

STATE OF MICHIGAN  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS  
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU

In the Matter of:

Complaint No. 328393

RIVER EAST FINANCIAL, LTD.  
Unregistered

Respondent.

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Issued and entered  
This 26<sup>th</sup> day of October, 2016

NOTICE AND ORDER TO CEASE AND DESIST

Julia Dale, the Director of the Corporations, Securities & Commercial Licensing Bureau (the “Administrator”), pursuant to her statutory authority and responsibility to administer and enforce the Michigan Uniform Securities Act (2002), 2008 PA 551, as amended, MCL 451.2101 *et seq.* (“Securities Act”), hereby orders River East Financial, Ltd. (“Respondent”) to cease and desist from offering or selling non-exempt, unregistered securities, and to cease and desist from, in connection with the offer or sale of a security, omitting to make a statement of material fact necessary to make other statements made not misleading under the circumstances, contrary to the Securities Act. Respondent is also notified of the opportunity to request a hearing in this matter.

**I. BACKGROUND**

**A. The Respondent**

1. River East Financial, Ltd. is a corporation that was incorporated under the laws of the nation of New Zealand in or around January of 2014. Documents available from the New Zealand government indicate that the entity is registered to provide various financial services in New Zealand, including services related to securities. Records reflect no registrations for the entity under the Securities Act in Michigan.
2. River East Financial, Ltd. has not registered any securities offerings pursuant to the Securities Act in Michigan.

**B. Findings of Fact**

1. The Bureau conducted an investigation of Respondent's Activities.
2. The investigation developed evidence that Respondent maintained a publicly available website that offered for sale various accounts, including the following accounts:
  - a. The "GSL Account", which was described in marketing materials as follows: "The core business of GSL is the provision of commercial finance to approved borrowers and the acquisition or development of various trailing income facilities. GSL also provides capital for trading in Medium Term Notes (MTNs) and Commercial Bank Paper..." (Exhibit 1 – GSL Account Disclosure).
  - b. The "PCIL Account", which was described in marketing materials as follows: "PCIL was incorporated to hold private equity in energy assets such as Clean Thermal Coal production and High Purity Quartz Silicon production. A loan from REF to PCIL is a powerful way to gain access into the resources sector without the high level of risk associated with direct investment..." (Exhibit 2 – PCIL Account Disclosure).
3. An investment in either the GSL Account or the PCIL Account would result in the consummation of an investment contract pursuant to the Securities Act; therefore, they constitute securities. Bureau records reflect no registrations of those securities, and no exemptions from registration have been claimed by Respondent.
4. The investigation also developed evidence that Respondent's marketing materials for the GSL Account stated, "The directors at GSL have hit their target rate of 17% every year since 2001..." (Exhibit 1).
5. The GSL Account marketing materials failed to disclose who the directors are, what credentials they possess, what special skills they have that allow them to create value for potential investors, whether the board is static or turns over frequently, or whether it operates by committee or is an individual. A reasonable investor might consider those facts to be important in making an investment decision.
6. The investigation also developed evidence that Respondent's marketing materials for the PCIL Account stated, "The 28% annual growth is the target growth rate after fees and expenses associated with the management

and capital raising costs of PCIL itself. The directors of PCIL have operated similar loan facilities in the energy resources sector since 2011 via their other special purpose vehicles and have either met or exceeded all of their target growth and return goals thus far..." (Exhibit 2).

7. The marketing materials failed to disclose who the directors are, what credentials they possess, what special skills they have that allow them to create value for potential investors, whether the board is static or turns over frequently, or whether it operates by committee or is an individual. The materials identify other special purpose vehicles that have allegedly met or exceeded growth goals, but fail to identify any of them. A reasonable investor might consider those facts to be important in making an investment decision.

## **II. RELEVANT STATUTORY PROVISIONS**

1. Section 102c(c) of the Securities Act, MCL 451.2102c(c) defines "Security", in part, as:

a note; stock; treasury stock; security future; bond; debenture; evidence of indebtedness; certificate of interest or participation in a profit-sharing agreement; collateral trust certificate; preorganization certificate or subscription; transferable share; investment contract; voting trust certificate; certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; put, call, straddle, option, or privilege on a security, certificate of deposit, or group or index of securities, including an interest in or based on the value of that put, call, straddle, option, or privilege on that security, certificate of deposit, or group or index of securities, put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, an investment in a viatical or life settlement agreement; or, in general, an interest or instrument commonly known as a "security"; or a certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing...

(v) The term includes an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor. As used in this subparagraph, a "common enterprise" means an enterprise in which the fortunes of the investor are interwoven with those of either the person offering the investment, a third party, or other investors...

2. Section 301 of the Securities Act, MCL 451.2301, states:

A person shall not offer or sell a security in this state unless 1 or more of the following are met:

- (a) The security is a federal covered security.
- (b) The security, transaction, or offer is exempted from registration under section 201 to 203.
- (c) The security is registered under this act.

3. Section 501 of the Securities Act, MCL 451.2501 states:

It is unlawful for a person, in connection with the offer, sale, or purchase of a security or the organization or operation of a Michigan investment market under article 4A, to directly or indirectly do any of the following:...

- (b) Make an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading...

4. Section 503(1) of the Securities Act, MCL 451.2503(1), states:

In a civil action or administrative proceeding under this act, a person claiming an exemption, exception, preemption, or exclusion has the burden to prove the applicability of the exemption, exception, preemption, or exclusion.

### **III. CONCLUSIONS OF LAW**

1. Respondent River East Financial, Ltd. offered a security – the GSL Account – in the State of Michigan which was not federally covered, exempt from registration, or registered, in violation of section 301 of the Securities Act, MCL 451.2301.
2. Respondent River East Financial, Ltd. offered or sold a security – the PCIL Account – in the State of Michigan which was not federally covered, exempt from registration, or registered, in violation of section 301 of the Securities Act, MCL 451.2301.
3. Respondent River East Financial, Ltd. omitted material information in connection with the offer of a security when it identified that the GSL Account’s directors have consistently achieved a specific goal, but failed to

identify any of the individual directors, their credentials, what special skills they possessed that allowed them to create value for investors, or the composition or decision making structure of the directorship. The information was material, omitted, and necessary to make other statements made not misleading, contrary to section 501 of the Securities Act, MCL 451.2501.

4. Respondent River East Financial, Ltd. omitted material information in connection with the offer of a security when it identified that PCIL Account's directors have consistently achieved a specific goal, but failed to identify any of the individual directors, their credentials, what special skills they possess that allowed them to create value for investors, or the composition or decision making structure of the directorship. Respondent stated that the directors had achieved great success in prior ventures, but omitted to state any information related to the identity of those prior ventures. The information was material, omitted, and necessary to make other statements made not misleading, contrary to section 501 of the Securities Act, MCL 451.2501.

#### **IV. ORDER**

IT IS THEREFORE ORDERED, pursuant to section 604 of the Securities Act, MCL 451.2604, that:

- A. Respondent shall immediately CEASE AND DESIST from offering or selling unregistered securities and from omitting to state material facts in connection with the offer or sale of a security that are necessary to make other statements made not misleading, contrary to the Securities Act.
- B. Pursuant to section 604(2) of the Securities Act, this Notice and Order to Cease and Desist is IMMEDIATELY EFFECTIVE.
- C. In her Final Order, the Administrator, under section 604(4) of the Securities Act, MCL 451.2604(4), intends to impose a civil fine of \$40,000.00 against Respondent.
- D. Pursuant to section 508 of the Securities Act, MCL 451.2508, a person that willfully violates the Securities Act, or an order issued under the Securities Act, is guilty of a felony punishable by imprisonment for not more than 10 years or a fine of not more than \$500,000.00 for each violation, or both. An individual convicted of violating a rule or order under this act may be fined, but shall not be imprisoned, if the individual did not have knowledge of the rule or order.

**V. NOTICE OF OPPORTUNITY FOR HEARING**

Section 604 of the Securities Act, MCL 451.2604, provides that Respondent has 30 days beginning with the first day after the date of service of this Notice and Order to Cease and Desist to submit a written request to the Administrator asking that this matter be scheduled for a hearing. If the Administrator receives a written request in a timely manner, the Administrator shall schedule a hearing within 15 days after receipt of the request. The written request for a hearing must be addressed to:

Corporations, Securities & Commercial Licensing Bureau  
Regulatory Compliance Division  
P.O. Box 30018  
Lansing, MI 48909

**VI. ORDER FINAL ABSENT HEARING REQUEST**

- A. Under section 604 of the Securities Act, MCL 451.2604, the Respondent's failure to submit a written request for a hearing to the Administrator within 30 days after the service date of this **NOTICE AND ORDER TO CEASE AND DESIST** shall result in this order becoming a **FINAL ORDER** by operation of law. The **FINAL ORDER** includes the imposition of the fines cited described in section IV.C., and the fine amounts set forth below will become due and payable to the Administrator within sixty (60) days after the date this order becomes final:

\$40,000.00 – River East Financial, Ltd., under section 604  
of the Securities Act, MCL 451.2604.

- B. CIVIL FINE payments should be payable to the STATE OF MICHIGAN and contain identifying information (e.g., names and complaint numbers) and mailed to the following address:

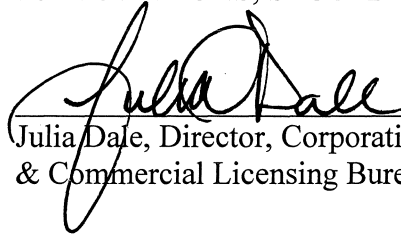
Corporations, Securities & Commercial Licensing Bureau  
Final Order Monitoring  
P.O. Box 30018  
Lansing, MI 48909

- C. Failure to comply with the terms of this Order within the time frames specified may result in additional administrative penalties, including the summary suspension or continued suspension of all registrations held by Respondent under the Securities Act, the denial of any registration renewal, and/or the denial of any future applications for registration, until full compliance is made. Respondent may voluntarily surrender or withdraw a registration under the Securities Act; however, the surrender or withdrawal will not negate the summary suspension or continued suspension of the

relevant registrations or any additional administrative proceedings if a violation of this Order or the Securities Act occurred.

- D. Failure to pay the civil fines within six (6) months after this Order becomes final may result in the referral of the civil fines to the Michigan Department of Treasury for collection action against Respondents.

CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU

  
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Julia Dale, Director, Corporations, Securities  
& Commercial Licensing Bureau

10/20/14  
Date