

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013036837802**

TO: Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

RE: Paul J. Savage, Respondent
Former Registered Representative
CRD No. 1722830

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, I, Paul J. Savage (“Savage” or “Respondent”), submit this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Savage entered the securities industry in 1987 and became registered as a General Securities Representative in August of that year and passed the Uniform Securities State Law Examination in September 1987. Savage became registered as a General Securities Principal in 1992, a Registered Options Principal in 1994, a Municipal Securities Principal in 1996, and an Equity Trader in 2002.

Since 1987, Savage has been registered with six member firms. From September 1995 until October 2014, Savage was registered with Finance 500, Inc. (“Finance 500” or “Firm”) as a General Securities Representative, General Securities Principal, and Equity Trader. On October 20, 2014, Finance 500 filed a Uniform Termination Notice for Securities Industry Registration permitting Savage to resign, “in connection with branch supervision, supervision of Firm trading activities, and account due diligence.”

Savage is currently not registered with any FINRA member but remains subject to FINRA’s jurisdiction pursuant to Article V, Section 4 of FINRA’s By-Laws.

RELEVANT DISCIPLINARY HISTORY

In December 2011, pursuant to Letter of Acceptance, Waiver and Consent No. 2008013079801, FINRA made findings (which he neither admitted nor denied) that Savage, in his supervisory capacity, ignored red flags in connection with the wholesale liquidation of penny stock positions by certain of the Firm's retail customers. As a result, FINRA found that Savage violated NASD Rules 3010(a) and 2110 for the period March 2008 through December 14, 2008, and NASD Conduct Rule 3010(a) and FINRA Rule 2010 for the period December 15, 2008 through May 2009. Savage was suspended in his principal capacity for 10 business days and fined \$10,000.

OVERVIEW

During at least 2005 to 2014, Savage had multiple supervisory roles with Finance 500. He was the Firm's Head Trader and the office of supervisory jurisdiction ("OSJ") supervisor for the Firm's Florida branch office. In addition, Savage was a registered representative with retail customers, he made markets in certain penny stock companies, and he was the branch manager of Finance 500's home office in Irvine, California.

Between at least 2010 and 2014, Savage failed to carry out his duties in each of the supervisory roles he held with the Firm. Despite a duty to do so, Savage as the OSJ supervisor for the Florida office failed to ensure compliance with the Firm's AML program to cause the detection and reporting of suspicious transactions and also failed to otherwise adequately supervise the Florida branch.

The Florida branch focused almost exclusively on trading penny stocks as a market maker for both the Firm's proprietary trading accounts and for its retail customers. By focusing on penny stock trading, the Florida branch dealt in a segment of the market susceptible to fraudulent activity. Despite the risks, Savage did not mitigate the risks associated with this business model.

First, Savage did not ensure regular or sufficient monitoring of the branch's trading activity and reports, electronic correspondence, or customer account applications for both suspicious activity monitoring purposes and in his separate role as an OSJ supervisor. For example, Savage failed to review the Florida branch's market making activity and the retail trading activity of its customers. As a result, he was unaware of numerous red flags indicative of potentially suspicious activity related to the trading in the Florida branch. For example, in May 2010, former FINRA member John Carris Investments, LLC ("John Carris") began sending matching buy and sell orders to the Florida branch for execution. For a period of five months, the Florida branch, on behalf of John Carris, executed at least 60 potentially suspicious trades in a single penny stock, where there clients represented both sides of the market.

Savage also failed to monitor, investigate, and report, where appropriate, potentially suspicious activity in his own customer accounts. He opened 300 related accounts for various Vietnamese citizens and failed to detect potentially suspicious trading in the accounts or conduct necessary due diligence regarding that trading.

As a result, Savage violated NASD Rule 3010(b) and FINRA Rules 3310(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

Anti-Money Laundering Violations

Savage Failed to Monitor for or Report Suspicious Activity

FINRA Rule 3310(a) requires members to establish and implement policies and procedures “that can be reasonably expected to detect and cause the reporting of” suspicious activity and transactions as required by the Bank Secrecy Act.¹ Notices to Members 02-21 (April 2002) and 02-47 (August 2002) emphasized a firm’s duty to detect red flags and, if detected, “perform additional due diligence before proceeding with the transaction.”

Finance 500’s AML policies placed an obligation on the Firm’s associated persons to “be aware of ‘red flags’ that may indicate suspicious activity.” To assist its associated persons in identifying red flags, the Firm’s procedures provided examples of red flags indicative of potential AML-related issues. In addition, should an associated person at Finance 500 identify a red flag, the Firm’s procedures required two additional steps. First, the associated person must “perform additional due diligence before proceeding with any transactions,” and, second, should “IMMEDIATELY report any suspicious activity” to one of the Firm’s principals or its AMLCO.

From at least 2010 Savage failed to fulfill his responsibilities under the Firm’s AML procedures. For example, Savage failed to appropriately monitor or cause anyone else to appropriately monitor the trading in accounts held at the Florida branch. As a result, Savage failed to identify numerous red flags indicative of potentially manipulative trading occurring at the branch. In fact, between May 1, 2010 and September 30, 2010, the Florida branch executed a series of potentially suspicious market making trades in Fibrocell Science, Inc. stock (“FCSC”). On at least 60 occasions, John Carris, a former FINRA member firm, routed identical buy and sell orders of FCSC, each within ten seconds of one another, to Finance 500 for execution.

In addition, when Savage became aware of red flags in his own customers’ accounts, he failed to properly investigate or address the issues. For example, starting in at least 2010, Savage, in his capacity as a broker, opened retail accounts for at least 300 individuals, all residing in Vietnam. After opening the accounts, Savage ignored red flags indicative of potentially suspicious activity in the customers’ accounts or conduct sufficient due diligence in response to that trading, including inquiring into the identities of the individuals making the trades. Throughout 2010, a majority of his 300 Vietnamese customers liquidated a single penny stock using the Firm’s online trading system and wired the proceeds to various Vietnamese banks.

Accordingly, Savage violated FINRA Rules 3310(a) and 2010.

¹ FINRA Rule 0140 (effective December 15, 2008) states that “[t]he Rules shall apply to all members and persons associated with a member. Persons associated with a member shall have the same duties and obligations as a member under the Rules.” Thus, FINRA Rule 3310 applies to individual registered representatives who ignore and/or fail to report red flags of potentially suspicious activity.

Supervision Violations

NASD Rule 3010(b) requires a member to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD.” A supervisor has a duty to enforce the firm’s supervisory systems and investigate red flags indicating misconduct.

From 2005 through 2014, Savage was the OSJ supervisor for the Florida branch, which engaged in high-risk activity – retail trading and market making in penny stocks. Despite the risks, from at least 2010, Savage failed to implement or enforce the Firm’s supervisory procedures concerning the Florida branch. As the OSJ supervisor, Savage was responsible for appropriately designating a qualified registered principal for the office, ensuring the person understood the resulting supervisory obligations, and ensuring that the designated person regularly and satisfactorily carried out the delegated duties. For example, Savage was required to ensure that the designated principal reviewed the branch’s trade activity and reports, electronic communications, and account applications. Specifically, Savage:

- Failed to appropriately inquire, understand, or otherwise memorialize how supervisory responsibilities assigned to the registered principals in the Florida branch were being performed.
- Failed to review or ensure the designated principal reviewed electronic communications sent or received by registered persons working in the Florida branch.
- Failed to implement or enforce the Firm’s procedure requiring that instant message communications be captured and retained. As a result, the Florida branch had no system to ensure that instant messages were retained or surveilled.
- Failed to perform due diligence when approving retail account applications submitted by the Florida branch. As a result, Savage approved new accounts for individuals with criminal and regulatory backgrounds who subsequently engaged in suspicious trading.

As a result, Savage violated NASD Rule 3010(b) and FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a six-month suspension from association with any FINRA member in any capacity, immediately followed by a 15-month suspension from association with any FINRA member in any principal capacity;
- a requirement to requalify by examination as a General Securities Principal by passing the Series 24 examination prior to reassociation with any member firm in that capacity following the principal suspension; and
- a \$10,000 fine.

The fine shall be due and payable either immediately upon reassociation with a member firm following the six-month all-capacities suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Exchange Act. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

I understand that if I am barred or suspended from associating with any FINRA member in a principal capacity, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA member in a principal capacity, during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because I am subject to a statutory disqualification during the suspension, if I remain associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;**
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;**
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and**
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.**

Further, I specifically and voluntarily waive any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my: (i) testimonial obligations; or (ii) right to take legal or factual

positions in litigation or other legal proceedings in which FINRA is not a party.

- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

12/23/2015
Date (mm/dd/yyyy)

Paul J. Savage
Paul J. Savage, Respondent

Accepted by FINRA:

12/29/15
Date

Signed on behalf of the
Director of ODA, by delegated authority

James E. Day
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