

FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Juan Carlos Parets (CRD No. 4839759),

and

Jaoshiang Luo (CRD No. 2143876),

and

Shawn Charles Haynes (CRD No. 2939522),

Respondents.

DISCIPLINARY PROCEEDING
No. 2011026346206

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between March 2009 and July 2010 (the “relevant period”), while they were registered with Westrock Advisors, Inc. (“Westrock Advisors”), Respondents Juan Carlos Parets, Jaoshiang Luo, and Shawn Charles Haynes violated their suitability obligations, made material misstatements, and omitted material facts in connection with the sale of promissory notes issued by Westrock Advisor’s parent company, Westrock Group, Inc. (“Westrock Group”).

2. Between March 2009 and December 2009, Westrock Group sold promissory notes bearing interest at the rate of 20% per annum to retail investors (the “2009 notes”). Beginning in April 2010, Westrock Group sold promissory notes bearing interest at the rate of

16% per annum to retail investors (the "2010 notes"). Respondents Luo and Haynes sold the 2009 notes, and Respondent Parets sold both the 2009 notes and the 2010 notes. Westrock Group defaulted on the payments it owed to retail investors who purchased the 2009 and 2010 notes.

3. None of the Respondents had a reasonable basis for recommending the Westrock Group promissory notes to any customer. None of the Respondents took any meaningful steps to understand Westrock Group's financial condition prior to selling the notes, such as reviewing financial statements or other financial information about Westrock Group. Moreover, each of the Respondents recommended the notes to specific customers for whom the speculative investment was unsuitable. The Respondents' failure to comply with their suitability obligations violated NASD Rule 2310.

4. In addition to failing to comply with their suitability obligations, each of the Respondents made material misstatements about the safety of the investment and omitted material facts about Westrock Group's financial condition. Parets and Luo did so knowingly or recklessly, in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, FINRA Rule 2020, and FINRA Rule 2010. Haynes did so negligently, in violation of FINRA Rule 2010.

5. Haynes and Parets also violated other rules. Haynes falsified information on a customer account form in violation of FINRA Rule 2010 and NASD Rule 3110. Parets sold Westrock Group notes to unaccredited investors even though he had been informed that it would be inappropriate to do so in contravention of Section 5 of the Securities Act of 1933, thereby violating FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

6. Juan Carlos Parets (CRD No. 4839759) was registered as a General Securities Representative with three different FINRA member firms from August 2004 to August 9, 2012. He received his bachelor's degree in finance from Fairfield University. He became registered as a Research Analyst in January 2008 and as an Investment Banking Representative in April 2010. Between August 2004 and September 2010, Parets was registered with Westrock Advisors. After leaving Westrock Advisors, Parets was registered with two other FINRA members until August 9, 2012. Although Parets is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws because (1) this Complaint was filed within two years after the effective date of termination of Parets's registration with a member firm, namely, September 7, 2012, and (2) this Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

7. Jaoshiang Luo (CRD No. 2143876), also known as Rudy Luo, has been registered as a General Securities Representative with nine different FINRA member firms since September 1991. He received his MBA in finance from Baruch College, City University of New York. Since April 2010, Luo has also been registered as an Investment Banking Representative. Between April 2002 and October 2010, he was registered with Westrock Advisors. Since leaving Westrock Advisors in October 2010, Luo has been registered as a General Securities Representative and Investment Banking Representative with two FINRA member firms.

8. Shawn Charles Haynes has been registered as a General Securities Representative with nine different FINRA member firms since October 1997. Between August 2004 and September 2010, Haynes was registered as a General Securities Representative with Westrock Advisors. Between April 2010 and September 2010, he was also registered as an Investment

Banking Representative. Since leaving Westrock Advisors in September 2010, Haynes has been registered as a General Securities Representative with another FINRA member firm.

STATEMENT OF FACTS

A. The Financial Condition of Westrock Group and its Two Broker-Dealer Subsidiaries When the Respondents Sold its Promissory Notes

9. The Respondents' employer, Westrock Advisors, was a FINRA member firm based in New York, New York. Along with fellow FINRA member Monarch Financial Corporation of America, Westrock Advisors was one of two wholly-owned subsidiaries of Westrock Group, Inc.

10. The combined operations of the two broker-dealer subsidiaries of Westrock Group lost money during the relevant period. Between the third quarter of 2008 and the second quarter of 2010, Westrock Advisors' revenues totaled approximately \$11.6 million, and its net loss was approximately \$4.2 million. During the same period, Monarch collected revenues of approximately \$20.9 million and had a net income of approximately \$2.2 million.

11. More significantly, between 2007 and 2010, Westrock Group, which was the parent company of the two broker-dealers, incurred substantial debts and other expenses that were not recorded on the books of its two broker-dealer subsidiaries. Instead, the debts and other expenses of Westrock Group were recorded separately in the parent company's accounting software.

12. By February of 2009—one month before the commencement of the sale of the 2009 notes at issue in this Complaint—Westrock Group had more than \$5 million in debt outstanding. By the beginning of April of 2010—shortly before the commencement of the sale of the 2010 notes also at issue in this Complaint—Westrock Group's outstanding debt had risen

to more than \$9.6 million. By May 19, 2010, Westrock Group was past due on 84% of its open invoices, and 34% of those invoices were more than 90 days overdue.

13. Other debts previously held by Westrock Group had been restructured; thus, in addition to the millions of dollars of debt maintained on Westrock Group's books, one of its affiliated companies held additional debt that had originally been incurred by Westrock Group.

14. Westrock Group also had a history of failing to pay its debt obligations in a timely fashion. Since at least 2007, Westrock Group had periodically missed interest payments owed to some holders of its debt. Westrock Group had also failed to make payments to holders of its preferred stock.

15. While the 2009 notes were being sold to investors, Westrock Group went into widespread default on promissory notes that it had issued in 2007 and 2008.

16. In September 2009, Westrock Group finalized a transaction to become a wholly-owned subsidiary of LBC Western Holdings, LLC, a holding company of the Lower Brule Sioux Tribe of South Dakota. The Tribe did not pay any cash to acquire Westrock Group. After the acquisition, some of Westrock Group's former owners retained substantial rights to Westrock Group's future profits, and the majority owner insisted on being bought out before allowing the transaction to proceed.

17. At the time of the acquisition of Westrock Group by LBC Western Holdings, Westrock Group needed additional funds in order to continue operating and service its existing debts, to buy out its former owner, and to fund its planned expansion into new business lines that would purportedly be profitable as a result of Westrock Group's new status as a Native-American "owned" entity.

18. In the fall of 2010, Westrock Group's subsidiaries Westrock Advisors and Monarch ceased doing business (except for liquidating transactions) after the firms were notified by FINRA of net capital deficiencies.

19. On January 18, 2011, Westrock Advisors was expelled from FINRA membership pursuant to FINRA Rule 8320 for failure to pay fines and/or costs of \$100,000 in a prior disciplinary matter.

20. On September 6, 2012, Westrock Group filed a voluntary petition for bankruptcy.

B. The Sale of Promissory Notes Issued by Westrock Group by Westrock Advisors

1. The 2009 Notes

21. Between March 2009 and December 2009, Westrock Advisors brokers sold \$3.5 million in 2009 notes issued by the Westrock Group to more than 50 retail investors. The 2009 notes generally required semi-annual interest payments at the rate of 20% per year, with the principal due 2 years after the date the note was issued.

22. Westrock Group did not prepare a private placement memorandum or financial statements for the 2009 notes, and neither Westrock Advisors nor the Respondents provided potential investors with any written disclosures about the investment or the issuer. Some potential investors who specifically requested financial statements from their brokers were provided with financial statements of the subsidiaries Westrock Advisors and Monarch, but were not provided with financial statements of the actual issuer of the note, Westrock Group. The potential investors were not informed of the substantial losses, debts, and other expenses incurred separately by Westrock Group.

23. As described below, Respondents Luo, Parets, and Haynes made material misrepresentations and omitted material facts when they sold the 2009 notes to their customers.

In addition, none of the Respondents disclosed to potential investors the facts about Westrock Group's financial condition described in paragraphs 10-15 above.

24. The Respondents' primary source for information about the Westrock Group note was Donald Hunter, the CEO and President of Westrock Group and Westrock Advisors. Hunter did not tell the brokers about the substantial debts, expenses, and losses incurred directly by Westrock Group.

25. The 2009 notes were not registered with the Securities and Exchange Commission, did not qualify for any exemption from registration, and were sold to numerous customers who were unaccredited and for whom the 2009 note was unsuitable.

2. The 2010 Notes

26. In early 2010, the fact that Westrock Group had defaulted on interest payments owed to its note investors became generally known among the employees of Westrock Advisors.

27. Beginning in late April 2010, Westrock Advisors mailed potential investors a 34 page PowerPoint presentation in order to solicit them to purchase the 2010 note, which was a new 3-year promissory note that would pay 16% interest semi-annually. No other disclosure documents were provided to potential investors of the 2010 note.

28. The April 2010 PowerPoint presentation omitted numerous material facts about the financial condition of Westrock Group necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. These omitted material facts were: (i) that Westrock Group was not merely a holding company and had itself incurred operating expenses and losses; (ii) the financial results and statements of Westrock Group; (iii) the aggregate amount of Westrock Group's debt; (iv) the existence of and amount of Westrock Group's losses; (v) an accurate statement of the extent to which Westrock Group was

in arrears on its debt and other obligations; and (vi) that the proceeds from the 2010 note offering would be used to pay Westrock Group's existing debts, rather than to expand into the new business lines described in the presentation.

29. Parets was the only one of the three Respondents who successfully sold the 2010 notes to his customers. As set forth below, Parets made material misrepresentations, and omitted material facts, when he sold the 2010 notes to his customers. In addition, Parets did not disclose to potential investors the facts described in paragraphs 10-15 above.

C. Misconduct by Broker Juan Carlos Parets

Parets's Inadequate Due Diligence and Misrepresentations and Omissions in 2009

30. In 2009, Parets sold \$240,000 in the 2009 notes to three sets of customers:

(i) several notes totaling \$150,000 to KA and AA, who are husband and wife, in March and April 2009; (ii) a \$40,000 note to JC in May 2009; and (iii) a \$50,000 note to DH in December 2009.

31. When Parets sold the 2009 notes, he knew or should have known that he had not been provided with a private placement memorandum or financial statements of the issuer of the notes, Westrock Group, and that he did not have an understanding of the financial condition of that entity.

32. Parets did not review any financial statements of Westrock Group, ask anyone for information about the company's financials, or conduct due diligence on the financial condition of Westrock Group prior to recommending the 2009 notes to KA and AA, JC, and DH in 2009.

33. Parets consciously disregarded and failed to understand the potential risks or rewards of the Westrock Group 2009 note prior to selling it to his customers, and he did not have a reasonable basis for recommending the notes to any customer.

34. When Parets recommended the Westrock Group 2009 note to his customers in 2009, he made the following false and misleading statements: (i) that Westrock Advisers was

advising all of its clients to purchase the note; (ii) that the investment was a fantastic deal; (iii) that the investment was a no-brainer; and (iv) that everyone was doing it.

35. When Parets recommended the Westrock Group 2009 note to his customers in 2009, he failed to state numerous material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. He failed to disclose Westrock Group's actual financial condition, including its losses, assets, and liabilities. He failed to disclose the fact that Westrock Group had defaulted on interest payments for prior notes and was about to further default. He failed to disclose the extent of Westrock Group's debt. Finally, he failed to disclose the fact that he had not conducted due diligence on the financial condition of Westrock Group, the issuer of the notes.

36. Parets did not disclose the facts about Westrock Group's financial condition described in paragraphs 10-15, above, to his customers who purchased the 2009 Westrock Group note.

Parets's Inadequate Due Diligence and Misrepresentations and Omissions in 2010

37. In July 2010, Parets sold a 2010 note in the amount of \$30,000 to KA and AA and a \$60,000 note to JM and EM, who are husband and wife.

38. Parets sold the Westrock Group 2010 notes even though he knew KA and AA had not received their scheduled interest payment for their investments in the 2009 notes.

39. Prior to selling the 2010 notes, the only document that Parets received to review was the thirty-four page PowerPoint presentation described in paragraphs 27-28 above. As described above, the PowerPoint presentation did not contain any financial statements for Westrock Group or disclose the extent of its outstanding debts or expenses.

40. Parets did not inquire about a disclosure in the presentation that stated that Westrock Group was unable to pay its debts in full and owed existing debt-holders approximately \$500,000 in accrued interest.

41. Parets did not request any other information about the financial condition of Westrock Group, including the amount of its outstanding debt, prior to recommending the 2010 notes to his customers.

42. Prior to selling the 2010 notes, Parets requested that the 34-page Power Point presentation be mailed to eleven potential customers, including to KA in April 2010. He did not provide his potential customers with any other written material about the financial condition of Westrock Group.

43. When Parets sold the 2010 notes, he knew or should have known that he had not been provided with financial statements of the issuer of the notes, Westrock Group, and that he did not have an understanding of the financial condition of that entity or the amount of its existing debt.

44. When he recommended the Westrock Group notes to customers in 2010, Parets made materially false and misleading statements. He stated that the money raised would be used to hire new institutional brokers. In fact, the money raised was used to pay Westrock Group's existing obligations.

45. When Parets recommended the Westrock Group 2010 note to his customers, he failed to state the following material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. He failed to disclose the actual financial condition of the Westrock Group. He failed to disclose that the presentation provided to customers inaccurately portrayed the financial condition of Westrock Group. He

failed to disclose Westrock Group's aggregate debt. Finally, he failed to disclose the fact that he had not conducted adequate due diligence on Westrock Group, the issuer of the notes.

46. Parets did not disclose the facts about Westrock Group's financial condition described in paragraphs 10-15 above, to his customers who purchased the 2010 Westrock Group note.

Parets's Unsuitable Recommendations and Sales to Unaccredited Investors

47. When Parets sold the Westrock Group notes in 2009 and 2010, he knew that he was only supposed to recommend the notes to accredited investors with aggressive risk tolerances.

48. When Parets sold the notes to KA and AA in 2009 and 2010, Parets knew or should have known that their combined income was approximately \$100,000 per year, and that they had a net worth of approximately \$600,000, as reflected on Customer Account Forms maintained at Westrock Advisors. Accordingly, Parets knew or should have known that KA and AA did not qualify as accredited investors.

49. Parets sold \$180,000 in Westrock Group notes to KA and AA for their retirement accounts even though he knew, through his communications with KA, that they possessed limited income, net worth, and sophistication, and that they were not seeking a high-risk investment. Parets did not have reasonable grounds for believing that his recommendation of the Westrock Group notes to KA and AA was suitable in light of their other security holdings, financial situation, and needs.

50. When Parets sold the \$50,000 Westrock Group note to DH, who was 68 years old, Parets knew or should have known that the note comprised a large portion of DH's retirement assets. At the time, DH's yearly income was approximately \$100,000 and his net worth was less

than \$1 million. Parets did not have reasonable grounds for believing that his recommendation of the Westrock Group note to DH was suitable in light of his other security holdings, financial situation, and needs.

D. Misconduct by Respondent Jaoshiang Luo

Luo's Inadequate Due Diligence and Misrepresentations and Omissions in 2009

51. In February 2008, Luo sold a \$30,000 Westrock Group note that paid 12% interest to GD. In October 2009, Luo sold a \$100,000 Westrock Group 2009 note to GD. In May 2009, Luo sold one \$100,000 Westrock Group 2009 note to WC, who was GD's sister.

52. When Luo sold the 2009 notes to GD and WC in 2009, he knew that he had not been provided with a private placement memorandum or financial statements for the issuer of the note, Westrock Group.

53. When Luo sold the 2009 notes to GD and WC, he knew that Westrock Group had existing debt and was not paying interest owed to at least some investors. He knew this because he had sold Westrock Group in the past and the customers to whom he had previously recommended the notes had not received interest payments.

54. In spite of this, Luo did not review any financial statements of Westrock Group, ask to see financial statements of Westrock Group, or conduct due diligence on the financial condition of Westrock Group prior to recommending the notes to GD and WC.

55. Luo consciously disregarded and failed to understand the potential risks or rewards of the Westrock Group note prior to selling it to his customers, and did not have a reasonable basis for recommending the note to any customer.

56. When Luo recommended the 2009 notes to GD and WC, he stated that the Westrock Group note was a safe investment. This statement was materially false and misleading.

57. When Luo recommended the 2009 notes to GD and WC, he failed to state numerous material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. He failed to disclose Westrock Group's actual financial condition, including its losses, assets, and liabilities. He failed to disclose the fact that Westrock Group had defaulted and was about to further default. He failed to disclose the extent of Westrock Group's debt. He failed to disclose the fact that he had not conducted due diligence on the financial condition of Westrock Group, the issuer of the notes.

58. Luo did not disclose the facts about Westrock Group's financial condition described in paragraphs 10-15 above, to GD or WC.

Luo's Unsuitable Recommendations

59. GD was a conservative investor, and informed Luo that she was seeking a safe investment that was less risky than the stock market. Luo did not have reasonable grounds for believing that his recommendation of the speculative Westrock Group note to GD was suitable in light of GD's other security holdings, financial situation, and needs.

60. Luo also recommended the 2009 note to WC, who lives in Hong Kong, through GD, who was WC's sister. Luo never communicated directly with WC prior to selling her the 2009 note. Luo knew or reasonably should have known that WC was retired and was seeking a safe investment in order to finance her son's education. WC's customer account form also indicated that her annual income was only \$10,000 per year. Luo did not have reasonable grounds for believing that his recommendation of the Westrock Group 2009 note to WC was suitable in light of WC's other security holdings, financial situation, and needs.

E. Misconduct by Broker Shawn Haynes

Haynes's Inadequate Due Diligence and Misrepresentations and Omissions in 2009

61. In July 2009, Haynes sold 2009 notes with a face value of \$25,000 to two customers, JO and BB.

62. Haynes did not conduct his own due diligence on the 2009 notes before recommending them to JO and BB. Haynes relied on Hunter's oral statement to him that the Westrock Group was making a slight profit for his understanding of the profitability of Westrock Group.

63. Other than a one or two-page handout passed out at an internal Westrock Advisors meeting, Haynes did not review any written materials related to the Westrock Group prior to recommending the 2009 note to his customers.

64. Prior to recommending the 2009 note, Haynes did not attempt to obtain any understanding of the extent of Westrock Group's debt or whether it was current on its debt payments.

65. Haynes did not understand the potential risks or rewards of the 2009 notes prior to selling it to his customers, and did not have a reasonable basis for recommending the notes to any customer.

66. When he recommended the Westrock Group 2009 notes to customers JO and BB, Haynes made the following materially false and misleading statements: (i) that the Westrock Group was doing fine; and (ii) that the notes were being offered to some of Westrock Group's better clients so that they could receive a good return.

67. When Haynes recommended the Westrock Group 2009 notes to JO and BB, he failed to state the following material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. He failed to disclose Westrock Group's actual financial condition, including its losses, assets, and liabilities. He

failed to disclose the fact that it had defaulted and was about to further default. He failed to disclose the extent of Westrock Group's debt. Finally, he failed to disclose that he had not conducted due diligence on the financial condition of Westrock Group.

68. Haynes did not disclose the facts about Westrock Group's financial condition described in paragraphs 10-15. above, to JO or BB.

Haynes's Unsuitable Recommendation and Falsification of a Customer Account Form

69. In the spring of 2009, Haynes contacted BB and told him that he had to sign an updated customer account form indicating that he possessed an "aggressive" risk tolerance and investment objective of speculation.

70. When he contacted BB, Haynes knew that BB was not an aggressive investor and did not possess an investment objective of speculation. Haynes nevertheless signed customer account forms indicating that BB was an aggressive investor with an investment objective of speculation that were maintained as records of the firm.

71. Haynes sold the 2009 note to BB even though he knew, as a result of his communications with BB, that BB possessed a moderate risk tolerance, was retired, and relied on his investments for income. Haynes also knew that BB preferred dividend-paying stocks. Haynes did not have reasonable grounds for believing that his recommendation of the Westrock Group note to BB was suitable in light of BB's other security holdings, financial situation, and needs.

**FIRST CAUSE OF ACTION
Material Misrepresentations and Omissions in Connection with the Sale of
the 2009 and 2010 Westrock Group Notes
Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5
thereunder and FINRA Rules 2020 and 2010
(Respondents Parets and Luo)**

72. Enforcement realleges and incorporates by reference paragraphs 1-71 above.

73. As described above, Parets and Luo knowingly and recklessly communicated false information, and omitted material facts, when soliciting customers to purchase the Westrock Group 2009 and 2010 notes. Those material misstatements and omissions concerned material facts for investors, including the actual financial condition of Westrock Group, Luo and Parets's own lack of understanding of the financial condition of Westrock Group, and the safety of the 2009 and 2010 note investments.

74. Respondents Parets and Luo utilized the means or instrumentalities of interstate commerce in connection with the sale of the Westrock Group notes, including telephoning from New York their customers who were present in other states.

75. Parets and Luo, in connection with the purchase or sale of securities, directly or indirectly, by the use of the means or instrumentalities of interstate commerce, or of the mails, knowingly or recklessly employed manipulative or deceptive devices, schemes or artifices to defraud; made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices, or a course of business which operated or would operate as a fraud or deceit upon any person.

76. As a result of the foregoing conduct, Parets and Luo each separately violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 thereunder, and FINRA Rule 2020. By violating Section 10(b), Rule 10b-5, and FINRA Rule 2020, Parets and Luo also violated FINRA Rule 2010.

SECOND CAUSE OF ACTION
Negligent Misrepresentations and Omissions in Connection with the Sale of
the Westrock Group Notes
FINRA Rule 2010
(Haynes and, in the alternative to the First Cause of Action,
as to Parets and Luo)

77. Enforcement realleges and incorporates by reference paragraphs 1-76 above.

78. FINRA Rule 2010 requires all FINRA associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business. As specified above in paragraphs 28, 34-36, 44-46, 56-58, and 66-68, Parets, Luo, and Haynes made material misstatements and omitted material facts in connection with the offer and sale of the Westrock Group notes to retail investors. Those misstatements and omissions concerned material facts for investors, including the actual financial condition of Westrock Group, the safety of the investment, and the Respondent’s own lack of understanding of the financial condition of Westrock Group.

79. By making material misstatements and omitting material facts in connection with the sale of the Westrock Group notes, Parets, Luo, and Haynes were negligent and violated their obligation to observe high standards of commercial honor and just and equitable principles of trade.

80. As a result of the foregoing conduct, Parets, Luo, and Haynes each separately violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
Reasonable Basis Suitability
NASD Rule 2310 and FINRA Rule 2010
(All Respondents)

81. Enforcement realleges and incorporates by reference paragraphs 1-80 above.

82. As described above, Respondents Parets, Luo, and Haynes each failed to conduct a reasonable investigation of the issuer of the 2009 and 2010 notes, Westrock Group, to determine whether the securities being offered were suitable for recommendation to any customer, and the risks or rewards of the investment. Parets, Luo, and Haynes did not have a reasonable understanding of the financial condition of Westrock Group when they sold the 2009 and/or 2010 notes to each of their customers.

83. Parets, Luo, and Haynes each recommended the Westrock Group notes to their customers.

84. As a result of the foregoing conduct, each of the Respondents separately violated NASD Rule 2310. By violating NASD Rule 2310, each of the Respondents also violated FINRA Rule 2010.

**FOURTH CAUSE OF ACTION
Customer-Specific Suitability
NASD Rule 2310 and FINRA Rule 2010
(All Respondents)**

85. Enforcement realleges and incorporates by reference paragraphs 1-84 above.

86. As described above, Respondents Parets, Luo, and Haynes did not have reasonable grounds to believe that their recommendations to customers were suitable on the basis of the facts disclosed by their customers as to the customer's other securities holdings and financial situation and needs.

87. As described above, Parets did not have reasonable grounds to believe that his recommendations to customers KA, AA, and DH were suitable.

88. As described above, Luo did not have reasonable grounds to believe that his recommendations to customers GD and her sister WC were suitable.

89. As described above, Haynes did not have reasonable grounds to believe that his recommendation to BB was suitable.

90. As a result of the foregoing conduct, each of the Respondents violated NASD Rule 2310.¹ By violating NASD Rule 2310, each of the Respondents also violated FINRA Rule 2010.

**FIFTH CAUSE OF ACTION
Unlawful Distribution of Unregistered Securities
FINRA Rule 2010
(Parets)**

91. Enforcement realleges and incorporates by reference paragraphs 1-90 above.

92. No registration statement was in effect under the Securities Act of 1933 for the 2009 notes when the sales occurred.

93. As described above, Parets sold unregistered 2009 notes to three sets of customers. The sales constituted an unregistered distribution of securities and did not qualify for an exemption from registration.

94. Parets sold the Westrock Group 2009 notes to unaccredited investors, in spite of red flags indicating that this would constitute taking part in an illegal unregistered distribution.

95. In effecting all of the sales of the 2009 notes, Parets used the means or instruments of transportation or communication in interstate commerce, including making phones calls from New York to his customers in other states.

96. Based on the foregoing, Parets effected sales of securities in contravention of Section 5 of the Securities Act of 1933. By doing so, he violated FINRA Rule 2010.

¹ Effective July 9, 2012, NASD Rule 2310 was replaced by FINRA Rule 2111. Because the conduct at issue in this Complaint predates July 9, 2012, NASD Rule 2310 applies.

SIXTH CAUSE OF ACTION
Falsification of Information on Customer Account Forms
NASD Rule 3110 and FINRA Rule 2010
(Haynes)

97. Enforcement realleges and incorporates by reference paragraphs 1-96 above.

98. FINRA Rule 2010 requires all FINRA associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business. Falsifying information on documents is a prime example of misconduct that adversely reflects on a person’s ability to comply with regulatory requirements and is inconsistent with just and equitable principles of trade.

99. NASD Rule 3110(a) also requires FINRA member firms to “make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations and statements of policy promulgated thereunder and with the Rules of this Association and as prescribed by SEC Rule 17a-3.” Securities Exchange Act Rule 17a-3(a)(17) requires broker dealers to make “[a]n account record including the customer's or owner's . . . annual income, net worth...[and the] account’s investment objectives.”

100. As described above, Haynes signed a customer account form that he knew contained false information about the customer’s investment objective and risk tolerance and caused that account form to be maintained as a record by his firm.

101. As a result of the foregoing conduct, Haynes violated NASD Rule 3110 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents Parets, Luo, and Haynes committed the violations charged and alleged herein;

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

FINRA DEPARTMENT OF ENFORCEMENT

Date: February 20, 2013



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