

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

Department of Enforcement,

Complainant,

v.

Jordan P. Zaro,  
CRD No. 854313,

Respondent.

Disciplinary Proceeding  
No. 20070098511

Hearing Officer SNB

**ORDER ACCEPTING OFFER OF  
SETTLEMENT**

Date: May 12, 2010

**INTRODUCTION**

Disciplinary Proceeding No. 20070098511 was filed on March 12, 2009, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant or Department). Respondent Jordan P. Zaro submitted an Offer of Settlement (Offer) to Complainant dated May 10, 2010. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of

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findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

### **BACKGROUND**

Jordan P. Zaro entered the securities industry in 1984 as a General Securities representative of a member of FINRA. In April 1991, he purchased Riverside Securities, Inc., (Riverside) where he was registered as a General Securities Representative (Series 7), a general securities principal (Series 24) and an options principal (Series 4). At Riverside, Zaro held the positions of president, CFO and Chief Compliance Officer.

### **FINDINGS AND CONCLUSIONS**

It has been determined that the Offer be accepted and that findings be made as follows:

#### **SUMMARY**

1. Respondent Jordan P. Zaro created false account statements for customer CJF, a widow in her mid-60s, listing securities that the customer did not own. The non-existent securities were valued by Zaro on the statements at more than \$750,000. This gave the customer a false perception that her investment portfolio had risen in value under Zaro's management, and concealed from her the losses that Zaro had actually caused by churning the account.

#### **RESPONDENT AND JURISDICTION**

2. Jordan P. Zaro entered the securities industry in 1984 as a General Securities representative of a member of FINRA. In April 1991, he purchased Riverside Securities, Inc., (Riverside), where he remained registered until Riverside ceased

operations in 2009. Zaro was registered as a General Securities Representative (Series 7), a general securities principal (Series 24) and an options principal (Series 4). At Riverside, Zaro was president, CFO and Chief Compliance Officer.

### **FIRST CAUSE OF ACTION**

#### **MSRB RULE G-17 AND NASD CONDUCT RULE 2110**

##### **(Creation and Dissemination of False Account Statements to a Customer)**

3. The Department realleges and incorporates by reference paragraphs 1 and 2 above.
4. Customer CJP, a 63-year-old widow, transferred her account from another brokerage firm to Riverside in June 2004 after the death of her husband. Zaro was the registered representative assigned to CJP's account. At the time of the transfer, the account had a balance of approximately \$1.3 million, with a margin balance of \$531,000, for a net account equity value of \$841,100.
5. Riverside acted as an introducing broker, and its customers' accounts, including CJP's account, were carried by a clearing broker.
6. In or about April 2007, Zaro created a false account statement for the period ending March 2007 for CJP. The statement listed five municipal bond positions and a "tax-free money market," with a total value for the six positions of \$753,874. The statement also falsely indicated that CJP's account was carried by Riverside.
7. In reality, CJP owned none of the securities listed on the false statement.

8. According to the March 2007 statement prepared by Riverside's clearing broker, the value of CJF's holdings for the period ending March 2007 was approximately \$404,261.
9. CJF received the false account statement for the period ending March 2007 from Zaro.
10. For the period ending April 2007, Zaro created a second false account statement that listed the same securities shown on the March 2007 statement, now valued at \$751,631. Again, CJF did not own these securities.
11. The clearing broker's true statement for CJF for the period ending April 2007 showed her account valued at \$391,373.
12. CJF received the false account statement for the period ending April 2007 from Zaro.
13. For the period ending June 2007, Zaro created a third false account statement that listed the same securities shown on the previous two statements, now valued at \$751,883. Still, CJF did not own these securities.
14. The clearing broker's true statement for CJF for the period ending June 2007 showed her account valued at \$372,809.
15. CJF received the false account statement for the period ending June 2007 from Zaro.

16. Taken together, the true clearing broker statements and the false Riverside statements created the false impression that CJF's total investment portfolio was worth about \$750,000 more than it really was.
17. By creating false account statements showing positions in municipal securities and a money market account that CJF did not own, and by delivering the statements to the customer, Zaro violated MSRB Rule G-17 and NASD Conduct Rule 2110.

## **SECOND CAUSE OF ACTION**

### **NASD Conduct Rules 2120, IM 2310-2 and 2110 Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 Churning and Otherwise Unsuitable Trading**

18. The Department realleges and incorporates by reference paragraphs 1 through 17 above.
19. Between July 2004 and November 2005, Respondent Zaro exercised control over CJF's account, which he traded under oral discretionary authority. Zaro's trading was unsuitable and excessive in size and frequency in view of CJF's financial situation and needs.
20. Between July 2004 and November 2005, CJF's account value dropped from approximately \$841,100 to \$250,528 while Zaro generated approximately \$433,000 in commissions from trading in the account during that period.
21. Between July 2004 and November 2005, Zaro purchased approximately \$28,000,000 in securities for CJF's account. Additionally, between July 2004 and

November 2005 the account had an annualized turnover rate of approximately 28, an annualized cost-to-equity ratio of approximately 46 per cent, and an annualized commission-to-equity ratio of approximately 43 per cent. In other words, CJF's account would have had to achieve a return of 46 percent per annum in order to break even.

22. In addition, although Zaro believed that CJF needed a diversified portfolio with significant holdings of fixed income securities, his trading resulted in about 90 percent of the account invested in equities during the period of June 2004 through November 2005. This level of concentration was not suitable for CJF.
23. Such acts, practices and conduct constitute separate and distinct violations of Conduct Rules 2120, 2110, IM 2310-2, Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

### **THIRD CAUSE OF ACTION**

#### **Discretionary Trading without Written Authorization**

#### **NASD Conduct Rules 2510 and 2110**

24. The Department realleges and incorporates by reference paragraphs 1 through 23 above.
25. From June 2004 until June 2007, Respondent Zaro effected discretionary transactions in the account of CJF without having obtained prior written authorization from CJF and prior to written acceptance of the accounts as discretionary by the Member.
26. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2510 and 2110 by Respondent Zaro.

Based on the foregoing, Respondent violated NASD Conduct Rules 2110, 2120, IM 2310-2, 2510, MSRB Rule G-17 and Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

### **SANCTIONS**

It is ordered that Respondent be barred from association with any FINRA member in any capacity.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

**SO ORDERED.**

FINRA

Signed on behalf of the  
Director of ODA, by delegated authority

  
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