

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

JOHN JOSEPH VAUGHAN
(CRD No. 1495636),

Respondent.

Disciplinary Proceeding
No. 2012030373701

Hearing Officer — KBW

DEFAULT DECISION

August 17, 2015

Respondent violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish and maintain an adequate supervisory system for firm-imposed heightened supervision and an adequate supervisory system for review of customer transactions. Respondent is suspended in all principal capacities for six months and is fined \$20,000.

Appearances

Frank M. Weber, Esq., Gina M. Petrocelli, Esq., and Lara Thyagarajan, Esq., for the Department of Enforcement.

No appearance by or on behalf of John Joseph Vaughan.

DECISION

I. Introduction

FINRA's Department of Enforcement filed the attached Complaint with the Office of Hearing Officers against Respondent John Joseph Vaughan on March 27, 2015. From September 2001 through March 2013 (the "Relevant Period"), Vaughan was the Chief Compliance Officer of HFP Capital Markets LLC. The Complaint charges Vaughan with failure to establish and maintain: (1) an adequate supervisory system for firm-imposed heightened supervision, in violation of NASD Rule 3010 and FINRA Rule 2010 and (2) an adequate supervisory system for review of customer transactions, in violation of NASD Rule 3010 and FINRA Rule 2010. Vaughan failed to answer or otherwise respond to the Complaint.

On June 19, 2015, Enforcement filed a Motion for Entry of Default Decision and Supporting Memorandum of Law (“Default Motion”) with the Office of Hearing Officers. The Default Motion is supported by the Declaration of Frank M. Weber in Support of Motion for Entry of Default Decision and Request for Sanctions (“Weber Decl.”) and attached exhibits marked CX-1 through CX-7. Vaughan did not respond to the Default Motion.

II. Vaughan’s Background

In 2011, Vaughan became registered through HFP as a General Securities Representative, General Securities Principal, and Limited Representative-Investment Banking. From July 2011 to September 2011, Vaughan was a Compliance Manager reporting to HFP’s Chief Compliance Officer. When HFP’s Chief Compliance Officer left HFP in September 2011, HFP promoted Vaughan to Chief Compliance Officer. Vaughan remained Chief Compliance Officer of HFP until he left HFP in March 2013. Vaughan is not currently registered through or associated with a FINRA member firm.¹

III. Jurisdiction

Vaughan’s registration through HFP was terminated on April 1, 2013.² Since then, Vaughan has not been associated with or registered with FINRA through any member firm.³ FINRA has jurisdiction over this disciplinary proceeding, pursuant to Article V, Section 4 of FINRA’s By-Laws, because the Complaint alleges that he engaged in misconduct while he was associated with a member firm, and the Complaint was filed less than two years after he was last registered with FINRA.

IV. Origin of Investigation

This investigation arose from the 2012 cycle examination of former member firm HFP conducted by the Member Regulation Staff of FINRA’s District 10 office.⁴

V. Vaughan’s Default

Enforcement served the Complaint and Notice of Complaint (collectively, “First Notice”) and the Complaint and Second Notice of Complaint (collectively, “Second Notice”) in accordance with FINRA Rules 9131 and 9134. Enforcement served the First Notice on March

¹ Complaint (“Compl.”) ¶¶ 2, 4; Weber Decl. ¶ 9.

² CX-1.

³ Compl. ¶ 4.

⁴ Weber Decl. ¶ 5.

27, 2015, and the Second Notice on April 27, 2015. In each instance, Enforcement served Vaughan by both first-class mail and certified mail (return receipt requested) to Vaughan's current residential address as reflected in the Central Registration Depository ("CRD address").⁵ Enforcement also emailed the First Notice and the Second Notice to an email address that Vaughan had provided to FINRA staff during the investigation.⁶ Thus, Vaughan received valid constructive notice of this proceeding.

Pursuant to FINRA Rules 9215 and 9138(c), Vaughan's Answer was due within fourteen days of service of the Second Notice of Complaint, plus an additional three days because service was made by first class mail and by certified mail. Vaughan did not file an Answer.⁷

Accordingly, the Hearing Officer finds that Vaughan defaulted by failing to file an Answer to the Complaint. Therefore, the Hearing Officer deems the allegations in the attached Complaint admitted pursuant to FINRA Rules 9215(f) and 9269(a).

VI. Findings of Fact and Conclusions of Law

A. HFP

During the Relevant Period, HFP was primarily engaged in a retail securities business with a focus on sales of high-yield bonds. HFP employed numerous registered representatives who were the subject of customer complaints, arbitrations, and disciplinary actions.⁸

B. NASD Rule 3010

NASD Rule 3010(a) requires each member to establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable securities laws and regulations, NASD rules, and FINRA rules.

C. First Cause of Action – Failure To Establish And Maintain A Reasonable Supervisory System For Registered Representatives Requiring Heightened Supervision

Vaughan was responsible for establishing, maintaining, and enforcing a reasonable supervisory system for heightened supervision of registered representatives with a history of

⁵ Weber Decl. ¶¶ 11-15, 17-23. CX-2; CX-3; CX-5; CX-6.

⁶ Weber Decl. ¶¶ 13, 19; CX-4; CX-7.

⁷ Weber Decl. ¶¶ 16, 23.

⁸ Compl. ¶ 7.

customer complaints, arbitrations, and disciplinary actions. Vaughan failed to establish, maintain, and enforce such a supervisory system.⁹

During the Relevant Period, HFP's written supervisory procedures ("WSPs") required HFP's Compliance Department to conduct a review to determine whether a representative should be placed on heightened supervision if that representative had a history of three or more customer complaints within the past two years. HFP's WSPs required the Compliance Department, under Vaughan's supervision, to either (1) prepare a written plan of heightened supervision, or (2) for instances when it was determined not to place the representative on heightened supervision, prepare a memorandum addressing why the existing supervision of the registered representative was adequate.¹⁰

1. Vaughan Unreasonably Delegated Supervisory Responsibilities For Two Registered Representatives Who Had Been Placed On Heightened Supervision

BF joined HFP in 2009. Between then and January 2012, BF was the subject of 13 customer complaints. In January 2012, Vaughan placed BF on heightened supervision. After placing BF on a heightened supervision plan, Vaughan unreasonably continued to delegate supervisory responsibilities to BF until approximately July 2012. BF's supervisory responsibilities included supervision of JT and JS, two registered representatives who had been placed on heightened supervision in 2012.¹¹

2. Vaughan Prepared Deficient Amended Heightened Supervision Plans for BF, JT, and JS

In January 2013, Vaughan amended the heightened supervision plans of BF, JT, and JS. The amended plans were not reasonably designed to detect potential sales practice abuses, and Vaughan failed to ensure that BF, JT, and JS were adequately supervised. Vaughan's failures included:

- Vaughan unreasonably failed to limit the representatives (either in the amended heightened supervision plans or otherwise) to certain types of business and to require pre-approval of the representatives' transactions with customers;
- although HFP's WSPs required that the representatives' supervisors certify in writing that heightened supervision had been conducted, Vaughan did not provide

⁹ Compl. ¶¶ 1, 12.

¹⁰ Compl. ¶ 13.

¹¹ Compl. ¶¶ 27, 37.

for this requirement in the amended heightened supervision plans or take steps to otherwise ensure that this certification occurred; and

- the amended heightened supervision plans that Vaughan prepared did not provide that supervisors would monitor the transactions of BF, JT, and JS on a daily basis, and Vaughan failed to otherwise ensure that such monitoring occurred.¹²

These deficient plans remained in effect until January 2013.¹³

3. Vaughan Failed To Timely Place JE, MT, And NE On Heightened Supervision

Vaughan unreasonably failed to place three other representatives (JE, MT, and NE) on heightened supervision in 2012 even though each had been named in at least seven customer arbitration complaints during the two years between January 2010 and December 2011. Only after FINRA inquired about HFP's heightened supervision procedures in connection with FINRA's 2012 examination, did Vaughan place JE, MT, and NE on heightened supervision. Further, contrary to HFP's WSPs, Vaughan did not document before January 2013 that he had considered whether JE, MT, or NE should be placed on heightened supervision or the reasons why the existing supervision of these three representatives was adequate.¹⁴

4. When Vaughan Placed JE, MT, And NE On Heightened Supervision, He Prepared Heightened Supervision Plans That Were Deficient

In January 2013, Vaughan prepared and signed heightened supervision plans for JE, MT, and NE. These plans suffered from the same deficiencies as the amended heightened supervision plans that Vaughan prepared for BF, JT, and JS. Accordingly the heightened supervision plans for JE, MT, and NE failed to adequately address the risks presented by the history of sales practice complaints against JE, MT, and NE. The heightened supervision plans for JE, MT, and NE remained in effect at least until March 2013, when Vaughan left HFP. In addition, Vaughan failed to take any other reasonable steps to ensure that the JE, MT, and NE were subject to adequate heightened supervision.¹⁵

¹² Compl. ¶¶ 10, 25, 32, and 33.

¹³ Compl. ¶ 24.

¹⁴ Compl. ¶¶ 14-18.

¹⁵ Compl. ¶¶ 19, 26, and 32.

5. Vaughan Unreasonably Failed To Enforce The Terms Of The Amended Heightened Supervision Plans For BF, JT, And JS And The Heightened Supervision Plans For JE, MT, And NE

Vaughan failed to enforce the terms of the amended heightened supervision plans for BF, JT, and JS and of the heightened supervision plans for JE, MT, and NE. In each plan, Vaughan required an HFP Branch Manager or the Compliance Department to contact on a quarterly basis various clients of the registered representative. The plans provided that the supervisors were to determine that the client was aware of account positions and satisfied with the service received. Vaughan was responsible for enforcing this provision. However, Vaughan failed to enforce this provision, and customers were not contacted.¹⁶

6. Conclusion

Vaughan violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish and maintain a reasonably designed supervisory system for heightened supervision of HFP registered representatives.¹⁷

D. Second Cause of Action – Failure To Establish And Maintain A Reasonable Supervisory System For Review Of Customer Transactions

From approximately May 2012 to at least February 2013, Vaughan failed to establish and maintain a reasonably designed supervisory system at HFP for reviewing customer transactions. During this period, Vaughan was responsible for reviewing all transactions at HFP on a daily basis, including conducting reviews for suitability, unauthorized transactions, and excessive commissions (including markups and markdowns). Vaughan unreasonably delegated to an inexperienced and inadequately trained junior employee, SW, responsibility for conducting reviews of HFP's daily blotters, identifying exceptions in HFP's trade blotters, and bringing those exceptions to Vaughan's attention. Vaughan unreasonably failed to provide SW with adequate instructions, training, and supervision. In particular, Vaughan failed to:

- identify the scope of the information that SW should review;
- provide SW with adequate information about the method and manner for conducting the review; and
- reasonably ensure that SW was performing the delegated reviews properly.¹⁸

¹⁶ Compl. ¶¶ 34-36.

¹⁷ *Dep't of Enforcement v. The Dratel Group, Inc.*, No. 2008012925001, 2014 FINRA Discip. LEXIS 6, at *84 (NAC May 2, 2014) (individual who was responsible for firm's lax supervisory and compliance structure violated NASD Rule 3010(a) and (b) and just and equitable principles of trade).

¹⁸ Compl. ¶¶ 41, 42-47.

Based on the foregoing, Vaughan violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish and maintain a reasonably designed supervisory system at HFP for reviewing customer transactions.

VII. Sanctions

A unitary sanction is appropriate for the two causes of action. The FINRA Sanction Guidelines (“Guidelines”) provide that “[a]ggregation or ‘batching’ of violations may be appropriate for purposes of determining sanctions in disciplinary proceedings . . . for similar types of violations.”¹⁹ Here, the two causes of action involve similar types of violations: failures to establish and maintain a reasonable system for the supervision of registered representatives while Vaughan was Chief Compliance Officer of HFP.

For failure to supervise, the Guidelines recommend the imposition of a fine ranging from \$5,000 to \$73,000 and a suspension of up to 30 business days in all supervisory capacities.²⁰ In egregious cases, the Guidelines recommend suspending the responsible individual in all capacities for up to two years or barring the responsible individual.²¹

Vaughan’s violations of NASD Rule 3010 and FINRA Rule 2010 were egregious because of the nature, number, and duration of the violations, and the risk that they posed to the investing public. For approximately six months, Vaughan unreasonably delegated supervisory responsibilities for two registered representatives who had been placed on heightened supervision to BF, even though Vaughan had placed BF on heightened supervision after BF had been named in 13 customer complaints. In January 2013, Vaughan prepared deficient amended heightened supervision plans for BF, JT, and JS. These amended heightened supervision plans remained in effect until at least March 2013, when Vaughan left HFP. Vaughan failed to place JE, MT, and NE on heightened supervision during 2012 despite the multiple customer complaints against them in 2010 and 2011. When Vaughan placed JE, MT, and NE on heightened supervision in January 2013, the heightened supervision plans were deficient. These deficient plans also remained in effect until at least March 2013. From January 2013 to March 2013, Vaughan unreasonably failed to enforce the terms of the amended heightened supervision plans for BF, JT, and JS and the heightened supervision plans for JE, MT, and NE. From May 2012 to at least February 2013, Vaughan failed to establish and maintain a reasonable supervisory system for review of customer transactions. In light of these facts, it is appropriate to suspend Vaughan for six months in all principal capacities and fine him \$20,000.

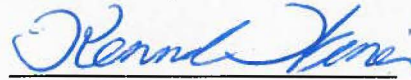
¹⁹ FINRA Sanction Guidelines at 4 (2015), available at www.finra.org/industry/sanction-guidelines.

²⁰ Guidelines at 103.

²¹ Guidelines at 103.

VIII. Order

John Joseph Vaughan violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish and maintain an adequate supervisory system. For these violations, Vaughan is suspended in all principal capacities for six months and is fined \$20,000. If this Default Decision becomes FINRA's final disciplinary action, Vaughan's suspension shall commence at the opening of business on September 21, 2015, and end on March 20, 2016. The fine shall be due and payable if and when Vaughan re-enters the securities industry.



Kenneth Winer
Kenneth Winer
Hearing Officer

Copies to: John Joseph Vaughan (*via email and first-class mail*)
 Frank M. Weber, Esq. (*via email and first-class mail*)
 Gina Petrocelli, Esq. (*via email*)
 Lara Thyagarajan, Esq. (*via email*)
 Jeffrey D. Pariser, Esq. (*via email*)

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

John J. Vaughan (CRD No. 1495636),

Respondent.

DISCIPLINARY PROCEEDING
No. 2012030373701

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent John J. Vaughan, the former Chief Compliance Officer ("CCO") of former member firm HFP Capital Markets LLC (BD No. 44351) ("HFP" or the "Firm") failed to establish, maintain and enforce reasonable supervisory systems and procedures with respect to the following: (i) from September 2011 through March 2013 (the "Heightened Supervision Period"), Vaughan failed to establish, maintain and enforce reasonable supervisory systems for heightened supervision of HFP registered representatives; and (ii) from approximately May 2012 to at least February 2013 (the "Delegation Period"), Vaughan unreasonably delegated responsibility for conducting reviews of customer transactions to an inexperienced and inadequately trained junior employee, SW, who did not hold any principal registrations. By reason

of these violations, Vaughan violated NASD Conduct Rule 3010 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

2. Vaughan first became registered with FINRA as a General Securities Representative (“GSR”) through a member firm on July 9, 1987. On February 1, 1993, Vaughan became registered as a General Securities Principal (“GSP”) through that firm. Vaughan’s registrations through that firm were terminated January 27, 1997. Thereafter, between January 1997 and July 2011, Vaughan was registered through seven different firms in various capacities.
3. Beginning July 11, 2011, Vaughan became registered through HFP as a GSR, GSP and as a Limited Representative – Investment Banking. Vaughan’s registrations through HFP were terminated on April 1, 2013.
4. Although Respondent is no longer registered or associated with a FINRA member, 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 HFP, namely, April 1, 2013; and (ii) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

BACKGROUND

5. Vaughan joined HFP in July 2011 as a Compliance Manager, and reported to HFP’s then-CCO. In September 2011, after that CCO departed from HFP, Vaughan was promoted to the role of CCO. Vaughan was HFP’s CCO from September 2011 until

the time he left HFP, in March 2013, throughout the Heightened Supervision Period and the Delegation Period.

6. From September 2011 to May 2012, Vaughan was the only member of HFP's Compliance Department. Beginning in May 2012, Vaughan hired a junior employee, SW, who reported to Vaughan and who held the title "Compliance Manager."
7. During the Heightened Supervision Period and the Delegation Period, HFP was primarily engaged in a retail securities business with a focus on sales of high-yield bonds. HFP employed numerous registered representatives who were the subject of a significant number of customer complaints, arbitrations and disciplinary actions. In June 2014, HFP was expelled from FINRA membership and ordered to pay restitution of \$2,980,000 after consenting to findings that from December 2009 to February 2011 (prior to Vaughan joining the Firm), the Firm caused the fraudulent sale of a private placement and failed to have a reasonable basis to offer the private placement to the Firm's customers.

FIRST CAUSE OF ACTION

Failure to Establish, Maintain and Enforce a Reasonable Supervisory System for Firm-Imposed Heightened Supervision

(Violation of NASD Conduct Rule 3010 and FINRA Rule 2010)

Vaughan Failed to Timely Place Representatives on Heightened Supervision

8. The Department realleges and incorporates by reference paragraphs 1 through 7 above.
9. NASD Conduct Rule 3010(a) provides that "each member shall establish and maintain and enforce a system to supervise the activities of each registered representative,

registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable [FINRA] Rules.”

10. NASD Notice to Members 97-19, entitled “NASD Regulation and New York Stock Exchange Memorandum Discusses Sweep Report and Provides Guidance on Heightened Supervision Recommendations,” states, in relevant part, that:

[a] firm that hires one or more registered representatives with a history of customer complaints, disciplinary actions, or arbitrations, or that employs a registered representative who develops such a record during his or her employment, should recognize that it has heightened supervisory responsibilities that will require it, at a minimum, to examine the circumstances of each such case and make a reasonable determination whether its standard supervisory and educational programs are adequate to address the issues raised by the record of any such registered representative.

11. In addition, NASD Notice to Members 97-19 states that after an individual has been identified as requiring special supervision because of a history of complaints, disciplinary actions and arbitrations “firms should consider developing and implementing special supervisory procedures structured to address sales practice concerns that are raised by that history.”

12. As CCO and pursuant to HFP’s written supervisory procedures (“WSPs”), Vaughan was responsible for establishing, maintaining and enforcing a reasonable supervisory system for heightened supervision of registered representatives with a history of customer complaints, arbitrations and disciplinary actions.

13. During the Heightened Supervision Period, the WSPs established that HFP’s Compliance Department must conduct a review to determine whether a representative should be placed on heightened supervision if that representative had a history of three or more customer complaints within the past two years. The WSPs required the

Compliance Department, under Vaughan's supervision, to either: (i) prepare a written plan of heightened supervision; or (ii) for instances when it was determined not to place the representative on heightened supervision, prepare a memorandum addressing why existing supervision of the registered representative was adequate.

14. HFP registered representative JE was the subject of seven customer complaints and two customer arbitrations during the two year period of January 2010 through December 2011. Additionally, during that period, JE settled two arbitrations that were commenced prior to 2010. The complaints and arbitrations concerned allegations that included unauthorized trading, unsuitable recommendations and excessive trading. During 2012, JE was named in an additional customer arbitration alleging, among other charges, that JE engaged in fraud, made unsuitable recommendations and was negligent. Also during 2012, JE was the subject of an additional sales practice complaint alleging that JE engaged in unauthorized trading.
15. HFP registered representative MT was the subject of ten customer complaints during the two year period of January 2010 through December 2011, including five sales practice complaints, of which one complaint alleged unauthorized trading. During 2012, MT was the subject of two additional sales practice complaints.
16. HFP registered representative NE was the subject of eight customer complaints during the two year period of January 2010 through December 2011, including four sales practice complaints. One of these complaints alleged that NE made unsuitable recommendations. During 2012, NE was the subject of two additional sales practice complaints.

17. However, Vaughan unreasonably failed to place any of these representatives on heightened supervision until January 2013, after FINRA inquired about HFP's heightened supervision procedures in connection with FINRA's 2012 examination.
18. Further, Vaughan did not document that he considered whether JE, MT or NE should have been placed on heightened supervision before January 2013 or that he considered and documented any reasons why existing supervision of these representatives was adequate, including in the form of the memorandum required by the WSPs.

Vaughan Failed to Institute Adequate Written Heightened Supervision Plans

19. In January 2013, Vaughan prepared and signed written plans for heightened supervision for JE (dated January 18, 2013), MT (dated January 18, 2013) and NE (dated January 17, 2013). These plans remained in effect until at least March 2013, when Vaughan departed from HFP.
20. In addition, between 2011 and 2012, Vaughan placed three additional HFP representatives, each of whom had a history of at least three customer complaints within the previous two years, on heightened supervision, JS, JT and BF.
21. Vaughan placed JS on heightened supervision effective October 12, 2011.
22. Vaughan placed JT on heightened supervision effective January 17, 2012.
23. Vaughan placed BF on heightened supervision effective January 17, 2012.
24. Vaughan prepared and signed written plans for heightened supervision for JS, JT, and BF, each bearing the date on which the representatives was placed on heightened supervision. These plans remained in effect until January 2013.

25. During January 2013, Vaughan amended the written plans for heightened supervision for JS, JT and BF and signed each of the amended plans. The amended plans and the original plans contained identical terms for the heightened supervision of JS, JT and BF. JS's amended plan was dated January 17, 2013. JT's amended plan was dated January 18, 2013. BF's amended plan was dated January 18, 2013. The amended plans remained in effect until at least March 31, 2013, when Vaughan departed from HFP. The amended plans and the original plans for JS, JT and BF, collectively with the written plans of heightened supervision for JE, MT and NE, are referred to herein as the "Heightened Supervision Plans."
26. In each of the Heightened Supervision Plans, Vaughan failed to adequately address the risks presented by the representative's history of sales practice complaints. Vaughan also failed to take any other reasonable steps to ensure that the representatives were subject to adequate heightened supervision.
27. From the time that BF, JT and JS joined HFP in 2009 until the time that they were placed on heightened supervision, each of these representatives had been the subject of numerous customer complaints, including numerous sales practice complaints.
28. BF was the subject of 13 customer complaints, including seven sales practice complaints, of which three alleged that BF made unsuitable recommendations.
29. JT was the subject of 12 customer complaints, including five sales practice complaints, of which two alleged that JT made misrepresentations.
30. JS was the subject of 15 customer complaints, including 11 sales practice complaints. The sales practice complaints included three complaints against JS alleging

misrepresentations, two complaints alleging unauthorized trading and one complaint alleging unsuitable transactions.

31. In addition, from the time that they were placed on heightened supervision until March 2013, BF, JS, JT, MT and NE were each the subject of additional customer complaints and/or arbitrations and disciplinary actions.
- a. After Vaughan placed BF on heightened supervision, BF was the subject of two customer arbitrations and four sales practice complaints. Customers alleged that BF engaged in fraud, unsuitable transactions and unauthorized trading. Additionally, in February 2013, BF entered into a Consent Order with a state securities regulator revoking BF's securities registration in that state for various violations of that state's securities laws and rules, including making unjustified or untruthful representations, unsuitable recommendations and other unfair, misleading or unethical practices.
 - b. After Vaughan placed JS on heightened supervision, JS was the subject of seven additional customer complaints, including six sales practice complaints of which one complaint alleged misrepresentations.
 - c. After Vaughan placed JT on heightened supervision, JT was the subject of nine additional complaints, including six sales practice complaints. Four of the complaints against JT alleged unauthorized trading.
 - d. After Vaughan placed MT on heightened supervision, MT was the subject of a customer arbitration concerning allegations that MT engaged in excessive trading and recommended unsuitable transactions.

e. On March 11, 2013, after Vaughan placed NE on heightened supervision and prior to Vaughan's departure from the Firm, a state securities regulator issued a Notice Letter of Intent to File a Complaint against NE. In October 2014, after Vaughan's departure from the Firm, NE entered into a Consent Order in that action resulting in a three month suspension of NE's securities license in that state and a \$45,000 fine. The Consent Order contained findings that during 2012, while associated with the Firm, NE made unjustified or untruthful representations and made an unsuitable recommendation.

32. Vaughan's Heightened Supervision Plans were not reasonably designed to detect potential sales practice abuses, and Vaughan failed to otherwise ensure that the representatives were adequately supervised. Although the WSPs suggested considering limiting the representatives to certain types of business and requiring pre-approval of the representatives' transactions with customers, Vaughan unreasonably failed to provide for either of these steps in the Heightened Supervision Plans, and failed to otherwise ensure that such steps were taken at any time during the Heightened Supervision Period. The representatives' business areas were not limited in any way and the representatives effected transactions without obtaining pre-approval.

33. Further, the Heightened Supervision Plans did not provide that supervisors would monitor the representatives' transactions on a daily basis, and Vaughan failed to otherwise ensure that such monitoring occurred. Additionally, although the WSPs required that the representatives' supervisors certify in writing that heightened supervision had been conducted, Vaughan did not provide for this requirement in the

Heightened Supervision Plans, or take steps to otherwise ensure that this certification occurred. The representatives' supervisors did not provide any such certification during the Heightened Supervision Period.

Vaughan Unreasonably Failed to Enforce the Terms of Heightened Supervision Plans

34. Vaughan also failed to enforce the terms of the Heightened Supervision Plans.
35. In each of the Heightened Supervision Plans, Vaughan required an HFP Branch Manager or the Compliance Department to contact various clients of the brokers placed on heightened supervision on a quarterly basis. The plans provided that the supervisors were to determine that the client was aware of account positions and satisfied with the service received.
36. Vaughan was responsible for enforcing this provision. However, he failed to do so and customers were not contacted.

Vaughan Unreasonably Delegated Supervisory Responsibilities to a Registered Representative after Placing the Representative on Heightened Supervision

37. After placing registered representative BF on a Heightened Supervision Plan during January 2012, Vaughan unreasonably continued to delegate supervisory responsibilities to BF until at least approximately July 2012. BF's supervisory responsibilities included supervision of two other registered representatives who had been placed on heightened supervision, JS and JT.
38. It was not reasonable for Vaughan to delegate supervisory responsibilities to BF in light of the customer complaints against BF.

39. By reason of the foregoing, Vaughan violated NASD Conduct Rule 3010 and FINRA Rule 2010.

SECOND CAUSE OF ACTION

**Failure to Establish, Maintain and Enforce a Reasonable Supervisory System for Supervision of Review of Customer Transactions
(Violation of NASD Conduct Rule 3010 and FINRA Rule 2010)**

40. The Department realleges and incorporates by reference paragraphs 1 through 39 above.

41. During the Delegation Period, the WSPs provided that HFP's Compliance Department was responsible for reviewing transactions on a daily basis, including conducting reviews for suitability, unauthorized transactions and excessive commissions, including review of markups/markdowns.

42. During the Delegation Period, in his role as HFP's CCO, Vaughan was responsible for conducting the daily review of all transactions at HFP.

43. During the Delegation Period, Vaughan delegated supervisory responsibility for reviewing HFP's daily trade blotters to SW, an individual registered with FINRA as a GSR. SW did not hold any principal registrations. Vaughan hired SW in May 2012 as a "Compliance Manager." However, SW had only limited prior experience in the securities industry. Prior to joining HFP, SW had not performed any compliance functions.

44. Vaughan unreasonably delegated to SW the responsibility for identifying exceptions in HFP's trade blotters and bringing those exceptions to Vaughan's attention.

45. Further, Vaughan unreasonably failed to provide SW with adequate instructions and training. Vaughan failed to adequately identify the scope of the information that SW should review, and he failed to provide SW with adequate information about the method and manner for conducting the review.
46. Vaughan also failed to reasonably ensure that SW was performing the delegated reviews properly or otherwise ensure that they were taking place. Vaughan failed to adequately review or follow up on SW's work.
47. As a result of these failures, Vaughan failed to implement a reasonable system at HFP for reviewing customer transactions.
48. By reason of the foregoing, Vaughan violated NASD Conduct Rule 3010 and 2010.

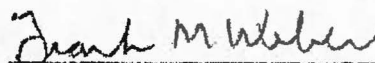
RELIEF REQUESTED

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

FINRA DEPARTMENT OF ENFORCEMENT

Dated: March 27, 2015



Frank M. Weber, Senior Regional Counsel
Gina M. Petrocelli, Director

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