

FILED

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

MAR - 1 2007

**NATIONAL FUTURES ASSOCIATION
LEGAL DOCKETING**

In the Matter of:)	
)	
CAL FINANCIAL CORPORATION)	
(NFA ID #342690),)	
)	NFA Case No. 07-BCC-004
and)	
)	
JOHN A. INDELICATO)	
(NFA ID #59727),)	
)	
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 Compliance Rules (“NFA Requirements”) are being, have been, or are about to be violated and that the matter should be adjudicated, NFA’s Business Conduct Committee (“Committee”) issues this Complaint against Cal Financial Corporation (“Cal”) and John A. Indelicato (“Indelicato”).

ALLEGATIONS

JURISDICTION

1. At all times relevant to this Complaint, Cal was an NFA Member futures commission merchant (“FCM”) and commodity pool operator (“CPO”) located in Thousand Oaks, California. As such, Cal 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, Indelicato was a principal and associated person ("AP") of Cal. As such, Indelicato was and is required to comply with NFA Requirements and is subject to disciplinary proceedings for violations thereof. Cal is liable for violations of NFA Requirements committed by Indelicato during the course of his activities on behalf of Cal.

BACKGROUND

3. Cal is located in Thousand Oaks, California and has been registered as an FCM since May 2004 and as a CPO since December 2004. NFA is Cal's designated self-regulatory organization ("DSRO"). Indelicato is Cal's president and has been a registered AP, an NFA Associate Member and a listed principal of Cal since the firm's inception.
4. Although Cal became a Member in 2004, it was inactive until April 2005 when it began holding customer funds for exchange-traded futures. At the end of July 2005, Cal ceased holding customer funds and became a fully disclosed FCM. Less than a year later, in June 2006, Cal became a Forex Dealer Member ("FDM") and offered trading in the off-exchange retail forex market.
5. NFA conducted audits of Cal in both 2005 and 2006. During its 2006 audit of Cal's forex operations, NFA noted a number of deficiencies in the same areas where NFA found deficiencies during its 2005 audit when Cal was acting as an omnibus FCM. In particular, during the 2005 examination, NFA found that Cal failed to maintain current financial records, failed to develop an anti-money laundering ("AML") program and failed to maintain adequate trading records. Although Cal provided NFA with updated financial records and procedures,

including an AML program, after the 2005 audit, NFA found problems in these same areas when Compliance auditors returned to the firm in 2006. The violations detected in 2006 evidence Cal's failure to implement adequate compliance programs to meet its evolving business operations. Further, Cal and Indelicato's failure to take measures to ensure that repeat violations did not occur when the firm changed the nature of its business evidences a failure to effectively supervise the firm's operations.

APPLICABLE RULES

6. NFA Compliance Rule 2-9(c), in pertinent part, requires FCM Members to develop and implement a written AML program approved in writing by senior management reasonably designed to achieve and monitor the Member's compliance with the applicable requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder by the Department of the Treasury and, as applicable, the Commodity Futures Trading Commission ("CFTC").
7. 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 foreign currency futures and options business.
8. NFA Compliance Rule 2-36(e) provides that each FDM shall diligently supervise its employees and agents in the conduct of their foreign currency futures and options 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 foreign currency futures and options activities for or on behalf of the FDM.

9. NFA Financial Requirements Section 1(b), in pertinent part, provides that each Member FCM for which NFA is the DSRO must file financial reports with NFA for each month-end, including its fiscal year end, within 17 business days of the date for which the report is prepared. All financial reports must be filed on Form 1-FR-FCM and all financial reports except those required to be certified by a Certified Public Accountant must be filed electronically using an electronic medium approved by NFA.

COUNT I

VIOLATION OF NFA COMPLIANCE RULE 2-36(c): FAILURE TO UPHOLD HIGH STANDARDS OF COMMERCIAL HONOR AND JUST AND EQUITABLE PRINCIPLES OF TRADE.

10. The allegations set forth in paragraphs 1, 3 through 5 and 8 are realleged as paragraph 10.
11. Adherence to high standards of commercial honor and just and equitable principles of trade by FDMs requires, in part, that they maintain current books and records.
12. Cal failed to maintain current books and records during 2006 in that Cal failed to
 - a) maintain, at all times, a record of customer deposits and withdrawals;
 - b) include approximately \$92,000 of its customer accounts balance in its ledger, resulting in an understatement of the amount of customer funds on deposit;
 - c) maintain an equity run and/or similar report aggregating all balances for the firm's forex customers, including cash, open positions, and realized profit/loss; and
 - d)

take the appropriate concentration charge for its positions with Success Strategic Alliance Limited, an unregulated counterparty in Hong Kong where Cal offsets its risk.

13. By reason of the foregoing acts and omissions, Cal is charged with violations of NFA Compliance Rule 2-36(c).

COUNT II

VIOLATION OF NFA COMPLIANCE RULES 2-9(c): FAILING TO ESTABLISH AND IMPLEMENT AN ADEQUATE AML PROGRAM.

14. The allegations contained in paragraphs 1 and 3 through 6 are realleged as paragraph 14.
15. During 2006, Cal failed to develop and implement an AML program that complied with the requirements of NFA Compliance Rule 2-9(c). Among other deficiencies, Cal failed to maintain an adequate customer identification program; failed to take necessary steps to comply with the currency transaction reporting, funds transfer and credit extension recordkeeping requirements set forth in the Bank Secrecy Act; failed to maintain adequate procedures regarding transmittals of funds of \$3,000 or more; and failed to maintain adequate procedures for informing affected employees regarding changes and developments in the AML laws.
16. By reason of the foregoing acts and omissions, Cal is charged with violations of NFA Compliance Rule 2-9(c).

COUNT III

VIOLATION OF NFA FINANCIAL REQUIREMENTS SECTION 1: FAILURE TO FILE FINANCIAL STATEMENTS IN A TIMELY MANNER.

17. The allegations contained in paragraphs 1, 3 through 5 and 10 are realleged as paragraph 17.
18. Cal failed to file the following financial reports with NFA in accordance with the time requirements of NFA Financial Requirements Section 1 and, therefore, failed to demonstrate compliance with its minimum capital requirement:

Statement Date	Statement Type	Due Date	Received Date	Number of Days Late
07/31/05	Unaudited	08/23/05	08/24/05	1
08/31/06	Unaudited	09/26/06	09/27/06	1
10/31/06	Unaudited	11/24/06	11/27/06	3
11/30/06	Unaudited	12/26/06	01/03/07	7

19. By reason of the foregoing acts and omissions, Cal is charged with violations of NFA Financial Requirements Section 1.

COUNT IV

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

20. The allegations set forth in paragraphs 1 through 5 and 9 are realleged as paragraph 20.
21. Cal and Indelicato were responsible for diligently supervising Cal's employees and agents in all areas of Cal's conduct of foreign currency futures and options activities, including, among other areas, AML, recordkeeping, and financial reporting.
22. The allegations set forth in Counts I through III are fully incorporated herein as paragraph 23.

23. As evidenced by the conduct described in Counts I through III and incorporated into paragraph 23, Cal and Indelicato failed to diligently supervise Cal's employees and agents in Cal's conduct of foreign currency futures and options activities, including, among other areas, AML, recordkeeping, and financial reporting.
24. Cal's July and August 2006 financial statements failed to reflect a liability to customers or customer funds on deposit and, instead, misclassified customer funds as a firm-owned asset.
25. Cal and Indelicato failed to supervise their employees and agents in their financial reporting in that, in submitting the statement referred to in paragraph 25, Indelicato, who is the only individual authorized to submit Cal's financial statements to NFA, was unaware of how the balances were derived and he had not reviewed the financial statements before they were submitted to NFA.
26. Cal outsourced its customer contact function to Shanghai Carewell Financial Planning Co., Inc. ("SCFP"), an unregistered forex entity located in China; however, Cal and Indelicato failed to supervise SCFP's activities on Cal's behalf.
27. By reason of the foregoing acts and omissions, Cal and Indelicato are charged with violations of NFA Compliance Rule 2-36(e).

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
200 West Madison Street
Suite 1600
Chicago, Illinois 60606-3447
Attn: Legal Department-Docketing

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:

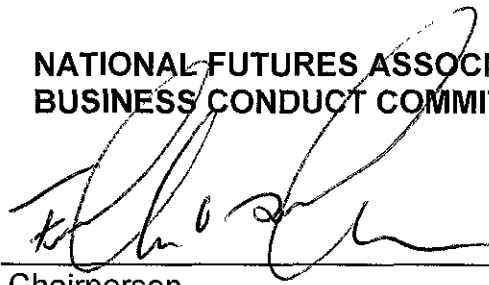
- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any 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: 03-01-07

By: 
Chairperson

AFFIDAVIT OF SERVICE

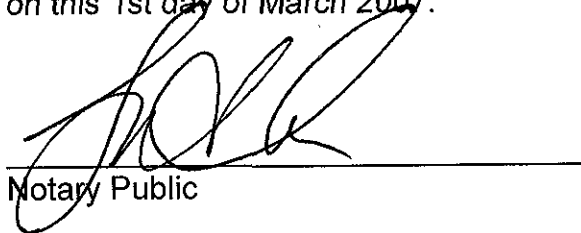
I, Nancy Miskovich-Paschen, on oath state that on March 1, 2007, I served copies of the attached Complaint, by sending such copies in the United States mail, first-class delivery, and by overnight mail, in envelopes addressed as follows:

Cal Financial Corporation
299 West Hillcrest Drive
Suite 114
Thousand Oaks, CA 91360
Attn: John A. Indelicato, President

John A. Indelicato
310 Trailside Court
Newbury Park, CA 91320


Nancy Miskovich-Paschen

Subscribed and sworn to before me
on this 1st day of March 2007.



Notary Public

