

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

Department of Market Regulation,

Complainant,

v.

James Gabriel Collard (CRD No. 2812378),

Joseph Michael Araiz (CRD No. 1278925),

and

Further Lane Securities, L.P. (CRD No. 38162),

Respondents.

Disciplinary Proceeding
No. 20120342425-01

COMPLAINT

The Department of Market Regulation alleges:

Summary

1. From February 2012 through June 2012, Respondent Further Lane Securities, L.P. and its registered representative, Respondent James Gabriel Collard, charged excessive markups in 55 corporate bond transactions with customers. By charging excessive markups, Further Lane and Collard violated NASD Rules 2440, IM-2440-1, IM-2440-2,¹ and FINRA Rule 2010.

2. Respondent Joseph Michael Araiz (also known as José Miguel Araiz) was Further Lane's indirect but sole owner, its chief executive officer, and its chief compliance

¹ NASD Rules 2440, IM-2440-1 and IM-2440-2 were superseded by FINRA Rule 2121 after the violations set forth in this Complaint.

officer. Araiz supervised Further Lane's traders, including Collard. Further Lane and Araiz violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish a reasonable system of supervision, including written supervisory procedures, to ensure compliance with NASD Rule 2440, IM-2440-1, and IM-2440-2, and by failing to adequately supervise the activities of Collard with regard to the markups he charged customers on their corporate bond transactions.

Respondents and Jurisdiction

Further Lane Securities, L.P.

3. Further Lane was approved as a FINRA member and as a broker-dealer with the Securities and Exchange Commission ("SEC") in November 1995.

4. On March 19, 2014, Further Lane filed a Form BDW to fully terminate its registration with FINRA. Its termination as a FINRA member became effective May 20, 2014.

5. Pursuant to Article IV, Section 6 of FINRA's By-Laws, Further Lane is subject to FINRA's jurisdiction for purposes of this proceeding because the Complaint charges the firm with securities-related misconduct committed while it was registered as a FINRA member, and this Complaint is filed within two years after the effective date of the termination of Further Lane's registration.

James Gabriel Collard

6. Collard entered the securities industry in 1997 when he became associated with a FINRA member and first became registered in 1998 as a General Securities Representative. He was associated with two FINRA member firms from 1997 to October 2011.

7. Collard joined and became registered with Further Lane in October 2011, then a FINRA member, where he was registered as a General Securities Representative and as a

Limited Representative – Investment Banking.

8. In November 2013, Collard terminated his association with Further Lane and became associated with another FINRA member firm, where he remains employed and registered as a General Securities Representative.

9. Pursuant to Article V, Section 2 of FINRA's By-Laws, Collard is subject to FINRA's jurisdiction for purposes of this proceeding because he is currently registered with a FINRA member firm, and the Complaint charges him with securities-related misconduct committed while he was registered with Further Lane.

Joseph Michael Araiz

10. Araiz first became registered in the securities industry in 1984, when he became associated with a FINRA member and registered as a General Securities Representative.

11. In February 2002, Araiz acquired Ecapitalist Financial Services, L.P. and assumed the roles of chief executive officer and general securities principal. In March 2002, he renamed the firm Further Lane Securities, L.P. Also in March 2002, Araiz became registered with Further Lane as a General Securities Principal and as a General Securities Representative. In February 2008, Araiz became Further Lane's chief compliance officer in addition to serving as its chief executive officer and general securities principal. In November 2009, Araiz registered as a Limited Representative – Investment Banking, and in December 2011, he registered as an Operations Professional.

12. Araiz owned Further Lane indirectly through Osprey Securities Corp.; Osprey was Further Lane's sole owner and general partner, and Araiz was Osprey's sole shareholder, president, and chief executive officer.

13. Araiz continued in his roles as chief executive officer, general securities principal, and chief compliance officer until he was suspended in November 2013. In a disciplinary action before the SEC in October 2013, pursuant to an Offer of Settlement that the SEC accepted, Araiz was suspended from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor or transfer agent. Araiz consented to findings that, with other entities he owned, including Further Lane Asset Management (“FLAM”), he committed several securities laws violations. These violations included acting as an adviser to an investment fund and, through an in-kind redemption, causing the fund to acquire a promissory note from an entity owned by Araiz without disclosing to investors that the fund might acquire related-party promissory notes or that it might otherwise materially deviate from its fund-of-funds investment strategy. Araiz and FLAM also caused the fund to invest in a second promissory note with an unaffiliated entity without written disclosure to the investors. The suspension was effective from November 11, 2013, through November 10, 2014.

14. On November 14, 2013, Further Lane filed a Form U5, which reported the SEC’s disciplinary action against Araiz and terminated Araiz’s registrations with the firm.

15. On March 17, 2014, the firm filed an amended Form U5, which disclosed that Araiz had received a Wells notice from the SEC stating that it was recommending enforcement action against Araiz for failing to disclose material facts to underwriters of certain corporate bonds in connection with an investment adviser’s purchase of those bonds in secondary offerings between 2009 and 2012.

16. Although Araiz 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 this Complaint was filed within two years after the

filing of an amendment to his Form U5 that disclosed that Araiz may have engaged in actionable conduct, and this Complaint charges Araiz with securities-related misconduct committed while he was registered with a FINRA member firm.

STATEMENT OF FACTS

17. Further Lane Securities was headquartered in New York, New York, with branch offices in San Francisco, California; Boerne, Texas; and East Hampton, New York. The branches were not Offices of Supervisory Jurisdiction.

18. From October 2011 through November 2013, Collard worked in Further Lane's office in Boerne, Texas, and Araiz was Collard's supervisor.

19. Collard was the registered representative for the account of ABC, a registered investment adviser owned and operated by SH, who provided services to retail customers.

20. Collard engaged in a practice of establishing bond ladders for ABC's customers. A bond ladder consists of multiple bonds with different maturity dates to protect against interest rate risk. As one bond matures, the proceeds can be reinvested in another bond at prevailing interest rates.

21. To establish a bond ladder, Collard selected a group of bonds with different maturity dates. He gave SH a proposal that identified SH's individual customer and provided details about the proposed portfolio, such as the bonds that would form the portfolio, the prices of the bonds to the customer, and graphs and charts showing the portfolio's projected performance. Collard placed limit orders with one of Further Lane's traders in New York or San Francisco to build the ladder. The trader executed the trades, reported the execution prices back to Collard, and then utilized a journal entry to move the bonds from the trader's account to

Collard's account with a markup for the trader. Collard then sold the bonds to SH's retail customer with an additional markup. As a result, Collard and Further Lane marked up each transaction for ABC's customers twice.

22. Collard determined the markups on the bond purchases; he told the traders what their markups would be for executing an order, and he set the markups that ABC's retail customers were charged.

23. From February 2012 through June 2012, Further Lane and Collard charged excessive markups in 55 transactions, 53 of which were for ABC's retail customers, and two of which were for retail customers of another investment adviser, DEF. In some instances, Collard established nearly identical ladders for multiple customers following a cookie-cutter approach, charging excessive markups on the individual transactions for the first ladder, and then charging excessive markups on the individual transactions for the duplicate ladders. The 55 transactions are set forth in Exhibit 1, which is attached hereto and incorporated by reference.

24. The total markups that Collard and Further Lane charged on each transaction ranged from 3.06 percent to 6.94 percent; the average markup was 5.07 percent; the median markup was 5.3 percent; and in 32 transactions, the markups exceeded five percent, including eight transactions that exceeded six percent.

FIRST CAUSE OF ACTION
EXCESSIVE MARKUPS
NASD Rules 2440, IM-2440-1, IM-2440-2 and FINRA Rule 2010
(Respondents Further Lane and Collard)

25. Market Regulation realleges and incorporates by reference all proceeding paragraphs.

26. In effecting the 55 corporate bond transactions identified in Exhibit 1, Further

Lane and Collard sold to customers corporate bonds at prices that were not fair, taking into consideration all relevant circumstances, including market conditions with respect to such securities at the time of the transactions, the expenses involved, that the firm was entitled to a profit, and the other relevant factors set forth in NASD IM-2440-1 and IM-2440-2.

27. By reason of the foregoing, Collard and Further Lane violated former NASD Rule 2440, IM-2440-1, and IM-2440-2, and FINRA Rule 2010.

**SECOND CAUSE OF ACTION
DEFICIENT SUPERVISION
NASD Rule 3010 and FINRA Rule 2010
(Further Lane and Araiz)**

28. Market Regulation realleges and incorporates by reference all proceeding paragraphs.

Further Lane's Supervisory System

29. At all times relevant to this Complaint, given Araiz's role as the firm's chief executive officer and chief compliance officer, it was incumbent upon him to ensure that Further Lane had a reasonable system of supervision, including written supervisory procedures, with respect to compliance with NASD Rule 2440, IM-2440-1, and IM-2440-2.

30. In addition, in his roles as Further Lane's chief executive officer, chief compliance officer, and Collard's supervisor, it was incumbent on Araiz to ensure that he and Further Lane carried out their supervisory responsibilities to achieve compliance with NASD Rule 2440, IM-2440-1, and IM-2440-2.

31. Further Lane and Araiz, however, failed to establish, maintain, and enforce a reasonably designed supervisory system, including written supervisory procedures, to supervise Further Lane's business of buying and selling corporate bonds to customers and to supervise the

activities of its registered representatives and associated persons with respect to compliance with NASD Rule 2440, IM-2440-1, and IM-2440-2.

32. Further Lane's supervisory system and procedures, including its written supervisory procedures, failed to provide reasonable steps to ensure, that when conducting supervisory reviews of fixed income transactions, its markups were not excessive. More specifically, the firm's supervisory system and procedures regarding corporate bond pricing failed to require that the responsible supervisor conduct reasonable reviews of the markups charged to customers, which included consideration of the following factors set forth in NASD IM-2440-1: (a) the type of security involved in each transaction, (b) the security's availability in the market, (c) the security's price, (d) the amount of money involved in the transaction, (e) whether the markup was disclosed, (f) the pattern of markups, and (g) the nature of the firm's business. Although the procedures stated that the company would consider these factors in determining the fairness of markups, the procedures did not document a system to reasonably ensure that, based on these factors, excessive markups were prevented or detected. Thus, they were compliance guidelines instead of supervisory procedures, as explained in NASD Notice to Members 99-45. Overall, the firm's supervisory procedures failed to provide reasonable steps to ensure the firm refrained from charging markups that were unreasonably higher than the prevailing market price for corporate bonds.

33. The firm's procedures were also not reasonably tailored to Further Lane and Collard's practices with respect to charging markups in bond transactions. Although the practice of charging two markups was confined to the Boerne, Texas, office where Collard worked, the procedures failed to address the practice of internally charging a markup between a trader and Collard and charging a second markup from Collard to the customer, and they failed to provide

for a supervisory review that was reasonably designed to calculate and detect the total markup that was charged to ABC's retail customers.

34. Further Lane's procedures stated that markups over five percent were excessive, but they failed to address transactions in which markups fell below five percent, but were still excessive.

35. In addition, Araiz and Further Lane failed to establish any exception reports or automated surveillance programs to monitor for excessive markups. Instead, Further Lane's supervisory system for excessive markups was based solely on inadequate manual reviews.

Further Lane and Araiz's Supervision

36. In his roles as Further Lane's chief executive officer and Collard's supervisor, Araiz conducted daily reviews of all transactions, including Collard's. A person in the Boerne office that had a Series 24 registration was the first line of defense when reviewing for high markups. Araiz, however, had ultimate responsibility for reviewing and supervising markups and markdowns. In addition, when any markup review was escalated, it was escalated to Araiz or his assistant. Yet, Araiz's manual review of Collard's transactions was flawed in that he failed to review and detect that the firm was effectively marking up transactions twice.

37. Although Araiz reviewed certain transactions by reviewing the firm's trade blotters, the trade blotters did not explicitly identify the total markup being charged by Further Lane; instead, one blotter showed purchases and sales for the trader's account, and another blotter showed purchases and sales for Collard's account. Though Araiz was aware of this practice, he never calculated the total markups charged to ABC's or DEF's customers.

38. For example, when Collard effected a transaction, a line on the executing trader's

blotter showed a purchase for that trader's own account (which was Further Lane's proprietary account) and another line showed a subsequent sale from the trader's account to Collard's account (which was also Further Lane's proprietary account). Collard's blotter showed a purchase in Collard's account from the trader's account and a subsequent sale to the customer.

39. In conducting his review of the firm's blotters, Araiz failed to determine and consider the total markup that Collard charged, even though he knew that each trade included one markup from the trader to Collard and a second markup from Collard to the customer. As a result, Araiz never identified or questioned any of the excessive markups identified on Exhibit 1.

40. As Further Lane's sole owner, Araiz profited from the excessive markups that Collard charged.

41. By reason of the foregoing, Further Lane and Araiz violated NASD Rule 3010 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, Market Regulation respectfully requests that the Panel:

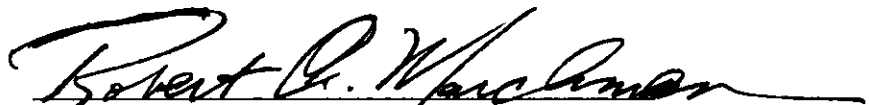
- A. Make findings of facts and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. Order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that the Respondents be required to disgorge fully any and all ill-gotten gains or make full and complete restitution, together with interest;

- C. Order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330;
- D. Grant all further relief, legal or equitable, that is warranted under the circumstances.

FINRA DEPARTMENT OF MARKET REGULATION

Date:

3/11/16



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Exhibit 1

Item No.	CUSIP ID	Issue	Qty.	Contra 1*	Trade 1 Date	Trade 1 Time	Trade 1 Price	Firm	Contra 2*	Trade 2 Date	Trade 2 Time	Trade 2 Price	Markup
1	06048WAZ3	BAC.IOI	117	B-D (S)	2/23/2012	16:14:41	92.25	FARS	C (B)	2/23/2012	16:20:00	98	6.23%
2	654902AB1	NOK.GA	20	B-D (S)	4/24/2012	11:34:09	85.343	FARS	C (B)	4/24/2012	16:05:00	90.36	5.88%
3	165167CD7	CHK.HR	20	B-D (S)	5/15/2012	15:54:43	104.25	FARS	C (B)	5/15/2012	16:28:00	110.25	6.76%
4	868536AT0	SVU.GO	20	B-D (S)	5/15/2012	15:55:31	103.75	FARS	C (B)	5/15/2012	16:28:00	109.25	5.30%
5	165167CD7	CHK.HR	20	B-D (S)	5/15/2012	11:35:13	104.75	FARS	C (B)	5/15/2012	16:41:00	110.25	5.25%
6	3704A0DZ2	GMA.HZT	25	B-D (S)	5/16/2012	16:12:38	95.25	FARS	C (B)	5/16/2012	18:42:00	100.01	5.00%
7	868536AT0	SVU.GO	20	B-D (S)	5/16/2012	15:45:08	102.625	FARS	C (B)	5/16/2012	18:51:00	108.25	5.48%
8	52736RBB7	LEVLGR	45	B-D (S)	5/17/2012	9:23:01	107	FARS	C (B)	5/17/2012	12:18:00	112.5	5.14%
9	929160AF6	VMC.GO	25	B-D (S)	5/17/2012	9:22:40	103.625	FARS	C (B)	5/17/2012	12:18:00	109.25	5.43%
10	3704A0MU3	GMA.IHD	50	B-D (S)	5/24/2012	14:42:46	95.25	FARS	C (B)	5/24/2012	18:30:00	100.48	5.49%
11	165167CD7	CHK.HR	50	B-D (S)	5/24/2012	14:35:46	103	FARS	C (B)	5/24/2012	18:30:00	108.62	5.46%
12	629377BG6	NRG.GV	50	B-D (S)	5/24/2012	14:38:12	100.75	FARS	C (B)	5/24/2012	18:44:00	106.26	5.47%
13	629377BJ0	NRG.GZ	25	B-D (S)	5/24/2012	19:05:00	98.9	FARS	C (B)	5/24/2012	19:05:00	104.32	5.48%
14	165167CD7	CHK.HR	45	B-D (S)	6/1/2012	14:28:54	105.125	FARS	C (B)	6/1/2012	17:35:00	111.25	5.83%
15	868536AT0	SVU.GO	65	B-D (S)	6/1/2012	14:51:35	99.5	FARS	C (B)	6/1/2012	18:11:00	105	5.53%
16	201723AH6	CMC.GG	65	B-D (S)	6/1/2012	15:10:26	102	FARS	C (B)	6/1/2012	18:11:00	107.88	5.76%
17	382550BB6	GT.GU	25	B-D (S)	6/1/2012	14:27:58	103.5	FARS	C (B)	6/1/2012	18:23:00	109	5.31%
18	165167CD7	CHK.HR	20	B-D (S)	6/1/2012	15:45:31	104.75	FARS	C (B)	6/1/2012	18:23:00	111.25	6.21%
19	912909AC2	X.GE	25	B-D (S)	6/25/2012	13:05:22	97	FARS	C (B)	6/25/2012	17:23:08	102.75	5.93%
20	007903AU1	AMD.AA	25	B-D (S)	6/25/2012	13:37:00	108	FARS	C (B)	6/25/2012	17:27:31	115.5	6.94%
21	382550BB6	GT.GU	25	B-D (S)	6/25/2012	13:36:44	106	FARS	C (B)	6/25/2012	17:30:36	112	5.66%
22	3704A0EG3	ALLY3704 657	25	B-D (S)	6/25/2012	15:47:56	95.154	FARS	C (B)	6/25/2012	17:34:39	100.16	5.26%
23	06048WCY4	BAC.BQ	100	B-D (S)	5/16/2012	10:29:44	94.25	FARS	C (B)	5/16/2012	16:08:00	99.125	5.17%
24	868536AT0	SVU.GO	75	B-D (S)	5/24/2012	14:36:28	100.75	FARS	C (B)	5/24/2012	18:30:00	106.2	5.47%
25	52736RBB7	LEVLGR	75	B-D (S)	5/24/2012	14:38:33	105.5	FARS	C (B)	5/24/2012	18:44:00	111.25	5.45%
26	382550BB6	GT.GU	75	B-D (S)	5/24/2012	14:31:41	104.25	FARS	C (B)	5/24/2012	19:02:00	109.94	5.45%
27	780153AJ1	RCL.GH	40	B-D (S)	5/24/2012	15:15:20	109	FARS	C (B)	5/24/2012	19:02:00	114.92	5.43%
28	629377BG6	NRG.GV	50	B-D (S)	6/1/2012	14:28:37	100.5	FARS	C (B)	6/1/2012	17:35:00	106.75	6.09%
29	52736RBB7	LEVLGR	90	B-D (S)	6/1/2012	14:28:20	104.75	FARS	C (B)	6/1/2012	17:35:00	111.5	6.19%
30	3704A0VE9	ALLY3707 105	65	B-D (S)	6/1/2012	14:39:02	94.749	FARS	C (B)	6/1/2012	18:11:00	100.96	6.55%
31	629377BG6	NRG.GV	20	B-D (S)	3/6/2012	14:51:23	102	FARS	C (B)	3/6/2012	17:13:00	106	3.92%
32	780153AJ1	RCL.GH	20	B-D (S)	4/24/2012	11:34:04	108	FARS	C (B)	4/24/2012	16:05:00	112.25	3.94%
33	201723AJ2	CMC.GH	20	B-D (S)	5/1/2012	13:31:16	105.87	FARS	C (B)	5/1/2012	16:10:00	109.25	3.19%
34	780153AJ1	RCL.GH	20	B-D (S)	5/15/2012	15:56:06	109	FARS	C (B)	5/15/2012	16:28:00	114	4.59%
35	52736RBB7	LEVLGR	20	B-D (S)	5/15/2012	15:57:10	107.875	FARS	C (B)	5/15/2012	16:28:00	112.5	4.29%

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36	382550BB6	GT.GU	20	B-D (S)	5/15/2012	15:56:45	107	FARS	C (B)	5/15/2012	16:28:00	111.5	4.21%
37	868536AT0	SVU.GO	20	B-D (S)	5/15/2012	11:36:33	104.2	FARS	C (B)	5/15/2012	16:41:00	109.25	4.85%
38	780153AJ1	RCL.GH	20	B-D (S)	5/15/2012	11:54:34	109.436	FARS	C (B)	5/15/2012	16:41:00	114	4.17%
39	52736RBB7	LEVI.GR	20	B-D (S)	5/15/2012	11:41:00	108	FARS	C (B)	5/15/2012	16:41:00	112.5	4.17%
40	382550BB6	GT.GU	20	B-D (S)	5/15/2012	12:21:35	107.313	FARS	C (B)	5/15/2012	16:41:00	111.5	3.90%
41	7491XAB3	REI.HP	25	B-D (S)	5/16/2012	15:44:06	102.375	FARS	C (B)	5/16/2012	18:30:00	106.5	4.03%
42	37247DAL0	GNW.JN	25	B-D (S)	5/16/2012	15:50:47	109.5	FARS	C (B)	5/16/2012	18:30:00	114.5	4.57%
43	201723AH6	CMC.GG	25	B-D (S)	5/16/2012	17:30:31	102.75	FARS	C (B)	5/16/2012	18:36:00	107.25	4.38%
44	451102AH0	IEP.GH	25	B-D (S)	5/16/2012	16:00:37	106.875	FARS	C (B)	5/16/2012	18:36:00	110.63	3.51%
45	780153AJ1	RCL.GH	45	B-D (S)	5/16/2012	17:31:59	109	FARS	C (B)	5/16/2012	18:36:00	114	4.59%
46	03938LAF1	MT.AE	25	B-D (S)	5/16/2012	16:21:30	103.25	FARS	C (B)	5/16/2012	18:42:00	108.06	4.66%
47	428040CD9	HTZ.AQ	25	B-D (S)	5/16/2012	16:23:08	108.75	FARS	C (B)	5/16/2012	18:42:00	112.75	3.68%
48	38141EA25	GS.HQV	25	B-D (S)	5/16/2012	16:30:50	113.65	FARS	C (B)	5/16/2012	18:42:00	119.08	4.78%
49	881609AW1	TSO.GM	25	B-D (S)	5/16/2012	17:33:01	114.5	FARS	C (B)	5/16/2012	18:42:00	118	3.06%
50	382550BB6	GT.GU	45	B-D (S)	5/16/2012	16:24:02	106.95	FARS	C (B)	5/16/2012	18:51:00	111	3.79%
51	983130AR6	WYNN.GP	25	B-D (S)	5/16/2012	16:28:10	110.25	FARS	C (B)	5/16/2012	18:51:00	114.7	4.04%
52	629377BJ0	NRG.GZ	25	B-D (S)	5/16/2012	15:48:01	100.25	FARS	C (B)	5/16/2012	18:51:00	105.75	5.49%
53	085789AE5	BRY.GD	25	B-D (S)	5/16/2012	16:29:41	105.25	FARS	C (B)	5/16/2012	18:51:00	111.63	6.06%
54	410345AG7	HBI.GF	25	B-D (S)	5/16/2012	15:49:06	103.5	FARS	C (B)	5/16/2012	18:51:00	108.25	4.59%
55	165167CD7	CHK.HR	20	B-D (S)	5/16/2012	15:46:39	102.5	FARS	C (B)	5/16/2012	18:51:00	108.25	5.61%

*Contra parties are identified as follows: B-D (S) indicates another broker-dealer selling to Further Lane Securities, L.P., and C (B) indicates a customer buying from Further Lane Securities, L.P.