

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
CLG050085

TO: Department of Market Regulation
NASD

RE: Granite Financial Group, Inc., Respondent
Broker-Dealer
CRD No. 44732

Pursuant to Rule 9216 of NASD Code of Procedure, Granite Financial Group, Inc. ("GFIN") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against GFIN alleging violations based on the same factual findings.

GFIN understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against GFIN; and
3. If accepted:
 - a. this AWC will become part of GFIN's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against GFIN;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about GFIN's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and

- d. GFIN may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects GFIN's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

GFIN also understands that its experience in the securities industry and disciplinary history may be factors which will be considered in deciding whether to accept this AWC. That experience and relevant history are as follows:

GFIN has been a member of NASD since August 27, 1998. GFIN does not have any relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

GFIN specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against GFIN;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, GFIN specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

GFIN further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

In connection with MRD200444080 / 20042000196¹, the staff of NASD's Department of Market Regulation ("staff") conducted a review of GFIN's compliance with NASD Rules applicable to Order Audit Trail System ("OATS") reporting for the period August 8, 2003 through October 31, 2003. The staff also reviewed GFIN's written supervisory procedures applicable to OATS that were in effect during the period August 8, 2003 through October 31, 2003.

In connection with MRD200448060 / 20042000286, the staff conducted a review of GFIN's compliance with NASD Rules applicable to OATS reporting for the period April 1, 2004 through June 30, 2004. The staff also reviewed GFIN's written supervisory procedures applicable to OATS that were in effect during the period April 1, 2004 through June 30, 2004.

- A. GFIN hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

MRD200444080 / 20042000196

1. During the period August 8, 2003 through October 31, 2003, GFIN failed to submit required information to OATS on 25 business days.
2. The conduct described in paragraph one above constitutes separate and distinct violations of NASD Marketplace Rule 6955(a) and a violation of Conduct Rule 2110.
3. During the period August 8, 2003 through October 31, 2003, GFIN failed to enforce its written supervisory procedures which specified that the designated compliance officer would perform a daily review of the OATS web site to ensure compliance with all relevant information referenced in the firm's procedures and periodic reviews of accepted OATS data for proper coding and reporting of transactional events. The procedures stated that all relevant customer account information and documentation would be initialed and dated as evidence of a review, which was not done.
4. The conduct described in paragraph three constitutes a violation of NASD Conduct Rules 2110 and 3010.

¹ On January 3, 2005 the NASD implemented a new matter tracking system. The new number assigned to this matter is referenced above following the original number assigned by the previous tracking system.

MRD200448060 / 20042000286

5. During the period April 1, 2004 through June 30, 2004, GFIN transmitted to OATS 6,696 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports failed to match to an ACT trade report. These inaccurate and/or incomplete reports represented 8 percent of all reports transmitted by the firm during the review period.
6. The conduct described in paragraph five above constitutes separate and distinct violations of NASD Marketplace Rule 6955(a) and a violation of Conduct Rule 2110.
- B. GFIN also consents to the imposition, at a maximum, of the following sanctions:

A censure and a fine of \$25,000 (composed of a \$20,000 fine for the OATS violations (\$10,000 for the OATS violations in MRD200444080 / 20042000196 and \$10,000 for the OATS violations in MRD200448060 / 20042000286), and a \$5,000 fine for the supervision violation).

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. GFIN understands that it may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. GFIN understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.
- B. GFIN agrees to pay any monetary sanctions imposed on GFIN upon notice that this AWC has been accepted and that such payments are due and payable, and has attached the Election of Payment form showing the method by which GFIN proposes to pay any fine imposed.
- C. GFIN specifically and voluntarily waives any right to claim that GFIN is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Granite Financial Group, Inc. certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce GFIN to submit it.

Granite Financial Group, Inc.

5/16/05
Date

By: [Signature]
Name: Donald J. Schuch
Title: President

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

7/6/05
Date

Thomas R. Gira
Thomas R. Gira,
Executive Vice President and Deputy
Department of Market Regulation

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