

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 61502 / February 4, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13777

In the Matter of

Granite Financial Group, LLC,

Respondent.

ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 15(b) OF THE
SECURITIES EXCHANGE ACT OF 1934
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Granite Financial Group, LLC (“Granite” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, and the findings contained in Section III.2 below, which are admitted, Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

1. Granite, a Delaware limited liability company located in San Diego, California, is a registered broker-dealer. From 2003 to 2005, Granite provided securities brokerage services to several investment advisers to hedge funds, including JLF Asset Management, LLC ("JLF").

2. On January 19, 2010, a final judgment was entered by consent against Granite, permanently enjoining it from future violations of Section 17(a)(2) and (3) of the Securities Act of 1933, in the civil action entitled Securities and Exchange Commission v. Travis, et al., Civil Action Number 09-CV-2288 (PKC), in the United States District Court for the Southern District of New York.

3. The Commission's complaint alleged that, Granite paid for the personal expenses of two JLF employees in exchange for the JLF employees directing a significant amount of the JLF Funds' securities trades through Granite. The personal expenses included rent for a JLF employee's residence and car service. Granite received commissions for executing the JLF Funds' trades. The JLF employees concealed the scheme, and the material conflicts of interest that it created, from the investment adviser's hedge fund clients, which operated as a fraud and deceit on investors.

Undertakings

Respondent has undertaken to:

4. Respondent Granite shall retain, within 30 days of the date of this Order, the services of an Independent Compliance Consultant not unacceptable to the staff of the Commission. The Independent Compliance Consultant's compensation and expenses shall be borne exclusively by Granite and Granite shall require the Independent Compliance Consultant to conduct a comprehensive review of Granite's supervisory, compliance, and other policies and procedures designed to detect and prevent breaches of the firm's policies and the federal securities laws with respect to the provision of gifts, travel, and entertainment by Granite and its employees. This review shall include, but shall not be limited to, a review of Granite's travel and entertainment of, and gifts to, customers and prospective customers; the provision of training for employees regarding travel and entertainment of, and provision of gifts to, customers; and supervisory review and approval of travel and entertainment expenses submitted by Granite's employees. Granite shall cooperate fully with the Independent Compliance Consultant and shall provide the Independent Compliance Consultant with access to its files, books, records, and personnel as reasonably requested for the review.

- a. Granite shall require that, at the conclusion of the review, which in no event shall be more than 120 days after the date of entry of this Order, the Independent Compliance Consultant shall submit a

Report to Granite and to the staff of the Commission. Granite shall require the Independent Compliance Consultant to address in the Report the issues described in the above paragraph of these undertakings, and to include a description of the review performed, the conclusions reached, the Independent Compliance Consultant's recommendations for changes in or improvements to Granite's policies and procedures, and a procedure for implementing the recommended changes in or improvements to Granite's policies and procedures.

- b. Granite shall adopt all recommendations contained in the Report of the Independent Compliance Consultant; provided, however, that within 150 days from the date of the entry of this Order, Granite shall in writing advise the Independent Compliance Consultant and the staff of the Commission of any recommendations that it considers to be unnecessary or inappropriate. With respect to any recommendation that Granite considers unnecessary or inappropriate, Granite need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose.
- c. As to any recommendation with respect to Granite's policies and procedures on which Granite and the Independent Compliance Consultant do not agree, such parties shall attempt in good faith to reach an agreement within 180 days of the date of the entry of this Order. In the event Granite and the Independent Compliance Consultant are unable to agree on an alternative proposal acceptable to the staff of the Commission, Granite will abide by the determinations of the Independent Compliance Consultant.
- d. Granite (i) shall not have the authority to terminate the Independent Compliance Consultant, without prior written approval of the staff of the Commission; (ii) shall compensate the Independent Compliance Consultant, and persons engaged to assist the Independent Compliance Consultant, for services rendered pursuant to this Order at their reasonable and customary rates; and (iii) shall not be in and shall not have an attorney-client relationship with the Independent Compliance Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Compliance Consultant from transmitting any information, reports, or documents to the staff of the Commission.
- e. Granite shall require the Independent Compliance Consultant to enter into an agreement that provides that for the period of

engagement and for a period of two years from completion of the engagement, the Independent Compliance Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Granite, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Compliance Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Compliance Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's New York Regional Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Granite, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

- f. No later than twelve months after the date of entry of this Order, the chief executive officer of Granite shall certify to the Commission in writing that Granite has fully adopted and complied in all material respects with the undertakings set forth in section III herein and with the recommendations of the Independent Compliance Consultant or, in the event of material non-adoption or non-compliance, shall describe such material non-adoption and non-compliance.
- g. Granite shall preserve for a period not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of Granite' compliance with the undertakings set forth in section III herein.
- h. For good cause shown, the Commission's staff may extend any of the procedural dates set forth above.
- i. Other Obligations and Requirements. Nothing in this Order shall relieve Granite of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Granite's Offer.

Accordingly, it is hereby ORDERED:

Pursuant to Section 15(b)(4) of the Exchange Act, that Respondent Granite be, and hereby is censured.

Respondent shall comply with the undertakings enumerated in Section III above.

By the Commission.

Elizabeth M. Murphy
Secretary