

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

**- and -**

**JOSE L. CASTANEDA**

**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, subject to a cease trade order 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.

#### **Joint Venture Agreement with Paul and Clara Madonia**

6. While subject to a cease trade order by the Commission, Castaneda entered into a joint venture agreement ("Agreement") with Paul and Clara Madonia, dated February 11, 2000. 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 Agreement granted Castaneda full discretionary authority over any funds provided by the Madonias.

7. Prior to entering the Agreement, Castaneda told the Madonias that he was doing a lot of foreign trading for numerous investors. At no time did he inform them of the existing cease trade order or subsequent Settlement Agreement with the Commission.

8. Between February 11, 2000 and July 2, 2002, the Madonia's gave Castaneda \$900,000 in Canadian funds to invest pursuant to the 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*.

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

10. In actual fact, Castaneda had lost a significant portion of Paul and Clara Madonia's money while trading. At least \$325,000 Canadian was lost through trades. Further, a significant portion of the money received from the Madonias was never invested at all but instead directly converted by Castaneda for his own personal living expenses.

11. When the Madonias asked for their money back in the Summer of 2003 Castaneda informed them that all of their money was gone.

**Conduct Contrary to Public Interest**

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

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

**DATED AT TORONTO** this 20<sup>th</sup> day of June, 2005.