

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2016049035301**

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

RE: Nancy L. Johnson, Respondent  
General Securities Representative  
CRD No. 1743981

08/21/17 PM 2:03 FIN

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, Nancy L. Johnson ("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. I hereby accept and consent, 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**

Respondent first entered the securities industry in April 1984 when she became employed by a former FINRA-regulated broker-dealer in a non-registered capacity. Respondent left that firm in March 1999, and was thereafter employed in such capacity by several other former FINRA regulated firms.

In June 1999, Respondent became employed by Citigroup Global Markets, Inc. ("Citigroup"), a FINRA regulated broker-dealer, initially as an unregistered Client Service Associate. She received her Series 7 (General Securities Representative ("GSR")) and 66 (Uniform Combined State Law) licenses in September 2008 and April 2009, respectively.

On June 1, 2009, Respondent became associated with Morgan Stanley (the "Firm"), a FINRA regulated broker-dealer. In January 2014, she became a Senior Registered Sales Associate at the Firm.

On February 24, 2016, the Firm filed a Form U5 disclosing that Johnson's employment terminated on February 1, 2016 due to concerns that she processed a purported customer wire transfer request, later found to be fraudulent, without verbally confirming the request with the customer, and provided inaccurate information to the Firm in connection with the request.

Respondent is not currently associated with a FINRA regulated broker-dealer, however, pursuant to Article V, Section 4 of FINRA's By-Laws, she remains subject to FINRA's jurisdiction.

### **RELEVANT DISCIPLINARY HISTORY**

Respondent has no disciplinary history in the securities industry.

### **OVERVIEW**

In December 2015, Respondent represented in her employing FINRA regulated broker-dealer's wire transfer system and on other firm records that a wire request had been verbally confirmed with a customer, once by her and once by a firm registered representative. In each instance, these representations were false and in violation of FINRA Rule 2010. Respondent also violated FINRA Rules 4511 and 2010 in that the misrepresentations caused the Firm to maintain inaccurate books and records.

In March 2010, Respondent filed a Chapter 7 bankruptcy petition. Between approximately April 2010 and March 2011, she willfully failed to timely amend her Uniform Application for Securities Industry Registration ("Form U4") to disclose the filing of the petition. Further, in a Form U4 that Respondent filed during this period, she misrepresented that she had no reportable bankruptcies. Respondent thus violated Article V, Section 2(c) of the FINRA By-Laws and FINRA Rules 1122 and 2010.

### **FACTS AND VIOLATIVE CONDUCT**

#### **1. Violation of FINRA Rule 2010—False Statements**

FINRA Rule 2010 requires associated persons to observe high standards of commercial honor and just and equitable principles of trade. Making false statements to the Firm is a violation of FINRA Rule 2010.

On December 9, 2015, Respondent received an e-mail purportedly from customer MA, requesting the transfer of \$86,000 from MA's Firm accounts. Unbeknownst to Respondent, the e-mail was sent by AB, an imposter who had improperly accessed MA's e-mail account. AB provided Respondent with wire instructions listing TH Corp., which maintained an account at Bank A, as the beneficiary. However, Respondent could not process the instructions as they contained incorrect beneficiary bank routing information.

AB e-mailed new wire instructions to Respondent, listing KDF, Inc., which maintained an account at Bank B, as the beneficiary. Respondent submitted the wire request, as revised, into the Firm's electronic disbursement system (the "System"), representing on a Firm form and in the System that another Firm employee, GK, had verbally confirmed the request with MA. This representation was false since, as Respondent knew, the employee had not done so.

The funds were received by Bank B. However, on December 10, 2015, they were returned by that bank due to an invalid beneficiary account number. Thereafter, AB provided Respondent with a different beneficiary, before again changing the beneficiary to an individual, MM, who maintained an account at Bank C. Respondent resubmitted the request, as further revised, into the System, representing on a Firm form and in the System that she had verbally confirmed the request with customer MA. This representation was false since Respondent had not done so.

By making false written statements to the Firm on its forms and in the System in connection with the processing of a wire transfer request, Respondent violated FINRA Rule 2010.

## **2. Violation of FINRA Rules 4511 and 2010—Books and Records**

FINRA Rule 4511 requires members to make and preserve books and records in conformity with applicable FINRA Rules, Section 17(a) of the Securities Exchange Act of 1934 and Rules 17a-3 and 17a-4 thereunder. An inherent requirement of this rule is that such books and records be accurate. When an associated person falsifies a firm's records, he causes the firm to maintain inaccurate books and records in violation of FINRA Rules 4511 and 2010.

Here, during December 2015, Respondent caused the Firm to make and preserve wire transfer records, Firm forms and System records, that falsely indicated that she and GK had each spoken with customer MA and confirmed the wire transfer request when, in fact, they had not done so. By causing the Firm to make and preserve inaccurate books and records, in violation of Section 17(a) of the Securities and Exchange Act of 1934 and Rule 17a-4 promulgated thereunder, Respondent violated FINRA Rules 4511 and 2010.

## **3. Willful Violation of Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010—Failure to Disclose a Bankruptcy Petition**

Article V, Section 2(c) of FINRA's By-Laws provides that every application for registration filed with FINRA shall be kept current at all times by supplementary amendments which must be filed within thirty days after learning of the facts or circumstances giving rise to the amendment.

FINRA Rule 1122 provides that no member or person associated with a member shall file incomplete or inaccurate information so as to be misleading. Failing to update timely

information required on the Form U4 is inconsistent with high standards of commercial honor and just and equitable principles of trade, and therefore violates FINRA Rule 2010.

On March 25, 2010, Respondent filed a voluntary Chapter 7 bankruptcy petition.

Question 14K of Form U4 asks, among other things: “[w]ithin the past 10 years . . . have you made a compromise with creditors, filed a bankruptcy petition or been the subject of an involuntary bankruptcy petition?”

Respondent’s Form U4 was amended on January 11, 2011. On this amendment, respondent answered “no” to Question 14K, which was false, as she had filed the March 2010 bankruptcy petition. Respondent did not disclose the bankruptcy filing on her Form U4 until March 21, 2011, nearly one year after she was required to do so. Respondent’s failure to disclose the bankruptcy filing on her Form U4 during the above period was willful.

By willfully failing to timely disclose the filing of a bankruptcy petition on her Form U4, Respondent violated Article V, Section 2(c) of FINRA’s By-Laws and FINRA Rules 1122 and 2010.

B. I also consent to the imposition of the following sanctions:

- A five-month suspension from associating with any FINRA member broker-dealer in any capacity; and
- A fine in the amount of \$10,000.

The fine shall be due and payable either immediately upon reassociation with a member firm, 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 this settlement includes a finding that I willfully misrepresented a material fact on a Form U4, and that under Section 3(a)(39)(F) of the Securities Exchange Act of 1934 and Article III, Section 4 of FINRA’s By-Laws, this omission makes me subject to a statutory disqualification with respect to association with a member.

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 Securities Exchange Act of 1934. 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).

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 understand and acknowledge that FINRA does not represent or advise me and I cannot rely on FINRA or FINRA staff members for legal advice"; 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.

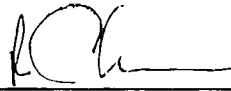
\_\_\_\_\_  
Date (8/1 / 2017)

  
\_\_\_\_\_  
Respondent

Accepted by FINRA:

9/7/2017  
Date

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



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