

June 25, 2004

Re: *Commodity Futures Trading Commission v. International Financial Services (New York), Inc., International Financial Services (New York), LLC, John Walker Robinson, Chan Kow Lai a/k/a/ Wilson Lai, Defendants, and Sociedade Comercial Siu Lap Limitada, Relief Defendant. 02 CIV 5497 (S.D.N.Y. GEL)*

To the Clients of International Financial Services (New York), Inc.:

I am pleased to inform you that the Receiver has completed the investigation of International Financial Services (New York), Inc. (“IFS, Inc.”) and International Financial Services (New York), LLC (“IFS, LLC”) (collectively “IFS”), and that the Honorable Gerard E. Lynch has recently approved an asset allocation plan for distributing IFS’ restrained assets. New Investors, Current Investors, and Historic Investors with unpaid withdrawals who were listed in, and documented by, IFS’ books and records, will receive a check representing their distribution of such assets. The amount of the check is based upon the asset allocation plan adopted by the Court, which is discussed in detail below.

Unfortunately, Historic Investors (with the exception of those with unpaid withdrawals documented by IFS’ internal and/or bank records) will not receive a check because they do not receive an allocation under the adopted asset allocation plan.¹ ***If additional assets are recovered in future years, a supplemental asset allocation will be undertaken that would likely include Historic Investors who were listed in, and documented by, IFS’ books and records.***

¹ Unpaid withdrawals are amounts that Current or Historic Investors sought to withdraw from their accounts before IFS was closed, but were unable to do so because the checks for the requested withdrawals were either not issued or not cashed.

For your convenience, I recap below significant facts concerning the history of this case, my investigatory findings, and details of the approved asset allocation plan.

Litigation Related to IFS

On July 17, 2002, a government agency, the Commodities Futures Trading Commission (the “CFTC”), filed a lawsuit in the United States District Court for the Southern District of New York against IFS, Sociedade Comercial Siu Lap Limitada (“Siu Lap”), John Walker Robinson and Wilson Lai.²

On August 8, 2002 and on June 24, 2003, the Court entered default judgments against Siu Lap and IFS, Inc. respectively.³ Although the Court ordered that IFS, Inc. disgorge \$25 million in ill-gotten gains and pay a civil penalty of more than \$76 million, IFS, Inc. has no assets (other than the assets that have been restrained, and which are presently being distributed to IFS clients pursuant to the asset allocation plan) from which to pay this judgment. On May 7, 2004, the Court also granted summary judgment against IFS, LLC, John Walker Robinson and Wilson Lai.⁴ The personal assets of Mr. Robinson and Mr. Lai have been restrained, and are included in this distribution.

The Investigation Conducted by The Receivership and Its Expert

When the CFTC lawsuit was filed, IFS was placed in receivership: The United States Marshal closed IFS’ two offices (New York City and Houston, Texas), and IFS permanently ceased its operations. IFS’ assets were placed, and have since been held, in an interest-bearing account for the benefit of, and final distribution to, IFS’ clients.

I retained an expert to assist me in investigating IFS’ accounts, and developing asset allocation plans to propose to the Court. My expert is well-qualified to assist in such tasks: He has worked in the foreign exchange industry for more than thirty years, and has held senior positions in a number of well-respected banking and financial institutions.

During the course of the investigation, my expert interviewed approximately 24 former IFS managers and employees, and analyzed countless documents. From these sources, my expert was able to reconstruct account activity for a significant number of IFS accounts – 721 New York accounts and 123 Texas accounts.

² A copy of the CFTC’s complaint is available at the CFTC website, www.cftc.gov. Press releases (4675-02 and 4816-03) concerning the lawsuit are also available on the CFTC website.

³ *CFTC v. Int’l Fin. Servs. Inc.*, No. 02 Civ. 5497(GEL), 2003 WL 22350941, at *1 (S.D.N.Y. June 24, 2003).

⁴ *CFTC v. Int’l Fin. Servs. Inc.*, No. 02 Civ. 5497(GEL), 2004 WL 1048241, at *1 (S.D.N.Y. May 7, 2004). A press release (4937-04) concerning the Court’s final judgment is available on the CFTC website at www.cftc.gov/opa/enf04/opa4937-04.htm.

My expert found that, on average, IFS' New York accounts lost \$158.86 for every dollar of profit that they made, and that IFS' Texas accounts lost \$996.75 for every dollar of profit that they made. In other words, IFS' New York and Texas accounts lost \$25,428,840, but made only \$142,148.

Given the magnitude of these losses, we questioned whether IFS had actually traded its clients' funds. IFS' books and records show that IFS transferred the majority of client funds to Siu Lap, which is located in Macau, a Special Administrative Region of China. Siu Lap was IFS' exclusive currency broker and dealing counterpart. The evidence indicates that these funds were not traded in the foreign exchange markets after they were transferred to Siu Lap. IFS' books and records show that IFS and Siu Lap operated as a single entity, and that Siu Lap retained the transferred funds for its own personal use.

Proposed Asset Allocation Plans and Objections

In May 2003, three asset allocation plans were proposed to the Court. The Court tentatively approved one of the plans, and the tentatively approved plan was posted on the CFTC's website at <http://www.cftc.gov/files/enf/03orders/enfifs-proposedplan.pdf>.

Only three timely objections were made to the tentatively approved plan, and based upon one of these objections, two variations to the tentatively approved plan were suggested to the Court. The Court recently approved one of these variations. The Court's order is enclosed with this letter. The details of the approved asset allocation plan follow.

The Approved Asset Allocation Plan

When IFS was placed into receivership, I was given custody of IFS assets, which, as noted, have since been held in an interest-bearing account for the benefit of IFS clients. The present value of these assets is \$1,114,903. These assets are to be distributed to IFS clients pursuant to the approved asset allocation plan (the "Plan").

The Plan divides IFS clients into three groups: New Investors, Current Investors (including Current Investors who never traded), and Historic Investors. These three groups are defined as follows:

- *New Investors*: New Investors are IFS investors who requested to open accounts and who transferred funds to IFS, but the accounts were never opened prior to IFS' closing on July 17, 2002. Hence, no official account number was ever issued, the accounts were unavailable to trade, and these accounts do not appear on IFS' last daily account activity report.
- *Current Investors*: Current Investors are IFS investors who had accounts that were open and were allegedly traded, or had accounts that were available to trade,

as of July 17, 2002. Although most of these accounts had equity, some of these accounts showed zero, or negative, equity balances on that date. These accounts are listed on IFS' last daily account activity report.

- *Historic Investors:* Historic Investors are IFS investors who had accounts that were closed and no longer available to trade as of July 17, 2002. These accounts are not listed on IFS' last daily account activity report.

Under the Plan, all New Investors are fully reimbursed for their entire investment with IFS. Similarly, Current Investors and Historic Investors are fully reimbursed for their unpaid withdrawals.⁵ The balance remaining after these reimbursements will be divided among Current Investors based upon the amount of their equity balances as of July 17, 2002.

The following table illustrates how the funds will be allocated:

Estimated Assets:	\$1,114,903
Reimbursement to New Investors:	(\$120,000)
Reimbursement to Historic Investors, Unpaid Withdrawals:	(\$36,717)
Reimbursement to Current Investors, Unpaid Withdrawals:	(\$160,907)
Net Available Assets:	\$797,279

Under the Plan, Current Investors will receive approximately 42.25% of their accounts' equity balances as of July 17, 2002.

Possible Future Allocations

I recognize the unfortunate fact that Historic Investors, with the exception of those with unpaid withdrawals documented by IFS' internal and/or bank records, will not receive any reimbursement under the Plan. As I explained in the proposal for the asset allocation plan, the task of identifying and locating Historic Investors and reconstructing their account activity to permit reimbursement would severely diminish (and possibly eliminate) any funds available for reimbursement. Because many of the Historic Investors' accounts were opened many years ago, we have been unable to locate the relevant account statements, in either hard-copy or computer file format. In the event that additional funds are recovered, a subsequent asset allocation plan would likely include a distribution to Historic Investors who were listed in, and documented by, IFS' books and records.

⁵ In other words, Current Investors and Historic Investors who sought to withdraw amounts from their accounts before IFS was closed, but who were unable to do so because the checks were either not issued or not cashed are fully reimbursed for such attempted withdrawals. Only Current Investors and Historic Investors with unpaid withdrawals documented by IFS' internal and/or bank records will receive distributions under the Plan.

Both the government and the Receiver are still investigating other possible sources of asset recovery. ***My counsel will notify you of any future asset allocations.***

We sincerely appreciate your patience, courtesy and assistance throughout the process of investigating IFS, and allocating its assets.

I hope that the foregoing answers any questions you may have concerning the IFS asset allocation. ***If you do have any further questions, they should be directed to my counsel, Natalie Napierala, at natalien@brianrosnerlaw.com, or (212) 785-2577.***

Very truly yours,

Brian Rosner
Receiver for IFS