

FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Landon L. Williams
(CRD No. 1751467),

Respondent.

DISCIPLINARY PROCEEDING
NO. 2014042524301

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between March 5, 2014 and July 23, 2014, the Respondent, Landon L. Williams, participated in telephone conversations with five separate customers. During those conversations, Respondent made false and/or misleading statements to the customers and/or failed to disclose material information about securities transactions that he was recommending to the customers. By this conduct, Respondent violated FINRA Rule 2010. In addition, in connection with certain false statements that were made to one particular customer, Respondent also violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), Exchange Act Rule 10b-5, and FINRA Rule 2020.
2. In addition, in connection with each telephone conversation, Respondent, as required by his member firm's policies and procedures, electronically entered notes in the firm's customer relationship management (CRM) software application (Siebel) describing his

discussion with, and disclosures made to the customer. In his Siebel notes, Respondent made false statements about what he discussed with and disclosed to the customer. By entering false information in the Siebel system, Respondent caused his member firm's books and records to be inaccurate, and in doing so, Respondent violated FINRA Rules 4511 and 2010.

RESPONDENT AND JURISDICTION

3. Respondent first became registered with FINRA in January 1998.
4. From August 6, 2013 until August 6, 2014, Respondent was associated with FINRA member Merrill Lynch, Pierce, Fenner & Smith, Inc. ("Merrill Lynch") and registered with FINRA as a General Securities Representative.
5. On September 5, 2014, Merrill Lynch filed with FINRA a Uniform Termination Notice for Securities Industry Registration ("Form U5") reporting that the firm had terminated Respondent's employment on August 6, 2014.
6. Respondent is not currently registered or associated with a FINRA member; however, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (i) the Complaint was filed within two years after the effective date of termination of Respondent's registration with Merrill Lynch, namely, September 5, 2014; and (ii) the Complaint charges Respondent with misconduct committed while he was registered or associated with a FINRA member.

BACKGROUND AND FACTS

7. From July 8, 2013 until August 6, 2014, Respondent was employed by Merrill Lynch as a Financial Solutions Advisor ("FSA") in the firm's Merrill Edge Advisory Center business

unit (hereinafter, "Merrill Edge"). Merrill Edge is responsible for servicing accounts of Merrill Lynch customers with account values of \$250,000 or less. Customers serviced by Merrill Edge are not assigned a particular broker but, rather, are serviced by FSA teams working in call centers. Merrill Edge operates three call centers, one of which is located in Jacksonville, Florida. Respondent worked in the Jacksonville, Florida call center.

8. At all times relevant herein, Merrill Lynch required that Merrill Edge FSAs document their interactions with customers by entering notes of the discussion in Siebel, a customer relationship management ("CRM") software application that was utilized by Merrill Edge to record and maintain information about individual customers and any interactions with them.
9. As detailed more fully below, between March 5, 2014 and July 23, 2014, Respondent participated in telephone conversations with five separate Merrill Lynch customers. During those conversations, Respondent made false and/or misleading statements to the customers and/or failed to disclose material information about securities transactions that he was recommending.
10. As detailed more fully below, in connection with each of these telephone conversations, Respondent entered notes in Siebel detailing his discussion with the customer and the recommendations that he made. In those notes, Respondent made false statements about what he discussed with and disclosed to the customer.
11. Respondent's note entries in Siebel were relied upon by Merrill Lynch supervisory personnel to evaluate the suitability of Respondent's recommendations and to determine whether or not to approve the securities transactions that Respondent had recommended.

Customer ASA

12. ASA, born [REDACTED], opened an IRA with Merrill Lynch in May 2007. At all times relevant herein, ASA was a resident of Covina, California.
13. On March 5, 2014, during a telephone conversation with ASA, in connection with a scheduled portfolio review of her retirement account, Respondent recommended that ASA sell her positions in the Blackrock Core Bond Fund Class C (BCBCX) and the Blackrock Global Allocation Fund Class C (MCLOX) and invest the proceeds in the Blackrock Funds Diversified Portfolios IV (Growth) Class A, a non-discretionary brokerage service of Merrill Lynch that involved an up-front sales charge of greater than four percent.
14. During his telephone conversation with ASA, Respondent made the following representations:
 - (a) Respondent represented that: (i) ASA's two Blackrock mutual funds (i.e., BCBCX and MCLOX) each had an annual operating expense of 1.81 percent, whereas the "A" share for those mutual funds had an annual operating expense of 0.87 percent; (ii) the "A" share, in addition to having a lower annual operating expense, provided a one-percent higher annual rate of return than the "C" share; and (iii) by switching to the "A" share, ASA would therefore realize a *two-percent increase* in her annual rate of return than with her existing "C" shares. These representations were false and misleading because: (i) the change in investment that Respondent was recommending was not a switch from the "C" share to the "A" share of the Blackrock mutual funds that ASA held (i.e., BCBCX and MCLOX) but,

rather, a switch from her current "C" shares in BCBCX and MCLOX to the "A" share of a different investment entirely – the Blackrock Funds Diversified Portfolios IV (Growth); (ii) the annual operating expense of the Blackrock Global Allocation Fund IV (Growth) Class A was 1.10 percent (as of December 31, 2013), not 0.87 percent; and, (iii) the higher annual rate of return of a particular mutual fund's "A" share versus its "C" share is due to the "A" share's lower annual operating expense.

(b) In discussing the front-end sales charge of the Blackrock Funds Diversified Portfolios IV (Growth) Class A, Respondent represented that, with the annual savings that ASA would realize from the lower operating expense, it would take her less than three years to recoup the cost of the front-end sale charge she would have to pay. Respondent knew, or had reason to believe, that this representation was false, as he indicated in his corresponding Siebel notes that he had calculated that ASA would "breakeven" in year seven.

15. In the notes that Respondent entered in Siebel describing his discussion with ASA and the recommendations that he made to ASA, Respondent represented that ASA had an investment time horizon of ten or more years. That representation was false. ASA stated to Respondent that she anticipated beginning to take withdrawals from her account in one to five years.

Customer RLC

16. RLC, born [REDACTED], opened an IRA with Merrill Lynch in May 2008. At all times relevant herein, RLC was a resident of Detroit, Michigan.

17. On June 11, 2014, during a telephone conversation with RLC, Respondent recommended that RLC sell his position in the PIMCO Money Market Fund Class C (PKCXX) and invest the proceeds in the Franklin Strategic Income Fund Class C (FSGCX) and the Franklin Income Fund Class C (FCISX).

18. During his telephone conversation with RLC, Respondent made the following representations:

(a) Respondent stated that FSGCX was an “investment-grade bond fund” and “very conservative” and that the fund’s portfolio of investments consisted of “short-term investment-grade bonds.” These representations were false. FSGCX was neither an “investment-grade bond fund,” nor “very conservative.” The FSGCX prospectus contained no provision indicating that the fund would invest only in investment-grade bonds. To the contrary, the FSGCX prospectus provided that the fund could invest up to 100 percent of its assets in below-investment grade debt securities.

(b) Respondent stated that FCISX’s portfolio of investments was 60 percent “high-quality stocks” and 40 percent “investment-grade bonds.” This representation was false. The FCISX prospectus contained no provision indicating that the fund would maintain any specific allocation between equity and fixed-income securities or that fund would invest only in “high-quality stocks” and “investment-grade bonds.” To the contrary, the FCISX prospectus provided that the fund could invest up to 100 percent of its assets in below-investment grade bonds.

19. In the notes that Respondent entered in Siebel describing his discussion with RLC and the recommendations that he made to RLC, Respondent made the following representations:

(a) Respondent represented that RLC stated to him that he “has far more than 6 months of his household expenses saved.” This representation was false.

RLC made no statement as to what amount, if any, he had saved to cover household expenses.

(b) Respondent represented that RLC “was informed and does in fact understand that both FCISX and FSGCX may invest in at or below [sic] investment grade debt.” This representation was false. Respondent did not disclose this information to RLC.

Customer GDC

20. GDC, born [REDACTED], opened an IRA with Merrill Lynch in December 2008. At all times relevant herein, GDC was a resident of Washington, D.C.

21. On July 8, 2014, during a telephone conversation with GDC, in connection with a scheduled portfolio review of her retirement account, Respondent recommended that GDC: (i) sell her position in the PIMCO Total Return Fund Class C (PTTCX) and invest the proceeds in the Franklin Strategic Income Fund Class C (FSGCX) and (ii) use cash in her account to purchase shares of Franklin Income Fund Class C (FCISX).

22. In the notes that Respondent entered in Siebel describing his discussion with GDC and the recommendations that he made to GDC, Respondent made the following representations:

- (a) Respondent represented that he informed GDC of the CDSC of FCISX and FSGCX. This representation was false. Respondent did not inform GDC of the CDSC of FCISX or FSGCX.
- (b) Respondent represented that he discussed with GDC the possibility of doing a “free exchange” within the PIMCO mutual fund family, as an alternative to a “switch” from PIMCO to Franklin Templeton. This representation was false. Respondent did not discuss with GDC the possibility of an exchange for another PIMCO mutual fund.
- (c) Respondent represented that he informed GDC of the “below investment grade debt which [sic] exists in both FCISX and FSGCX.” This representation was false. Respondent did not disclose this information to GDC.
- (d) Respondent represented that GDC stated to him that “she is comfortable with the inclusion of below investment grade debt in her portfolio.” This representation was false. GDC made no such statement. Nor did Respondent discuss this issue with GDC.

Customer JLM

- 23. JLM, born [REDACTED], opened an IRA with Merrill Lynch in June 2008. At all times relevant herein, JLM was a resident of Knoxville, Tennessee.
- 24. On July 9, 2014, during a telephone conversation with JLM, in connection with a scheduled portfolio review of his retirement account, Respondent recommended that JLM

sell his position in the PIMCO Total Return Fund Class C (PTTCX) and invest the proceeds in the Franklin Strategic Income Fund Class C (FSGCX).

25. During his telephone conversation with JLM, Respondent made the following representations:

(a) Respondent represented that FSGCX had an annual operating expense of 1.113 percent. This representation was false. The annual operating expense for FSGCX was 1.28 percent.

(b) Respondent represented that an investment in FSGCX “will perform in a way that is consistent with the amount of risk that you are willing to take, as well as what your expectations are as a conservative investor.” This representation was misleading in that it suggested that FSGCX was a conservative investment. The FSGCX prospectus provided that the fund could invest up to 100 percent of its assets in below-investment grade debt securities.

26. In the notes that Respondent entered in Siebel describing his discussion with JLM and the recommendations that he made to JLM, Respondent made the following representations:

(a) Respondent represented that he discussed with JLM the possibility of doing a “free exchange” within the PIMCO family of funds, as an alternative to switching from PIMCO to Franklin Templeton. This representation was false. Respondent did not discuss with JLM the possibility of an exchange to another PIMCO mutual fund.

(b) Respondent represented that he informed JLM of the “below investment grade debt which [sic] exists in FSGCX,” and that JLM stated to him that “he understands and is comfortable with the inclusion of below investment grade debt in his portfolio.” These representations were false. Respondent did not disclose this information to JLM, and JLM made no such statement.

Customer RBS

27. RBS, born [REDACTED], opened an IRA with Merrill Lynch in May 2012. At all times relevant herein, RBS was a resident of Roeland Park, Kansas.
28. On July 22, 2016, during a telephone conversation with RBS, in connection with a scheduled portfolio review of his accounts, Respondent recommended that RBS: (i) sell his position in the PIMCO Total Return Fund Class C (PTTCX) and invest the proceeds in the Franklin Strategic Income Fund Class C (FSGCX) and (ii) exchange his positions in the Blackrock Global Allocation Fund Class C (MCLOX) and the Blackrock Equity Dividend Fund Class C (MCDVX) for the Blackrock Funds Diversified Portfolios III (Growth & Income) Class C, a non-discretionary brokerage service of Merrill Lynch.
29. During the telephone conversation with RBS, Respondent made the following representations:
- (a) Respondent represented that FSGCX had an annual operating expense of 1.113 percent. This representation was false. The annual operating expense for FSGCX was 1.28 percent.

(b) In regards to Respondent's recommendation to switch from PTTCX to FSGCX, RBS asked Respondent, "would there be any sales charge or any penalty at all," and Respondent replied: "Absolutely not. No, sir. No penalty whatsoever." Respondent's reply to RBS was misleading because he omitted mentioning that FSGCX had a CDSC of one percent that was applicable to any sales within 12 months.

30. On July 23, 2014, Respondent made a follow up call to RBS and recommended that RBS also sell his existing position in the PIMCO Investment Grade Bond Fund Class C (PBDCX) and invest the proceeds in the Franklin Strategic Income Fund Class C (FSGCX).

31. During his telephone conversation with RBS, Respondent made the following representations:

(a) Respondent represented that FSGCX had an annual operating expense of 1.13 percent. This representation was false. The annual operating expense for FSGCX was 1.28 percent.

(b) Respondent represented that the switch from PBDCX to FSGCX would be a "free exchange" just like, he explained, the switch from PTTCX to FSGCX. This representation was false and misleading. Many mutual fund companies allow shareholders to transfer their holdings from one fund to another within the same fund group or "family of funds" without incurring a fee or triggering a new CDSC holding period. This kind of transaction is commonly known as an "exchange" or "free exchange." Respondent's recommendation to RBS to sell the PIMCO funds and purchase FSGCX

did not constitute an “exchange” but, rather, a switch through which RBS would become subject to a new CDSC holding period.

32. In the notes that Respondent entered in Siebel describing his telephone conversations with RBS of July 22 and July 23, 2014 and the recommendations that he made to RBS on those occasions, Respondent made the following representations:

- (a) Respondent represented that he “[f]ully disclosed 1% CDSC in purchase of FSGCX” and that, RBS “indicated that he fully understands the CDSC.” This representation was false. Respondent did not disclose the one-percent CDSC to RBS, and RBS made no such statement concerning CDSC.
- (b) Respondent represented that that he “discussed the availability of lowest annual expense A share funds” for the Blackrock funds and that RBS “did not want to commit the out-of-pocket resources into purchasing A share mutual funds.” These representations were false. Respondent did not discuss this issue with RBS, and RBS made no such statement.
- (c) Respondent represented that he informed RBS of the “below investment grade debt which [sic] exists in FSGCX,” and that RBS “stated that as a moderately conservative investor he is comfortable with the inclusion of below investment grade debt in his portfolio.” These representations were false. Respondent did not disclose this information to RBS, and RBS made no such statement.

33. On July 28, 2014, Respondent received an email from Merrill Edge administrative manager REG, requesting that Respondent clarify his rationale for recommending that RBS switch to FSGCX and reminding Respondent that, “we do not sell/recommend based off of internal fees.”
34. In his reply email of the same date, Respondent stated: “The primary reason why the client believed it was appropriate to replace his PIMCO funds with Franklin Strategic Income was because the client discovered that both PIMCO funds had an extremely high duration. The client has the intelligence to know that bonds with high durations do not perform well in rising rate markets.” This statement was misleading because it was Respondent, not RBS, who initiated the discussion about the difference in annual operating expense as between the PIMCO funds and FSGCX.
35. In addition, in the same reply email, Respondent represented that RBS had an investment time horizon of “more than 10 years” for his retirement account. This representation was false. During the telephone conversation of July 22, 2014, Respondent asked RBS, “at what point do you anticipate using the majority of the funds in [your retirement] account,” and RBS replied, five to ten years.

FIRST CAUSE OF ACTION

Section 10(b) of the Exchange Act, Exchange Act Rule 10b-5 and FINRA Rules 2020 and 2010
(Fraudulent Misrepresentations in the Sale of Securities)

36. The Department realleges and incorporates by reference paragraphs 1 through 35 above.
37. Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 thereunder make it unlawful for any person, by the use of any means or instrumentality of interstate commerce, or of the mails, to make any untrue statement of a material fact or to omit to

state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of a security.

38. FINRA Rule 2020 likewise provides that: "No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance."
39. FINRA Rule 2010 requires associated persons in the conduct of their business to "observe high standards of commercial honor and just and equitable principles of trade."
40. As alleged above, Respondent recommended that RLC purchase shares in FSGCX and FCISX.
41. Based on Respondent's recommendation, RLC agreed to purchase shares of FSGCX in the amount of \$43,620 and shares of FCISX in the amount of \$29,080.
42. In connection with Respondent's solicitation of RLC to purchase shares in FSGCX, Respondent, with scienter, falsely stated that FSGCX was an "investment-grade bond fund" and "very conservative" and that the fund's portfolio of investments consisted of "short-term investment-grade bonds."
43. As alleged above, FSGCX was neither an "investment-grade bond fund," nor "very conservative." The FSGCX prospectus contained no provision indicating that the fund would invest only in investment-grade bonds. To the contrary, the FSGCX prospectus provided that the fund could invest up to 100 percent of its assets in below-investment grade debt securities.

44. The composition of FSGCX's portfolio of investments and the level of risk associated with an investment in FSGCX are material facts.
45. In connection with Respondent's solicitation of RLC to purchase of shares in FCISX, Respondent, with scienter, falsely stated that FCISX's portfolio of investments was 60 percent "high-quality stocks" and 40 percent "investment-grade bonds."
46. As alleged above, the FCISX prospectus contained no provision indicating that the fund would maintain any specific allocation between equity and fixed-income securities, or that fund would invest only in "high-quality stocks" and "investment-grade bonds." To the contrary, the FCISX prospectus provided that the fund could invest up to 100 percent of its assets in below-investment grade bonds.
47. The composition of FCISX's portfolio of investments and the level of risk associated with an investment in FCISX are material facts.
48. Respondent utilized telephone to communicate the false statements that he made to RLC; and telephone is an instrumentality of interstate commerce.
49. The shares of FSGCX and FCISX are securities.
50. By reason of the foregoing conduct, Respondent willfully violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 and also violated FINRA Rules 2020 and 2010.

SECOND CAUSE OF ACTION
FINRA Rule 2010
(Misrepresentations and Omissions of Material Fact)

51. The Department realleges and incorporates by reference paragraphs 1 through 50 above.
52. As alleged above, in his telephone communications with ASA, RLC, GDC, RLM, and RBS, Respondent misrepresented and omitted material facts and made misleading statements relating to the securities transactions that he was recommending.
53. As a result of the foregoing conduct, Respondent violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
FINRA Rules 4511 and 2010
(Causing Member Firm's Books and Records to Be Inaccurate)

54. The Department realleges and incorporates by reference paragraphs 1 through 53 above.
55. As alleged above, in connection with his telephone communications with ASA, RLC, GDC, RLM, and RBS, Respondent made false statements in the corresponding notes that he entered in Siebel detailing his discussions with the particular customers.
56. Merrill Lynch utilized the Siebel application to maintain a record of information about its customers and interactions between Merrill Edge FSAs and the customers.
57. Merrill Lynch required Merrill Edge FSAs, including the Respondent, to provide details of their customer interactions in Siebel.
58. In addition, as alleged above, Respondent made false statements in his July 28, 2014 reply email to Merrill Edge administrative manager REG, relating to the recommendations made to RBS.

59. By entering false information in the Siebel application and in his email to REG, as alleged above, Respondent caused Merrill Lynch to maintain inaccurate books and records in violation of Section 17(a) of the Exchange Act and Exchange Act Rule 17a-4.
60. As a result of the foregoing conduct, Respondent violated FINRA Rules 4511 and 2010.

FOURTH CAUSE OF ACTION
FINRA Rule 2010
(Misrepresentations to Employer Member Firm)

61. The Department realleges and incorporates by reference paragraphs 1 through 60 above.
62. As alleged above, in connection with his telephone communications with ASA, RLC, GDC, RLM, and RBS, Respondent made false statements in his corresponding Siebel notes detailing his discussions with the particular customers.
63. In addition, as alleged above, Respondent made false statements in his July 28, 2014 reply email to Merrill Edge administrative manager REG, relating to the recommendations made to RBS.
64. Respondent knew, or should have known, that his notes would be reviewed by Merrill Lynch supervisory and/or compliance personnel, including his immediate supervisor.
65. In addition, Respondent knew, or should have known, that the information he provided in his July 28, 2014 email to REG would be considered in evaluating the suitability of Respondent's recommendations to RBS.
66. By the misrepresentations that he made to Merrill Lynch supervisory, compliance, and/or managerial personnel, in both the Siebel application and the email to REG, Respondent violated FINRA Rule 2010.

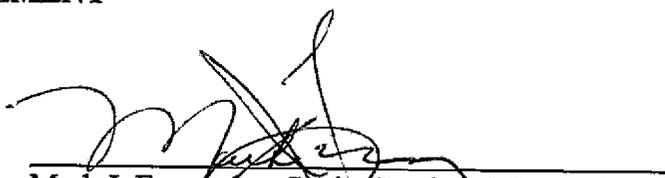
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;**
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed;**
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and**
- D. make specific findings that Respondent willfully violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 promulgated thereunder, as alleged in the First Cause of Action.**

FINRA DEPARTMENT OF ENFORCEMENT

Date: August 4, 2016



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