



*United States Attorney
Southern District of New York*



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**MANHATTAN U.S. ATTORNEY CHARGES PRINCIPAL
OF SYSTEM CAPITAL WITH \$3.5 MILLION FRAUD SCHEME**

PREET BHARARA, the United States Attorney for the Southern District of New York, and JANICE K. FEDARCYK, the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced the arrest yesterday of JOSHUA WALLACE, a principal of System Capital, LLC ("System Capital"), a commodity trading advisor, on charges of fraudulently soliciting clients and investor money by misrepresenting, among other things, System Capital's past performance and by inflating System Capital's assets under management.

According to the Complaint unsealed yesterday in Manhattan federal court:

In 2009, WALLACE met representatives of a Third Party Marketer located in Chicago (the "Third Party Marketer") and told the Third Party Marketer that he traded in e-minis, which are futures contracts that can be traded electronically on the Chicago Mercantile Exchange and are based on the S&P 500 index. WALLACE falsely stated that he had at least \$28 million in assets under management. WALLACE also provided the Third Party Marketer with documents that reflected a false ten-year "Monthly Performance History" for System Capital.

Based on the information the Third Party Marketer received from WALLACE, it prepared a document with essential background and financial data regarding System Capital (the "tear sheet"), with the same false information WALLACE had provided to the Third Party Marketer regarding the past performance history and assets under management of System Capital. The Third Party

Marketer also introduced WALLACE to brokers, as well as Futures Commission Merchants, to help WALLACE to obtain clients. The total amount of client money entrusted to WALLACE through his fraudulent solicitations totaled at least \$3.5 million.

In late 2009, WALLACE met the head of a Manhattan based fund (the "Fund Representative"). According to the Fund Representative, WALLACE claimed that System Capital was a commodity trading advisor that had registered with the National Futures Association the previous year; that WALLACE traded e-mini futures; and that WALLACE was looking for people, such as the Fund Representative, who could refer potential clients to him. WALLACE allegedly provided the Fund Representative with false documents, including what WALLACE represented were audited returns that had been prepared by a large auditing firm (the "Audit Firm"). The Fund Representative subsequently learned that, in reality, the Audit Firm had done no work for WALLACE or System Capital.

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WALLACE, 34, of Portland, Oregon is charged with commodities fraud, mail fraud, and wire fraud for his role in the commodities fraud scheme. If convicted, he faces a maximum sentence of 20 years on each of the counts of mail and wire fraud, and a maximum sentence of 10 years on the count of commodities fraud. On the mail and wire fraud, he also faces a fine of the greater of \$250,000, or twice the gross gain or loss from the offense, and on the commodities fraud charge WALLACE faces a maximum fine of \$1,000,000.

WALLACE was arrested yesterday in Oregon and appeared before a magistrate judge there yesterday. He is expected to appear in Manhattan federal court at a later date.

Mr. BHARARA praised the work of the Federal Bureau of Investigation and thanked the U.S. Commodity Futures Trading Commission for its assistance in the investigation of this case. He said the investigation is continuing.

Assistant U.S. Attorney VIRGINIA CHAVEZ ROMANO is in charge of the prosecution.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an

aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

The charges contained in the Complaint are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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