UNITED STATES OF AMERICA
BEFORE THE
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:	:	**CFTC Docket No.** 08-10
Alaron Trading Corporation.	:	
	:	**ORDER INSTITUTING PROCEEDINGS**
	:	**PURSUANT TO SECTIONS 6(c) AND 6(d)**
	:	**OF THE COMMODITY EXCHANGE ACT**
Respondent	:	**AND MAKING FINDINGS AND**
	:	**IMPOSING REMEDIAL SANCTIONS**

I.

The Commodity Futures Trading Commission (the "Commission") has reason to believe that Alaron Trading Corporation ("Alaron"), a registered futures commission merchant ("FCM"), has violated Commission Regulation 166.3, 17 C.F.R. § 166.3 (2007). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and they hereby are, instituted to determine whether Alaron engaged in the violations set forth herein, and to determine whether an order should be issued imposing remedial sanctions.

II.

In anticipation of the institution of an administrative proceeding, Alaron has submitted an Offer of Settlement ("Offer"), which the Commission has determined to accept. Without admitting or denying any of the findings and conclusions herein, Alaron acknowledges service of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act ("Act") and Making Findings and Imposing Remedial Sanctions ("Order").[1]

[1] Alaron consents to the entry of this Order, the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Alaron does not consent to the use of the Offer, or the findings or conclusions consented to in this Order, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor does Alaron consent to the use of the Offer or this Order, or the findings or conclusions consented to in the Offer or this Order, by any other party in any other proceeding.

III.

A. Summary

From at least July 2004 until February of 2006 (the "relevant period") Alaron failed to diligently supervise its employees in their handling of certain accounts managed by an unregistered commodity trading advisor ("CTA"), as well as certain other accounts in which Alaron allowed unauthorized trading of customer accounts by an introducing broker ("IB"). Accordingly, Alaron violated Commission Regulation 166.3, 17 C.F.R. § 166.3 (2007).

B. Respondent

Alaron Trading Corporation (National Futures Association No. 0223154) maintains its principal business address at 822 West Washington, Chicago IL 60607. Alaron has been registered with the Commission as an FCM since March 10, 1994, a CTA since February 1990, and a Notice Broker Dealer since December 4, 2001.

C. Facts

1. Failure to Diligently Supervise Regarding Unregistered Commodity Trading Advisor's Managed Account Activity

Beginning on or about July 2004, a person acting as an unregistered CTA, Terry Wade Reeves ("Reeves"), introduced managed account clients to Alaron through an Alaron associated person ("AP"). Reeves' managed account documents made it a "requirement" that clients open an account with the Alaron AP and have funds on deposit at Flash Futures, an Alaron d/b/a. Reeves managed: 1) accounts of existing Alaron clients placed with the Alaron AP, and 2) accounts that he introduced to Alaron and managed pursuant to letters of direction filed with Alaron. According to Alaron trading records, it carried accounts for at least 25 clients in which Reeves managed an aggregate of $213,850.70. These accounts were opened beginning in March 2004, with some accounts remaining open until March 15, 2005. Reeves represented to Alaron that he was a CTA that was exempt from registration with the Commission.

Alaron had clear evidence that wrongful conduct was taking place with respect to the Reeves-managed customer accounts. For example, Alaron was in possession of copies of pages from Reeves' Internet website that Reeves created and through which Reeves was promoting his trading advisory services to the public, which included managed account services. However, Alaron employees chose to ignore or failed to recognize that Reeves was holding himself out to the public as a CTA, and therefore might not be an exempt CTA. Alaron representatives, including the compliance officer and general counsel, were further made aware of possible unregistered CTA activity by Reeves through emails they received from an Alaron employee.

Despite numerous indications to Alaron employees that it was possibly permitting an unregistered CTA to manage accounts, Alaron did not have adequate procedures to discover, deter and/or terminate the wrongful conduct. Alaron's failure to diligently supervise included: 1) the absence of adequate procedures, 2) the failure to implement existing procedures, and 3) the failure to initiate an appropriate inquiry when potential misconduct was uncovered. Each of these deficiencies demonstrates a failure to diligently supervise.

First, an Alaron employee testified that Alaron had no policy regarding letters of direction at the time Reeves began trading with Alaron. Additionally, the lack of procedures to detect problems was evident by the fact that Alaron's third party trader form, which asks whether the trader is "exempt from registration because they have managed fewer than, or advised fewer than 15 customers during the preceding 12 months," does not inquire as to whether the trader holds himself out as a CTA, which if answered in the affirmative, may eliminate an exemption from registration as a CTA, regardless of the number of customers.

Second, Alaron failed to follow its own Policy and Procedures Manual, which requires that all CTAs be registered with the Commission. Despite this requirement, there is no evidence that the Respondent ever undertook an inquiry as to whether Reeves was registered, or attempted to enforce this provision *vis-à-vis* Reeves. Alaron's failure to implement a system that ensures compliance with the provisions of its own Policy and Procedures Manual constitutes another fundamental failure to diligently supervise.

Third, Alaron took Reeves' word that he was an exempt CTA and failed to initiate an appropriate follow-up inquiry when its employees learned contradictory information and became suspicious. Alaron employees knew that Reeves was holding himself out as a CTA and offering his services on the Internet, and Alaron either ignored or did not review the readily accessible Alaron-generated account documents regarding the number of Reeves-managed accounts. More specifically, an Alaron employee testified that he looked at the Reeves accounts because he was concerned about Reeves being an unregistered CTA, and that he made his supervisors aware of such inquiry through conversations and emails. Despite this knowledge, the Respondent failed to carry out even an elementary follow-up inquiry regarding the growing number of managed accounts that Reeves was amassing.

2. Failure to Diligently Supervise Regarding Unauthorized Trading

Beginning in August 2005 and continuing through February 2006, Stephen Randall Moore ("Moore") and his company, Moore Group, Inc., solicited customers via cold calls and existing client referrals to invest in exchange-traded futures contracts. Throughout the relevant period, Moore Group, Inc. was registered as an IB, and Moore was registered as an AP of Moore Group, Inc. Moore introduced the customers he and his company solicited to Alaron, and thereby earned commissions and other fees on these customers' trades.

The majority of Moore's customers opened non-discretionary accounts. The account opening documents at Alaron for these accounts did not contain letters of direction or powers of attorney. Because these account opening documents with Alaron did not contain either powers of attorney or letters of direction, Alaron knew or should have known that Moore's customers held non-discretionary accounts.

Alaron's failure to diligently supervise the subject accounts to deter Moore's violations is demonstrated by its conduct regarding one account that Moore traded without authority. On or about January 20, 2006, the account holders telephoned Alaron concerning unauthorized trades made by Moore, and requested that Alaron correct their account and conduct a review to see who had placed these trades. Later that day, the account holders called Alaron again to determine what Alaron had found out about their account. Alaron did not investigate whether Moore had written authorization to trade the account. Alaron merely passed on to the account holders a claim by Moore that the trades had been authorized, notwithstanding Alaron previously being told the contrary by the account holders, and the fact that the account opening documents in Alaron's possession clearly established that Moore lacked the authority to trade the subject account without the account holders' prior written authorization.

Over the course of the following weeks, the account holders had a number of conversations with Alaron staff, including Alaron's compliance department. As a result of these discussions, Alaron admitted the trades were not authorized and removed the unauthorized trades from their account. However, Alaron advised the account holders that it would keep over $20,000 in commissions Alaron charged for the unauthorized trades to cover Alaron's "expenses" related to the trading that Alaron never should have allowed to take place. Despite further requests from the account holders, Alaron took no action and did not contact them or follow up. Subsequently, the account holders received a statement from Alaron that showed that they had been charged in excess of $20,000 in fees and commissions as a result the unauthorized trades made by Moore.

D. <u>Legal Discussion</u>

Commission Regulation 166.3 requires that every Commission registrant (except APs who have no supervisory duties) diligently supervise the handling by its partners, employees and agents of all of its commodity interest accounts and activities relating to its business as a registrant. In order to prove a violation of Commission Regulation 166.3, it must be demonstrated that either: (1) the registrant's supervisory system was generally inadequate; or (2) the registrant failed to perform its supervisory duties diligently. *In re Murlas Commodities*, [1994-1996 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 26,485 at 43,161 (CFTC Sept. 1, 1995); *In re Paragon Futures Assoc.*, [1990-1992 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,266 at 38,850 (CFTC Apr. 1, 1992); *Bunch v. First Commodity Corp. of Boston*, [1990-1992 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,352 at 39,168-69 (CFTC Aug. 5, 1992).

Under Commission Regulation 166.3, a FCM has a "duty to develop procedures for the detection and deterrence of possible wrongdoing by its agents." *Samson Refining Co. v. Drexel Burnham Lambert, Inc.* [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,596 at 36,566 (CFTC Feb. 16, 1990) (*quoting Lobb v. J.T. McKerr & Co.,* [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,568 at 36,444 (CFTC Dec. 14, 1989)). Thus, "a showing that the registrant lacks an adequate supervisory system [standing alone] can be sufficient" to establish a breach of duty under Regulation 166.3. *In re Collins,* [1996-1998 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 27,194 at 45,744 (CFTC Dec. 10, 1997). The lack of an adequate supervisory system can be established by showing that the registrant failed to develop proper procedures for the detection of wrongdoing. *CFTC v. Trinity Fin. Group Inc.*, [1996-1998 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 27,179 at 45,635 *aff'd in relevant part, vacated in part and remanded sub nom. Sidoti v. CFTC*, 178 F.3d 1132 (11th Cir. 1999) (respondent failed to establish and maintain meaningful procedures for deterring and detecting fraud by their employees, and knew of specific incidents of misconduct but failed to take reasonable steps to correct the problems in violation of Commission Regulation 166.3).

As described above, due to deficiencies in Alaron's supervisory system, and failures to properly implement and monitor supervisory procedures, Alaron failed to diligently supervise the handling by its partners, employees and agents of all of its commodity interest accounts and activities relating to its business as a registrant and therefore violated Commission Regulation 166.3.

IV.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that Alaron violated Commission Regulation 166.3, 17 C.F.R. § 166.3 (2007).

V.

OFFER OF SETTLEMENT

Alaron has submitted an Offer in which it acknowledges service of this Order and admits the jurisdiction of the Commission with respect to the matters set forth in this Order and waives: 1) the service and filing of a complaint and notice of hearing; 2) a hearing and all post-hearing procedures; 3) judicial review by any court; 4) any objection to the staff's participation in the Commission's consideration of the Offer; 5) all claims that they may possess under the Equal Access to Justice Act ("EAJA"), 5 U.S.C. § 504 (2000) and 28 U.S.C. § 2412 (2000) and part 148 of the Commission's Regulations, 17 C.F.R. §§ 148.1, et seq. (2007), relating to, or arising from this action; and (6) any claim of double jeopardy based upon the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief.

Alaron stipulates that the record basis on which this Order is entered consists of this Order and the findings in this Order consented to in its Offer. Alaron consents to the Commission's issuance of this Order, which makes findings as set forth herein and orders that Alaron: 1) cease and desist from violating Commission Regulation 166.3, 17 C.F.R. § 166.3 (2007); 2) pay restitution totaling $119,295.14 to the Alaron customers suffering losses; 3) pay a civil monetary penalty in the amount of $180,000; and (4) comply with its undertakings as set forth in the Offer and incorporated in this Order.

Upon consideration, the Commission has determined to accept Alaron's Offer.

VI.

ORDER

Accordingly, **IT IS HEREBY ORDERED THAT:**

A. Alaron shall cease and desist from violating Commission Regulation 166.3, 17 C.F.R. § 166.3 (2007);

B. Alaron shall pay restitution in the amount of $119,295.14 within ten (10) business days of the date of entry of this Order to the customers specified in Exhibit A, attached to this Order, and shall simultaneously submit copies of cover letters and forms of payment to both the Director, Division of Enforcement, and the Chief, Office of Cooperative Enforcement, Division of Enforcement, at Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, N.W., Washington, DC 20581;

C. Alaron shall pay a civil monetary penalty in the amount of one hundred and eighty thousand dollars ($180,000.00) within ten (10) days of the date of the entry of this Order. Alaron shall pay its civil monetary penalty by making electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made by other than electronic funds transfer, the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

Commodity Futures Trading Commission
Division of Enforcement
ATTN: Marie Bateman – AMZ-300
DOT/FAA/MMAC
6500 S. MacArthur Blvd.
Oklahoma City, OK 73169
Telephone 405-954-6569

If payment by electronic transfer is chosen, Alaron shall contact Marie Bateman or her successor at the above address to receive payment instructions and shall fully comply with those instructions. Alaron shall accompany payment of the penalty with a cover letter that identifies Alaron, and the name and docket number of this proceeding. Alaron shall simultaneously submit a copy of the cover letter and the form of payment to: (1) the Director, Division of Enforcement, Commodity Futures Trading Commission, at the following address: 1155 21st Street, N.W., Washington, D.C. 20581; and (2) the Chief, Office of Cooperative Enforcement, Division of Enforcement, Commodity Futures Trading Commission at the same address. In accordance with Section 6(e)(2) of the Act, 7 U.S.C. §9a(2)(2001), if this amount is not paid in full within fifteen (15) days of the due date, Alaron shall be prohibited automatically from the privileges of all registered entities, and, if registered with the Commission, such registration shall be suspended automatically until it has shown to the satisfaction of the Commission that payment of the full amount of the penalty with interest thereon to the date of the payment has been made; and

D. Alaron and its successors and assigns shall comply with the following undertakings set forth in its Offer:

1) Alaron shall develop, monitor, and enforce a supervisory system for overseeing its APs', employees' and agents' sales solicitations and maintenance of customer accounts that are traded by third parties through Alaron APs, to determine, document, and monitor:

   a. the status of any person trading on behalf of another person or entity, including, but not limited to, all registration records and any and all Notice(s) of Exemption; such information shall be maintained in a readily accessible medium and promptly retrievable to determine whether any trade is being properly entered by the third party on behalf of the account holder; and

   b. whether the third party has discretion to trade an account holder's account, the scope of discretion, and the presence of proper documentation in Alaron's records of such authorization; such information shall be maintained in a readily accessible medium and promptly retrievable to determine whether any trade is being properly entered by the third party on behalf of the account holder;

2) Alaron shall incorporate such systems described in Section VI.D.1, above, into Alaron's compliance structure and include them in Alaron's compliance manual; further, initial and ongoing training shall be given to all Alaron APs, compliance staff, and other employees and agents in the order solicitation, receipt, execution and recordation processes concerning these systems;

3) In addition to such readily accessible systems, Alaron must maintain and review on a sufficient basis, as part of its recordkeeping responsibilities, a hard copy of all registration information, including any and all Notice(s)of Exemption, Letters of Direction and Powers of Attorney, with account numbers clearly noted thereon, and organized by the identity of the persons or entities who control such accounts;

4) All Alaron APs, compliance staff, and other employees and agents in the order solicitation, receipt, execution and recordation processes, shall receive initial and ongoing training and copies of all National Futures Association Interpretative Notices and other directives; and

5) Neither Alaron, nor any of its successors, assigns, employees, agents, attorneys or representatives shall take any action or make any public statement denying, directly or indirectly, any finding in this Order, or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Alaron's (i) testimonial obligations; or (ii) right to take appropriate legal positions in other proceedings to which the Commission is not a party. Alaron and its successors and assigns shall undertake

all steps necessary to ensure that all of its employees, agents, attorneys or representatives under its authority and/or actual or constructive control understand and comply with this undertaking.

The provisions of this Order shall be effective on this date.

By the Commission:

David A. Stawick
Secretary to the Commission
Commodity Futures Trading Commission

Dated: April 18, 2008

EXHIBIT A

ALARON TRADING CORPORATION RESTITUTION SCHEDULE

Name	Amount
William and Sharon Johnson	$22,812.24
Boniface Ahaneku	$4,303.20
Dana Benson	$2,383.60
Paul Buber	$887.74
Jerod Bunnell	$2,219.88
Michael Finneran	$4,462.45
Jacqueline Kosciszko	$4,445.48
Gene and Mary Lusk	$2,600.27
Paul Lusk	$2,270.71
Ward and Melind Lusk	$2,546.77
Aveline Mape	$3,720.56
Jay Marcus	$1,987.16
Patrick McCormack	$6,261.81
Daniel Nave	$5,791.01
Bill and Vicki Peppos	$14,933.62
Bill Repovz	$2,078.11
David Riley	$3,621.58
Kazuyasu Shiral	$5,143.66
Tim Sipper	$4,365.24
James Thomas	$2,869.91
David Turnbull	$6,972.54
Keith David Tutt	$5,841.84
Kim Willer	$2,153.55
Peter and Linda Wright	$446.90
John Coleman Xtra Life, Inc.	$4,175.31
TOTAL	$119,295.14