

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

Department of Enforcement,

Complainant,

v.

Jorge A. Reyes (CRD No. 4256834),
Former Registered Representative,

Respondent.

Disciplinary Proceeding
No. 2016051493704

Hearing Officer:

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From approximately May 2013 through August 2016 (the “Relevant Period”), Respondent Jorge A. Reyes (1) fraudulently sold private offerings; (2) converted funds from a customer that invested in one of the offerings; (3) failed to perform adequate due diligence for private offerings he sold; (4) recommended private offerings that were not suitable for a customer who was a divorced homemaker with two dependent children; and (5) used misleading marketing materials in connection with private offerings.

2. Specifically, Reyes made fraudulent misrepresentations and omissions of material fact in connection with the sale of unregistered Regulation D securities issued by three companies affiliated with his member firm employer, CP Capital Securities Inc. (the “Firm” or “CP Securities”). Reyes represented that the investments were safe, when they were not. He also failed to disclose that the offerings by two of the companies were self-offerings primarily

intended to fund the failing Firm and its parent company. Due to Reyes's actions, 18 of the Firm's customers lost all of the money they invested in the offerings, totaling about \$4,219,000, and did not receive all of the interest that was due to them pursuant to promissory notes issued in connection with the offerings. By engaging in the foregoing conduct knowingly and recklessly, Reyes willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and violated FINRA Rules 2020 and 2010. In the alternative, Reyes acted in contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and thereby violated FINRA Rule 2010 by negligently engaging in fraudulent conduct in connection with the offerings.

3. Reyes also converted funds totaling \$170,000. Reyes falsely represented to RS, who had opened an account at the Firm in the name of his company, RMInc., that Reyes would use RS's funds to (1) set up an off-shore investment fund and (2) fund the Firm's completion of an off-shore investment banking transaction. Based on Reyes's misrepresentations and instructions, RS and RMInc. transferred money to an account controlled by Reyes. Rather than using the funds as promised, Reyes used the funds for his own personal expenses. Reyes never returned the funds to RS or RMInc. As a result, Reyes made improper use of and converted funds, in violation of FINRA Rules 2150 and 2010, and he made misrepresentations in violation of FINRA Rule 2010.

4. Reyes did not perform adequate due diligence in connection with the offerings and therefore did not have a reasonable basis to believe that the securities he recommended as part of the offerings were suitable for any customers. Accordingly, Reyes violated FINRA Rules 2111 and 2010.

5. Reyes also recommended that one Firm customer, NR, invest a total of \$1,452,000 in the three unregistered, illiquid, risky offerings. NR had opened an account at the Firm in the name of BTLLC, an entity NR used for her personal investments. NR was a divorced homemaker with two dependent children whose objective was safe, stable income and capital preservation. By making unsuitable recommendations to NR and BTLLC, Reyes violated FINRA Rules 2111 and 2010.

6. Reyes helped create and provided to customers and potential customers marketing material for the offerings that contained misrepresentations, omitted material risks, and did not form a sound basis for evaluating the investments. As a result, Reyes violated FINRA Rules 2210 and 2010 by circulating to customers and potential customers marketing material for the offerings that was not fair and balanced and was highly misleading.

RESPONDENT AND JURISDICTION

7. Reyes first became registered with FINRA as a General Securities Representative (“GSR”) in September 2000.

8. He was registered as a GSR through the Firm from August 2001 to May 2006 and then again from March 9, 2010 to January 24, 2017. During the Relevant Period, Reyes worked out of the Firm’s office in Miami, Florida.

9. In between registrations with CP Securities, Reyes was registered as a GSR through two other FINRA regulated broker-dealers for approximately one year, one from May 2006 to January 2007, the other from January to June 2007. Thereafter, he worked in a non-registered capacity until rejoining CP Securities.

10. On January 24, 2017, CP Securities filed a Uniform Termination Notice for Securities Industry Registration (Form U5) stating that Reyes was permitted to resign on January

20, 2017 “due to the constraints to supervise his foreign client base activities as an independent broker.”

11. Reyes is not currently registered with FINRA, but remains subject to FINRA’s jurisdiction for purposes of this proceeding pursuant to Article V, Section 4 of FINRA’s By-Laws because: (i) the Complaint was filed within two years after the effective date of termination of Reyes’s registration, namely January 24, 2017, and (ii) the Complaint charges him with misconduct committed while he was registered through a FINRA member firm.

FACTS

12. During the Relevant Period, Reyes served as a registered representative to a client base largely consisting of Latin American customers. Reyes is a native Venezuelan, and the majority of his customers were also Venezuelan.

13. During the Relevant Period, Reyes began to take on a more significant role at the Firm as it tried to expand its business in Latin America. Reyes held the titles of Managing Director, Emerging Markets and Senior Vice President of the Latin America Division.

Facts Common To All Three Offerings

14. During the Relevant Period, the Firm served as the exclusive placement agent for the three private placement offerings discussed further below: CP US Income Group LLC (“CP US Income” or the “First Offering”); CP Venture Capital LLC (“CP Venture I” or the “Second Offering”); and CP Venture Capital II LLC (“CP Venture II” or the “Third Offering”) (collectively, the “Three Offerings”).

15. The three issuers were all newly-created, special-purpose, limited-liability companies whose sole business was to invest the money raised through the Three Offerings.

16. The stated minimum investment for the Three Offerings was \$100,000.

17. Reyes was involved in the Firm's decision to serve as placement agent for the Three Offerings.

18. Reyes was involved in the drafting of the Private Placement Memoranda ("PPMs") and marketing materials used in connection with the Three Offerings.

19. Reyes was also part of the three-person investment committee that determined where the funds obtained through the Second and Third Offerings would be used.

20. For all Three Offerings, Reyes was aware of the intended, and actual, use of the investors' funds, or could readily have ascertained the information.

21. Reyes was the only registered representative at the Firm who sold the first two offerings. He also sold over 65% of the amount raised in the Third Offering.

22. The Three Offerings were marketed almost exclusively by Reyes to his Latin American customers. The customers to whom Reyes marketed the offerings were native Spanish speakers, whose English was limited. The customers relied on Reyes to explain the offerings to them. The customers liked and trusted Reyes.

The First Offering: CP US Income Group LLC

23. The First Offering at issue in this matter was by CP US Income.

24. CP US Income's offering period was May 15, 2013 to December 31, 2013, and was extended to May 14, 2014. The CP US Income PPM permitted total subscriptions of up to \$5,000,000.

25. CP US Income was owned 50% by GC. GC was an unregistered person but was associated with the Firm. GC was the son of the Firm's CEO, President, and majority owner, HC. GC was also a 1% owner of the Firm and of the Firm's parent company, CP Capital Group LLC ("CP Group").

26. The balance of CP US Income was owned by a third party entity, RCLLC, which managed CP US Income along with GC.

27. In February 2014, the CP Group took over GC's interest. GC continued to manage CP US Income along with RCLLC.

28. CP US Income offered investors four-year promissory notes that would pay annual interest of 12%.

29. Reyes raised \$2,225,000 from nine customers for the First Offering.

30. The following table shows the dates and the amounts of the promissory notes Reyes's customers received when they invested in CP US Income; these were all the sales made for the First Offering:

	PROMISSORY NOTE DATE	INVESTOR NAME	INVESTMENT AMOUNT
1	6/1/2013	CB MP	\$115,000
2	6/1/2013	BTLLC	\$250,000
3	7/1/2013	PT	\$180,000
4	7/1/2013	CL	\$500,000
5	8/1/2013	GF	\$225,000
6	8/1/2013	EF	\$325,000
7	8/1/2013	AF	\$225,000
8	9/1/2013	BTLLC	\$250,000
9	11/1/2013	CB MP	\$15,000
10	3/1//2014	CB MP	\$10,000
11	4/1/2014	GD	\$100,000

12	6/1/2014	CB MP	\$30,000
		TOTAL	\$2,225,000.00

31. The investments made by CB and MP in November 2013, March 2014 and June 2014 that did not meet the minimum were permitted because CB and MP had previously invested the minimum amount in June 2013.

The Second Offering: CP Venture Capital LLC

32. The Second Offering, by CP Venture I, overlapped in time with the First Offering.

33. The CP Venture I offering period was October 1, 2013 to October 31, 2015. Like the First Offering, the CP Venture I PPM permitted total subscriptions of \$5,000,000.

34. However, unlike the First Offering, CP Venture I's ownership and management did not include RCLLC. Rather, CP Venture I was owned entirely by CP Group (99%) and GC (1%). GC was the sole manager. Reyes, along with GC and HC formed the three-person investment committee for CP Venture I.

35. The promissory notes issued in connection with the Second Offering promised a return of capital in two years and annual interest of 10%.

36. Reyes raised a total of \$1,457,000 for CP Venture I from ten customers between October 15, 2013 and January 8, 2015.

37. Four customers accounted for \$1,290,000 of that raise. Two of those four customers had invested in the First Offering.

38. Reyes raised the balance of \$167,000 for CP Venture I from five other customers in June, 2014, by inducing them to sell another investment ("Real Estate") to CP Venture I. The contract Reyes had these five customers (the "Real Estate Customers") sign, stated that they would receive promissory notes from CP Venture I paying them interest of 4.5%. None of these

investors met the \$100,000 minimum, and none were promised the 10% provided to the other CP Venture I investors.

39. The following table shows the dates and the amounts of the promissory notes Reyes's customers received when they invested in CP Venture I; in the case of the Real Estate Customers, shaded in grey, the table lists the dates and amounts of their investment in CP Venture I as reflected in the contract they signed upon Reyes's recommendation:

	PROMISSORY NOTE OR SALE CONTRACT DATE	INVESTOR NAME	INVESTMENT AMOUNT
1	10/15/2013	BTLLC	\$100,000
2	1/16/2014	BTLLC	\$100,000
3	1/22/2014	BTLLC	\$150,000
4	2/6/2014	AF	\$190,000
5	4/24/2014	BTLLC	\$300,000
6	6/2014	MD	\$17,000
7	6/2014	GEC	\$50,000
8	6/2014	HS	\$50,000
9	6/2014	AP	\$25,000
10	6/2014	FLM	\$25,000
11	11/15/2014	FM	\$100,000
12	11/19/2014	BTLLC	\$150,000
13	12/1/2014	AF	\$100,000
14	1/08/2015	JC ML	\$100,000
		TOTAL	\$1,457,000

The Third Offering: CP Venture Capital II LLC

40. The Third Offering, by CP Venture II, overlapped in time with the Second Offering and had the same ownership and management structure as the Second Offering.

41. The CP Venture II offering period was March 13, 2015 to December 31, 2015. The CP Venture II PPM permitted subscriptions of up to \$5,000,000.

42. As with CP Venture I, Reyes, GC, and HC made up the three-person investment committee for CP Venture II.

43. The promissory notes issued in connection with the Third Offering promised a return of capital in five years (the longest of any offering) and interest of 8% (the lowest of any offering).

44. Reyes raised \$537,000 for the Third Offering from three customers from May 1, 2015 to September 1, 2015. Two of those customers had invested in both the First and Second Offerings.

45. An additional \$286,000 was raised for CP Venture II by another person associated with the Firm in Peru. The total raise for the Third Offering was \$823,000.

46. The following table shows the dates and the amounts of the promissory notes Reyes's customers received when they invested in CP Venture II:

	PROMISSORY NOTE DATE	INVESTOR NAME	AMOUNT
1	5/1/2015	RMInc.	\$200,000
2	7/1/2015	AF	\$135,000
3	7/1/2015	BTLLC	\$152,000
4	9/1/2015	AF	\$50,000
		TOTAL	\$537,000

FIRST CAUSE OF ACTION

Fraud

(Willful Violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and FINRA Rules 2020 and 2010)

47. The Department re-alleges and incorporates by reference paragraphs 1 through __ above.

48. Section 10(b) of the Exchange Act prohibits

any person, directly or indirectly, by the use of any means of instrumentality of interstate commerce or of the mails, or of any facility of any national security exchange . . . to use or employ in connection with the purchase or sale of any security . . . any manipulative or deceptive device of contrivance.

49. Rule 10b-5, promulgated under the Exchange Act, makes it unlawful for

any person, directly or indirectly, . . . (b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, . . . in connection with the purchase or sale of any security.

50. FINRA Rule 2020 provides that “[n]o member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

51. FINRA Rule 2010 provides that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

52. The investments Reyes sold to the customers identified above were securities.

53. Reyes offered and sold the securities to the customers identified above using the means and instrumentalities of interstate commerce, including telephone and email.

Misrepresentations and Omissions Common to the Three Offerings

54. Reyes told the following nine customers that the promissory notes sold as part of the Three Offerings were safe investments: (1) BTLLC, (2) CL, (3) GF, (4) EF, (5) AF, (6) MP

(MP and CB had a joint account), (7) GD, (8) JC (JC and ML had a joint account), and (9) RMInc.

55. Reyes's oral representations that the Three Offerings were safe investments were untrue. The Three Offerings were unregistered offerings by newly formed companies with no track-record. The promissory notes they issued were illiquid and highly speculative investments.

56. Reyes also omitted telling the customers of the risks of the investments, namely that the customers could lose their entire investment and not receive any or all of the promised interest.

57. Reyes also failed to tell the customers of the following risks: that the investment in the Three Offerings was illiquid; that the special purpose companies created for the Three Offerings had limited operating history with no revenue, had significant capital requirements and were dependent upon the proceeds of the financing; and that there was no assurance of future revenue or operating profits.

58. While the PPMs for the Three Offerings did disclose some of these risks, the customers relied on Reyes's contrary oral representations and omissions.

59. The customers were native Spanish speakers whose English was limited.

60. The customers trusted and relied on Reyes's representations that the investments were safe.

61. In support of his oral misrepresentations while marketing the Three Offerings, Reyes used misleading PowerPoint Presentations ("PowerPoints") he had created along with GC, which emphasized profits and safety, but failed to disclose the risks. The PowerPoints were provided to potential investors and to customers who purchased the Three Offerings.

62. The PowerPoints omitted any discussion of the significant risks involved with the Three Offerings, including the material risks that (1) the investments were highly speculative and illiquid, and (2) the investors must be able to absorb a complete loss of the investment.

63. Instead, the PowerPoints falsely assured investors that the notes issued to the customers were safe, describing the notes as secured and over-collateralized.

64. These representations were false and misleading because the promissory notes issued to the customers were not secured or collateralized.

65. The PowerPoints also falsely represented that, before making any investments with the funds raised from investors, the Three Offerings would utilize a “comprehensive commercial due diligence process developed with time, which is similar to that provided to private equity companies seeking to make investments.”

66. These representations were false. Neither Reyes nor the Firm nor the Offering Manager performed adequate due diligence, let alone due diligence similar to private equity companies.

67. Reyes knew the PowerPoints were false and misleading, yet he distributed them and used them in presentations to investors in order to sell the offerings.

Written Misrepresentations and Omissions Specific to the Second Offering

68. Prior to October 2013, Reyes, along with HC and GC decided to – by themselves, and without RCLLC – form CP Venture I as a new vehicle that would offer promissory notes to CP Securities customers.

69. Reyes, HC, and GC planned to use CP Venture I to raise money to fund CP Group and the Firm. The plan included funding the expansion of the Firm’s sales activities in Latin America through the creation of a new Latin American Division that Reyes would supervise.

70. However, the Second Offering PPMs did not disclose the actual purpose of the offering. Instead, the Second Offering PPM that Reyes provided to investors was virtually identical to the First Offering PPM. It promised to use investors' funds to obtain "a diverse basket of convertible debt instruments" from "small cap companies."

71. These statements were false, as Reyes well knew.

72. Contrary to the written representations in the PPM, the offering was in fact intended to be a self-offering.

73. Further, the money invested by customers of the Second Offering were not invested as described in the Second Offering PPM.

74. Reyes, along with HC and GC, decided how to invest CP Venture I funds.

75. Instead of being invested in diversified small cap companies as stated in the CP Venture I PPM, approximately \$1,060,000 of the \$1,457,000 invested in CP Venture I (over 70%) was transferred to CP Group, the Firm's holding company, in exchange for promissory notes issued by CP Group.

76. CP Venture I was primarily an undisclosed self-offering.

77. Additionally, the Second Offering PPM contained material omissions regarding the precarious financial condition of (1) CP Group, the holding company of CP Venture I, (2) CP Securities, CP Venture I's exclusive placement agent, and (3) CP Group and CP Securities, the intended recipients of the CP Venture I's investments.

78. Reyes knew, or was reckless in not knowing, that CP Group and CP Securities were in a precarious financial condition and were dependent on the money raised through the Second Offering for continuing in business.

79. Finally, the PPMs contained material omissions regarding conflicts of interest between the selling registered representative and the CP Venture investors.

80. The CP Venture I PPM did not disclose that Reyes's sister's off-shore company, BTCorp, would and did issue two promissory notes to CP Venture I, one dated October 3, 2013, the other September 1, 2014, promising to repay loans from CP Venture I totaling \$225,000 at an interest rate of 10%.

81. Nor did the CP Venture I PPM disclose that Reyes's sister, who was an attorney, would be entitled to be paid for legal services in connection with CP Venture I promissory notes.

82. Nor did the CP Venture I PPM disclose that CP Venture I would and did enter into two written agreements with Reyes's sister's off-shore company, BTCorp, whereby CP Venture I became BTCorp's exclusive placement agent in connection with raising capital for BTCorp. The Agreements are dated October 3, 2013 and August 28, 2014, during the offering period of CP Venture I.

83. Reyes sold the Second Offering to all the Second Offering customers after CP Venture I signed the foregoing agreements and promissory notes with Reyes's sister. However, he did not disclose in writing to these customers that CP Venture I had signed these agreements.

84. Nor did the CP Venture I PPM or Reyes in writing disclose that CP Venture I would loan funds to an acquaintance of Reyes, CIG, so the acquaintance could pay his inheritance taxes. Nevertheless, CP Venture I transferred \$115,500 directly to CIG in September, 2014, so that he could pay his personal inheritance taxes in Spain.

85. The written misrepresentations and omissions were made in the CP Venture I PPM given to and signed by customers BTLLC, AF, FM, JC and ML.

Oral Misrepresentations and Omissions Specific to the Second Offering

86. Reyes did not disclose the actual purpose of the Second Offering when he sold the Second Offering to three investors: (1) BT, LLC, (2) AF, (3) JC (JC and ML had a joint account).

87. Reyes did not tell the investors that their funds were intended to be used primarily to fund CP Group and the Firm, including to expand the Firm's sales activities in Latin America, including paying Reyes's own salary. Nor did he orally disclose the precarious financial condition of CP Group and the Firm.

88. Unbeknownst to Reyes's investors BT, LLC, AF, and JC, over 70% of the funds raised by CP Venture I were transferred to CP Group in return for promissory notes from CP Group to CP Venture I. CP Group then used the funds to, among other things, infuse capital into CP Securities to pay for the Firm's expansion into Latin America and other Firm expenses, like Reyes's own salary.

89. Reyes also did not orally disclose his conflicts of interest with the investors in the Second Offering.

90. Unbeknownst to Reyes's investors BT, LLC, AF, and JC, 17% (\$225,000) of the funds raised by CP Venture I was promised to Reyes's sister's off-shore company, as alleged above.

91. Reyes also failed to disclose CP Venture I's contractual relationship with his sister's company BTCorp, as described above.

92. Reyes also failed to disclose that Reyes's sister, who was an attorney, would be entitled to be paid for legal services in connection with CP Venture I promissory notes.

93. Reyes did not disclose orally to the investors that their money would be used to fund his employer, to pay his own salary, to pay for CIG's inheritance or to do business with his sister's off-shore entity.

Misrepresentations and Omissions Specific to the Real Estate Customers

94. Reyes made material misrepresentations and omissions to three of the Real Estate Customers: (1) MD, (2) AP, and (3) FM (the "Three Real Estate Customers").

95. The Three Real Estate Customers were Venezuelans who had invested in a California real estate project run by a California real estate firm (the "Real Estate Firm") in or around 2003.

96. Starting in 2013, the Three Real Estate Customers, along with the other Real Estate Customers described above, sought to sell their interests.

97. The Real Estate Firm advised CP Securities that due to the nature of the investment and the Real Estate Customers' foreign status, the proceeds of the sale of their interests would have to be distributed first to a US-based LLC and then to the investors directly.

98. However, Reyes never told the Three Real Estate Customers that their investment in the Real Estate Firm could be returned to them in this manner.

99. Instead, in June 2014, after the Real Estate Firm ceased interest payments, Reyes told the Three Real Estate Customers that CP Capital was taking over the Real Estate Firm investments and would resume interest payments.

100. In June 2014, Reyes traveled to Venezuela, where he obtained the signatures of the Real Estate Customers' (including the Three Real Estate Customers) on a purchase and sales agreement (the "Agreement").

101. The Agreement provided that the Real Estate Customers would sell their interest in the Real Estate Firm project to CP Venture I. In exchange, they would receive a two year promissory note issued by CP Venture I bearing an interest rate of 4.5%.

102. On August 22, 2014, just two months later, CP Venture I obtained \$167,000 from Real Estate for the five Real Estate customers.

103. However, CP Venture I did not repay to the customers their principal.

104. Reyes did not provide the Three Real Estate Customers with any PPM describing CP Venture I.

105. The Three Real Estate Customers did not sign a subscription agreement for CP Venture I.

106. Reyes did not tell the Three Real Estate Customers that CP Venture I was a highly risky, illiquid, unregistered investment.

107. Reyes did not tell the Three Real Estate Customers that CP Venture I's principal purpose was to fund CP Group and CP Securities.

108. Reyes did not tell the Three Real Estate Customers that CP Group and CP Securities were in a precarious financial condition and were dependent on the money raised through CP Venture I.

109. Reyes did not tell the Three Real Estate Customers that CP Venture I was issuing promissory notes to others paying 10%; more than double the rate the Real Estate Customers were promised.

110. Reyes solicited the Real Estate Customers investments in CP Venture I even though each of the customer's investments did not meet the \$100,000 minimum set forth in the Second Offering PPM.

Misrepresentations and Omissions Specific to the Third Offering

111. By early 2015, CP Group owed CP Venture I approximately \$1 million by virtue of promissory notes it issued to CP Venture I in exchange for receipt of the funds raised from CP Venture I investors. However, CP Group had no way to pay the amounts it owed as it had exhausted the cash obtained from CP Venture I and had no other significant source of revenue.

112. As a result, Reyes, HC, and GC formed CP Venture II in the hopes of raising new money from investors that would allow them to pay both the CP Venture I investors, and the new investors.

113. Despite the fact that the primary purpose of the Third Offering was to continue to fund CP Group and the Firm, including the debt to prior offering investors, Reyes did not disclose that purpose, either in writing or orally, to the three investors in CP Venture II: BTLLC, AF and RMInc.

114. The Third Offering PPM falsely stated that CP Venture II would invest in a “diverse basket of convertible debt instruments” from “public or private companies, including small cap companies.” These representations were false, since as Reyes well knew, the Third Offering was a self-offering.

115. While the CP Venture II PPM did contain a statement that loans “may” be made to affiliated entities, it did not disclose that the whole purpose of the offering was to raise money for affiliated entities CP Group and CP Securities and that those organizations were not solvent.

116. Nor did Reyes disclose to the three investors when he sold them the Third Offering that the Third Offering was intended to raise money for insolvent affiliated entities CP Group and CP Securities and that the investors’ funds would be used to pay investors in CP Venture I.

117. Reyes knew, or was reckless in not knowing, that CP Group and CP Securities were in a precarious financial condition and were entirely dependent on the money raised through the Third Offering to continue operations and to make payments on prior Offerings.

118. Two of the CP Venture II investors had previously invested in CP Venture I, and Reyes did not tell them that the fresh investment they were making would pay the interest due to them under the CP Venture I promissory notes.

119. Unbeknownst to the investors, CP Venture II transferred almost all of the money raised from investors to CP Group (\$774,000). Only \$35,000 of the \$823,000 (approximately 4%) raised for CP Venture II was invested in a non-affiliated company.

120. Reyes, along with HC and GC, determined how the CP Venture II investors' funds were used.

121. Reyes was aware that most of the investors' funds went to CP Group.

122. CP Group used the investors' money to pay: on-going expenses of the failing entity and Firm; interest on loans CP Group previously obtained from CP Venture I (and eventually earlier loans from CP Venture II); as well as distributions to the principals of CP Group and Reyes.

123. Reyes either knew, or was reckless in not knowing, how CP Group used the investors' funds.

124. The Third Offering was, accordingly, like the Second Offering, another undisclosed self-offering.

Summary

125. During the Relevant Period, Reyes made the misrepresentations and omissions described in all of the above paragraphs in connection with the purchase or sale of securities.

126. The misrepresentations and omissions described above were material.

127. Reyes acted knowingly and/or recklessly in making the misrepresentations and omissions described above.

128. As a result of the foregoing, Reyes willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION

Negligent Misrepresentations and Omissions

(Contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and Violation of FINRA Rule 2010)

(Alternative to First Cause of Action)

129. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

130. Section 17(a)(2) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, obtaining “any money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.”

131. Section 17(a)(3) of the Securities Act prohibits, in the offer or sale of any securities using interstate commerce, engaging “in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.”

132. During the Relevant Period, Reyes obtained money or property by means of untrue statements of material fact and omissions of material fact described above.

133. During the Relevant Period, Reyes engaged in transactions, practices and a course of business which operated as a fraud or deceit on the customers as described above.

134. The investments Reyes sold to the customers identified above were securities.

135. The investments Reyes sold to the customers identified above were offered and sold using the means and instrumentalities of interstate commerce, including telephone and email.

136. Reyes acted negligently in making the misrepresentations and engaging in the fraudulent practices described above.

137. As a result of the foregoing, Reyes acted in contravention of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and thereby violated FINRA Rule 2010, and independently violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
Misuse and Conversion of Funds
(Violation of FINRA Rules 2150 and 2010)

138. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

139. FINRA Rule 2150 (a) provides that “[n]o member or person associated with a member shall make improper use of a customer’s securities or funds.”

140. Beginning in April 2015 through the end of the Relevant Period, RMInc. maintained an account at CP Securities with Reyes listed as the broker of record. RMInc. invested \$200,000 in CP Venture II.

141. RS was at all relevant times the President of RMInc., signed all new account documents for RMInc., and communicated with the Firm about the account on behalf of RMInc.

142. Between January 2016 and August 2016, Reyes misused and converted \$170,000 belonging to RS and RMInc., customers of the Firm.

Incubator Fund Conversion

143. First, Reyes converted \$20,000 that RS intended to use for an incubator fund. Reyes told RS that he could help RS create an incubator fund in the British Virgin Islands that RS could use to manage money for outside investors.

144. Reyes found a British Virgin Islands lawyer willing to set up the fund for a \$10,000 fee, with half paid up front. Reyes, however, advised RS that the lawyer's fees were \$42,000, and that the lawyer would be willing to do the work for \$38,000, with a \$20,000 retainer paid up front if RS moved quickly. RS agreed to provide Reyes with the \$20,000, which Reyes was to send to the lawyer as a retainer to set up the incubator fund.

145. To pay the retainer, RS provided Reyes with two \$10,000 checks drawn on RMInc.'s checking account, dated March 10, 2016 and March 15, 2016, on which RS wrote "Incubator Fund" on the memo line. At Reyes's instruction, RS made the checks payable to HKLLC, a Florida entity owned and controlled by Reyes.

146. Before Reyes deposited RMInc.'s incubator fund checks, the HKLLC checking account was overdrawn.

147. Contrary to his representations to RS, Reyes did not send any portion of the \$20,000 to the British Virgin Islands lawyer or otherwise use the funds for RS's incubator fund.

148. Instead, Reyes used the funds as though they were his own, transferring money to his personal checking account and relatives and spending the remainder on personal expenses, including his rent, groceries, and car.

149. By the end of March 2016, Reyes had spent the entire \$20,000 provided to him from RMInc.'s checking account. RS's incubator fund was never formed and, despite RS's demands, Reyes never returned any portion of RMInc.'s \$20,000.

150. Reyes never informed CP Securities about his arrangement with RS or his receipt of RMInc.'s funds.

Promissory Note Conversion

151. Second, Reyes converted \$150,000 that RS intended to use to fund a promissory note with CP Group.

152. In early 2016, Reyes told RS that he and the Firm were close to finalizing a very lucrative investment banking deal with a Venezuelan state-owned oil company (the "Deal"). Reyes told RS that the closing of the Deal was imminent but that the Firm needed funding to pay for the expenses needed to finalize the Deal. Reyes told RS that, in exchange for short-term funding for the Deal-related expenses, CP Group would pay double any amount provided within three months of the loan.

153. Based on Reyes's representations, RS agreed to provide \$150,000 for the funding of the necessary Deal expenses in exchange for a promissory note that provided he would receive \$300,000 by June 30, 2016.

154. RS sold bonds from RMInc.'s CP Capital account on March 17, 2016 for \$120,360 in order to finance the loan to CP Group. RMInc. wired \$120,000 out of its CP Securities account on March 23, 2017.

155. Reyes created and provided RS with a promissory note dated March 28, 2016 which purported to be guaranteed by both CP Group and Reyes personally.

156. The promissory note was never signed.

157. As directed by Reyes, RS caused \$150,000 to be deposited into Reyes's HKLLC account in a series of deposits between March 29, 2016 and May 11, 2016. Specifically, RS caused RMInc. to wire \$50,000 on March 29, 2016 and another \$50,000 on March 31, 2016. Further RS caused an additional \$50,000 to be deposited in the HKLLC account from other sources as follows: \$40,000 was wired on May 10, 2016 and on May 11, 2016, \$4,000 was deposited and \$6,000 was wired.

158. Reyes never informed CP Securities about the note or his receipt of RS's funds for Deal expenses.

159. Contrary to his representations to RS, Reyes did not provide the money to CP Group or otherwise use the funds to pay for the expenses needed for CP Securities to close the Deal. Instead, as with the incubator fund money, Reyes used the funds as though they were his own, transferring money to his personal checking account and relatives, paying his personal credit card, and spending thousands of dollars on personal expenses such as tennis lessons, alimony, luxury clothes, vacations, cars, and meals.

160. By the end of July 2016, Reyes had spent the entire \$150,000 on his own personal expenses. Despite RS's demands, Reyes never returned any portion of RS's \$150,000, nor did he give RS the \$300,000 promised.

161. Accordingly, Reyes misused and converted the \$170,000 belonging to RS and RMInc.

162. As a result of the foregoing, Reyes violated FINRA Rules 2150 and 2010.

FOURTH CAUSE OF ACTION
Misuse and Conversion of Funds
(Violation of FINRA Rule 2010)
(Alternative to Third Cause of Action)

163. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

164. FINRA Rule 2010 requires that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

165. The misuse or conversion of funds is inconsistent with high standards of commercial honor and just and equitable principles of trade.

166. Misuse of funds occurs when funds are not applied in the manner directed by their owner.

167. Conversion occurs when there 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.

168. As described above in paragraphs 138 to 162, between January 2016 and August 2016, Reyes misused and converted \$170,000 entrusted to him by RS.

169. As a result of the foregoing, Reyes violated FINRA Rule 2010.

FIFTH CAUSE OF ACTION
Misrepresentation
(Violation of FINRA Rule 2010)

170. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

171. FINRA Rule 2010 requires that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

172. Making misrepresentations of fact constitutes a violation of Rule 2010.

173. As detailed above in paragraphs 138 to 169, between January 2016 and August 2016, Reyes made misrepresentations to RS and RMInc. to induce them to transfer the \$170,000 to Reyes.

174. Reyes falsely told RS that he would use \$20,000 to pay the retainer of the lawyer setting up the incubator fund and that he would use the \$150,000 to pay the expenses required for the Firm to close the Deal. Instead, Reyes intended to and did use the money as his own and for his own personal expenses.

175. As a result of the foregoing misrepresentations, Reyes violated FINRA Rule 2010.

SIXTH CAUSE OF ACTION
Sale of products unsuitable for any investor
(Violation of FINRA Rules 2111 and 2010)

176. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

177. FINRA Rule 2111(a) provides that “[a] member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer.”

178. One of the three main suitability obligations is reasonable basis suitability, which requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy and the member’s or associated person’s familiarity with the security or investment strategy. A member’s or associated person’s reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.

179. FINRA Regulatory Notice 10-22 requires that, in order to fulfill suitability responsibilities, associated persons in a Regulation D offering, such as the Three Offerings, should, at a minimum, conduct a reasonable investigation concerning:

- the issuer and its management;
- the business prospects of the issuer;
- the assets held by or to be acquired by the issuer;
- claims being made; and
- the intended use of the proceeds of the offering.

180. Prior to recommending the Three Offerings, Reyes did not perform reasonable due diligence and accordingly did not have a reasonable basis to believe that the securities were suitable for at least some investors.

181. First, securities sold through fraudulent means are not suitable for any investor. As detailed above, Reyes committed securities fraud through false statements and material omissions he made in connection with the sale of the Three Offerings.

182. Second, Reyes was aware that the Second and Third Offerings were primarily funding CP Group and the Firm. Had Reyes engaged in the reasonable due diligence required of him, he would have learned that the Second and Third Offerings were being used to fund entities that were in a precarious financial condition and were unable to repay prior investors without additional funding from new investors.

183. Reyes lacked a reasonable basis for believing that the Three Offerings were suitable for any investor in light of his failure to conduct reasonable diligence into the managers, issuers, investments, claims and intended use of the proceeds of the Three Offerings.

184. As a result of the foregoing, during the Relevant Period, Reyes violated FINRA Rules 2111 and 2010.

SEVENTH CAUSE OF ACTION
Sale of products unsuitable for specific customer
(Violation of FINRA Rules 2111 and 2010)

185. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

186. FINRA Rule 2111(a) provides:

A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.

187. Reyes did not have a reasonable basis for recommending the Three Offerings to customer NR, who used BTLLC to make her personal investments.

188. From May 29, 2013 to June 18, 2015, Reyes recommended and sold to NR a total of \$1,452,000 in investments into the Three Offerings.

189. NR was a newly divorced homemaker with two dependent children whose divorce settlement had to last her a lifetime and who needed the funds from her divorce settlement to pay for her on-going living expenses.

190. The Three Offerings did not offer her the capital preservation she required and were too illiquid an investment for her situation.

191. Additionally, Reyes over-concentrated NR in the Three Offerings. NR's declared liquid net worth was \$4,800,000. NR could not afford to put almost one third of her liquid net worth into three investments that were high-risk, illiquid, alternative investments, and were not diversified.

192. Reyes failed to satisfy his customer-specific suitability obligations by recommending the Three Offerings to NR without properly taking into consideration her financial situation and needs, including investment objectives, investment experience and knowledge, risk tolerance, liquidity needs, age, liquid net worth and annual income.

193. By reason of the foregoing, Reyes violated FINRA Rules 2111 and 2010.

EIGHTH CAUSE OF ACTION

Distributing Misleading Retail Communications

(Violation of FINRA Rules 2210(d)(1)(A), 2210(d)(1)(B), 2210(e)(1) and 2010)

194. The Department re-alleges and incorporates by reference paragraphs 1 through ___ above.

195. FINRA Rule 2210(d)(1)(A) requires in part that all member communications must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service.

196. FINRA Rule 2210(d)(1)(B) requires in part that no member may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication.

197. FINRA Rule 2210(e)(1) requires in part that communications neither state nor imply that FINRA, or any other corporate name or facility owned by FINRA, or any other regulatory organization endorses, indemnifies, or guarantees the member's business practices, selling methods, the class or type of securities offered or any specific security.

198. As discussed above, during the Relevant Period, Reyes used the PowerPoints to market the Three Offerings. He drafted the PowerPoints with GC, the unregistered manager of the offerings.

199. The PowerPoints were neither submitted to FINRA nor approved by FINRA. They nevertheless were required to conform to FINRA's advertising rules.

200. The PowerPoints were not fair and balanced, as they omitted risks associated with the offerings including that (1) the investment was highly speculative and illiquid, and (2) the investors must be able to absorb a complete loss of the investment.

201. The PowerPoints were misleading and exaggerated, as they, among other things, falsely assured investors that their investments would be secured and that the underlying investments would likewise be secured by securities that would always be worth more than the underlying investment.

202. The PowerPoints were also false as they stated that "SEC Attorneys" were part of the "Fund Structure," which was not true.

203. Finally, the PowerPoints prominently listed the regulatory organizations, FINRA, the SEC and SIPC, and their logos and seals, in a manner that falsely implied their endorsement, indemnification, or guarantee of the offerings.

204. By distributing misleading retail communications that omitted material facts and thus failed to provide a sound basis for evaluating the securities that were being offered, Reyes violated FINRA Rules 2210(d)(1)(A), 2210(d)(1)(B), 2210(e)(1) and 2010.

RELIEF REQUESTED

WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent 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 Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondent willfully violated Section 10(b) of the Exchange Act.

FINRA DEPARTMENT OF ENFORCEMENT

Date: December 11, 2018



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