



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

- AND -

**QUANTFX ASSET MANAGEMENT INC., VADIM TSATSKIN,
LUCIEN SHTROMVASER and ROSTISLAV ZEMLINSKY**

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

Staff of the Ontario Securities Commission (“Staff”) make the following allegations:

I. OVERVIEW

1. This proceeding involves the unregistered trading and illegal distribution of securities from September 6, 2009 until April 13, 2010 (the “Material Time”) by QuantFX Asset Management Inc. (“QuantFX”) and its directors, Vadim Tsatskin (“Tstaskin”), Lucien Shtromvaser (“Shtromvaser”) and Rostislav Zemlinsky (“Zemlinsky”).
2. The agents of QuantFX solicited clients through its website and over the internet to invest in the currency market through accounts at GAIN Capital – Forex.com UK Ltd. (“Forex.com UK”). Agents of QuantFX also solicited potential clients over the telephone. The operations of Forex.com UK and its clients’ accounts are located in the UK.
3. QuantFX also promoted its investment services on a website. This website contained misleading and/or inaccurate statements about the historical trading performance of QuantFX, the QuantFX management and its client base.
4. Clients of QuantFX, some of whom resided in Ontario, were instructed by QuantFX to deposit funds (the “Client Funds”) directly with Forex.com UK in accounts in their names (the “Managed Accounts”). QuantFX and its agents then directed these clients

to sign a limited power of attorney over the Managed Accounts allowing Zemlinsky to trade foreign exchange contracts on their behalf through Forex.com UK.

5. The Client Funds were then pooled by Zemlinsky and used to conduct trading in currency contracts through accounts in his name at Forex.com UK (the “Master Accounts”). He performed the foreign exchange contract trading from locations in Toronto, Ontario. Zemlinsky also allowed other traders in Russia to conduct trades in foreign exchange contracts from the Master Accounts using his password information.
6. Profits and losses in the Master Accounts were then distributed back to the Managed Accounts. Zemlinsky only had access to the Client Funds to permit him to trade in the Master Accounts. He could not instruct Forex.com UK to withdraw any funds from the Managed Accounts.
7. Clients of QuantFX also entered into a profit sharing agreement with QuantFX whereby QuantFX would receive 42.5% of any trading profits realized.
8. During the Material Time, clients placed a total of approximately \$780,000 U.S. in the Managed Accounts.

II. THE RESPONDENTS

9. QuantFX was federally incorporated on August 4, 2009 and had its offices at an address located in Toronto, Ontario. Its founding directors were Tsatskin, Shtromvaser and Zemlinsky who remained directors during the Material Time.
10. During the Material Time, QuantFX, Tsatskin, Shtromvaser and Zemlinsky (collectively, the “Respondents”) were not registered in any capacity with the Ontario Securities Commission (the “Commission”).
11. Tsatskin, Shtromvaser and Zemlinsky are all residents of Ontario.

12. Tsatskin signed documents on behalf of QuantFX as its ‘vice-president’ and its “chairman”.
13. Shtromvaser and Tsatskin were responsible for the development of the business infrastructure of QuantFX and its marketing and development, including the solicitation of clients. Zemlinsky was responsible for the trading on behalf of QuantFX clients.
14. Tsatskin, Shtromvaser and Zemlinsky all discussed and considered whether their activities in relation to QuantFX required registration with the Commission. All reached the conclusion that they were not required to be registered with the Commission.

III. UNREGISTERED TRADING IN SECURITIES CONTRARY TO SECTION 25 OF THE ACT

15. Staff allege that the Respondents and other agents of QuantFX engaged in the trading of securities and held themselves out as engaging in the business of trading securities without the proper registration contrary to section 25(1) of the *Securities Act*, R.S.O. 1990, c. S. 5, as amended (the “Act”).
16. Further, Staff allege that the Respondents and other agents of QuantFX engaged in the business of advising members of the public with respect to the investing in, buying or selling securities of securities and held themselves out as engaging in the business of advising members of the public with respect to the investing in, buying or selling securities of securities contrary to section 25(3) of the Act.
17. The trading of foreign exchange contracts or advising regarding the trading of foreign exchange contracts by persons or companies in Ontario requires registration under section 25 of the Act.

IV. ILLEGAL DISTRIBUTION OF SECURITIES CONTRARY TO SECTION 53(1) OF THE ACT

18. Forex.com UK has never filed a prospectus or a preliminary prospectus with the Commission or obtained receipts for them from the Director regarding the trading of foreign exchange contracts in its accounts by account holders situated in Ontario. Further, these foreign exchanges contracts did not qualify for any exemption under Ontario securities law which would otherwise permit their trading.
19. The business of QuantFX was to persuade investors in Ontario and elsewhere to open trading accounts at Forex.com UK to allow QuantFX through its officers, directors, employees and agents to conduct foreign exchange contract trading on behalf of these investors.
20. From locations in Ontario, Quant FX, through its officers, directions, agents or employees, conducted trades of foreign exchange contracts on behalf of residents of Ontario and elsewhere.
21. The trading of foreign exchange contracts by persons or companies in Ontario must meet the prospectus requirements under section 53(1) of the Act or qualify for an exemption.

VI. CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND CONTRARY TO THE PUBLIC INTEREST

22. The specific allegations advanced by Staff related to the trades in foreign exchange contracts through Forex.com UK during the Material Time are as follows:
 - (a) QuantFX, Tsatskin, Shtromvaser and Zemlinsky traded in securities without being registered to trade in securities and/or held themselves out as engaging in the business of trading securities being registered to trade in securities, contrary to section 25(1) of the Act and contrary to the public interest;

- (b) QuantFX, Tsatskin, Shtromvaser and Zemlinsky engaged in the business of advising in securities without being registered to trade in securities and/or held themselves out as engaging in the business of trading securities being registered to trade in securities, contrary to section 25(3) of the Act and contrary to the public interest;
 - (c) The actions of QuantFX, Tsatskin, Shtromvaser and Zemlinsky related to the trading of securities in accounts at Forex.com UK constituted distributions of securities where no preliminary prospectus and prospectus were issued nor receipted by the Director, contrary to section 53(1) of the Act and contrary to the public interest; and
 - (d) Tsatskin, Shtromvaser and Zemlinsky being directors and/or officers of QuantFX did authorize, permit or acquiesce in the commission of the violations of sections 25(1), 25(3) and 53(1) of the Act, as set out above, by QuantFX or by the agents or employees of QuantFX, contrary to section 129.2 of the Act and contrary to the public interest.
23. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, November 10, 2010.