

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 67028 / May 18, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14720

In the Matter of

**Alchemy Ventures, Inc., KM
Capital Management, LLC,
Zanshin Enterprises, LLC,
Mark H. Rogers, Steven D.
Hotovec, Joshua A. Klein,
Yisroel M. Wachs, Frank K.
McDonald, and Douglas G.
Frederick,**

Respondents.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS AND
CEASE-AND-DESIST ORDERS PURSUANT
TO SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934 AS
TO ZANSHIN ENTERPRISES, LLC AND
FRANK K. MCDONALD**

I.

In these proceedings, instituted on January 26, 2012 pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Respondents Zanshin Enterprises, LLC (“Zanshin”) and Frank K. McDonald (collectively “Respondents”) have submitted Offers of Settlement (“Offers”) which the Securities and Exchange Commission (“Commission”) has determined to accept.

II.

Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Making Findings and Imposing Remedial Sanctions and Cease-and-Desist Orders Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 as to Zanshin Enterprises, LLC and Frank K. McDonald (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other persons or entities in this or any other proceeding.

Summary

1. These proceedings arise from trading access that Zanshin, an unregistered firm, and McDonald extended to an individual who subsequently used that trading access to profit from an account intrusion and market manipulation scheme. On nine occasions from September to December 2009, the individual made profitable trades through Zanshin contemporaneous with unauthorized trading in the same securities in hijacked online brokerage accounts of innocent and unknowing account holders at multiple U.S. broker-dealers. The individual generated ill-gotten gains of \$55,725 from the scheme through Zanshin.

2. By effecting securities transactions for the individual, Zanshin, and McDonald, acting directly and through Zanshin, acted as unregistered brokers in willful² violation of Section 15(a) of the Exchange Act. McDonald also willfully aided and abetted and caused Zanshin's violation of Section 15(a).

Respondents

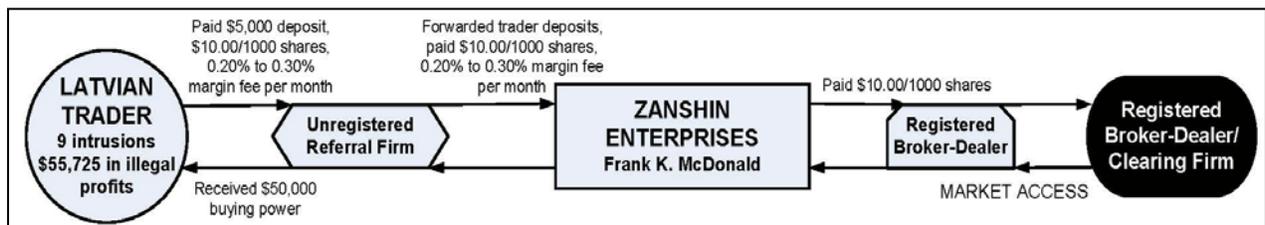
3. Zanshin Enterprises, LLC is a Texas limited liability company that had its principal place of business in Boise, Idaho until it ceased operations in February 2010. Zanshin has never been registered with the Commission in any capacity. From September to December 2009 (the "relevant period"), approximately 125 individuals traded as many as four million shares per month on U.S. exchanges in omnibus accounts held in Zanshin's name at a registered broker-dealer.

4. During the relevant period, Frank K. McDonald was Managing Member of, and associated with, Zanshin. In that capacity, McDonald caused Zanshin to extend market access to traders through Zanshin. McDonald did not hold any securities licenses and was not registered with the Commission in any capacity during the relevant period. McDonald, age 56, is a resident of Boise, Idaho.

Sponsored Market Access

5. Sponsored market access is a form of trading access whereby a broker-dealer permits customers to enter orders into the public market without the orders first passing through the broker-dealer's trading systems.

6. The following chart illustrates the relationships through which Zanshin and McDonald extended market access to an individual identified as a citizen of Latvia ("the Latvian trader") who conducted an account intrusion and market manipulation scheme.



² A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

7. During the relevant period, Zanshin, and McDonald, through Zanshin, received sponsored market access from a registered broker-dealer and passed the sponsored market access on to traders through a referral firm that solicited traders through its website and referred them to Zanshin.

8. In connection with extending sponsored market access to traders through the referral firm, Zanshin and McDonald participated in the order-taking and order-routing process, extended credit to the traders in connection with securities transactions, and handled customer funds and securities.

9. During the relevant period, McDonald arranged for traders solicited by the referral firm to receive market access through Zanshin. At McDonald's direction, traders who had been solicited by the referral firm were trading through Zanshin's omnibus account via sponsored market access during the relevant period.

10. In September 2009, the referral firm notified Zanshin that the Latvian trader had requested market access. Zanshin provided the Latvian trader with sponsored access trading software and instructed the software provider to assign the Latvian trader a user ID and password so that he could use the software to trade online through Zanshin's account. In so doing, Zanshin, at McDonald's direction, provided order-taking and order-routing services and controlled an electronic trading system for the Latvian trader to trade in the public market.

11. McDonald was ultimately responsible for authorizing traders referred by the referral firm to trade through Zanshin's account, for determining whether to terminate a trader's access, and for controlling the trading parameters in the trading software, including the amount of credit each trader received.

12. The Latvian trader wired \$5,000 of his own money to the referral firm as a risk deposit, which the referral firm forwarded to Zanshin. The referral firm arranged for the Latvian trader to sign a "trader agreement" stating that the Latvian trader was responsible for 100% of any trading losses that he incurred through Zanshin's account.

13. Zanshin then used the trading software to extend the Latvian trader \$50,000 in "buying power" through Zanshin's account, which was a portion of the trading credit that Zanshin received from its registered broker-dealer. Although Zanshin extended credit to the Latvian trader to purchase securities, Zanshin's capital was not ultimately at risk because it was entitled to recoup losses from the Latvian trader and the trading software allowed Zanshin to see the Latvian trader's trading in real time and would automatically cut off his trading access if his deposit balance fell below \$2,000, effectively allowing Zanshin to ensure that the Latvian trader would never lose money in excess of his deposit balance.

14. Instead of charging commissions, Zanshin received remuneration by charging the Latvian trader and other traders referred by the referral firm a monthly fee that ranged from 0.20 to 0.30 percent of every dollar of credit above their deposit balance that they were authorized to trade through Zanshin on margin. McDonald was responsible for setting the amount of the margin fees and directed Zanshin to collect these margin fees for extending the market access.

15. During the relevant period, McDonald directed Zanshin or the registered broker-dealer to track the Latvian trader's deposit balance, adding the trading profits that he generated

through Zanshin's account and subtracting the margin fees charged by Zanshin and the trading commissions charged by the registered broker-dealer.

Account Intrusions

16. On nine occasions between September and December 2009, the Latvian trader made profitable trades through Zanshin's account contemporaneous with unauthorized trading in the same securities in hijacked online brokerage accounts at multiple U.S. broker-dealers.

17. On each occasion, the Latvian trader first established a long or short position in a security through Zanshin's account. Then the Latvian trader surreptitiously gained access to an online brokerage account and made large unauthorized trades in the same security to manipulate the stock price in his favor. Finally, during or shortly after the manipulative trading in the intruded account, the Latvian trader closed out his position through Zanshin at the artificial market price to generate a profit.

18. The Latvian trader generated ill-gotten gains of \$55,725 from the scheme through the electronic trading system provided by Zanshin. The Latvian trader engaged in similar manipulative trading through other unregistered firms, and generated total profits of more than \$850,000 from 159 account intrusions between June 2009 and August 2010.

19. As a result of providing electronic order-taking and order-routing services that the Latvian trader used to conduct an illegal market manipulation scheme, Zanshin received \$5,700 in margin fees during the relevant period.

20. By extending market access to traders through the referral firm in the manner described above, including through participating in the order-taking and order-routing process, extending credit in connection with securities transactions, handling customer funds and securities, and allocating trades conducted by the traders against their deposits, Zanshin, and McDonald, directly and through Zanshin, engaged in the business of effecting transactions in securities for the account of others.

21. As described above, McDonald was aware of his role in furthering improper or illegal activity by Zanshin and provided substantial assistance to Zanshin in connection with conduct that constituted a violation of the federal securities laws.

Violations

22. As a result of the conduct described above, Zanshin and McDonald willfully violated Section 15(a) of the Exchange Act, which prohibits certain persons and entities, while acting as brokers, from effecting transactions in securities when such person or entity is not registered with the Commission as a broker.

23. As a result of the conduct described above, McDonald willfully aided and abetted and caused Zanshin's violation of Section 15(a) of the Exchange Act, which prohibits certain persons and entities, while acting as brokers, from effecting transactions in securities when such person or entity is not registered with the Commission as a broker.

Civil Penalty

24. Respondent Zanshin has submitted a sworn Statement of Financial Information dated February 3, 2012 and other evidence and has asserted its inability to pay a civil penalty.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondents Zanshin and McDonald shall cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.

B. Respondents Zanshin and McDonald are censured.

C. Respondent Zanshin shall, within 30 days of the entry of this Order, pay disgorgement of \$5,700.00 and prejudgment interest of \$472.05 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check, or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies Zanshin Enterprises, LLC as a Respondent in these proceedings and the file number of these proceedings, a copy of which cover letter and check, money order, or wire transfer confirmation shall be sent to Jina L. Choi, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 44 Montgomery St., 28th Floor, San Francisco, CA 94104.

D. Based upon Zanshin's sworn representations in its Statement of Financial Information dated February 3, 2012 and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent Zanshin.

E. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Zanshin provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Zanshin was fraudulent, misleading, inaccurate, or incomplete in any material respect. Zanshin may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

F. Respondent McDonald shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$35,000 to the United States Treasury. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. Section 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check, or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed

to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies Frank K. McDonald as a Respondent in these proceedings and the file number of these proceedings, a copy of which cover letter and check, money order, or wire transfer confirmation shall be sent to Jina L. Choi, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 44 Montgomery St, 26th Floor, San Francisco, CA 94104.

By the Commission.

Elizabeth M. Murphy
Secretary