

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**  
**Release No. 9543 / February 4, 2014**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 71471 / February 4, 2014**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 30903 / February 4, 2014**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15736**

**In the Matter of**

**RYAN C. KING,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTION 8A OF THE  
SECURITIES ACT OF 1933, SECTIONS  
15(b) AND 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, AND SECTION  
9(b) OF THE INVESTMENT COMPANY  
ACT OF 1940, MAKING FINDINGS, AND  
IMPOSING REMEDIAL SANCTIONS AND  
A CEASE-AND-DESIST ORDER AND  
NOTICE OF HEARING**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against respondent Ryan C. King (“King”).

**II.**

In anticipation of the institution of these proceedings, King has submitted an Offer of Settlement (“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 him and the subject matter of these proceedings, which are admitted, King consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the

Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### **III.**

On the basis of this Order and King’s Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

1. Between May and November 2011, King, at the time a trader at Firm B, agreed with a trader named Thomas Gonnella, who worked at Firm A, to defraud Firm A by temporarily placing ten securities from Gonnella’s trading book at Firm A in King’s trading book at Firm B. The purpose of this arrangement was to allow Gonnella to avoid charges to his trading profits, and ultimately his year-end bonus, that would result from holding the securities for too long. Instead of incurring those charges or selling the securities in bona fide market transactions, and in violation of Firm A’s policies, Gonnella placed the securities with King, who purchased them on behalf of Firm B, with the understanding that Gonnella would repurchase them thereafter and that Firm B would not be exposed to market risk because Gonnella’s would repurchase them at a profit to Firm B at the expense of Gonnella’s employer, Firm A.

2. Gonnella placed ten securities with King. With respect to nine securities, Gonnella, on behalf of Firm A, repurchased them before the securities had even settled in Firm B’s account. With respect to the tenth security, Gonnella did not immediately repurchase it. He later did so at a loss to Firm B, but made Firm B whole by selling it two other bonds from Gonnella’s trading book at Firm A at prices favorable to Firm B and unfavorable to Firm A. King then used the resulting profit on the two bonds to offset the loss incurred on the tenth security.

3. In total, Gonnella and King’s trades caused Firm A to lose approximately \$174,000. Gonnella and King never told their firms the truth about their trades, which was that they were not bona fide market transactions but were done solely to reset the holding period on securities in Gonnella’s trading book and allowed Firm B to earn improper profits at Firm A’s expense.

4. After Gonnella’s supervisor began inquiring about the trades, Gonnella and King interposed interdealer brokers in subsequent transactions and spoke on their cell phones to evade detection. They continued to conduct round-trip trades until Firm A detected Gonnella’s conduct and summarily fired him. Firm B later fired King for the same misconduct.

#### **Respondent**

5. King, age 35, was a registered representative with Firm B from February 2009 through December 2011. Firm B was then, and is today, a broker-dealer registered with the Commission. King held Series 7 and 63 licenses. He resides in New York, NY.

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<sup>1</sup> The findings herein are made pursuant to King’s Offer and are not binding on any other person or entity in this or any other proceeding.

### **Other Relevant Person**

6. Gonnella, age 29, was a registered representative with Firm A from September 2008 through December 2011. Firm A was then, and is, a broker-dealer and investment adviser dually registered with the Commission. Since February 2012, Gonnella has been a registered representative with another registered broker-dealer. Gonnella holds Series 7 and 63 licenses. He resides in New York, NY.

### **Prearranged Transactions in May 2011**

7. On May 31, 2011, Gonnella offered to sell King several asset-backed bonds issued by Bayview Commercial Asset Trust (“BAYC”). Gonnella wrote, “i have 4 small bonds that i’m looking to turnover today for good ol’ month end/aging purposes . . . i like these bonds . . . and would more than likely have a higher bid for these later this wk when the calendar turns . . . .”

8. Gonnella’s reference to “aging purposes” was to Firm A’s aged inventory policy, which encouraged the firm’s traders to turn over their trading positions by penalizing them if they held those positions for too long. Gonnella’s offer to King was prompted by his desire to evade the penalties under the policy: a charge to Gonnella’s trading profits at Firm A and the resulting negative impact on his year-end bonus.

9. Shortly after being contacted by Gonnella, King agreed to buy on behalf of Firm B two of the BAYC bonds Gonnella had offered at prices of \$56 and \$54 per bond, with settlement scheduled for June 3, 2011.

10. The next day, June 1, 2011, before the BAYC bonds had settled in Firm B’s account, Gonnella repurchased them from King at prices of \$57 and \$55 per bond, thereby providing an immediate profit of approximately \$23,000 to Firm B at the expense of Firm A and resetting the clock on the holding period for these bonds in Gonnella’s book. Had these prearranged transactions not occurred, Firm A would have continued to own the two BAYC bonds, just as it had before the transactions, only without paying Firm B approximately \$23,000. There was no negotiation over the repurchase prices.

### **Prearranged Transactions in August 2011**

11. On August 29, 2011, Gonnella again contacted King: “let’s talk tmrw. Have some aged bonds that I might offer you, if you’re game . . . maybe do what we did a few months ago w/ some of those bayc’s . . . .”

12. The next day, August 30, 2011, King wrote: “so I can help you with some aged items today?” Gonnella then offered three BAYC bonds to King at prices of \$72, \$73, and \$40 per bond. In response, King asked, “when would you be looking to purchase something similar? end of the week?” Gonnella replied, “yes. Most likely.”

13. King then agreed to buy on Firm B’s behalf the three BAYC bonds that Gonnella had offered at the prices Gonnella proposed, with settlement scheduled for September 2, 2011.

14. The next day, August 31, 2011, before the BAYC bonds had even settled in Firm B's account, Gonnella repurchased two of the three bonds at prices of \$73.75 and \$40.75 per bond, thereby providing an immediate profit of approximately \$49,000 to Firm B at the expense of Firm A. As for the third bond — a BAYC 07-4A A1 bond — on September 7, 2011, Gonnella repurchased \$12 million of the \$19.65 million he had sold to King at a price of \$72.125 per bond, thereby providing an immediate profit of approximately \$14,000 to Firm B at the expense of Firm A. Had these prearranged transactions on August 31 and September 7 not occurred, Firm A would have continued to own these BAYC bonds, just as it had before the transactions, only without paying Firm B approximately \$14,000. As in May 2011, there was no negotiation over the repurchase prices.

15. Also on August 31, 2011, Gonnella sold King five additional bonds on which he faced aged inventory charges. Two days later, on September 2, Gonnella repurchased these five bonds, each at a slight markup, and again before Firm B had taken delivery of them. As a result of these trades, Firm B earned a profit on each of the bonds, for a total profit of approximately \$84,000, at Firm A's expense. Had these prearranged transactions not occurred, Firm A would have continued to own the five bonds, just as it had before the transactions, only without paying \$84,000 to Firm B.

#### **Prearranged Transactions in October 2011**

16. As noted, on September 7, 2011, Gonnella repurchased \$12 million of the BAYC 07-4A A1 bond he had sold to King on August 30, which left King still holding \$7.65 million of the bond.

17. On multiple occasions in September 2011, King urged Gonnella to repurchase the remaining portion of the BAYC 07-4A A1 bond, and Gonnella assured him that he would do so. On September 22, 2011, Gonnella wrote, "have patience, if you can. Still like them, and eventually want them . . . but not in September." Gonnella assured King that he would buy the remainder of the bond in October.

18. During the time that King held the BAYC 07-4A A1 bond, Gonnella and King were aware that its market value was declining. Although King was supposed to mark the positions in his trading book to fair value each day, he delayed marking down the BAYC 07-4A A1 bond.

19. On October 11, 2011, King and Gonnella agreed to do additional trades that would result in a profit to King's book at Firm B so that King could use that profit to offset the mark-to-market loss on the BAYC 07-4A A1 bond. Gonnella offered to sell King two bonds known as PALS and LBSBC on which Gonnella was set to incur aged inventory charges at the end of October. Gonnella wrote to King, "when you sell these later this month, mark down the [BAYC 07-4A A1 bond] accordingly . . ." King agreed to buy the PALS and LBSBC bonds on Firm B's behalf.

20. The next day, October 12, Gonnella wrote to King that he was interested in buying back all three of the bonds in question — the PALS and LBSBC bonds, as well as the remaining portion of the BAYC 07-4A A1 bond — in the last week of October, in what Gonnella called a "package bid."

21. On October 26, 2011, consistent with the earlier arrangement between them, Gonnella repurchased the LBSBC bond from King at a markup of more than 18% over its sale price two weeks earlier. This repurchase resulted in a profit of approximately \$215,000 to Firm B. Had the prearranged transactions in the LBSBC bond not occurred, Firm A would have continued to own that bond, just as it had before the transactions, only without paying \$215,000 to Firm B and without missing out on an interest payment of \$1,500 between October 11 and 26.

22. After Gonnella's supervisor noticed the repurchase of the bond at a mark-up from Firm B, he confronted Gonnella about it. Gonnella and King spoke by cell phone multiple times on October 26 and 27 about their trading plans in order to avoid having their conversations overheard or recorded by their firms.

23. On October 27, 2011, Gonnella repurchased the PALS bond at a markup of almost 9% above the sale price at which he had sold it to King two weeks before. However, whereas prior prearranged trades between Gonnella and King had been conducted without intermediaries, Gonnella's repurchase of the PALS bond was routed through an interdealer broker. The repurchase of the PALS bond resulted in a profit of approximately \$227,000 to Firm B and approximately \$5,600 to the interdealer broker. Had the prearranged transactions in the PALS bond not occurred, Firm A would have continued to own the bond, just as it had before the transactions, only without paying approximately \$227,000 to Firm B and approximately \$5,600 to an interdealer broker.

24. In keeping with the plan discussed earlier with Gonnella, King marked down to fair value the remaining \$7.65 million of the BAYC 07-4A A1 bond. Then, on November 3, 2011, he sold it back to Gonnella at a price of \$64.53 per bond, which resulted in a loss to Firm B of approximately \$444,000. Like the repurchase of the PALS bond, Gonnella and King routed the repurchase of the remaining portion of the BAYC 07-4A A1 bond through an interdealer broker. Although Firm B incurred a loss on the trade, this loss was recouped through the "package bid" in which Gonnella repurchased the LBSBC and PALS bonds at a markup and also through periodic principal and interest payments that Firm B had received while holding the remainder of the BAYC 07-4A A1 bond and the LBSBC bond. Had these transactions not occurred, Firm A would have continued to own the remainder of the BAYC bond, just as it had before, only without paying approximately \$1,900 to an interdealer broker and without missing out on periodic principal and interest payments.

25. In each of his round-trip transactions with Gonnella, King recorded the first leg as a straightforward "purchase" in his firm's books and records, without any reference to his understandings with Gonnella that the latter would thereafter repurchase the bond and that Firm B therefore was not exposed to the true risk of owning such bonds.

26. As a result of the trades described above, Gonnella and King both were terminated in late 2011.

### **Violations**

27. As a result of the conduct described above, King willfully aided and abetted and caused violations by Gonnella of Sections 17(a)(1) and 17(a)(3) of the Securities Act, Section

10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer or sale of securities or in connection with the purchase or sale of securities.

28. Additionally, King willfully aided and abetted and caused Firm B's violations of Section 17(a) of the Exchange Act and Rule 17a-3(a)(2) thereunder, which require that each registered broker-dealer make and keep current ledgers (or other records) reflecting all assets and liabilities, income, and expense and capital accounts relating to the broker-dealer's business. As a result of the conduct described above, Firm B's ledgers did not accurately reflect the understandings reached between King and Gonnella as to their prearranged trades.

#### IV.

Pursuant to this Order, Respondent agrees to additional proceedings in this proceeding to determine what, if any, civil penalties pursuant to Section 8A(g) of the Securities Act, Section 21B(a) of the Exchange Act, and Section 9(d) of the Investment Company Act against Respondent are in the public interest. In connection with such additional proceedings: (a) Respondent agrees that he will be precluded from arguing that he did not violate the federal securities laws as described in this Order; (b) Respondent agrees that he may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the findings of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

#### V.

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

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. King cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Sections 10(b) and 17(a) of the Exchange Act, and Rules 10b-5 and 17a-3 thereunder.

B. King 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;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; 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;

with the right to apply for reentry after three (3) years to the appropriate self-regulatory organization or, if there is none, to the Commission.

C. Any reapplication for association by King 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 King, 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.

D. Respondent shall, within 14 days of the entry of this Order, pay disgorgement of \$22,606.80 and prejudgment interest of \$1,503.66 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment must be made in one of the following ways:

(1) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

(2) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Ryan King as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Joseph Boryshansky, Senior Trial Counsel, Securities and Exchange Commission, Brookfield Place, 200 Vesey Street, Suite 400, New York, New York 10281.

IT IS FURTHER ORDERED, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), in the interest of justice and without prejudice to any party to the proceeding, that a public hearing for the purpose of taking evidence on the questions set forth in Section IV hereof shall be convened at a time and place to be fixed by, and before, the Administrative Law Judge assigned to the proceedings instituted against Thomas C. Gonnella on today's date (the "Gonnella Proceedings").

If King fails to appear at a hearing after being duly notified, King may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 221(f), and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.221(f), and 201.310.

This Order shall be served forthwith upon King personally or by certified mail.

IT IS FURTHER ORDERED, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), in the interest of justice and without prejudice to any party to the proceeding, that the Administrative Law Judge shall issue an initial decision no later than 120 days from the date of an initial decision in the Gonnella Proceedings, or from the date of any order of the Commission accepting an offer of settlement in the Gonnella Proceedings.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy  
Secretary