

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

LACE A. DANIELS,
(CRD No. 1688213),

Respondent.

Disciplinary Proceeding
No. 2006007089902

Hearing Officer – AWH

DEFAULT DECISION

August 4, 2008

Respondent is barred from associating with any FINRA member in any capacity for conversion of firm funds, in violation of NASD Conduct Rule 2110, and failing to respond to requests for information, in violation of NASD Rules 8210 and 2110.

Appearances:

Mark J. Fernandez, Esq., for the Department of Enforcement.

No appearance by or for Lace A. Daniels.

DECISION

I. Background

On April 2, 2008, the Department of Enforcement filed the Complaint in this proceeding, alleging that Respondent Lace A. Daniels (1) converted her employer firm's funds, and (2) failed to respond to requests for information sent by FINRA staff pursuant to Rule 8210. Daniels did not file an Answer to the Complaint. On July 1, 2008, Enforcement filed a Motion for Entry of Default Decision. Daniels did not respond to that motion.

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II. Respondent's Default

On April 2, 2008, Enforcement sent the Complaint and Notice of Complaint to Respondent by first class certified mail to her residential address listed in the Central Registration Depository (the "CRD address") and to a forwarding address on record with the United States Postal Service. The mailing to the CRD address was returned; marked "Not Deliverable As Addressed – Unable to Forward." The return receipt for the certified mailing to the forwarding address was returned, signed by Lace Daniels. Respondent did not file an Answer to the Complaint.

On May 1, 2008, Enforcement sent the Complaint and Second Notice of Complaint to Respondent by first class certified mail to Respondent's CRD address and the forwarding address. The mailing to the CRD address was again returned as not deliverable or able to be forwarded. The return receipt for the certified mailing to the forwarding address was returned, signed by Lace Daniels. Respondent did not file an Answer to the Complaint.

Enforcement served the Complaint and Notices of Complaint on Daniels in accordance with Rule 9134, giving her constructive notice of this proceeding. The return receipts signed by Daniels show that she received actual notice of the Complaint. By failing to respond, she defaulted. Pursuant to NASD Procedural Rules 9215(f) and 9269, Enforcement's motion for a default decision will be granted, and the allegations in the Complaint, which is attached to this decision, will be deemed admitted.¹

¹ The factual determinations in this decision are based on the admitted allegations in the Complaint, the Declaration Supporting a Motion for Entry of Default Decision, and the exhibits attached thereto.

III. Jurisdiction

Daniels was first registered with FINRA through Lehman Brothers Inc. in February 1992. As pertinent to the Complaint, she was registered through Securian Financial Services, Inc. ("Securian"), as a General Securities Principal and a General Securities Representative from October 18, 2005 until December 12, 2006, when Securian filed a Form U5, terminating her registration for directing unauthorized payments to herself of firm funds totaling \$27,527. She is not currently associated with a FINRA member firm.

Because the Complaint charges her with misconduct while she was associated with a member firm and with failing to respond to FINRA staff requests for information during the two-year period following termination of her registration, and the Complaint was filed within two-years of the termination of her registration, she remains subject to FINRA jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of the FINRA By-Laws.

IV. Violations

Conversion of Firm Funds

The first cause of the Complaint alleges that on October 25, 2006, Daniels induced the comptroller of her branch office to issue to her a \$22,000 check, by falsely representing that the branch office manager had approved that amount as a bonus payment to Daniels based on the branch office's production. She provided the comptroller with an unsigned compensation agreement, providing for the immediate payment of a bonus to her, and falsely stated that the branch office manager had intended to sign the agreement before leaving the office that day but had forgotten to do so.

Daniels instructed the comptroller to issue the check immediately because she needed the funds that afternoon to pay the closing costs for her purchase of a home. Daniels deposited the funds into her own bank account and made personal use of the funds, without the knowledge or consent of her employer firm. Approximately a year later, Daniels, without the knowledge or consent of her firm, accessed the branch office's payroll program and ordered the payment of \$5,527 to herself.

Conversion is "an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it."² Here, the facts demonstrate that Daniels' misconduct clearly falls within that definition and constitutes a violation of NASD Conduct Rule 2110.³

Failure to Respond to Requests for Information

The second cause of the Complaint alleges that, in connection with its investigation of Daniels' alleged misconduct at Securian, FINRA staff sent Daniels two requests for information relating to the subject matter of the investigation, pursuant to NASD Procedural Rule 8210. The requests, dated October 10, 2007, and October 26, 2007, were sent by first class and certified mail to Daniels at her CRD address and the forwarding address on record at the United States Postal Service. The staff received delivery slips for the certified mailings sent to both addresses. The receipts were signed by Lace Daniels.

Daniels failed to respond in any way to the requests for information. By failing to provide the requested information, Daniels violated NASD Rules 8210 and 2110.

² FINRA SANCTION GUIDELINES, at 38 n. 2.

³ See, e.g. *District Business Conduct Comm. for Dist. No. 2S v. Frank Bernard Varites*, No. LA-4293, 1991 NASD Discip. LEXIS 16 (Jan. 22, 1991) (conversion of firm funds to a representative's own use is an intentional disregard of the "high standards of commercial honor and just and equitable principles of trade" mandated by NASD Conduct Rule 2110).

V. Sanctions

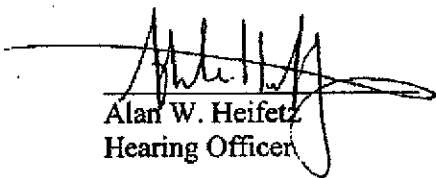
For conversion of funds, the FINRA Sanction Guidelines call for a bar, regardless of the amount converted.⁴ Daniels' misconduct was intentional and fraudulent. There are no mitigating factors that would warrant a sanction less than a bar.

For failure to respond in any manner to requests for information, the Sanction Guidelines provide that a bar should be standard.⁵ Daniels failed to respond to the requests for information in any way. Again, there are no mitigating factors that would warrant a sanction less than a bar.

VI. Conclusion

Lace A. Daniels is barred from associating with any FINRA member in any capacity for conversion of firm funds, in violation of NASD Conduct Rule 2110, and failing to respond to requests for information, in violation of NASD Rules 8210 and 2110. The bars shall become effective immediately if this Decision becomes the final disciplinary action of FINRA.

SO ORDERED.



Alan W. Heifetz
Hearing Officer

Copies to:

Lace A. Daniels (*via first class mail & overnight courier*)
Mark J. Fernandez, Esq. (*via first class mail & electronic mail*)
Mark P. Dauer, Esq. (*via first class mail & electronic mail*)
David R. Sonnenberg, Esq. (*via first class mail & electronic mail*)

⁴ FINRA SANCTION GUIDELINES, 38.

⁵ *Id.*, 35.

**FINRA
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT

Complainant,
v.

LACE A. DANIELS,
General Securities Principal and
General Securities Representative,
CRD No. 1688213,

Respondent.

Disciplinary Proceeding
No. 2006007089901

Hearing Officer -

COMPLAINT

The Department of Enforcement alleges:

Summary

In October 2006, while employed with FINRA member firm Securian Financial Services, Inc., ("Securian") as Chief Operations Officer of the firm's Charlotte, North Carolina branch office (dba Greater Carolina Group, Inc.), Lace A. Daniels ("Daniels" or "Respondent") converted to her own use and benefit firm funds totaling \$27,527, without the knowledge or consent of the firm. Additionally, Daniels failed to respond to the staff's requests for information, issued pursuant to NASD Procedural Rule 8210.

Respondent

1. Daniels became registered as a General Securities Representative in March 1988 while employed with member firm U.S. Associates, Inc. After leaving U.S. Associates, Inc. in August 1998, Daniels associated with a series of member firms, including Merrill Lynch, Pierce, Fenner & Smith, Incorporated (9/88 – 5/89); Shearson Lehman Brothers, Inc.

(5/89 – 5/93); Walnut Street Securities, Inc. (10/01 – 10/02) (where, in May 2002, she first became registered as a General Securities Principal); Woodbury Financial Services, Inc. (3/03 – 9/05); and Securian Financial Services, Inc. (10/05 – 11/06).

2. On November 22, 2006, Securian terminated Daniels for having directed unauthorized payments to herself of firm funds totaling \$27,527. Daniels has not associated with a member firm since her termination from Securian on November 22, 2006; therefore, Daniels is subject to the jurisdiction of FINRA until November 21, 2008, pursuant to Article V, Section 4 of FINRA's By-Laws.

**FIRST CAUSE OF ACTION
Conversion of Employer Funds
NASD Conduct Rule 2110**

3. Paragraphs 1 and 2 are incorporated herein by reference.
4. On October 25, 2006, without the knowledge or consent of her branch office manager, Daniels ordered the comptroller of her branch office to issue to her a \$22,000 check from the branch office's line of credit, made payable to a First Citizens Bank of North Carolina ("First Citizens") account under her control. Daniels subsequently deposited the funds into the First Citizens account and made personal use of the funds, without the knowledge or consent of her employer firm.
5. To induce the comptroller to issue the check without written authorization of the branch office manager, as was required by firm procedure, Daniels falsely represented to the comptroller that the branch office manager had approved a \$22,000 bonus payment to Daniels based on the branch office's production. To support her claim, Daniels provided to the comptroller an unsigned compensation agreement – the terms of which provided for the immediate payment of a bonus to Daniels – and falsely stated to the comptroller that the branch office manager had intended to sign the agreement before leaving the

office that day but had forgotten to do so. Daniels assured the comptroller that the branch office manager would sign the agreement the next morning, but she instructed the comptroller not to delay issuing the check until then because Daniels needed the funds that afternoon to pay the closing costs for her purchase of a home.

6. Daniels converted additional employer funds on or about October 27, 2006, when she accessed the branch office's online payroll program and ordered the payment of \$5,527 to herself, without the knowledge or consent of her employer firm.
7. The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rule 2110 by Respondent Daniels.

SECOND CAUSE OF ACTION
Failure to Respond to Requests for Information
NASD Procedural Rule 8210 and Conduct Rule 2110

8. Paragraphs 1 – 7 above are incorporated herein by reference.
9. On December 12, 2006, Securian filed a termination notice (Form U5) on behalf of Daniels that disclosed that Daniels had been discharged for directing unauthorized payments of branch office funds totaling \$27,527 to herself. Upon receipt of this notice, FINRA investigative staff commenced an examination.
10. On October 10, 2007, pursuant to NASD Procedural Rule 8210, the investigative staff sent a letter to Daniels requesting documents and information relating to her alleged misconduct. The letter instructed Daniels to provide the requested documents and information by October 25, 2007. The letter was mailed via certified mail, return receipt requested, and via first class mail, to Daniels' residential address of record in CRD [REDACTED] [REDACTED] ("CRD address") and to a forwarding address for Daniels on record with the United States Postal Service [REDACTED]

[REDACTED] ("forwarding address"). On October 19, 2007, the staff received a signed delivery receipt for its certified mailing to the forwarding address. The delivery receipt bears the signature "Lace Daniels" and is dated October 15, 2007. On October 30, 2007, the staff received a signed delivery receipt for its certified mailing to the CRD address. The delivery receipt bears the signature "Lace Daniels" and is dated October 25, 2007. Daniels, however, did not respond to the staff's letter.

11. On October 26, 2007, the staff sent its Rule 8210 request letter to Daniels again. The letter instructed Daniels to produce the requested documents and information by November 9, 2007. The letter was mailed via certified mail, return receipt requested, and via first class mail, to the CRD address and to the forwarding address. On November 2, 2007, the staff received a signed delivery receipt for its certified mailing to the forwarding address. The delivery receipt bears the signature "Lace Daniels" and is dated October 30, 2007. On November 6, 2007, the staff received a signed delivery receipt for its certified mailing to the CRD address. The delivery receipt bears the signature "Lace Daniels" and is dated November 3, 2007. Daniels, however, did not respond to the staff's letter.
12. By failing to respond to the staff's Rule 8210 request for information and documents, Respondent Daniels violated NASD Procedural Rule 8210 and Conduct Rule 2110.

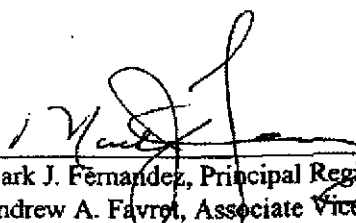
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under NASD Rule 8310(a) be imposed, including that the Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with NASD Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

DATE: April 2, 2008



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