

BEFORE THE NATIONAL ADJUDICATORY COUNCIL
FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of

Department of Enforcement,

Complainant,

vs.

Paul Eric Flesche
Sherman Oaks, CA,

Respondent.

DECISION

Complaint No. 2016049565901r

Dated: September 24, 2025

On remand from the Securities and Exchange Commission. Held, findings of violations dismissed and sanctions reversed.

Appearances

For the Complainant: Jennifer Crawford, Esq., John R. Baraniak, Esq., Payne L. Templeton, Esq., Melissa Turitz, Esq., Department of Enforcement, Financial Industry Regulatory Authority

For Respondent: Arash Shirdel, Esq., Jon Uretsky, Esq.

Decision

Paul Eric Flesche (“Flesche”) appealed to the Securities and Exchange Commission (“Commission”) a final FINRA disciplinary action that found he failed to supervise a registered representative, in violation of FINRA Rules 3310 and 2010. Without reaching the merits of FINRA’s action, the Commission remanded the proceeding to FINRA because it found that the record “lacks information necessary to determine the fairness of FINRA’s proceeding.” For the reasons discussed below, we dismiss this disciplinary proceeding against Flesche and accordingly reverse the sanctions that FINRA imposed on him.

I. Background

A. FINRA Takes Disciplinary Action Against Flesche and Others

Flesche served as the chief financial officer, financial and operations principal, and chief compliance officer of Glendale Securities, Inc. (“Glendale”). In October 2017, the Department of Enforcement (“Enforcement”) filed a disciplinary complaint against Glendale, Flesche, and

four other Glendale principals and representatives. As to Flesche, the complaint claimed that he participated in the unlawful distribution of restricted securities, violated anti-money laundering (“AML”) rules, and violated FINRA supervisory rules, including by failing to supervise one of Glendale’s representatives.

B. A Hearing Panel Issues a Decision That the Chief Hearing Officer Later Stays

A FINRA extended hearing panel (“Hearing Panel”) issued a decision on April 5, 2019. With respect to the claims concerning Flesche, the Hearing Panel dismissed the unlawful distribution claims, found him not liable for the AML violations, and found him liable for some, but not all, of the alleged supervisory failures. For the misconduct in which it found Flesche had engaged, the Hearing Panel fined him \$30,000 and suspended him from associating with a FINRA member in any capacity for 30 business days.¹

On April 15, 2019, the Chief Hearing Officer, who was not part of the Hearing Panel, convened a conference call with the parties. During the call, the Chief Hearing Officer informed the parties that the case would be stayed pending an independent review of potential conflicts and bias. The Chief Hearing Officer explained:

FINRA has, and the Office of Hearing Officers [“OHO”] has as well, policies and procedures that relate to conflicts and bias and matters of that sort to ensure that there is a fair process. Information has recently come to my attention that needs to be reviewed in connection with this case. So FINRA has engaged outside counsel, and outside counsel is going to conduct a review of the information that I’ve just recently learned. In light of that, I am going to stay the case until the completion of the review So there will be a review that’s going to be conducted by outside counsel, and as soon as that is completed the parties will be informed. But that’s really all I am able to say at this early juncture.²

Approximately two weeks later, on May 2, 2019, the Chief Hearing Officer, without further explanation, entered a second order stating that the review conducted by outside counsel was complete and the stay was lifted.

¹ The Hearing Panel, having found that Glendale also violated FINRA supervisory rules, ordered that Glendale and Flesche be jointly and severally responsible for paying the \$30,000 fine.

² After concluding the conference call, the Chief Hearing Officer entered a written order stating that, “[f]or the reasons stated during the conference, this case is stayed.” The order thus stayed any appeal deadlines that ran from the date of the Hearing Panel’s decision.

C. The Hearing Panel's Decision Is Appealed to the National Adjudicatory Council

On May 23, 2019, Enforcement appealed portions of the Hearing Panel's decision. A Review Subcommittee of the National Adjudicatory Council ("NAC") subsequently called other portions of the Hearing Panel's decision for review. *See* FINRA Rule 9312(a)(1) (providing that the Review Subcommittee may call for review any Hearing Panel decision issued pursuant to Rule 9268 within 45 days of service of such decision). Flesche and another respondent thereafter filed a motion to dismiss Enforcement's appeal as untimely on the grounds that the Chief Hearing Officer did not have authority under FINRA rules to "issue a stay, or, to re-set, and unilaterally extend the appeal period."³ The motion also noted that the respondents were never "advised regarding what alleged bias was being investigated, or the results of the investigation" and were "never provided with a report, outlining the find[ings] of the alleged independent investigation of bias." Finally, the motion asserted that respondents have "a right to know that the proceedings they were involved in . . . were fair and free of bias against them." The respondents therefore requested "all information, and investigation material regarding any bias in this matter."

A NAC subcommittee considered the motions to dismiss and denied them on August 28, 2019. In so doing, the subcommittee responded to Flesche's request for additional information about the investigation by outside counsel by stating only that the information Flesche sought "is not part of the record on appeal before the NAC; nor is it required to be."

In his appeal brief, Flesche challenged the merits of the Hearing Panel's findings, while also reiterating that he and the other respondents were denied an opportunity to participate in the investigation of conflicts or bias and were not provided any information about the investigation. He argued that he had not been informed about "what the basis of the allegations of 'bias' were; who made the allegations of 'bias'; or even what the outcome of the 'investigation' was." Flesche thus requested all documents related to the investigation, "including notes, reports, witness statements, charging allegations, and [the] final report."

On October 6, 2021, the NAC issued a decision that affirmed the Hearing Panel's liability findings and the sanctions that it imposed as to Flesche. The NAC also agreed with the subcommittee's decision to deny Flesche's request for information about the alleged conflict or bias because, the NAC stated, that information was not part of the record. The NAC further noted that FINRA's rules do not "require that the contents of a confidential investigation conducted by OHO into possible conflicts of interest or bias be included in the record, and there is no precedent for doing so."

³ Two other respondents later filed motions to join this motion.

D. Flesche Appeals the NAC’s Decision to the Commission, Which Remands Without Reaching the Merits of the Appeal

Flesche appealed the NAC’s decision to the Commission, challenging both the merits of FINRA’s action and whether its disciplinary proceedings were fair.⁴ On December 19, 2024, the Commission, without reaching the merits of Flesche’s appeal, issued an opinion that remanded the matter to FINRA for further proceedings. The Commission noted that the Securities Exchange Act of 1934 requires that self-regulatory organizations such as FINRA provide a fair procedure for disciplining persons associated with its members, and that the Commission “must reverse self-regulatory organization decisions where the proceedings improperly prejudiced the party or were inherently unfair, regardless of the merits of the underlying substantive and procedural issues involved.” *Paul Eric Flesche*, Exchange Act Release No. 101991, 2024 SEC LEXIS 3549, at *7 (Dec. 19, 2024). To conduct that inquiry, the Commission explained, “we review the ‘overall fairness’ of a FINRA disciplinary action based on the ‘entirety of the record.’” *Id.*

The Commission further explained that “[w]here, as here, the record does not contain an adequate explanation for FINRA’s findings or conclusions, we cannot properly discharge our review function,” and have no “basis to make our own determination . . . of whether [a] conflict or bias existed and, if so, whether it rendered the proceeding unfair and to what degree.” *Id.* at *9. The Commission accordingly remanded the matter for further proceedings. In so doing, the Commission “express[ed] no view on the procedures FINRA uses on remand, except that whatever procedures it uses should involve the parties’ meaningful participation and input” and “provide sufficient information so that the Commission is able to assess whether FINRA has afforded Flesche a fair procedure and hearing.”⁵ *Id.*

II. Discussion

The NAC, like the Commission, is currently left to consider a record that lacks the information necessary to determine the fairness of the proceedings to which Flesche was subjected by FINRA. To fulfill the Commission’s directions that we provide the parties a process that allows for their “meaningful participation and input” would, in our view, require that

⁴ Neither Glendale nor the other individual respondents appealed the NAC’s decision to the Commission.

⁵ In a dissent, two Commissioners indicated that they would have dismissed the proceeding against Flesche rather than remand. The dissenting Commissioners stated that because FINRA did not explain the basis for concluding that no conflict or bias exists, “Flesche, who has consistently requested information relating to FINRA’s conclusion of no conflict [or] bias, is now subject to additional time, legal fees, and other burdens to address a FINRA issue for which he played no role.” *Id.* at *11. Accordingly, the Commissioners explained, “Flesche is essentially being penalized for FINRA’s shortcomings in demonstrating, under the facts described, that the FINRA process was fair.” *Id.*

we remand the matter to OHO for further development of the record. *See* FINRA Rule 9346 (defining the scope of the NAC’s review); FINRA Rule 9348 (providing the NAC the power to remand a disciplinary proceeding with instructions).⁶ Doing so, however, necessarily would subject Flesche to additional time, legal fees, and other burdens to address an issue that he did not create but rather resulted solely from FINRA’s shortcomings, including FINRA’s denials of his repeated requests for additional information about the issue. Therefore, after careful consideration of the Commission’s opinion, the dissent of two Commissioners to that decision, and the unique facts and circumstances of this case, we have concluded to dismiss these proceedings concerning Flesche. In so doing, we dismiss the allegations and findings that Flesche violated FINRA rules, and accordingly, reverse the sanctions that FINRA imposed on him in its earlier decisions.⁷

On Behalf of the National Adjudicatory Council,



Jennifer Piorko Mitchell,
Vice President and Deputy Corporate Secretary

⁶ Under FINRA Rule 9346, the NAC’s review is limited to consideration of the record, the parties’ briefs, oral argument, and any additional evidence that a party is granted leave to submit. FINRA Rule 9346(a)-(d). Rule 9346(f) provides that the NAC has discretion to order that the record be supplemented “with such additional evidence as it may deem relevant.” However, even if Rule 9346(f) would allow us to order the Chief Hearing Officer to supplement the record with additional information concerning the potential bias or conflict—which we do not address here—the Commission’s directive that on remand the procedures “should involve the parties’ meaningful participation and input,” in our view, would require further development of the record by a hearing panel. *See Flesche*, 2024 SEC LEXIS 3549, at *9, *citing*, *In re: Kensington Int’l Ltd.*, 353 F.3d 211, 223 (3d Cir. 2003) (remanding for development of the record on the issue of a judge’s recusal).

⁷ We also vacate any order directing Flesche to pay hearing or appeal costs.