

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2017052709201**

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

RE: Steven John Meyer, Respondent  
Corporate Securities Representative  
CRD No. 4798400

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

Steven John Meyer ("Meyer") entered the securities industry in May 2004 as a registered representative and has been associated with several FINRA regulated broker-dealers. Beginning in January 2011, Meyer became associated with Legend Securities, Inc. in Staten Island, New York where he worked as a registered representative until October 2016. Meyer then became registered through an association with another FINRA member firm from October 2016 through March 2017.

Meyer obtained his Series 62 (Corporate Securities Representative) securities license in May 2004 and his Series 63 (Uniform Securities Agent State Law) securities license in January 2005. Meyer is not currently registered with a FINRA member firm.

Although Meyer is no longer associated with a member firm, pursuant to Article V, Section 4 of FINRA's By-Laws, he remains subject to FINRA's jurisdiction.

## RELEVANT DISCIPLINARY HISTORY

On August 1, 2017 the New Hampshire State Securities Bureau filed an order revoking Meyer's license to sell securities in the State. The revocation was a result of the State's investigation into Meyer's trading in three customer accounts while at Legend Securities, Inc. The investigation determined that Meyer:

[E]xcessively and rapidly traded three [New Hampshire] customer accounts resulting in losses of \$56,124. Trading was found to be unsuitable and confirmations were falsely marked unsolicited when they were solicited. Respondent found to have violated telemarketing restrictions. Respondent found to have acted dishonestly and unethically. Respondent found to have churned customer accounts and failed to close accounts timely when requested.

As a result of the Order, Meyer's license was revoked, he was ordered to pay a Civil and Administrative Penalty of \$100,000, a monetary penalty of \$10,000, and restitution of \$56,124.

## OVERVIEW

Between April 2014 through October 2016 (the "Relevant Period"), while Meyer was associated with Legend, he engaged in churning, unsuitable excessive trading, and unauthorized trading. Specifically, Meyer churned and engaged in unsuitable excessive trading in four customer accounts – two of whom were senior citizens. During the Relevant Period, Meyer controlled these four accounts, and his trading generated cost to equity ratios ranging from 51.63% to 104.58% and turnover rates ranging from 12.4 to 42.9. Such high costs and turnover were inconsistent with the objectives of the customers, yet generated steady income for Meyer in the form of commissions or mark-ups or mark-downs, (collectively, "sales charges"). In addition, Meyer executed 41 unauthorized trades in one of the above accounts resulting in losses of \$44,074.05, while generating sales charges of \$33,897.41.

As a result, Meyer willfully violated Section 10(b) of the Securities Exchange Act of 1934 (the "SEA"), SEA Rule 10b-5, and FINRA Rules 2020, 2111 and 2010.

## **FACTS AND VIOLATIVE CONDUCT**

### **Churning and Unsuitable Excessive Trading in Customer Accounts**

Section 10(b) of the Exchange Act prohibits the use of “any manipulative or deceptive device or contrivance” in connection with the purchase or sale of a security. SEA Rule 10b-5 further prohibits: (a) employing “any device, scheme, or artifice to defraud”, (b) making any untrue statement or omission of a material fact, or (c) engaging “in any act practice, or course of business which operates or would operate as a fraud or deceit upon any person.”

FINRA Rule 2020 is similar to Rule 10b-5 and provides that a member may not “effect any transaction in, or induce the purchase or sale of any security by any manipulative, deceptive or other fraudulent device or contrivance.”

Violations of Rule 2020, as well as Section 10(b) and Rule 10b-5, also constitute a separate violation of FINRA Rule 2010, which requires registered representatives to “observe high standards of commercial honor and just and equitable principles of trade.”

Churning occurs when an account has been excessively traded to generate sales charges without regard for a customer’s investment interests. Churning is a violation of Section 10(b), SEA Rule 10b-5, and FINRA Rules 2020 and 2010 when: (1) the registered representative controls trading in an account, (2) the level of activity in the account is inconsistent with the customer’s objectives and financial situation, and (3) the registered representative acts with intent to defraud or a reckless disregard for the customer’s interests.

Under FINRA Rule 2111, a registered representative must have a reasonable basis to believe, based on reasonable diligence, that a recommended transaction or strategy is suitable for a customer. This Rule requires that where the representative controls the trading in the account, a series of recommended transactions, even if suitable when viewed in isolation, is not excessive and unsuitable for the customer when taken together in light of the customer’s investment profile.

Where control is present, churning and unsuitable excessive trading may be established by a turnover rate, cost-equity ratio, and the use of in and out trading inconsistent with a customer’s investment profile. The turnover rate is the rate the securities in the account are sold and replaced within a given period of time. The cost-to-equity ratio is the percentage return on the customer’s average net equity needed to pay sales charges and other account expenses over a given period of time. In other words, it is the break-even point where a customer has covered costs and may begin to see a return. An annualized turnover ratio of six or more is presumptive evidence of excessive trading. An annualized cost-to-equity ratio in excess of 20 percent indicates excessive trading. When the costs in an account

are so high that there can be no expectation of a reasonable return, no rational investor would knowingly agree to them. This extends to customers with an investment objective of speculation. Like most customers of Legend, the four customers here had an investment objective of speculation.

The sales charges for all four customers were in the form of both commissions and mark-ups and mark-downs. These sales charges were set forth on trade confirmations to the customers. Commissions were clearly stated. The mark ups and mark downs, however, which accounted for more than half of these customers' sales charges, were not clearly stated. Thus, these customers would need to understand that they must calculate the aggregate cost for the trade.

#### Trading in Customer JH's Account

Customer JH was a 59 year old emergency room physician when he opened an account at Legend in April 2014. JH worked extremely long hours and did not take personal calls while at work. JH's experience with the stock market was limited to selecting mutual funds in an employee retirement account. JH relied on Meyer's investment advice and followed his recommendations. As set forth in more detail below, nearly 70% of the transactions in the account were unauthorized. JH did not understand the full amount of the costs for the account because nearly half of sales charges for the account were mark-ups or mark-downs. Thus, during the Relevant Period, Meyer exercised control over JH's account.

In total, JH invested \$57,932.53 with Legend under Meyer. The annualized cost-to-equity ratio in the account was 51.63%, and the turnover rate in the account was 42.9.

As a result of Meyer's actions in just over a year, JH suffered losses of \$44,074.05, while Meyer generated sales charges of \$33,897.41.

#### Trading in Customer LS's Account

Customer LS was a 65 year old insurance salesman when he opened an account with Meyer in April 2014. LS's investment experience was limited to owning a few stocks of companies that were his clients. Over nine months, from April 2014 to December 2014, Meyer executed 31 transactions in the account. During the Relevant Period, Meyer exercised control over LS's account.

In total, LS invested \$44,843 with Meyer. The cost-to-equity ratio in the account was 104.58%, and the turnover rate in the account was 16. Indeed, the activity in the account shows that several trades enriched Meyer while there was no economic benefit to the customer. For example, on December 16, 2014, Meyer recommended the purchase of 250 shares of ABC and marked up the trade to include a sales charge. Later that same day, the shares were sold at a higher price,

but LS actually suffered a loss due to the sales charge.

As a result of Meyer's actions over the course of nine months, LS suffered losses of \$28,584.63, while Meyer generated sales charges of \$18,457.50.

Trading in Customer CK's Account

Customer CK was retired and 86 years old when CK opened the account with Meyer in August 2014. CK's annual income was \$50,000. During a nine-month period from August 2014 to April 2015, there were 39 transactions in the account. During the Relevant Period, Meyer exercised control over CK's account.

The cost-to-equity ratio in the account was 65.41%, and the turnover rate in the account was 12.4.

As a result of Meyer's actions over the course of nine months, CK suffered losses of \$42,803.25, while Meyer generated sales charges of \$17,215.50.

Trading in Customer TF's Account

Customer TF was a 41 year old farmer when he opened the account with Meyer in December 2014. TF had limited investment experience, with no more than 5 years of experience with both stocks and bonds. TF also had an income of \$700,000, and a net worth of \$6.5 million, but a liquid net worth of \$50,000. During a ten-month period from December 2015 to September 2016, there were 133 transactions made in the account. During the Relevant Period, Meyer exercised control over TF's account.

The cost-to-equity ratio in the account was 80.62%, and the turnover rate in the account was 30.4. In this account also, Meyer engaged in active trading to generate sales charges. For example, on September 22, 2016, Meyer recommended that TF purchase 1,500 shares of XYZ and marked up the trade to include a sales charge. A week later, Meyer recommended the sale of those shares at a higher price and marked down the trade to include a sales charge. But similar to the LS trade above, TF suffered a loss on an otherwise profitable transaction due to the sales charges.

As a result of Meyer's actions over the course of ten months, TF had a profit of \$308.56, while Meyer generated sales charges of \$94,699.42.

\* \* \*

As shown above, Meyer's active trading in the four accounts resulted in more than \$115,000 in cumulative losses to his customers, while Meyer generated \$160,000 in sales charges.

Meyer churned and engaged in unsuitable excessive trading the accounts of JH, LS, CK, and TF during the Relevant Period. As discussed above, Meyer exercised control over these four accounts during the Relevant Period because most of the customers had limited investment experience and all of them relied on Meyer to direct investment decisions in their accounts. In addition, Meyer's active trading in the accounts generated sales charges at the expense of his customers. Indeed, since more than half of the trades were mark ups or mark downs, the customers could not appreciate the extent of the costs. As set forth above, the high turnover rates and cost to equity ratios demonstrate the increasing difficulty for the accounts to make sufficient profits from the trading to cover the costs of Meyer's in-and-out trading. Indeed, for LS, the value of the account would have to appreciate by more than 100% percent for LS to cover the sales charges charged to the account. Accordingly, Meyer acted with scienter to churn and excessively trade in the above accounts.

By virtue of the foregoing, Respondent willfully violated SEA Section 10(b) and SEA Rule 10b-5. Respondent also violated FINRA Rules 2020, 2111 and 2010.

#### **Unauthorized Trading**

As noted above, FINRA Rule 2010 requires that registered representatives "observe high standards of commercial honor, and just and equitable principles of trade." It is well established that an unauthorized transaction in a customer's account violates Rule 2010.

From August 2015 through October 2016, Meyer engaged in pervasive unauthorized trading in JH's account. During 2015, Meyer executed 10 unauthorized transactions in JH's account. During 2016, all of the transactions executed in the account were unauthorized, except for four transactions to close the account. Thus, 41 of the 67 trades made in the JH account, were unauthorized.

By virtue of the foregoing, Meyer violated FINRA Rule 2010.

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

- A bar from association with any FINRA member in any capacity.

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).

I understand that this settlement includes a finding that I willfully violated Section 10(b) of the Securities Exchange Act of 1934 and that under Article III, Section 4 of FINRA's By-Laws, this makes me subject to a statutory disqualification with respect to association with a member.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this AWC.

## 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 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.

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.

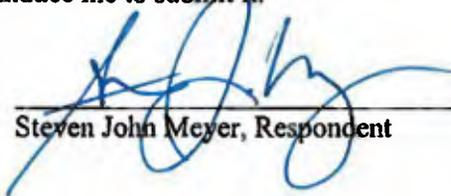
#### OTHER MATTERS

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.

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.

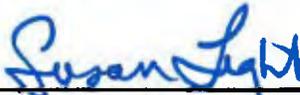
09/20/2017  
Date (mm/dd/yyyy)

  
\_\_\_\_\_  
Steven John Meyer, Respondent

Accepted by FINRA:

10/12/17  
Date

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

  
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