

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**  
**OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Charles Edwin Taylor (CRD No. 443066),

Jodi Oyler Padgett (CRD No. 1828918), and

John Lodge Farmer (CRD No. 5354041)

Respondents.

DISCIPLINARY PROCEEDING NO.  
2017053382401

**COMPLAINT**

The Department of Enforcement alleges:

**SUMMARY**

1. During the period from 1999 through August 2016, Respondents Charles E. Taylor, Jodi O. Padgett and John L. Farmer, while registered as General Securities Representatives with Royal Alliance Associates, Inc. (“Royal” or the “Firm”), engaged in an undisclosed and unapproved outside business activity involving the sale of precious metal bullion coins, in violation of NASD Rules 3030 and 2110, and FINRA Rules 3270 and 2010. In addition, Taylor failed to reasonably supervise Padgett and Farmer with regard to this outside business activity, in violation of NASD Rules 3010(b) and 2110 and FINRA Rules 3110(b) and 2010.

## RESPONDENTS AND JURISDICTION

2. Taylor entered the securities industry in 1969. He was subsequently associated with ABC, a FINRA-regulated broker dealer, and has held his Series 7 (General Securities Representative or “GSR”) and Series 24 (General Securities Principal or “GSP”) securities licenses since at least 1987. In 1987, Taylor became registered with DEF, a FINRA-regulated broker dealer. In 1989, Taylor became registered with Royal as a GSR and GSP.

3. Taylor has been the OSJ supervisor for the Prescott, Arizona branch office of the Firm (the “Prescott Branch”) since 1989. His duties included the review and approval of outside business activities for the registered representatives in the Prescott Branch. Taylor is currently registered as a GSR and GSP with Royal, and remains subject to FINRA’s jurisdiction.

4. Padgett first became registered with Royal as a GSR in November 1995, and as a GSP in January 2016. Padgett is currently registered with Royal, and remains subject to FINRA’s jurisdiction.

5. Farmer entered the securities industry in 2007. He has been sequentially registered with two FINRA-regulated broker-dealers, including Royal. Farmer became registered with the Firm in March 2011 as a GSR. He is currently registered with Royal and remains subject to FINRA’s jurisdiction.

**FIRST CAUSE OF ACTION**

Undisclosed and Unapproved Outside Business Activities  
(Taylor, Padgett and Farmer)

6. The Department realleges and incorporates by reference paragraphs 1 through 5 above.
7. NASD Rule 3030, effective through December 14, 2010, provides, in relevant part, that “[n]o person associated with a member in any registered capacity shall . . . accept compensation from, any other person as a result of any business activity, other than a passive investment, outside the scope of his relationship with his employer firm, unless he has provided prompt written notice to the member.” This rule also states that “[s]uch notice shall be in the form required by the member.”
8. FINRA Rule 3270 prohibits registered persons from acting as an “employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member.” This rule became effective December 15, 2010 and replaced NASD Rule 3030.
9. NASD Rule 2110 and FINRA Rule 2010 provide that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”
10. In or about 1982, while employed with ABC, a FINRA-regulated broker-dealer, Taylor began a business relationship with GHI, a dealer in precious metal bullion coins

("bullion coins"). Taylor referred individuals to GHI for the purpose of those individuals purchasing bullion coins from GHI (the "Referrals").

11. As compensation for the Referrals, GHI paid Taylor a referral fee using an agreed-upon calculation (the "Referral Fee").

12. In 1989, Taylor became registered with Royal as a GSR and GSP. Beginning in at least 1999, Taylor made Referrals, and was paid the Referral Fees.

13. Royal designated Taylor to be the OSJ supervisor for the Prescott Branch.

14. Before they became associated with Royal, Taylor introduced Padgett to GHI. Beginning in at least 1999, Padgett began making Referrals on behalf of some of her customers and other individuals, pursuant to the same business arrangement that Taylor had with GHI. Padgett received Referral Fees for this activity.

15. After Farmer became associated with Royal, Taylor introduced Farmer to GHI. After Farmer became registered with Royal as a GSR in March 2011, he began making Referrals on behalf of some of his customers and other individuals. Farmer received Referral Fees for this activity.

16. Royal's policy permitted its registered representatives to sell only products approved by Royal. In addition, from at least 1999, the Firm's Sales Practice Manual prohibited Firm registered representatives from assisting a customer in the purchase or sale of gold, silver or other precious metals. Accordingly, the Referrals were outside the scope of Respondents' relationship with Royal. Moreover, Royal never approved the participation of registered representatives, including the Respondents, in Referrals to GHI or the receipt of referral fees related to the sale of bullion coins.

17. The Sales Practice Manual required its registered representatives to disclose to the Firm all outside business activities, and that such disclosure be made through specified outside business request forms prior to engaging in the activity.

18. The Firm also required that First Line Supervisors review and approve the applicable outside business activity request form prior to engaging in such activity. OSJ supervisors such as Taylor were considered to be First Line Supervisors.

19. From 1999 through August 2016, Taylor made at least 33 Referrals while he was registered with Royal. In at least 22 instances, the Referrals involved Firm customers. In connection with these Referrals, GHI paid Referral Fees to Taylor totaling approximately \$10,081.

20. From 1999 through August 2016, Padgett made at least eight Referrals to GHI while she was registered with Royal. In at least six instances, the Referrals involved Firm customers. In connection with these Referrals, GHI paid Referral Fees to Padgett totaling approximately \$5,676.

21. From 2011 through August 2016, Farmer made at least six Referrals while he was registered with Royal. In at least four instances, the Referrals involved Firm customers. In connection with these Referrals, GHI paid Referral Fees to Farmer totaling approximately \$4,663.

22. Although the Referrals were an outside business activity for which Respondents received compensation, Respondents did not complete the Firm's required outside business request form seeking approval for the Referrals or any outside business activity

involving GHI. Respondents also never obtained approval from the Firm to participate in the Referrals or any outside business activity involving GHI.

23. As a result of failing to disclose his outside business activities involving GHI, in writing to the Firm, Taylor violated NASD Rules 3030 and 2110, for misconduct from at least 1999 through December 14, 2008; NASD Rule 3030 and FINRA Rule 2010, for misconduct from December 15, 2008 through December 14, 2010; and FINRA Rules 3270 and 2010, for misconduct from December 15, 2010 through August 2016.

24. As a result of failing to disclose her outside business activities involving GHI, in writing to the Firm, Padgett violated NASD Rules 3030 and 2110, for misconduct from at least 1999 through December 14, 2008; NASD Rule 3030 and FINRA Rule 2010, for misconduct from December 15, 2008 through December 14, 2010; and FINRA Rules 3270 and 2010, for misconduct from December 15, 2010 through August 2016.

25. As a result of failing to disclose his outside business activities involving GHI, in writing to the Firm, Farmer violated FINRA Rules 3270 and 2010.

### **SECOND CAUSE OF ACTION**

Failure to Supervise

(Taylor)

NASD Rules 3010(b) and 2110, FINRA Rules 3110(b) and 2010.

26. The Department realleges and incorporates by reference paragraphs 1 through 25 above.

27. NASD Rule 3010(b) and FINRA Rule 3110(b), which superseded NASD Rule 3010(b) effective December 1, 2014, require FINRA regulated broker-dealers to “establish, maintain, and enforce written procedures . . . to supervise the activities of

registered representatives . . . that are reasonably designed to achieve compliance with applicable securities laws and regulations.”

28. The Firm’s written supervisory procedures delegated to Front Line Supervisors, including OSJ supervisors, specific responsibilities relating to supervision of registered representatives.

29. Taylor has been the OSJ supervisor for the Prescott Branch since at least 1999. In this capacity, he was responsible for supervising Prescott Branch registered representatives including Padgett and Farmer, for, among other things, the review and approval of the required outside business request forms.

30. Taylor knew that Padgett made Referrals of Firm customers to GHI and accepted Referral Fees from at least 1999 through August 2015. Taylor, however, never directed Padgett to disclose this activity to the Firm in writing through completion of the required outside business request form.

31. Taylor also knew that Farmer made Referrals of Firm customers to GHI and accepted Referral Fees at least during the period from August 2014 through January 2016. Taylor, however, never directed Farmer to disclose this activity to the Firm in writing through completion of the required outside business request form.

32. Taylor himself made Referrals and accepted Referral Fees from at least 1999 through August 2016. Taylor, however never disclosed this activity to the Firm in writing through completion of the required outside business request form.

33. Taylor did not ask anyone at the Firm whether the Referrals should be disclosed as an outside business activity.

34. Taylor failed to reasonably supervise Padgett and Farmer by failing to enforce the Firm's written supervisory procedures with regard to their participation in the Referrals to GHI. Among other things, Taylor failed to take reasonable steps to ascertain that this activity was disclosed in writing to the Firm as an outside business activity in the form required by the Firm. Taylor also failed to take reasonable steps to ascertain that the Referrals of Firm customers to GHI was an activity prohibited by Firm policy beginning at least in 1999.

35. By virtue of this conduct, Taylor violated NASD Rules 3010(b) and 2110 from at least 1999 through December 14, 2008; NASD Rule 3010(b) and FINRA Rule 2010 from December 15, 2008 through November 30, 2014; and FINRA Rules 3110(b) and 2010 from December 1, 2014 through August 2016.

### **RELIEF REQUESTED**

WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents 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, and

- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

**FINRA DEPARTMENT OF ENFORCEMENT**

Date:

11/15/18

  
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