E

KURZMAN EISENBERG CORBIN LEVER & GOODMAN, LLP
ATTORNEYS AT LAW

675 THIRD AVENUE, 18th FLOOR
NEW YORK, NY 10017
(212) 661-2150

OTHER LOCATIONS:
FORT LAUDERDALE, FLORIDA
LONDON, ENGLAND
GENEVA, SWITZERLAND

ONE NORTH BROADWAY
WHITE PLAINS, NEW YORK 10601

TEL: (914) 285-9800
FAX: (914) 285-9855

MARTIN P. RUSSO, P.C.
Partner
mrusso@kelaw.com

March 21, 2005

By Facsimile and Federal Express

Bina Sanghavi, Esq.
Sachnoff & Weaver, Ltd.
30 South Wacker Drive
29th Floor
Chicago, IL 60606-7484

Re: CFTC v. Equity Financial Group, et al.

Dear Ms. Sanghavi:

We write in response to your letter dated February 2, 2005. For your convenience we respond to your questions as you presented them.

1. The wire of $235,880 was not a distribution. It represents the return of Sterling Trust (Anguilla) Ltd.'s funds lost by Tech Traders.

2. The assumption that Sterling Alliance Ltd. received $597,500 from Tech Traders is incorrect. Sterling Alliance Ltd. only received $175,000 from Tech Traders. The remaining $422,500 in "distributions" were internal transfers to the accounts of other Sterling Entities at Tech Traders which were never actually withdrawn. The transfers and hard withdrawals totaling $597,500 reflected in the claim form filed on behalf of Sterling Alliance Ltd. were of both principal and "earnings" (which apparently did not exist). Tech Traders provided Sterling Alliance Ltd. with earnings statements that were verified by both Lake Wylie Tax Service and J. Vernon Abernathy, CPA. At the time the withdrawals and/or transfers were made, Sterling Alliance Ltd. had no reason to doubt that the monies had actually been earned.

3. The beneficial owner of Aquarius Holdings International Ltd. is Imagine Trust.

4. The Sterling Entities are not familiar with a company known as Aquarius Holdings Ltd.

5. Security Funding Ltd. is holding company formed in Anguilla. The beneficial owner of Security Funding Ltd. is Sterling Charitable Trust.

6. The $14,700 received by Sterling ACS on April 29, 2003 was a withdrawal from its Tech Traders account. Sterling ACS has no knowledge of why Tech Traders issued the check from Magnum Investments Ltd.

7. W3 Commerce LLC is a California based limited liability company whose beneficial owners are not known to Sterling ACS Ltd..

8. W3 Commerce LLC did not invest funds with Sterling ACS Ltd.

9. The Sterling Entities have no knowledge of whether or not W3 Commerce LLC invested funds directly with Tech Traders and/or Magnum Investments.

10 -26. Each of the trusts you inquiry about in questions 10 through 26 are irrevocable trusts domiciled in Anguilla. The beneficial owner of each of these trusts is Sterling Trust (Anguilla), Ltd.

27. This transfer was approved by a quorum of the Board of Directors.

28. This transfer was approved by a quorum of the Board of Directors.

29. This transfer was approved by a quorum of the Board of Directors.

30. This transfer was approved by a quorum of the Board of Directors.

31. This transfer was approved by a quorum of the Board of Directors.

32. The $14,900 deposit belonging to Lucy Johnson is reflected on the Tech Traders statements and must be on the Tech Traders bank account statements. These funds were deposited by Vernon Abernethy and Sterling Investment Portfolio LLC does not have a copy of the draft or wire. The supporting documents for the remaining deposits are annexed. Please note that all of these documents previously were provided as part of the claims form process, as part of an initial production at the inception of the receivership or as exhibits offered in federal court.

33. The $10,000 withdrawal by Sterling Alliance Ltd. is acknowledged but the company does not have a copy of the draft. The supporting documents for the remaining withdrawals are annexed. Please note that all of these documents previously were provided as part of the claims form process, as part of an initial production at the inception of the receivership or as exhibits offered in federal court.

34. Sterling Trust (Anguilla) Ltd. Investment Funds are funds that belong to Sterling Trust (Anguilla) and are invested for the benefit of the trust clients. These funds are not firm capital.

35. The Sterling Trust (Anguilla) Ltd. Capital account represents the funds deposited by the owners of the company as firm capital. "Investments" are made on behalf of different trusts. The beneficial owner of the funds invested is Sterling Trust (Anguilla) Ltd.

36. There is no relationship between Sterling Casualty & Insurance Ltd. and Strategic Investment Portfolio LLC other than some overlap in ownership and personnel. Any sharing of an account was unauthorized and believed to be the result of the incompetence of Vernon Abernethy.

37. The Sterling Trust (Anguilla) Ltd. Managed Funds Account is an account comprised of funds belonging to Sterling Trust (Anguilla) which is managed by Sterling Investment Management Ltd.

38. Each of the companies listed had an account at Alliance Investment Management Ltd. (the equivalent of a broker-dealer). The transfers occurred when each entity directed Alliance Investment Management Ltd. to transfer certain amounts of funds to another entity. The transfers were not made "through" Alliance Investment Management Ltd.; rather, it happened to be the entity that maintained accounts for the respective transferor. The respective Sterling Entities already have provided those documents in their possession which support the transfers and have nothing additional to produce. However, the you have the "official statements" of Tech Traders' bank accounts (as well as its unofficial internal statements) and we are certain that they will provide "authenticated proof" that the transfers occurred on or about the date listed.

39. These two items were missed in the claim form preparation.

Thank you for your anticipated cooperation.

Sincerely,

Martin P. Russo

Enclosures

F

wise permitted in writing by the Commission) all his asset, liability and capital accounts are classified into either the account classification subdivisions specified on Form 1–FR–FCM or Form 1–FR–IB, respectively, or, if such person is registered with the Securities and Exchange Commission as a securities broker or dealer and he files (in accordance with §1.10(h)) a copy of his Financial and Operational Combined Uniform Single Report under the Securities Exchange Act of 1934, Part II or Part IIA, in lieu of Form 1–FR–FCM or Form 1–FR–IB, the account classification subdivisions specified on such Report, or categories that are in accord with generally accepted accounting principles. Each person so registered shall prepare and keep current such records.

(b) Each applicant or registrant must make and keep as a record in accordance with §1.31 formal computations of its adjusted net capital and of its minimum financial requirements pursuant to §1.17 or the requirements of the designated self-regulatory organization to which it is subject as of the close of business each month. An applicant or registrant which is also registered as a securities broker or dealer with the Securities and Exchange Commission may meet the computation requirements of this paragraph (b) by completing the Statement of Financial and Operational Combined Uniform Single Report under the Securities Exchange Act of 1934, Part II or Part IIA. Such computations must be completed and made available for inspection by any representative of the National Futures Association, in the case of an applicant, or of the Commission or designated self-regulatory organization, if any, in the case of a registrant, within 17 business days after the date for which the computations are made, commencing the first month end after the date the application for registration is filed: *Provided, however,* That for each month ending between June 30, 1997 and December 31, 1997, inclusive, such computations must be completed and made available for inspection within 30 calendar days after the date for which the computations are made.

(c) The provisions of this section do not apply to an introducing broker which is operating pursuant to a guarantee agreement, nor do such provisions apply to an applicant for registration as an introducing broker who files concurrently with such application a guarantee agreement, provided such introducing broker or applicant therefor is not also a securities broker or dealer.

[48 FR 35288, Aug. 3, 1983, as amended at 49 FR 39530, Oct. 9, 1984; 62 FR 4641, Jan. 31, 1997]

PROHIBITED TRADING IN COMMODITY OPTIONS

§1.19 Prohibited trading in certain "puts" and "calls".

No futures commission merchant or introducing broker may make, underwrite, issue, or otherwise assume any financial responsibility for the fulfillment of, any commodity option except:

(a) Commodity options traded on or subject to the rules of a contract market in accordance with the requirements of part 33 of this chapter;

(b) Commodity options traded on or subject to the rules of a foreign board of trade in accordance with the requirements of part 30 of this chapter; or

(c) For futures commission merchants, any option permitted under §32.4 of this chapter, *provided however,* that a capital treatment for such options is referenced in §1.17(c)(5)(vi).

[52 FR 28997, Aug. 5, 1987, as amended at 58 FR 68520, Dec. 28, 1993]

CUSTOMERS' MONEY, SECURITIES, AND PROPERTY

§1.20 Customer funds to be segregated and separately accounted for.

(a) All customer funds shall be separately accounted for and segregated as belonging to commodity or option customers. Such customer funds when deposited with any bank, trust company, clearing organization or another futures commission merchant shall be deposited under an account name which clearly identifies them as such and shows that they are segregated as required by the Act and this part. Each registrant shall obtain and retain in its files for the period provided in §1.31 a written acknowledgment from such bank, trust company, clearing organization, or futures commission merchant, that it was informed that the customer funds deposited therein are those of commodity or option customers and are being held in accordance with the provisions of the Act and this part: *Provided, however,* that an acknowledgment need not be obtained from a clearing organization that has adopted and submitted to the Commission rules that provide for the segregation as customer funds, in accordance with all relevant provisions of the Act and the rules and orders promulgated thereunder, of all funds held on behalf of customers. Under no circumstances shall any portion of customer funds be obligated to a clearing organization, any member of a contract market, a futures commission merchant, or any depository except to purchase, margin, guarantee, secure, transfer, adjust or settle trades, contracts or commodity option transactions of commodity or option customers. No person, including any clearing organization or any depository, that has received customer funds for deposit in a segregated account, as provided in this section, may hold, dispose of, or use any such funds as belonging to any person other than the option or commodity customers of the futures commission merchant which deposited such funds.

(b) All customer funds received by a clearing organization from a member of the clearing organization to purchase, margin, guarantee, secure or settle the trades, contracts or commodity options of the clearing member's commodity or option customers and all money accruing to such commodity or option customers as the result of trades, contracts or commodity options so carried shall be separately accounted for and segregated as belonging to such commodity or option customers, and a clearing organization shall not hold, use or dispose of such customer funds except as belonging to such commodity or option customers. Such customer funds when deposited in a bank or trust company shall be deposited under an account name which clearly shows that they are the customer funds of the commodity or option customers of clearing members, segregated as required by the Act and

these regulations. The clearing organization shall obtain and retain in its files for the period provided by §1.31 an acknowledgment from such bank or trust company that it was informed that the customer funds deposited therein are those of commodity or option customers of its clearing members and are being held in accordance with the provisions of the Act and these regulations.

(c) Each futures commission merchant shall treat and deal with the customer funds of a commodity customer or of an option customer as belonging to such commodity or option customer. All customer funds shall be separately accounted for, and shall not be commingled with the money, securities or property of a futures commission merchant or of any other person, or be used to secure or guarantee the trades, contracts or commodity options, or to secure or extend the credit, of any person other than the one for whom the same are held: *Provided, however,* That customer funds treated as belonging to the commodity or option customers of a futures commission merchant may for convenience be commingled and deposited in the same account or accounts with any bank or trust company, with another person registered as a futures commission merchant, or with a clearing organization, and that such share thereof as in the normal course of business is necessary to purchase, margin, guarantee, secure, transfer, adjust, or settle the trades, contracts or commodity options of such commodity or option customers or resulting market positions, with the clearing organization or with any other person registered as a futures commission merchant, may be withdrawn and applied to such purposes, including the payment of premiums to option grantors, commissions, brokerage, interest, taxes, storage and other fees and charges, lawfully accruing in connection with such trades, contracts or commodity options: *Provided, further,* That customer funds may be invested in instruments described in §1.25.

(Approved by the Office of Management and Budget under control numbers 3038–0007, and 3038–0024)

[46 FR 54518, Nov. 3, 1981, as amended at 46 FR 63035, Dec. 30, 1981; 50 FR 36051, Sept. 5, 1985; 65 FR 78009, Dec. 13, 2000]

§ 1.21 Care of money and equities accruing to customers.

All money received directly or indirectly by, and all money and equities accruing to, a futures commission merchant from any clearing organization or from any clearing member or from any member of a contract market incident to or resulting from any trade, contract or commodity option made by or through such futures commission merchant on behalf of any commodity or option customer shall be considered as accruing to such commodity or option customer within the meaning of the Act and these regulations. Such money and equities shall be treated and dealt with as belonging to such commodity or option customer in accordance with the provisions of the Act and these regulations. Money and equities accruing in connection with commodity or option customers' open trades, contracts, or commodity options need not be separately credited to individual accounts but may be treated and dealt with as belonging undivided to all commodity or option customers having open trades, contracts, or commodity option positions which if closed would result in a credit to such commodity or option customers.

[46 FR 54519, Nov. 3, 1981]

§ 1.22 Use of customer funds restricted.

No futures commission merchant shall use, or permit the use of, the customer funds of one commodity and/or option customer to purchase, margin, or settle the trades, contracts, or commodity options of, or to secure or extend the credit of, any person other than such customer or option customer. Customer funds shall not be

used to carry trades or positions of the same commodity and/or option customer other than in commodities or commodity options traded throught the facilities of a contract market.

[47 FR 57007, Dec. 22, 1982]

§ 1.23 Interest of futures commission merchant in segregated funds; additions and withdrawals.

The provision in section 4d(2) of the Act and the provision in §1.20(c), which prohibit the commingling of customer funds with the funds of a futures commission merchant, shall not be construed to prevent a futures commission merchant from having a residual financial interest in the customer funds, segregated as required by the Act and the rules in this part and set apart for the benefit of commodity or option customers; nor shall such provisions be construed to prevent a futures commission merchant from adding to such segregated customer funds such amount or amounts of money, from its own funds or unencumbered securities from its own inventory, of the type set forth in §1.25, as it may deem necessary to ensure any and all commodity or option customers' accounts from becoming undersegregated at any time. The books and records of a futures commission merchant shall at all times accurately reflect its interest in the segregated funds. A futures commission merchant may draw upon such segregated funds to its own order, to the extent of its actual interest therein, including the withdrawal of securities held in segregated safekeeping accounts held by a bank, trust company, contract market clearing organization or other futures commission merchant. Such withdrawal shall not result in the funds of one commodity and/or option customer being used to purchase, margin or carry the trades, contracts or commodity options, or extend the credit of any other commodity customer, option customer or other person.

[62 FR 42400, Aug. 7, 1997]

§ 1.24 Segregated funds; exclusions therefrom.

Money held in a segregated account by a futures commission merchant shall not include: (a) Money invested in