

BEFORE THE NATIONAL ADJUDICATORY COUNCIL
FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of

Department of Enforcement,

Complainant,

vs.

Alfred P. Reeves, III,

Respondent.

DECISION

Complaint No. 2011030192201

Dated: October 8, 2014

Respondent converted funds from his former employer. Held, findings and sanctions affirmed.

Appearances

For the Complainant: Leo F. Orenstein, Esq., Michael A. Gross, Esq., and Kathryn M. Wilson, Esq., Department of Enforcement, Financial Industry Regulatory Authority

For the Respondent: Pro Se

Decision

Pursuant to FINRA Rule 9311, Alfred P. Reeves, III (“Reeves”) appeals an April 15, 2013 decision. In that decision, the Hearing Panel found that Reeves violated FINRA Rule 2010 by converting funds from his former employing firm. For this violation, the Hearing Panel barred Reeves from associating in any capacity with any FINRA member and ordered that he pay restitution to the firm. After an independent review of the record, we affirm the Hearing Panel’s findings and sanctions.

I. Factual Background

A. Reeves’s Background

Reeves entered the securities industry in 1971. In the years that followed, he worked for numerous broker-dealers at which he was registered in multiple principal capacities. In addition to his employment with various broker-dealers, Reeves owned and operated a consulting company known as Access Capital Financial Group (“Access Consulting”). He also owned a registered broker-dealer.

B. Reeves's Employment with HWJ

In December 2010, Access Consulting entered into a contract with FINRA member firm HWJ Capital Partners II, LLC ("HWJ"). At the time, HWJ was net capital deficient, and HWJ's president, JH, asked Reeves to provide reorganization consulting services and to obtain FINRA's approval for HWJ to resume operations as a broker-dealer. The contract, dated December 13, 2010, had a 90-day term and paid Reeves \$25,000. Once that contract expired, JH contracted with Reeves on a monthly basis to serve as HWJ's registered Financial and Operations Principal ("FINOP") for \$3,500 a month. HWJ always paid Reeves by check for his FINOP services. HWJ did not process securities transactions for members of the public while Reeves was associated with the firm; rather, JH used HWJ exclusively to trade for his personal account.

C. HWJ's Agreement with Legent Clearing

In May 2011, HWJ retained Legent Clearing ("Legent") to provide clearing services to HWJ. JH asked Reeves to complete the necessary paperwork with Legent. Reeves listed himself as HWJ's "Authorized Billing Contact" and provided his personal cell phone number and e-mail address on Legent's account information form. Reeves testified that he used his personal contact information because JH wanted Legent to direct all billing questions to Reeves. JH signed the agreement and returned it to Legent.¹ Legent began providing clearing services to HWJ in June 2011.

D. HWJ Terminates Reeves

Reeves worked for HWJ until August 30, 2011, at which time HWJ did not renew Reeves's contract. On or about September 10, 2011, Reeves sent HWJ an invoice in the amount of \$2,000 for services rendered to HWJ in August. In an e-mail accompanying the invoice, Reeves states that the HWJ's decision not to renew his contract left him in a "financial bind" and that his "bookkeeping services, financial statement services and any other services for August or in the future are no longer free. Hence, the attached bill." The e-mail also states: "Thank you in advance for sending a check as soon as possible." At the time Reeves's contract with HWJ was terminated, he was associated briefly with two other FINRA member firms. Reeves has not been associated with a FINRA member firm since December 2011.

E. Legent Wires Funds to Reeves's Account

In or about September 2011, HWJ executed several trades in JH's IRA account. Legent withheld a total of \$59,704.93 in commissions on these trades, which it reported as commission

¹ At the hearing, JH maintained that he did not give Reeves permission to serve as HWJ's billing contact and claimed Reeves acted surreptitiously to insert himself as the billing contact, but he acknowledged that he did not read the paperwork he signed. The Hearing Panel found that there was insufficient evidence to support JH's claim that Reeves acted surreptitiously to insert himself as the billing contact.

income on HWJ's October 2011 statement of clearing charges.² Legent did not have payment instructions on file for HWJ because the relationship was relatively new and there had not previously been a need to forward funds to HWJ, so Legent moved the commissions due to HWJ into a suspense account. Because Legent had not been notified that Reeves was no longer HWJ's FINOP and should have been removed as HWJ's billing contact, Legent proceeded to ask Reeves for payment instructions.

On October 7, 2011, Legent's billing department sent Reeves an email asking that he complete and return the attached "Accounting Questionnaire." Legent had not been notified that Reeves was no longer at HWJ as of August 30 and should be removed as the designated billing contact. The subject line of the email read: "150 September billing invoice." The number "150" referred to HWJ's firm number at Legent. The email stated:

Alfred,

Your September billing invoice is complete and Legent owes you money. We do not have payment instructions on file for you. Please fill out the following Accounting Questionnaire and send back to Correspondent Billing@legentclearing.com. We will then be able to get your payment to you.

The Accounting Questionnaire also asked for information pertaining to clearing services that were directed to a correspondent firm. For example, Legent asked: (1) "Do you trade in Inventory Accounts?"; (2) "Do you plan to hold inventory positions overnight?"; (3) "What is your Firm's Fiscal Year End?"; and (4) "Do you need limited access to the Billing Folder on your FTP Site?" Legent also asked Reeves to fill out the desired payment method for month-end settlements. Reeves completed the Accounting Questionnaire using Access Consulting's bank account information and supplied his personal e-mail address and cell phone number.

After receipt of the completed Accounting Questionnaire, Legent wired \$59,704.93 to Access Consulting's bank account on or about October 12, 2011. Reeves testified that he learned of the deposit on October 21 or 22, 2011, when he called the bank's automated information system to check the balance in the account.³ Reeves then immediately began withdrawing money from the Access Consulting account: he transferred \$50,000 to an account controlled by his ex-wife and paid some personal expenses from the account, such as his

² Because HWJ only executed trades on behalf of JH and did not charge JH commissions, it was not typical for Legent to deduct commissions from JH's accounts. The record is unclear as to why and how in this particular instance a commission was generated. JH maintains that Reeves hacked into HWJ's system and rebooked the trades to generate the commission. Reeves denied that he did so, and FINRA staff found no evidence to support JH's allegations. FINRA's examiner testified at the hearing that commission charges might have arisen from a glitch in Legent's system or an HWJ employee forgetting to check "no commission" when the trades were processed.

³ The account balance prior to the Legent wire transfer was \$156.29.

mortgage and credit cards. Reeves did not contact either HWJ or Legent before he began withdrawing money.

F. HWJ Learns of the Wire Transfer to Reeves

In November 2011, HWJ discovered that Legent withheld commissions on JH's trades and paid those commissions to Reeves. On November 19, 2011, JH sent Reeves an e-mail accusing Reeves of stealing money from HWJ and demanding its return. Reeves denied any wrongdoing and refused to return the money. He replied that he did not have access to HWJ's funds and therefore he could not have taken the funds.

On November 20, 2011, JH lodged a complaint against Reeves with the FINRA examiner who was at HWJ conducting a routine cycle examination. JH told the examiner that Reeves had hacked into HWJ's computer system, added commissions to JH's IRA trades, and then directed Legent to pay the commissions to his consulting company. It was JH's complaint which initiated the investigation that led to the instant disciplinary action against Reeves.

Both HWJ and Legent demanded that Reeves repay the money that Legent had transferred to him. Reeves offered to make a deal to resolve the situation in which he would repay \$5,000 a month to Legent on two conditions. First, Reeves demanded that Legent admit that Legent had "misappropriated" HWJ's funds and paid them to Reeves in error. Second, Reeves stated that he would not make any payments until he resolved all issues with FINRA. Legent refused to admit that it had misappropriated HWJ's funds. Reeves eventually repaid \$31,000 to Legent. At the hearing, Reeves admitted that he has not repaid the balance—\$28,704.93.

G. Procedural Background

On May 29, 2012, Enforcement filed a complaint alleging that Reeves violated FINRA Rule 2010 by converting funds belonging to HWJ. In his answer, Reeves denied the charge and requested a hearing. Reeves contended that he had mistakenly believed that the funds referenced in Legent's e-mail were due to him for consulting work he had performed for HWJ or for other deals in progress with other firms.

A hearing was held on January 15-17, 2013. The Hearing Panel found that the evidence refuted Reeves's argument that this series of events was merely a misunderstanding, and it concluded that Reeves violated FINRA Rule 2010 by converting funds belonging to HWJ. The Hearing Panel barred Reeves from associating with any member firm in any capacity and ordered him to pay \$28,704.93 in restitution to HWJ. This appeal followed.

II. Discussion

For the reasons discussed below, we affirm the Hearing Panel's findings that Reeves violated FINRA Rule 2010 by converting funds from his former employer.

A. Reeves Converted HWJ's Funds in Violation of FINRA Rule 2010

FINRA Rule 2010 states that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” “It sets forth a standard that encompasses a wide variety of conduct that may operate as an injustice to investors or other participants in the securities markets.” *Dep’t of Enforcement v. Olson*, Complaint No. 2010023349601, 2014 FINRA Discip. LEXIS 7, at *6 (FINRA Bd. of Governors May 9, 2014) (internal citations omitted), *appeal docketed*, SEC Admin. Proceeding No. 3-15916 (June 9, 2014). FINRA Rule 2010 “applies when the misconduct reflects on the associated person’s ability to comply with the regulatory requirements of the securities business and to fulfill his fiduciary duties in handling other people’s money.” *Daniel D. Manoff*, 55 S.E.C. 1155, 1162 (2002). This rule reaches beyond ordinary legal requirements. *See Olson*, 2014 FINRA Discip. LEXIS 7, at *6. “With respect to a charge that conduct was inconsistent with just and equitable principles of trade, [the Commission has] held that a self-regulatory organization need not find that the respondent acted with scienter, but must find that the respondent acted in bad faith or unethically.” *Calvin David Fox*, 56 S.E.C. 1371, 1376 (2003).

Conversion violates the ethical obligations of FINRA Rule 2010.⁴ *Dep’t of Enforcement v. Paratore*, No. 2005002570601, 2008 FINRA Discip. LEXIS 1, at *10 (NAC Mar. 7, 2008). FINRA’s authority to pursue disciplinary action for violations of FINRA Rule 2010 is sufficiently broad to encompass any unethical business-related misconduct, regardless of whether it involves a security. *Manoff*, 55 S.E.C. at 1162 (finding that registered representative who used a co-worker’s credit card without authorization violated NASD Rule 2110); *James A. Goetz*, 53 S.E.C. 472, 475 (1998) (finding that registered person’s misuse of member firm’s matching gift program to obtain private school tuition credit violated NASD Rule 2110).

We agree with the Hearing Panel that the evidence supports a finding that Reeves converted \$59,704.93 belonging to HWJ. Reeves did not have authority to direct the transfer of funds after HWJ terminated his contract to act as HWJ’s FINOP. He acknowledges that he completed the Legent Account Questionnaire and directed Legent to pay Access Consulting funds without any plausible reason to believe he was entitled to receive them. After learning the transfer was complete, Reeves then began withdrawing money from the account without contacting either Legent or HWJ to clarify the source or purpose of the transfer. It is uncontroverted that Reeves spent the funds without HWJ’s knowledge or authorization, and has not yet repaid the firm in full, even after acknowledging the funds were not his to spend. These facts establish that Reeves converted HWJ’s funds in violation of FINRA Rule 2010.

⁴ “Conversion generally is an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it” and is conduct that violates FINRA Rule 2010. *John Edward Mullins*, Exchange Act Release No. 66373, 2012 S.E.C. LEXIS 464, at *33 (Feb. 10, 2012) (quoting *FINRA Sanction Guidelines* 38 (2007)).

B. Reeves's Defenses Are Without Merit

As an initial matter, Reeves maintains that he did not intend to take HWJ's funds and thus did not convert those funds. Reeves contends that he did not have knowledge that the funds belonged to HWJ and without this knowledge there was a lack of intent to defraud HWJ—and therefore a failure to prove conversion.⁵ Reeves argues that he reasonably concluded that Legent's e-mail referred to the consulting services invoice that he had sent HWJ because the subject line and first sentence of the e-mail referenced a "150 September billing invoice."

We agree with the Hearing Panel's findings that the uncontroverted evidence shows that Reeves could not have believed that Legent was holding money that belonged to him. First, neither JH nor anyone else at HWJ told Reeves that HWJ would pay his invoice for FINOP and consulting services. Indeed, Reeves testified that he did not expect JH to pay the invoice, only that he "hoped" that he might. Second, HWJ had never used Legent to pay Reeves for his services in the past. HWJ always paid Reeves by check for his FINOP and consulting services; in fact, Reeves asked that his invoice be paid by check. Finally, and most importantly, the text of Legent's e-mail contradicts Reeves's contentions. The Accounting Questionnaire asked for information that an experienced securities professional such as Reeves should have recognized as relating to clearing services. The form asked Reeves whether he traded in inventory accounts and whether he intended to hold inventory positions overnight. As someone with Reeves's industry experience should know, Legent had no need for this information to forward payment of Reeves's consulting invoice and he was not due any month-end settlement. Reeves made no effort to reconcile these inconsistencies. He simply asserted that it was a reasonable mistake for him to have concluded that the information request related to the payment of his \$2,000 September 2011 invoice. This defense fails.

Next, Reeves claims that he did not question the source or size of the deposit because, over the years, he had often received large wire deposits for life insurance settlement deals that closed through Reeves's broker-dealer. The Hearing Panel rejected this argument, as do we. Reeves presented testimony from several witnesses who had done such deals with him in the past. However, their testimony only highlighted the weakness of Reeves's argument. Each witness confirmed that he did not have any deals with Reeves that were near ready to close around October 2011. Reeves also could not point to any deal that could possibly have been the

⁵ We note that proof of intent to defraud is not a requirement for a finding of a violation of FINRA Rule 2010. See *Eliezer Gurfel*, 54 SEC 56, 63 (1999) (explaining there is no "scienter" requirement for conversion). There is ample circumstantial evidence, however, to support a finding of intent to exercise ownership over funds that did not belong to him. Reeves filled out Legent's Accounting Questionnaire, resulting in the wiring of funds without any reason to believe he was entitled to receive them. Reeves spent that money and refused to return a portion of it even after the error was detected. Reeves, moreover, acknowledged the money was not his. These facts support a finding that the conversion of funds, in violation of FINRA Rule 2010, however opportunistic, was intentional. See *Mullins*, 2012 SEC LEXIS 464, at *38 (finding that circumstantial evidence in the record lends further support to our conclusion individual acted with intent); cf. *Terrance Yoshikawa*, Exchange Act Release No. 53731, 2006 SEC LEXIS 948, at *17 (Apr. 26, 2006) ("Proof of scienter may be inferred from circumstantial evidence.").

source of the \$59,704.93 wire deposit to his company's bank account. Thus, the substance of their testimony contradicted Reeves's argument that it would not have been unusual for him to have received unknown wires of large sums into his consulting firm's checking account. Moreover, whatever Reeves's belief may have been at the time of the transfer, Reeves admits that he knew as of November 2011 that the money was not his, and he has yet to repay it. For these reasons, we also find this defense lacking merit.

Reeves further argues that he has had a forty-year unblemished and exemplary career in the securities industry and that it is unthinkable that he should be so imprudent as to try to steal money in such a manner. By the same token, however, we believe it is implausible that a person with Reeves's substantial industry experience, particularly as a FINOP, would not have inquired as to the amount and purpose of the transfer from Legent under the circumstances before directing Legent to make a payment to his personal broker-dealer.⁶ As previously stated, the Accounting Questionnaire asked for information that an experienced securities professional would recognize readily as relating to the provision of clearing services. As Reeves well knew, Legent had no need for this information to forward payment of Reeves's consulting invoice, he was not due any month-end settlement, and he made no attempts to reconcile these inconsistencies.

Finally, Reeves argues that it was Enforcement's bias which led to the prosecution of this case and to unspecified misstatements of facts in the proceedings below. The record is devoid of evidence supporting Reeves's claims. Even assuming that the record demonstrated that Enforcement had improper motives in investigating and filing a complaint against Reeves, which we find it does not, "[a]bsent a showing of selective enforcement, the motives behind [Enforcement's decision to initiate an investigation and commence disciplinary proceedings] are irrelevant." *Dep't of Enforcement v. Epstein*, Complaint No. C9B040098, 2007 FINRA Discip. LEXIS 18, at *78 (FINRA NAC Dec. 20, 2007), *aff'd*, Exchange Act Release No. 59328, 2009 SEC LEXIS 217 (Jan. 30, 2009), *aff'd*, *Epstein v. SEC*, 416 F. App'x 142. (3d Cir. 2010); *Frank J. Custable, Jr.*, 51 S.E.C. 855, 862 n.22 (1993) (concluding that bias on the part of a FINRA staff member does not mean the FINRA decision is biased). Reeves has not demonstrated that FINRA has engaged in selective prosecution. *See Yoshikawa*, 2006 SEC LEXIS 948, at *28-29 (holding that respondents must demonstrate that they were singled out for enforcement while others similarly situated were not and that such prosecution was motivated by arbitrary or unjust considerations (e.g., race, religion, or the desire to prevent the exercise of a constitutionally protected right)). Even if there had been bias or misstatements of facts, our de novo review, in which we have carefully considered all of the evidence in the case and the transcripts of the proceedings below, "dissipates even the possibility of unfairness." *Robert Tretiak*, 56 S.E.C.

⁶ Reeves argues in his appellate brief that he "had no reason to believe that HWJ did not notified [sic] Legent ... as required by HWJ's clearing agreement with Legent, that HWJ terminated a registered principal listed in the HWJ's Form BD [and therefore] there was no reason the email was for any other purpose than to pay Reeves's invoice." A person with Reeves's experience and familiarity with Legent's documentation and HWJ's compliance practices, we believe, should have questioned HWJ or Legent as to the amount and purpose of the transfer before omitting the possibility that he was still erroneously listed as HWJ's billing contact.

209, 232 (2003); *see also Robert E. Gibbs*, 51 S.E.C. 482, 484-85 (1993) (discussing how de novo review by the NASD Board during NASD disciplinary proceedings insulates against bias), *aff'd*, 25 F.3d 1056 (10th Cir. 1994) (table); *Dep't of Enforcement v. Sathianathan*, Complaint No. C9B030076, 2006 NASD Discip. LEXIS 3, at *51 (NASD NAC Feb. 21, 2006), *aff'd*, Exchange Act Release No. 54722, 2006 SEC LEXIS 2572 (Nov. 8, 2006); *see also Dep't of Enforcement v. Dunbar*, Complaint No. C07050050, 2008 FINRA Discip. LEXIS 18, at *33 (FINRA NAC May 20, 2008) (holding that the NAC's de novo review cures alleged Hearing Panel prejudice). Consequently, we reject Reeves's argument.

III. Reeves's Motion to Adduce Additional Evidence

As part of this appeal, Reeves filed a motion to adduce additional evidence pursuant to FINRA Rule 9346. Reeves seeks to introduce the following: (1) FINRA's copy of the clearing agreement between Legent and HWJ; (2) a page from HWJ's general ledger from July 2011; (3) Legent's clearing services invoices to HWJ from June and July 2011; and (4) testimony from certain individuals that the Hearing Officer precluded from testifying at the hearing, including Reeves's former attorney. After a thorough review of all briefs filed by the parties, the NAC denies Reeves's motion to adduce additional evidence.

Under FINRA Rule 9346(b), a party seeking to introduce additional evidence on appeal must demonstrate that: (1) the evidence is material; and (2) there was good cause for failing to introduce the evidence below. Admitting evidence pursuant to FINRA Rule 9346 is reserved for extraordinary circumstances. *See* Rule 9346(a); *Dep't of Mkt. Regulation v. Burch*, Complaint No. 2005000324301, 2011 FINRA Discip. LEXIS 16, at *21-22 (FINRA NAC July 28, 2011) (rejecting respondent's motion to adduce additional evidence and finding that he failed to demonstrate that extraordinary circumstances existed). For the reasons set forth below, we determine Reeves has not demonstrated that the evidence is material, nor has he shown that there was good cause for his failure to introduce the evidence during the proceedings before the Hearing Panel.⁷

A. Documentary Evidence

Reeves seeks to introduce documentary evidence to rebut certain portions of JH's hearing testimony. First, Reeves seeks to introduce FINRA's copy of the clearing agreement between Legent and HWJ, which Reeves argues is material because it rebuts JH's testimony that JH did not approve, and had never seen, the portion of the clearing agreement where Reeves had been designated as the authorized billing contact. Second, Reeves seeks to introduce a portion of HWJ's general ledger showing activity in the Legent clearing asset account for July 2011, arguing that this document again rebuts JH's testimony in which he stated that HWJ settled its

⁷ Reeves sought to introduce the documentary evidence in the proceedings below, after the record was closed. In an order dated January 25, 2013, the Hearing Officer rejected Reeves's request to supplement the record, noting that JH testified on the second day of a three-day hearing and that the Hearing Officer advised the parties that the record was closed after the hearing concluded on January 17, 2013.

clearing charges by check. Finally, Reeves seeks to introduce copies of Legent's June and July 2011 clearing services invoices, arguing generally that these invoices rebut JH's testimony and show Enforcement's bias against Reeves. We reject Reeves's request to adduce this additional evidence because the Hearing Panel did not rely on any aspect of JH's testimony to support its finding of liability or its sanctions. Therefore, we deny Reeves's motion to adduce the additional documents.

B. Testimonial Evidence

Reeves also seeks to reopen the record to allow additional testimony to be taken from individuals whom the Hearing Officer precluded from testifying completely or whose testimony the Hearing Officer limited.⁸ We find that the Hearing Officer properly limited or denied the taking of certain individuals' testimony, and we deny Reeves' motion.

In his motion Reeves appears to be seeking testimony from Enforcement's lead counsel at the hearing, as well as several other FINRA staff who were involved in the investigation underlying this case.⁹ Reeves maintains that he seeks to question these individuals about how information was gathered during the investigation and why FINRA chose to bring a disciplinary action against him. Reeves believes that testimony from these FINRA employees will show that the FINRA investigation was poisoned by the unsubstantiated claims made by JH. The decision to investigate and ultimately charge Reeves is not relevant to this appeal. Moreover, the record is devoid of evidence supporting Reeves's claims of bias, and as stated above, there is no evidence of selective prosecution by Enforcement, and any theoretical bias or prejudice in the proceedings below is cured by the NAC's de novo review.

Reeves also seeks to introduce testimony from EK, an attorney who had represented Reeves earlier in these proceedings. Reeves maintains the purpose of this testimony is to show that HWJ and Legent's "enraged" statements to FINRA biased FINRA against Reeves, as well as to elicit testimony regarding discussions EK had with Enforcement counsel. While EK did testify at the hearing, the Hearing Officer, after Enforcement's objections, limited the scope of his testimony. The Hearing Officer allowed EK to testify as a character witness for Reeves, but precluded him from testifying as to conversations he had with Enforcement regarding possible settlement. We agree with the Hearing Panel that EK should be precluded from testifying as to any settlement negotiations. Settlement negotiations and related materials generally are not relevant to a FINRA disciplinary proceeding. *See Paratore*, 2008 FINRA Discip. LEXIS 1, at *13; *see also* FINRA Rule 9270(h) (stating that rejected offers and proposed orders of

⁸ Reeves's motion does not name any of the individuals whose testimony he wishes to introduce. We read Reeves's motion to seek the testimony of all the FINRA staff that Reeves was precluded from calling at the hearing below, as well as the testimony of Reeves's witnesses that was limited by the Hearing Officer.

⁹ FINRA staff were listed among the witnesses that Reeves intended to call at the hearing. Enforcement filed a motion in limine to exclude the proposed FINRA witnesses (with the exception of FINRA examiner Peter Foye, whom Enforcement called in its case in chief). The Hearing Officer granted Enforcement's motion.

acceptance do not constitute a part of the record “in any proceeding against the [r]espondent making the offer”); FINRA Rule 9270(j) (stating that rejected offers of settlement “may not be introduced into evidence in connection with the determination of the issues involved in the pending complaint”).

Nevertheless, as we review the Hearing Panel’s decision de novo, we have considered the substance of the documents attached to the motion and Reeve’s arguments and do not find them to be material, exculpatory, or relevant to liability and sanctions in this matter. None of the documents or proffered testimony serves to excuse or justify Reeves’s use of funds that did not belong to him.

IV. Sanctions

The Hearing Panel barred Reeves for his conversion and ordered him to pay restitution to HWJ. We find a bar is the only appropriate remedial sanction for the violation to protect the investing public and deter others from engaging in such misconduct, and as explained in further detail below, we affirm the Hearing Panel’s sanction determination.

A. Conversion

We have considered the FINRA Sanction Guidelines (“Guidelines”)¹⁰ in determining the appropriate sanctions for Reeves’s violation. The Guidelines governing sanctions for conversion direct us to “[b]ar the respondent regardless of amount converted.”¹¹ Conversion “is generally among the most grave violations committed by a registered representative . . . [and] is extremely serious and patently antithetical to the ‘high standards of commercial honor and just and equitable principles of trade’ that underpin the self-regulation of the securities markets.” *Mullins*, 2012 SEC LEXIS 464, at *73 (internal citations omitted).

We also have considered the Principal Considerations in Determining Sanctions.¹² Upon consideration, we find that there are several aggravating factors associated with Reeves’s conversion and no mitigating factors that would lead us to conclude that a sanction less than a bar is in order. We find it decidedly aggravating that Reeves continues to refuse to take responsibility for his misconduct, blames JH, Legent, and FINRA for his current disciplinary troubles, and continues to refuse to repay HWJ’s funds knowing that the funds do not belong to him.¹³ We also find it aggravating that Reeves’s conversion harmed HWJ by depriving the firm of \$59,704.93,¹⁴ while resulting in Reeves’s monetary gain.¹⁵ Taking these factors into account,

¹⁰ *FINRA Sanction Guidelines* (2013), <http://www.finra.org/web/groups/industry/@ip/@enf/@sg/documents/industry/p011038.pdf> [hereinafter *Guidelines*]

¹¹ *Guidelines*, at 36. Since a bar is standard, we decline to impose a fine. *Id.*

¹² *Id.* at 6-7.

¹³ *Id.* at 6 (Principal Considerations in Determining Sanctions, No. 2).

¹⁴ *Id.* (Principal Considerations in Determining Sanctions, No. 11).

we find that a bar is the only appropriate sanction for his violations. Moreover, the bar serves to deter others from engaging in such serious misconduct. *See John Edward Mullins*, Exchange Act Release No. 66373, 2012 SEC LEXIS 464, at *80 (“We support the NAC’s conclusion . . . that a bar is ‘necessary to deter him and others similarly situated from engaging in similar misconduct.’”). In light of these aggravating factors, and considering that a bar is the standard sanction in conversion cases, we hereby bar Reeves in all capacities for the conversion of HWJ’s funds.

B. Restitution

We further affirm the Hearing Panel’s decision to order Reeves to pay restitution to HWJ. The Guidelines recommend that we consider ordering restitution where appropriate to remediate misconduct.¹⁶ Restitution is a traditional remedy used to restore the status quo ante where a victim otherwise would unjustly suffer loss.¹⁷ “Adjudicators may order restitution when an identifiable person, member firm or other party has suffered a quantifiable loss proximately caused by a respondent’s misconduct.”¹⁸ Reeves admitted he has yet to repay HWJ \$28,704.93. We therefore order that Reeves pay restitution in the amount of \$28,704.93, plus prejudgment interest, to HWJ.

V. Conclusion

We find that Reeves violated FINRA Rule 2010 by converting HWJ’s funds. For his conversion, Reeves is barred from associating with any member firm in all capacities. In addition, Reeves is ordered to pay restitution in the amount of \$28,704.93, plus prejudgment interest on these amounts calculated from November 19, 2011, to HWJ.¹⁹ Finally, we affirm the order that Reeves pay \$5,609.92 in hearing costs.²⁰

¹⁵ *Id.* at 7 (Principal Considerations in Determining Sanctions, No. 17).

¹⁶ *Guidelines*, at 4 (General Principles Applicable to All Sanction Determinations, No. 5).

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ The prejudgment interest rate shall be the rate established for the underpayment of income taxes in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. § 6621(a). *Guidelines*, at 11 (Technical Matters).

²⁰ We also have considered and reject without discussion all other arguments advanced by the parties.

On Behalf of the National Adjudicatory Council,

Marcia E. Asquith,
Senior Vice President and Corporate Secretary