

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 75819 / September 2, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16777

In the Matter of:

Janet L. Waters

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 Janet L. Waters (“Janet Waters” 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 her and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting 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 the foregoing, the Commission finds¹ that:

Summary

1. These proceedings arise out of Janet Waters' failure reasonably to supervise Arnett L. Waters with a view to preventing and detecting his violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act of 1933 ("Securities Act"). From at least 2009 through 2012, while Arnett Waters was a registered representative associated with A.L. Waters Capital, LLC ("Waters Capital"), he operated a fraudulent scheme through which he raised at least \$839,000 from multiple investors by promising to use investor funds to purchase a portfolio of securities, and instead misappropriating the money and spending it on personal and business expenses. Throughout this period, Janet Waters was designated as the person to supervise her husband at Waters Capital.

Respondent

2. **Janet Lee Waters**, age 55, lives in Norwood, Massachusetts. She was Arnett Waters' designated supervisor, the chief compliance officer of A.L. Waters Capital, LLC, and a registered representative with the firm from April 2005 through March 9, 2012, when FINRA permanently barred her from association with any FINRA member for failing to provide documents, information, and testimony requested in FINRA's investigation. Janet Waters held Series 7, Series 24, and Series 63 licenses.

Other Relevant Entities

3. **A.L. Waters Capital, LLC**, was a Massachusetts limited liability company formed in 2005 and based in Braintree, Massachusetts. It has been registered with the Commission as a broker-dealer since 2005. On May 1, 2012, the Commission filed a civil enforcement action against Waters Capital and others based on the fraudulent conduct of Arnett Waters. On December 4, 2013, a final judgment was entered by consent against Waters Capital, permanently enjoining it from future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, in the civil action entitled Securities and Exchange Commission v. A.L. Waters Capital, LLC, et al., Civil Action Number 12-CV-10783, in the United States District Court for the District of Massachusetts. On December 11, 2013, the Commission announced the issuance of an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions against A.L. Waters Capital, LLC and simultaneously accepted Waters Capital's offer of settlement. The Order barred Waters Capital from association with any

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, and from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

4. **Arnett Lanse Waters**, age 63, was a resident of Milton, Massachusetts. At all relevant times, he was the president and chief executive officer of Waters Capital. Arnett Waters was a registered representative with Waters Capital from April 2005 through March 9, 2012, when he was permanently barred from association with any FINRA member for failing to provide testimony requested in FINRA's investigation. During that period, Arnett L. Waters was the husband of Janet Waters.

Civil and Criminal Actions against Arnett Waters

5. In 1993, Arnett Waters was censured and barred for two years by the New York Stock Exchange for forging a document to secure a bank loan and refusing to comply with the Exchange's requests for information and testimony.

6. On May 1, 2012, the Commission filed a civil injunctive action against Arnett Waters and others alleging that Arnett Waters and the other defendants violated the antifraud provisions of the federal securities laws by obtaining money from various investors through false representations that Arnett Waters would invest such monies on behalf of those investors, when in fact he was selling these investors units in sham investment partnerships and spent most of the investors' funds on personal and business expenses.

7. On November 29, 2012, Arnett Waters pleaded guilty to sixteen counts of securities fraud, mail fraud, money laundering, and obstruction of justice arising out of among other things the conduct that is the subject of the Commission's May 1, 2012 civil action. The criminal information to which Arnett Waters pleaded guilty further alleged that he engaged in money laundering through two transactions totaling \$77,000. Finally, Arnett Waters pleaded guilty to obstruction of justice in connection with multiple misrepresentations to Commission staff, including that there were no investors in his investment-related partnerships, in order to conceal the fact that investor money was misappropriated in a fraudulent scheme. As a result of his guilty plea to this criminal conduct, Arnett Waters was sentenced on April 26, 2013 to 17 years in federal prison and three years of supervised release, and was ordered to pay \$9,025,691 in restitution and forfeiture.

8. On December 3, 2012, Arnett Waters was barred by the Commission pursuant to Section 15(b) of the Exchange Act and Section 203(f) of the Investment Advisers Act of 1940 ("Advisers Act"), based on his criminal conviction for criminal contempt of the asset freeze order entered in the Commission's May 2012 civil action against him, Waters Capital, and a second entity operated by Arnett Waters.

9. On December 4, 2013, the U.S. District Court for the District of Massachusetts entered a final judgment by consent against Arnett Waters in the civil action filed by the Commission in May 2012. Arnett Waters was enjoined from violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act, and Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

Arnett Waters' Misconduct

10. From at least 2009 through at least April 2012 (“the Relevant Period”), Arnett Waters engaged in a scheme to misappropriate at least \$839,000 from at least 9 customers of Waters Capital by falsely representing that he would invest their funds in securities through Waters Capital. Arnett Waters and Waters Capital purported to create various private investment “funds” and offered them to potential investors, creating marketing materials and agreements related to these purported funds and distributing them to investors. All of these materials indicated that these purported funds would invest in portfolios of securities and other investment products. Arnett Waters and Waters Capital accepted investors’ money under the pretense that their money would be invested in the portfolios described in the fund documents. Instead, investors’ money was spent on the Waters’ personal expenses. No money was invested in the manner Arnett Waters had promised. Arnett Waters and Waters Capital made multiple misrepresentations to investors, and to FINRA and Commission staff, to conceal the fact that investor money had been misappropriated in a fraudulent scheme.

Janet Waters' Failure to Supervise

11. In the Waters Capital Supervisory Procedures Manual, Janet Waters was named as the “Supervisor Designated to Conduct Day-To-Day Oversight of Producing Manager’s Activity” for Arnett Waters. In this role, Janet Waters was required to “review and supervise the day-to-day customer transactions” of Arnett Waters, which included following supervisory procedures requiring transaction and correspondence reviews. She failed to perform these – or any other – supervisory duties with respect to Arnett Waters during the Relevant Period.

12. Janet Waters knew that firm customers had invested in certain investment partnerships that were offered by Waters Capital and recommended to customers by Arnett Waters and that Waters Capital handled any investments made by the partnerships. If, as Arnett Waters’ supervisor, she had reviewed Arnett Waters’ correspondence and the firm’s transaction reports, she could have detected that the partnerships did not make any investments at all during the Relevant Period, despite what customers were being told. If Janet Waters had followed firm procedures and followed up on these red flags based on a review of the correspondence and transaction reports, she would have prevented and detected Arnett Waters’ fraud.

Conclusions

13. Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act, authorizes the Commission to sanction a person who is associated, or at the time of the alleged misconduct was associated, with a broker or dealer for failing reasonably to supervise, with a view to preventing violations of the federal securities laws, another person who commits such a violation if that person is subject to the person's supervision. While serving as a registered representative of broker-dealer Waters Capital, Janet Waters was responsible for supervising Arnett Waters.

14. Based on the conduct described above, Arnett Waters violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act. Janet Waters failed reasonably to follow the firm's supervisory procedures with respect to correspondence and transaction reviews, which would have revealed red flags of Arnett Waters' fraud. By failing reasonably to follow the firm's procedures that would have led to detecting Arnett Waters' fraud, Janet Waters failed reasonably to supervise Arnett Waters within the meaning of Section 15(b)(4)(E) of the Exchange Act.

Civil Penalties

15. Respondent has submitted a sworn Statement of Financial Condition dated June 17, 2014, and other evidence and has asserted her inability to pay a civil penalty.

IV.

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

Accordingly, it is hereby ORDERED that:

A. Respondent Janet Waters be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and,

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

B. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

C. Based upon Respondent's sworn representations in her Statement of Financial Condition dated June 17, 2014, and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent.

D. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Brent J. Fields
Secretary