



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

IN THE MATTER OF JOSE L. CASTANEDA

**AMENDED STATEMENT OF ALLEGATIONS OF STAFF
OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission make the following allegations:

Background

1. Jose L. Castaneda (“Castaneda”) is an individual residing in Ontario and is not currently registered with the Ontario Securities Commission (“Commission”) in any capacity. Previously, Castaneda had been registered with the Commission to trade under section 26 of the *Securities Act* (“Act”) as a registered salesperson for scholarships only.

Prior Cease Trade Order and Settlement Agreement

2. For the approximate two-year period between September 1996 - September 1998, Castaneda was employed as a trader for *Koman Investment Inc.* During this time, Castaneda acted as an Account Executive for several clients, purchasing and selling speculative foreign exchange contracts with full discretionary authority.

3. Castaneda was never registered with the Commission to trade in these types of securities and several of his clients suffered significant trading losses.

4. As a result of a Staff investigation into Castaneda's unregistered trades, Castaneda was subject to a section 127 cease trade order that commenced on September 10, 1998.

5. By way of Settlement Agreement dated May 31, 2000 (approved by the Commission on June 7, 2000), Castaneda acknowledged that he had traded without the appropriate registration and without an exemption from the registration requirements, contrary to section 25 of the Act and contrary to the public interest. Castaneda was reprimanded by the Commission, prohibited from trading in any securities pursuant to clause 2 of subsection 127(1) of the Act for a period of five years, and agreed not to apply for registration in any capacity under the Act for a period of fifteen years.

Violation of Prior Cease Trade Order

6. Despite being subject to a cease trade order, it is alleged that between 1999 and 2003 Castaneda continued to participate in the same type of unauthorized trading activity that was the subject of the June 7, 2000 Settlement Agreement with the Commission. During this time period, Castaneda entered into joint venture profit-sharing agreements with numerous individuals which authorized Castaneda to engage in "speculative short term trading of currency forward or spot contract" at his absolute discretion. Castaneda improperly traded in both foreign currencies and commodity futures for his clients.

7. Castaneda did not inform any of these individuals that the Commission had issued a cease trade order against him or that he had entered into a Settlement Agreement with the Commission for acting contrary to the public interest.

(i) Joint Venture Agreement with Tomas Go Tan

8. In early 1999, Castaneda was introduced to Tomas Go Tan ("Tan"). Castaneda informed Tan that he was in the business of buying and selling foreign currencies on currency exchanges. Tan entered into a joint venture profit-sharing agreement with Castaneda that provided that any profits made from Castaneda's trading activities would be divided between the two of them.

Between 1999 and 2002, Tan invested \$5,000 (U.S.) with Castaneda pursuant to the profit-sharing agreement.

9. Tan still had his money invested with Castaneda when he learned sometime in 2003 that Castaneda had lost “all the money” and that his capital investment would not be returned to him. Tan believes, however, that during the previous three years he had received an amount of money approximately equal to his capital investment through annual interest or profit payments made to him by Castaneda.

10. Tan introduced Castaneda to other individuals who invested money with him, including John Madonia.

(ii) Joint Venture Agreement with John Madonia

11. Sometime in the Fall of 1999, Castaneda met John Madonia (“John”) at John’s office. Castaneda informed John that he was engaged in the business of foreign currency trading. Castaneda explained to John that any monies invested with him would be pooled with other investors in an investment fund or “club” for trading purposes.

12. Shortly after their initial meeting, John entered into a joint venture profit-sharing agreement with Castaneda and began investing money with him. Over a period of roughly 18 months, John invested approximately \$200,000 (Canadian) with Castaneda. In early 2001, Castaneda returned the entirety of his funds plus profits (ostensibly made through trading) at John’s request.

(iii) Joint Venture Agreement with Steven Muchnik

13. Steven Muchnik (“Muchnik”) was introduced to Castaneda in September of 1999 by John Madonia. Castaneda and Muchnik entered into a joint venture profit-sharing agreement, dated September 29, 1999. Castaneda told Muchnik that any monies he invested would be pooled with other investors for short term trading of foreign currencies and spot contracts.

14. Between September, 1999 and April, 2000, Muchnik invested approximately \$115,000 (U.S.) in the joint venture agreement with Castaneda. In April, 2003, Castaneda informed Muchnik that he had taken a wrong position and got “wiped out”. Although Muchnik had received some return on his investment, Muchnik still had approximately \$11,000 (U.S.) invested with Castaneda which was never recovered.

(iv) Joint Venture Agreement with Paul and Clara Madonia

15. Castaneda entered into a joint venture profit-sharing agreement with Paul and Clara Madonia (“Paul and Clara”) on February 11, 2000. As with all other joint venture agreements, the stated investment objective of the agreement was to make “substantial gains in the long term through speculative ‘short term’ trading of currency forward or spot contract”. The joint venture agreement granted Castaneda full discretionary authority over any funds provided.

16. Prior to entering the Agreement, Castaneda told Paul and Clara that he was doing a lot of foreign trading for numerous investors.

17. Between February 11, 2000 and July 2, 2002, Paul and Clara gave Castaneda \$900,000 in Canadian funds to invest pursuant to the joint venture agreement. During this time period, Castaneda actively traded in foreign currencies and commodity futures over the internet, primarily through the services of *Peregrine Financial Group*.

18. Although he never provided them with any account statements, Castaneda consistently informed Paul and Clara that he was making money for them through currency trading and was reinvesting their profits. By March of 2003, Castaneda reported to Paul and Clara that their initial investment had grown to 1.4 million dollars (U.S.).

19. In actual fact, Castaneda had lost a substantial portion of Paul and Clara’s money while trading. At least \$325,000 Canadian was lost through trades. Further, a significant portion of the

money received by Castaneda from Paul and Clara was never invested at all but instead directly converted by Castaneda for his own personal use.

20. When the Paul and Clara asked for their money back in the summer of 2003 Castaneda informed them that all of their money was gone. Paul and Clara lost the entire \$900,000 (Canadian) invested with Castaneda.

(v) Joint Venture Agreement with Andrew Madonia

21. Andrew Madonia (“Andrew”) was introduced to Castaneda through his brother, John Madonia. Andrew met with Castaneda in November, 2000. At that meeting, Castaneda represented to Andrew that he managed an investment group involved in currency trading. Andrew entered into a joint venture profit-sharing agreement with Castaneda. Andrew Madonia gave Castaneda \$50,000 (Canadian) for trading purposes, pursuant to the profit-sharing agreement.

22. In May, 2003, Castaneda informed Andrew Madonia that all of his money had been lost in trading on the spot currency market and that he would not receive any return on his investment. Andrew lost the entire \$50,000 (Canadian) invested with Castaneda.

Conduct Contrary to Public Interest

23. By engaging in the conduct described above, Castaneda acted in a manner contrary to the public interest.

24. Staff reserve the right to make such other allegations as it may advise and the Commission may permit.

DATED AT TORONTO this 19th day of December, 2005.