South Riverside Plaza
Suite 1800
Chicago, Illinois 60606
Attn: Legal Department-Docketing

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

Aggrieved parties may petition the Commodity Futures Trading Commission ("CFTC") for a stay of this MRA and ARA pending a hearing pursuant to and in conformity with the terms set forth in CFTC Regulation 171.41.

NATIONAL FUTURES ASSOCIATION

Date: May 28, 2010

By: 
Daniel J. Roth, President

AFFIDAVIT

THE AFFIANT, BRANDON TASCO, BEING DULY SWORN AND UNDER OATH STATES THAT:

1. My name is Brandon Tasco, and I am employed by National Futures Association ("NFA") as a Supervisor in the Compliance Department. In my capacity as a Supervisor, I conducted an investigation of System Capital, LLC ("SC") and Joshua William Wallace ("Wallace").
2. SC is a commodity trading advisor ("CTA") NFA Member located in Lake Oswego, Oregon. SC has been an NFA Member since March 2009. SC registered as a CTA in April 2009. From March 2009 until February 2010, SC was also registered as a commodity pool operator ("CPO").
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