

FILE COPY

ADMINISTRATIVE PROCEEDING
FILE NO. 3-6268

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

:
In the Matter of :

STEVEN R. GRAYSON :

_____ :

INITIAL DECISION

Washington, D.C.
December 9, 1983

Warren E. Blair
Chief Administrative Law Judge

ADMINISTRATIVE PROCEEDING
FILE NO. 3-6268

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

:
In the Matter of :
STEVEN R. GRAYSON : INITIAL DECISION
:

APPEARANCES: Ronald K. Sufirin and Mitchell J. Albert,
of the Los Angeles Regional Office of
the Commission, for the Division of
Enforcement.

Steven R. Grayson, pro se.

BEFORE: Warren E. Blair, Chief Administrative Law Judge

These public proceedings were instituted by order of the Commission dated July 12, 1983 ("Order") issued pursuant to Sections 15(b) and 19(h) of the Securities Exchange Act of 1934 ("Exchange Act") to determine whether allegations made by the Division of Enforcement ("Division") against the respondent, Steven R. Grayson ("Grayson"), were true and what, if any, remedial action would be appropriate in the public interest. ^{1/}

In substance, the Division alleged that Grayson was convicted on October 25, 1982 by the United States District Court for the Central District of California on two counts of mail fraud and one count of securities fraud in connection with the offer and sale of municipal bonds. Additionally, the Division alleged that on November 3, 1982 the United States District Court for the Central District of California permanently enjoined Grayson from further violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Sections 17(a)(1) and 17(a)(2) of the Securities Act of 1933 ("Securities Act").

In a letter dated July 25, 1983, which was deemed a sufficient answer for the purposes of Rule 7 of the Rules of Practice, ^{2/} Grayson indicated that he would not be

1/ Section IB of the Order was amended at the hearing in accordance with an oral motion by the Division. (Tr. 35-36).

2/ 17 CFR 201.7.

represented by counsel. After being advised of his rights at the outset of the hearing held on August 23, 1983 Grayson affirmed that he wished to proceed without counsel.

As part of the post-hearing procedures, successive filings of proposed findings, conclusions, and supporting briefs were specified. Timely filings thereof were made by the parties.

The findings and conclusions herein are based upon the preponderance of the evidence as determined from the record and upon observation of the witness.

Respondent

From about 1973 to May, 1979, Grayson was a municipal bond salesman with MuniciCorp of California ("MuniciCorp"), a Los Angeles broker-dealer engaged in the sale of municipal securities funds. About May, 1979 Grayson left MuniciCorp for Gibrasco, Inc. ("Gibrasco"), a California broker-dealer selling municipal bonds, where he was employed as a municipal bond salesman until on or about January 4, 1982. While with each of those firms, Grayson was responsible for placing and carrying out orders for the purchase and sale of municipal bonds and for ensuring the proper handling and safekeeping of bonds and money on behalf of the firms' customers.

Criminal Conviction

On October 25, 1982 the United States District Court for the Central District of California, upon Grayson's plea of "Guilty," convicted Grayson on two counts of mail fraud^{3/} and one count of securities fraud in violation of Sections 17(a) and 24 of the Securities Act.^{4/} Grayson was thereupon sentenced to serve two three-year periods of imprisonment concurrently on the two counts of mail fraud and on the other count given five-years probation with imposition of sentence suspended.^{5/} At the time of the hearing in these proceedings, Grayson was still serving time at a federal prison camp.

Permanent Injunction

As a result of a complaint filed by the Commission against Grayson, a permanent injunction was entered on November 3, 1982 by the United States District Court for the Central District of California enjoining him from engaging in acts and practices in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Sections 17(a)(1) and (2) of the Securities Act in connection with the purchase

3/ 18 U.S.C. §§1341 and 2(b).

4/ 15 U.S.C. §§77q(a) and 77x.

5/ CR-82-489 (C.D. Cal. October 25, 1982).

or sale of municipal bonds or any other securities.^{6/} The permanent injunction remains in effect.

Public Interest

Having found that Grayson had been convicted on October 25, 1982 for felonies involving mail fraud and securities fraud and had been permanently enjoined from engaging in certain conduct and practices in connection with the offer and sale of securities, it is necessary to consider the remedial action appropriate in the public interest.

Underlying the felony convictions and the permanent injunction were Grayson's fraudulent actions through which he unlawfully converted to his own use around \$400,000 belonging to ten or more customers of Municicorp and Gibrasco.^{7/} Grayson accomplished his ends primarily by retaining and converting to his own use proceeds from sales of municipal bonds which customers had entrusted to him for the purpose of exchange into new bonds carrying higher interests rates. After gaining possession of

^{6/} SEC v. Steven R. Grayson, Civil Action No. 82-453-CHH (C.D. Cal. Nov. 3, 1982).

^{7/} Grayson admitted that the losses to customers were about \$400,000. The Division's contention that the losses totaled between \$779,000 and \$1,500,000 is not supported by the record.

customers' bonds, Grayson concealed his fraud by deceptive acts and practices designed to lull customers into believing he was continuing to act in their best interests. His lulling tactics included false representations that lengthy delays would be involved in obtaining suitable new bonds, delivery of some new higher-yielding bonds to customers but in dollar amounts far smaller than those obtained from his victims, delivery to customers of checks purportedly representing interest on bonds he had sold, and assurances that customers' old bonds were being held in safekeeping for them at his brokerage firm.

Pointing to the long duration and elaborate techniques used to carry out the egregious fraud committed by Grayson, the Division insists that only a bar from association with a broker or dealer can prevent Grayson from "once again lining his pockets with funds and securities of investors...."^{8/} Grayson concedes that he violated "SEC rules and regulations and committed fraudulent acts to which he pled guilty."^{9/} However, he believes that when mitigating factors are taken into account he should not be barred or, if a bar is imposed, it should terminate upon the expiration of his incarceration and term of probation.

^{8/} Division Brief, October 7, 1983, at 12.

^{9/} Grayson's Response to Division's Proposed Findings of Fact and Conclusions of Law, November 8, 1983, at 6.

In mitigation of his offenses, Grayson urges that consideration be given to the fact that he suffers from a "Compulsive Gambling" disease which is now recognized by the American Psychiatric Association, and that prior to his incarceration he had sought help for his problem through the Gamblers Anonymous program and from a psychiatrist in Los Angeles. He also refers to the severe punishment he has received for his misdeeds, citing his present incarceration and the loss of his business, reputation, money and marriage. He further states that he is deeply remorseful for his misconduct and that he recognizes the "roots of his transgressions and because of this knows he will never violate the law again." ^{10/}

Upon careful consideration of the record and the arguments and contentions of the parties, it is concluded that in the public interest, Grayson should be barred from association with any broker or dealer.

Assuming, without deciding, that Grayson had a mental disease which led him to be a compulsive gambler ^{11/} is of no help to him in determination of the appropriate remedial action to protect public investors, for the record has insufficient evidence to establish whether the disease has been cured or is merely in remission through the

^{10/} Id., at 7.

^{11/} Respondent's Exhibit B indicates that in 1980 pathological gambling was certified as a mental disorder by the American Psychiatric Association and Respondent's Exhibit C indicates that Grayson had a compulsion to gamble.

force of his present circumstances. To allow him to return to the securities business without a strong showing that he no longer poses a threat to the public interest would be an imposition of an undue risk upon the investing public. In view of the danger of a repetition of his misconduct, it does not appear possible at this time to specify a time limit for the bar that is being imposed upon Grayson. Re-entry into the securities business must necessarily await a showing over a period of time that he is again worthy of being trusted, and his present expressions of remorse for his misconduct and regrets over his losses of money, reputation, family, and friends cannot substitute for that showing.^{12/} As argued by the Division, the conclusion based on this record must be that Grayson is simply not suited for the securities business.^{13/}

^{12/} "A determination that future securities activities by [a salesman] would be consistent with the public interest should be made on the basis of a showing of the nature of the proposed activity and the conduct of the salesman in question prior to and subsequent to the misconduct here found." Ross Securities, Inc. 41 S.E.C. 509, 517, n. 10 (1963). See also, Vanasco v. SEC, 395 F.2d 349, 353 (2d Cir. 1968).

^{13/} All proposed findings and conclusions submitted by the parties have been considered, as have their contentions. To the extent such proposals and contentions are consistent with this initial decision, they are accepted.

ORDER

Accordingly, IT IS ORDERED that Steven R. Grayson be barred from association with a broker or dealer.

This order shall become effective in accordance with and subject to the provisions of Rule 17(f) of the Rules of Practice.

Pursuant to Rule 17(f) of the Rules of Practice, this initial decision shall become the final decision of the Commission as to each party who has not, within fifteen days after service of this initial decision upon him, filed a petition for review of this initial decision pursuant to Rule 17(b), unless the Commission, pursuant to Rule 17(c), determines on its own initiative to review this initial decision as to him. If a party timely files a petition for review, or the Commission takes action to review as to a party, the initial decision shall not become final with respect to that party.


Warren E. Blair
Chief Administrative Law Judge

Washington, D.C.
December 9, 1983