

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015043657202**

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

RE: Regal Securities, Inc., Respondent  
CRD Number: 7297

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent submits 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 Respondent 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**

Regal became a member of FINRA in November 1976 and became registered with the SEC in June 1977. The firm's business includes, among other things, the retailing of corporate stocks and bonds, municipal securities and options. The firm operates 23 branches and employs approximately 100 registered representatives. The firm's membership with FINRA and its registration with the SEC remain currently in effect. Regal Securities has no prior relevant disciplinary history.

**OVERVIEW**

Regal Securities failed to establish and enforce procedures relating to its review and approval of an outside business activity, in violation of NASD Rule 3010 and FINRA Rules 3270 and 2010.

## **FACTS AND VIOLATIVE CONDUCT**

FINRA Rule 3270 prohibits registered representatives from engaging in outside business activities unless “he or she has provided prior written notice to the member, in such form as specified by the member.” The Supplementary Material to Rule 3270,<sup>1</sup> “Obligations of Member Receiving Notice,” further provides that upon receipt of written notice of an outside business activity, the member shall consider whether the proposed activity will (1) interfere with or compromise the person’s responsibilities to the member and/or the member’s customers, or (2) be viewed by customers or the public as part of the member’s business. Additionally, members are instructed to evaluate whether to impose specific conditions or limitation on the outside business activity, and to evaluate whether the proposed activity is more properly characterized as an outside securities transaction subject to NASD Rule 3040. Finally, the Supplementary Material provides that a member must keep a record of its compliance with these obligations.

In March 2011, Raymond Adcock, a representative who was registered at Regal Securities, Inc. (“Regal Securities”), requested in writing that he and CF, another Regal Securities representative, be permitted to participate in an outside business activity involving TC, a limited liability company. In his request, Adcock informed Regal Securities that he and CF planned to participate in a private placement offering by TC, which sought to raise approximately \$500,000 from qualified investors through the sale of unsecured notes.

Around the same time that Adcock made his request, he and CF also submitted internally-generated outside business activity questionnaires to the firm stating that they were members of TC and that customers of Regal Securities would be participating in the outside activity.

In April 2011, the CCO at Regal Securities informed Adcock and CF in an email that the firm was rejecting their request because such activity would lead them to participate in private securities transactions requiring extensive supervision.

Shortly after the request was rejected, CF voluntarily left Regal Securities, opened an account on behalf of TC at Regal Securities and retained Adcock as TC’s registered representative of record. According to the new account form, TC operated its business at the same address where Adcock conducted his securities business.

Despite these developments, Regal Securities failed to adequately identify and respond to red flag warnings that Adcock may have been participating in an outside business activity or private securities transactions involving TC, contrary to the firm’s decision not to approve that activity when it was originally proposed by Adcock and CF. Specifically, the firm was on notice 1) that TC, the entity that was

---

<sup>1</sup> The Supplementary Material to Rule 3270 is also known as Rule 3270.01.

the subject of the outside business activity request from Adcock and CF, had opened an account at the firm, 2) that CF, who had sought to engage in the outside business activity, had left the firm and was the principal contact for TC, and 3) that TC was operating from the same address where Adcock was conducting his securities business.

Regal Securities' written supervisory procedures in place at the time required the firm to investigate and review the contents of an outside business activity request before approving or denying the proposed activity. While the firm reviewed Adcock's April 2011 request and rejected it, the firm missed red flags that Adcock had ignored the firm's decision and had taken steps along with the help of CF to engage in private securities transactions involving TC.

Between March 2011 and October 2012, TC raised approximately \$500,000 from individuals, some of whom were or had been Adcock's or CF's customers while they were registered with Regal Securities. Ignoring the firm's directive not to engage in this activity, Adcock became an authorized signatory on a TC bank account, and on July 2, 2013, Adcock drafted a check from TC's checking account made payable to "Cash" for \$10,000 and converted those funds for his own personal use.<sup>2</sup>

By failing to adequately identify and respond to red flag warnings that one of its representatives had been participating in an outside business activity or private securities transactions that Regal Securities had previously prohibited, Regal Securities failed to comply with its obligations to reasonably supervise Adcock and his outside business activities, in violation of NASD Rule 3010 and FINRA Rules 3270 and 2010.

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

A censure and fine in the amount of \$25,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

---

<sup>2</sup> As a result of his conversion of funds, Adcock was barred by FINRA in June 2015 for violating FINRA Rule 2010 (AWC 2015044253401).

## II.

### WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment 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.

Respondent further specifically and voluntarily waives 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

Respondent understands 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 Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
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. Respondent 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. Respondent 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 Respondent's: (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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it 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.

Respondent certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has 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 Respondent to submit it.

11/7/2016  
Date

  
Regal Securities, Inc.  
Shawn E. FERRIN  
President

Accepted by FINRA:

12-21-16  
Date

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

  
Richard A. March  
Senior Regional Counsel  
FINRA Department of Enforcement  
55 West Monroe Street, Suite 2700  
Chicago, Illinois 60603-5052  
(312) 899-4351