

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA

05-80313

Civil Action No. \_\_\_\_\_

**CIV - DIMITROULEAS**

COMMODITY FUTURES TRADING COMMISSION,

Plaintiff,

v.

G7 ADVISORY SERVICES, LLC, and MICHEL  
GERAUD a/k/a MIKE JERAUX ,

Defendants.

TORRES

CLERK OF DISTRICT  
COURT  
S.D. OF FLA - FTL

FILED BY \_\_\_\_\_  
2005 APR 12 AM 9:34  
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**Complaint for Injunctive And Other Equitable Relief And For Civil Penalties Under The  
Commodity Exchange Act, As Amended, 7 U.S.C. §§ 1-25**

**I. SUMMARY**

1. Since at least May 2004 and continuing to the present, G7 Advisory Services, LLC (“G7 Advisory”), through its employees, including, but not limited to Michel Geraud (“Geraud”), has been fraudulently soliciting customers to open commodity trading accounts through G7 Advisory to trade options on foreign currency (“forex options”). In its solicitations, G7 Advisory, through its employees, including, but not limited to Geraud, misrepresent and fail to disclose adequately the likelihood of profits, the risk involved in trading forex options, the level of trading experience of its employees, and G7 Advisory’s poor track record trading forex options.

2. By making such material misrepresentations and omissions, G7 Advisory and Geraud have engaged, are engaging, or are about to engage in acts and practices which violate Section 4c(b) of the Commodity Exchange Act, as amended, (the “Act”), 7 U.S.C. § 6c(b)

(2002), Section 1.1(b)(1) and (3) of the Commission's Regulations ("Regulations"), 17 C.F.R. §§ 1.1(b)(1) and (3) (2004), and Sections 32.9(a) and (c) of the Regulations, 17 C.F.R. §§ 32.9(a) and (c) (2004).

3. Accordingly, pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1, Plaintiff Commodity Futures Trading Commission ("Commission") brings this action to enjoin Defendants' unlawful acts and practices and to compel their compliance with the Act and Regulations. In addition, the Commission seeks civil monetary penalties, restitution to customers for losses proximately caused by Defendants' fraud, disgorgement of Defendants' ill-gotten gains, and such other relief as this Court may deem necessary or appropriate.

4. Unless restrained and enjoined by this Court, Defendants are likely to continue to engage in acts and practices alleged in this Complaint and similar acts and practices, as more fully described below.

## **II. JURISDICTION AND VENUE**

5. The Commodity Exchange Act, 7 U.S.C. § 1 et seq. (2002) establishes a comprehensive system for regulating the purchase and sale of commodity futures contracts and options on commodity futures. This Court has jurisdiction over this action pursuant to Sections 6c and 6d of the Act, 7 U.S.C. § 13a-1 and § 13a-2 (2002).

6. Section 6c of the Act provides that whenever it shall appear to the Commission that any person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation, or order promulgated thereunder, the Commission may bring an action against such person to enjoin such practice or to enforce compliance with the Act.

7. Sections 2(c)(2)(B) and (C) of the Act grant the Commission jurisdiction over certain retail transactions in foreign currency that are contracts for the sale of a commodity for future delivery (or option on such a contract), and options on foreign currency, including the transactions alleged in this Complaint.

8. Venue properly lies with this Court pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a-1(e)(2002), in that Defendants transact business in this District, and the acts and practices in violation of the Act have occurred, are occurring, or are about to occur, within this District, among other places.

### **III. THE PARTIES**

9. Plaintiff **Commodity Futures Trading Commission** is an independent federal regulatory agency which is charged with the administration and enforcement of the Act, 7 U.S.C. §§ 1 et seq., and the Regulations promulgated thereunder.

10. Defendant **G7 Advisory Services, LLC** is a Florida corporation with its principal place of business at 1515 South Federal Highway, Suite 113, Boca Raton, Florida. G7 Advisory is not registered with the Commission in any capacity.

11. Defendant **Michel Geraud**, also known as Mike Jeraux, who resides at 4365 Banyan Trails Drive, Pompano Beach, Florida 33073, is not registered with the Commission at this time. Geraud was registered with the Commission as an Associated Person of Prime Commodities & Financial Services from April 1999 through November 2000. Geraud is Vice President of G7 Advisory.

#### **IV. STATEMENT OF FACTS**

##### **A. The G7 Advisory Operations**

12. Beginning on or about May 2004, G7 Advisory, by and through its employees, including, but not limited to Geraud, solicited prospective customers to open forex options trading accounts at Safeguard FX, LLC (“Safeguard FX”), which is not registered with the Commission in any capacity and is not an affiliate of a futures commission merchant (“FCM”) registered with the Commission for purposes of the Act or any other type of regulated financial entity recognized under the Act as a proper counterparty to certain retail foreign currency transactions.

13. Beginning on or about March 10, 2005, G7 Advisory no longer solicited customers to open accounts at Safeguard FX, but rather claims to be soliciting prospective customers to open forex trading accounts at United Clearing LLC, an FCM registered with the Commission. However, the G7 Advisory website directs customers to the website of United FX Clearing, LLC (“United FX”) for information and services, including forex trading account application. United FX is not registered with the Commission in any capacity and is not an affiliate of an FCM registered with the Commission for purposes of the Act or any other type of regulated financial entity recognized under the Act as a proper counterparty to certain retail foreign currency transactions.

14. Beginning on or about May 2004, G7 Advisory employees traded and managed customer accounts held at Safeguard FX. On or about March 10, 2005, G7 Advisory employees began to trade and manage customer accounts held at either United FX or United Clearing LLC.

15. Most, if not all, of the customers of G7 Advisory are retail customers who are not eligible contract participants as defined in Section 1a(12) of the Act.

16. G7 Advisory and its employees, including Geraud, aggressively solicit prospective customers through cold-calling. Once contact is made, G7 Advisory pursues the prospective customer with persistent phone calls and other high pressure sales techniques, often stressing the immediacy of their decision to open an account. In addition to cold-calling, G7 Advisory solicits prospective customers through its website located at [www.G7options.com](http://www.G7options.com), created on or about July 14, 2003, and fully operational as of March 16, 2005.

**B. The G7 Solicitation**

17. G7 Advisory gives its employees, regardless of their sales experience, a 63-page script titled *Currency Sales Success – The Complete Guide to Selling Currency Investments Around the World* (hereinafter “script”) to use when soliciting customers to invest. The script used by G7 Advisory brokers instructs them to portray an investment with G7 Advisory as highly rewarding, with little risk involved, and to convey the image that G7 Advisory traders are experienced and successful. The script tells employees to stress the urgency in investing in the market, and convince potential investors that any delay would greatly decrease their chances of profit. For example, the sales script used by G7 Advisory brokers provides the following instructions:

- a. “The First Ten Seconds – The Foot in the Door. Making Money, High Return Investments, Correct?...Making Money is Exciting. You are going to talk about making money! Best of all it will be making money in HIGH return investments....which means you will be talking about making A LOT of money.”
- b. “Stress the sooner he gets in the more money you think He will make!”

c. “Give them the big picture. A massive office. Hugo Boss or Brooks Brothers Suit. Top floor private office in a beautiful building. Secretary and assistance at your disposal. You make three of these calls a day. You can help them be as rich as you.”

18. The script used by G7 Advisory brokers instructs them to “Open two-three accounts per month minimum” and to gain “Three solid fronts [leads] per day.....Without Excuses!!!” in order to maintain good standing at the company.

19. After the initial telephone solicitation, Defendants immediately provide customers with account opening documents via the mail, including Federal Express, and facsimile, and urge customers to return the documents quickly.

20. G7 Advisory instructs customers to execute their account opening documents and send their investment funds directly to United FX or United Clearing LLC. Prior to March 10, 2005, customers were instructed to send funds directly to Safeguard FX.

21. Once a customer invests with G7 Advisory, trades made by the customer are based upon the recommendations of G7 Advisory “brokers.”

**C. Defendants’ Fraudulent Solicitation of Prospective Customers**

22. As alleged in more detail below, as part of its aggressive and successful sales solicitation practices, G7 Advisory, through its employees, including but not limited to Geraud, litters its solicitations with misrepresentations concerning the likelihood of profits and risk involved in trading forex options, as well as the level of trading experience of its employees, while never disclosing that virtually all of G7 Advisory customers suffer overall losses.

**1. Defendants’ Fraudulent Misrepresentations Regarding the Likelihood of Profits**

23. Since May 2004, G7 Advisory, by and through its employees, including but not limited to Geraud, has systematically misrepresented the likelihood that customers would achieve high profits. For example, the G7 Advisory script used by its brokers instructs employees to tell potential customers that:

- a. “I think we can turn your \$10,000 into \$16,000-\$20,000 in the next few weeks. In my opinion, the sooner you get in the more money you’ll make.”
- b. “Let me show you a 50-100% return on your money in the next 12 weeks and you’ll never worry about following my recommendation again....fair enough?”
- c. “You might not see a market like this again for ten years, and ten years from now my family of clients and I are not going to call you from ou[r] yachts so.....”
- d. “My company has targeted an investment that we feel could double or triple your money in the next 30 to 60 days.”
- e. An investment “will keep you ahead of inflation, pay you an excellent return on your hard earned dollars and allow you to be in control the whole time you are involved.”
- f. “We’re looking at something here that could return 20,000 dollars on a minimal investment.”
- g. “If I double your money in a month – as I think I will – you recommend my company to three friends...fair enough?”

24. Consistent with the script, Geraud has made exaggerated profit claims in soliciting customers which, again, were fraudulent. Such statements include, but are not limited to, the following:

- a. Numerous clients of his have tripled or quadrupled their money, or even better.
- b. With the way currencies are priced, one customer would make a ratio of 10 to 1 on his investment in a very short time.
- c. G7 Advisory would make the customer “big money.”
- d. Creating the impression that the customer would definitely either profit, or do no worse than break even, Geraud told a customer that he would invest a customer’s money by putting  $\frac{2}{3}$  of the investment in the Euro, and  $\frac{1}{3}$  in the dollar, so that if the dollar dropped, the customer would double what he had invested in Euro, whereas the rising dollar would make his investment break even.

25. In addition, other G7 Advisory brokers have made deceitful solicitations about options trading that improperly relied on well-known public information that was already factored into the price of the underlying option. For example,

- a. One G7 Advisory employee told at least one customer that with the current US trade deficit and the war in Iraq, the US dollar was guaranteed to fall in price, and if the customer purchased forex options, his account would dramatically increase in value.
- b. The script instructs G7 Advisory brokers to tell potential customers, regardless of the date, that the American Petroleum Institute “reported

yesterday that heating oil stocks are 27 million barrels lower than last year, WHEN THERE WAS A HUGE SHORTAGE. So if we're 27 million barrels lower than a huge shortage last year, it's safe to assume this year we can see similar shortages, right????"

- c. Geraud told one customer that because Alan Greenspan was raising the interest rate, the Euro was bound to go up.

26. G7 Advisory, by and through its employees, including, but not limited to Geraud, also has enticed customers to trade forex options by using leverage examples and statements that highlight a likelihood of making large profits with only a small investment amount. These leverage examples and statements suggest to customers that small movements in the market would inevitably generate large profits. Among the leverage statements used to solicit customers are the following:

- a. One G7 Advisory broker told at least one customer that if he invested \$10,000, the customer would buy 7 options contracts, and would make \$1500 on each contract for each cent the Euro gained in value.
- b. The script instructs G7 Advisory brokers to guide each customer through a leverage example, beginning by stating, "If you understand these two keys you can make a tremendous amount of money in this market...The keys are LEVERAGE AND TIMING."

27. G7 Advisory, by and through its employees, including, but not limited to Geraud, tells customers that they need to invest immediately to achieve large profits. By using this high-pressure tactic, G7 Advisory and its brokers give the impression that profitability is almost guaranteed, the only variable being the amount of profit to be made. For example, one G7

Advisory employee solicited a customer by claiming he had a “once in a lifetime deal.” Also, as stated above, the script instructs brokers to “Stress the sooner he gets in the more money you think He will make!” Additionally, the script suggests that G7 Advisory brokers “Put the client on hold for 10 seconds” in the middle of telephone conversations, in order to convey a sense of demand and urgency.

## **2. Defendants’ Misrepresentations and Omissions Concerning the Risk of Options Trading**

28. During the course of the sales solicitations, G7 Advisory, through its employees, including but not limited to Geraud, has routinely failed to disclose adequately the risk of loss inherent in trading forex options. Their occasional references to risk are nullified when Defendants urge customers to invest immediately and falsely represent that while losses on forex options are theoretically possible, trading forex options with G7 Advisory is highly profitable and virtually risk-free. For example, the script used by G7 Advisory brokers instructs them to say:

- a. “There is risk but the beauty of options is you set the limit on the risk and the profit potential is unlimited.”
- b. In ending a conversation with a customers, “Now do the rewards seem to far out weigh the risks?” and “Do you like the limited risk aspect that the options offer?...Could you think of any other investment that would offer you a return like this?”

## **3. Defendants’ Misrepresentations Regarding Their Trading Experience**

29. G7 Advisory, through its employees, including but not limited to Geraud, has also misrepresented the trading experience of its brokers to solicited customers. For example, the script used by G7 Advisory brokers instructs them, regardless of their experience, to:

- a. Call themselves experts, and that he or she is a “successful broker.”
- b. Tell potential customers, “Go along with someone who has been in the trenches for years and does understand it, you won’t regret it.”

**D. G7 Advisory’s Losing Performance Record**

30. Despite their repeated claims concerning the likelihood of profit and the minimization of risk, the trades into which the G7 Advisory customers entered, seldom, if ever, earned a profit. In fact, all G7 Advisory customers suffered overall losses from trading.

31. Since May 2004, all 136 of G7 Advisory’s customers lost money. Customer losses have totaled \$2.1 million. Although 100% of customers have lost money overall since G7 Advisory opened for business, G7 Advisory brokers have generated \$1.3 million in commission fees.

32. Despite these mounting losses, G7 Advisory, through its employees, including but not limited to Geraud, continues to solicit new customers by highlighting the likelihood of profit and minimizing risk, without disclosing the fact that the overwhelming majority of their customers lose most, if not all, of their investment while G7 Advisory makes millions in commissions from this unprofitable trading.

33. G7 Advisory, through its employees, including but not limited to Geraud as VP of G7 Advisory, knew or recklessly disregarded the fact that their customers did not make the profits represented in their telephone solicitations.

**V. COMMISSION’S JURISDICTION OVER THE TRANSACTIONS AT ISSUE**

34. Section 2(c)(2)(B)(i) and (ii) of the Act provides that the Commission shall have jurisdiction over an agreement, contract or transaction in foreign currency that is a sale of a

commodity for future delivery (or option thereon) or an option, so long as the contract is “offered to, or entered into with, a person that is *not* an eligible contract participant,” and the counterparty, or the person offering to be the counterparty, is not one of the regulated entities enumerated in Section 2(c)(2)(B)(ii)(I-VI). 7 U.S.C. § 2(c)(2)(B)(i) and (ii).

35. Section 1a(12)(A)(xi) of the Act, 7 U.S.C. § 1, defines an eligible contract participant as an individual who has total assets in excess of: a) \$10 million; or b) \$5 million and who enters the transaction to manage the risk associated with an asset owned or a liability incurred, or reasonably likely to be owned or incurred. Most, if not all, of the foreign currency options transactions alleged herein were offered to or entered into with persons who did not qualify as eligible contract participants, meaning that the customers of G7 Advisory were retail customers whose transactions are contemplated by Section 2(c)(2)(B)(ii) of the Act to be within the Commission’s jurisdiction.

36. Section 2(c)(2)(B)(ii)(I-VI), 7 U.S.C. § 2(c)(2)(B)(ii)(I-VI), identifies regulated entities that are proper counterparties to foreign currency transactions with retail customers, which include registered FCMs and certain statutorily defined affiliates of registered FCMs, which encompasses only those “affiliated” persons as to whom the FCMs are required under the Act and Commission Regulations to make and keep records.

37. Notwithstanding subclauses (II) and (III) of subparagraph (B)(ii), Section 2(c)(2)(C) of the Act provides that agreements, contracts, or transactions in retail foreign currency described in subparagraph (B) *are* subject to Sections 4b and 4c(b) of the Act if they are entered into by an FCM or an affiliate of an FCM that is not also an entity described elsewhere in subparagraph (B)(ii). 7 U.S.C. § 2(c)(2)(C).

38. Safeguard FX and United FX are not one of the enumerated regulated entities identified in Section 2(c)(2)(B)(ii). In particular, Safeguard FX and United FX are not registered with the Commission as FCMs and are not affiliates of registered FCMs for the purposes of the Act, in that no registered FCMs are required under the Act or Commission Regulations to make and keep records concerning the business or activities of Safeguard FX or United FX. Accordingly, Safeguard FX and United FX are not proper counterparties to the retail foreign currency options transactions alleged in the Complaint.

39. Since Safeguard FX and United FX are not proper counterparties and the customers are not eligible contract participants, the Commission has jurisdiction over this action.

40. United Clearing LLC is registered with the Commission as an FCM and thus constitutes a proper counterparty under Section 2(c)(2)(B) to the alleged transactions with G7 Advisory customers, who are not eligible contract participants. However, the Commission retains anti-fraud jurisdiction over the alleged forex options transactions with United Clearing LLC pursuant to Section 2(c)(2)(C) of the Act.

## **VI. VIOLATIONS OF THE COMMODITY EXCHANGE ACT AND COMMISSION REGULATIONS**

### **COUNT**

#### **A. Violations of Section 4c(b) of the Act and Sections 1.1(b)(1) and (3) and 32.9(a) and (c) of the Regulations: Fraud by Misrepresentation and Omission of Material Facts in Connection with the Solicitation of Forex Options Transactions**

41. Plaintiff re-alleges paragraphs 1 through 40 above and incorporates these allegations herein by reference.

42. From at least May 2004 and continuing through the present, Defendants G7 Advisory and Geraud, cheated, defrauded, or deceived other persons or attempted to cheat, defraud, or deceive other persons, by making false, deceptive, or misleading representations of

material facts and by failing to disclose necessary material facts, including, but not limited to, those statements and omissions identified above, all in violation of Section 4c(b) of the Act and Regulations 1.1(b)(1) and (3) and 32.9(a) and (c), 17 C.F.R. §§ 1.1(b)(1) and (3) and 32.9(a) and (c).

43. Each material misrepresentation or omission made during the relevant time period by Geraud and other employees and agents of G7 Advisory, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4c(b) of the Act and Regulations 1.1(b)(1) and (3) and 32.9(a) and (c), 17 C.F.R. §§ 1.1(b)(1) and (3) and 32.9(a) and (c).

#### **RELIEF REQUESTED**

WHEREFORE, the Plaintiff Commodity Futures Trading Commission respectfully requests that this Court, as authorized by Section 6c of the Act, and pursuant to its own equitable powers, enter:

a. an order finding that the Defendants violated Section 4c(b) of the Act and Sections 32.9(a) and (c) of the Regulations 1.1(b)(1) and (3) and 32.9(a) and (c);

b. an ex parte statutory restraining order enjoining Defendants and all persons insofar as they are acting in the capacity of their agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with them who receive actual notice of such order by personal service or otherwise, from directly or indirectly:

1. Destroying, mutilating, concealing, altering, or disposing of any book and records, documents, correspondence, brochures, manuals, electronically stored data, tape records

or other property of Defendants, wherever located, including all such records concerning Defendants' business operations;

2. Refusing to permit authorized representatives of the Commission to inspect, when and as requested, any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of Defendants, wherever located, including all such records concerning Defendants' business operations; and

3. Withdrawing, transferring, removing, dissipating, concealing or disposing of, in any manner, any funds, assets, or other property, wherever situated, including but not limited to, all funds, personal property, money or securities held in safes, safety deposit boxes and all funds on deposit in any financial institution, bank or savings and loan account held by, under the control of, or in the name of Defendants;

c. orders of preliminary and permanent injunction prohibiting the Defendants from engaging in conduct violative of Section 4c(b) of the Act and Regulations 1.1(b)(1) and (3) and 32.9(a) and (c) and from engaging in any commodity-related activity, including soliciting new customers, giving advice or other information in connection with the purchase or sale of commodity options contracts for others, and introducing customers to any other persons engaged in the business of commodity options trading;

d. an order directing the Defendants to disgorge, pursuant to such procedure as the Court may order, all benefits received from the acts or practices which constitute violations of the Act of Regulations, as described herein, and interest thereon from the date of such violations;

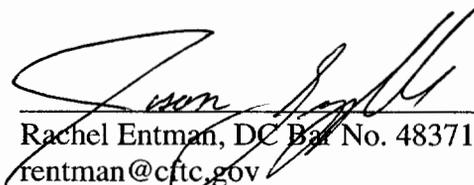
e. an order directing the Defendants to make full restitution, pursuant to such procedure as the Court may order, to every customer whose funds were received by them as a

result of acts and practices which constituted violations of the Act and Regulations, as described herein, and interest thereon from the date of such violations;

f. an order directing the Defendants to pay a civil monetary penalty in the amount of not more than the higher of \$120,000 (or \$130,000 for violations occurring after October 24, 2004) or triple the monetary gain to each defendant for each violation of the Act or Regulations; and

g. such orders and further remedial ancillary relief as the Court may deem appropriate.

Respectfully submitted,



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