

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

Department Of Enforcement,

Complainant,

v.

Reid & Rudiger LLC  
CRD No. 47263,

Edward J. Rudiger Jr.  
CRD No. 2118724,

Clifford R. Reid  
CRD No. 1905920,

Kelli A. Mezzatesta  
CRD No. 4701170,

-and-

Marc Harrison  
CRD No. 1605568,

Respondents.

Disciplinary Proceeding  
No. 2019060647601

Hearing Officer—RES

**ORDER ACCEPTING OFFER OF  
SETTLEMENT**

Date: June 17, 2026

**INTRODUCTION**

Disciplinary Proceeding No. 2019060647601 was filed on March 2, 2026, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondents Reid & Rudiger LLC, Clifford R. Reid, Edward J. Rudiger Jr., Marc Harrison, and Kelli A. Mezzatesta submitted an Offer of Settlement (Offer) to Complainant dated June 5, 2026. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued

pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint (as amended by the Offer), 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, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer), and to the imposition of the sanctions set forth below, and fully understand that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

## **BACKGROUND**

### **R&R**

R&R was a FINRA member from September 1999 until June 1, 2026. R&R was primarily a retail brokerage business. It employed nine registered representatives in two branch offices in New York, NY (the firm's main office) and Ft. Lauderdale, FL. R&R was wholly owned by Evermore Holdings, LLC, which is owned approximately 98% by Harrison. On April 30, 2026, R&R filed a Form BDW requesting the withdrawal of its registration as a FINRA member. On June 1, 2026, R&R's FINRA registration was cancelled for failure to pay fees.

R&R is subject to FINRA's jurisdiction because the firm was a FINRA member at the time the Complaint was filed, and the Complaint charges the firm with misconduct committed while it was a FINRA member.

### **Rudiger**

Rudiger first became registered with FINRA as a General Securities Representative (GS) through his association with a member firm in 1992. Between 1992 and 1998, Rudiger was registered with FINRA through two different member firms. From April 1998 until April 30,

2026, Rudiger was associated with R&R. Through his association with R&R, Rudiger was registered with FINRA as a GS, General Securities Principal (GP), Investment Banking Representative (IB), and Investment Banking Principal (BP). Rudiger also served as R&R's CEO since 2011. On April 30, 2026, R&R filed a Uniform Termination Notice for Securities Industry Registration ("Form U5"), disclosing that it terminated its association with Rudiger.

Rudiger is subject to FINRA's jurisdiction because he was registered with a FINRA member at the time the Complaint was filed and the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

### **Reid**

Reid first became registered with FINRA as an Investment Company and Variable Contracts Products Representative (IR) through his association with a member firm in 1989. Between 1989 and 1998, Reid was registered with FINRA through three different member firms. From March 1999 until April 30, 2026, Reid was associated with R&R. Through his association with R&R, Reid was registered with FINRA as a GS and IB. On April 30, 2026, R&R filed a Form U5, disclosing that it terminated its association with Reid.

Reid is subject to FINRA's jurisdiction because he was registered with a FINRA member at the time the Complaint was filed and the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

### **Mezzatesta**

Mezzatesta first registered with FINRA as a GS through her association with a member firm in March 2009. Mezzatesta was associated with R&R from November 2009 until April 30, 2026. Through her association with R&R, Mezzatesta was registered with FINRA as a GS, GP, IB, BP, Operations Professional (OS), Research Principal (RP), and Compliance Officer (CR).

Mezzatesta also served as R&R's CCO since July 2010. On April 30, 2026, R&R filed a Form U5, disclosing that it terminated its association with Mezzatesta.

Mezzatesta is subject to FINRA's jurisdiction because she was registered with a FINRA member at the time the Complaint was filed and the Complaint charges her with misconduct committed while she was registered or associated with a FINRA member.

### **Harrison**

Harrison first became registered with FINRA as GS through his association with a member firm in 1986. Between 1986 and 1999, Harrison was registered with FINRA through various member firms. From November 1999 until April 30, 2026, Harrison was associated with R&R. Through his association with R&R, Harrison was registered with FINRA as a GS, GP, IB, BP, Registered Options Principal (OP), and Research Analyst (RS). Harrison, through Evermore Holdings, LLC, is also the majority owner of the firm. On April 30, 2026, R&R filed a Form U5, disclosing that it terminated its association with Harrison.

Harrison is subject to FINRA's jurisdiction because he was registered with a FINRA member at the time the Complaint was filed and the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

## **FINDINGS AND CONCLUSIONS**

It has been determined that the Offer be accepted and that findings be made as follows:

### **SUMMARY**

For nearly six years, Reid & Rudiger LLC churned and/or excessively traded 20 customers' accounts, causing significant harm to those customers while generating millions in revenue for the firm. The two representatives whose trading resulted in this egregious customer harm have their names on the firm's door—Respondents Edward J. Rudiger Jr. and Clifford R.

Reid. They were supervised by the firm’s majority owner, Respondent Marc Harrison, and by Respondent Kelli A. Mezzatesta, who both failed to identify and investigate red flags related to Rudiger’s and Reid’s pervasive misconduct.

From February 1, 2018, to October 31, 2023 (the “Relevant Period”), Respondents Edward J. Rudiger Jr. and Reid & Rudiger LLC (“R&R” or “the firm”) recommended in at least 15 accounts (the “Rudiger Accounts”), a high-volume, high-cost market-timing strategy, which involved repeatedly taking large equity positions in stocks, often using margin, and then selling out of them after relatively short periods to fund purchases of different stocks—that was unsuitable or not in the best interests of customers because Rudiger failed to consider that the substantial commissions and costs associated with this investment strategy made it virtually impossible for his customers to earn a profit. During the Relevant Period, Rudiger’s trading in these 15 accounts resulted in annualized turnover rates ranging from 6.92 to 17.33, annualized cost-to-equity ratios (or break-even points) ranging from 34.85% to 111.59%, and approximately \$2 million in combined trading losses. Rudiger’s trading in these accounts was unsuitable (for trading between February 1, 2018, and June 29, 2020) and not in his customers’ best interest (for trading between June 30, 2020, and October 31, 2023). The 15 Rudiger Accounts are identified on Schedule A as Customers A through O. Rudiger’s trading also caused customers to incur over \$2 million in total costs, while the firm generated approximately \$1.87 million in commissions and revenue in the form of markups and markdowns. During the Relevant Period, R&R and Rudiger also engaged in quantitatively excessive trading in the accounts of at least eight of these customers, five of which Rudiger and R&R also churned.

From February 1, 2022, to October 31, 2023 (the “Reid Relevant Period”), Respondents Clifford R. Reid and R&R recommended in at least five accounts (the “Reid Accounts”), the

same high-volume, high-cost market-timing strategy—which involved repeatedly taking large equity positions in stocks, often using margin, and then selling out of them after relatively short periods to fund purchases of different stocks—that was unsuitable or not in their best interest because Reid failed to consider that the substantial commissions and costs associated with this investment strategy made it virtually impossible for his customers to earn a profit. During the Reid Relevant Period, R&R and Reid excessively traded the accounts of these customers, three of which Reid and R&R also churned. During the Reid Relevant Period, Reid’s trading in these five accounts resulted in annualized turnover rates ranging from 8.46 to 16.76, annualized cost-to-equity ratios ranging from 46.52% to 73.95%, and approximately \$700,000 in combined trading losses. Reid’s trading in these accounts also caused customers to incur over \$149,000 in total trading costs, while the firm generated \$129,000 in commissions and revenue in the form of markups and markdowns. The five Reid Accounts are identified on Schedule A as Customers P through T.

Both Rudiger and Reid acted willfully in trading eight of these accounts after June 29, 2020. They also acted with scienter in churning the accounts of eight customers in which they sought to maximize their own remuneration by generating commissions with intent to defraud their customers or, at the very least, with reckless disregard of their customers’ interests.

As a result of the foregoing, Rudiger, Reid, and R&R willfully violated Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 thereunder, willfully violated Rule 15c-1 of the Exchange Act (“Regulation Best Interest” or “Reg BI”), and violated FINRA Rules 2111, 2020, and 2010.

Through at least the Relevant Period, R&R and Rudiger failed to establish and maintain a supervisory system reasonably designed to achieve compliance with FINRA rules and federal

securities laws and regulations prohibiting churning and excessive trading, and Respondents Kelli A. Mezzatesta and Marc Harrison failed to reasonably discharge their supervisory responsibilities concerning churning and excessive trading.

At all relevant times, Mezzatesta served as the firm's Chief Compliance Officer ("CCO") and Harrison was a designated supervisory principal for Rudiger and Reid as well as a member of the firm's Senior Management.<sup>1</sup> In those roles, pursuant to the firm's written supervisory procedures ("WSPs"), Mezzatesta and Harrison bore direct responsibility for supervising Rudiger's and Reid's trading for compliance with their quantitative suitability obligations.

Despite their supervisory obligations, both Mezzatesta and Harrison failed to consider cost-to-equity ratio or turnover rate—key metrics that can indicate excessive trading and churning in a customer's account. Although the firm's WSPs included cost-to-equity ratio and turnover rate as relevant factors when assessing the suitability of a particular investment strategy or recommendation, the WSPs did not require their consideration in supervising for quantitative suitability. Mezzatesta and Harrison also never requested or reviewed available exception reports or otherwise calculated the cost-to-equity ratio or turnover rate for any of Rudiger's or Reid's customer accounts.

As a result of the firm's unreasonable supervisory system and Mezzatesta's and Harrison's failure to satisfy their supervisory obligations, Mezzatesta, Harrison, and the firm failed to identify or investigate red flags of excessive trading in the Rudiger Accounts and Reid Accounts, which included annualized cost-to-equity ratios over 20% and annualized turnover rates over six.

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<sup>1</sup> Edward Rudiger, as Chief Executive Officer, was the only other member of the firm's Senior Management.

In addition, Rudiger, as the firm's Chief Executive Officer ("CEO") and a member of the firm's Senior Management, failed to reasonably discharge his supervisory responsibilities. Rudiger bore responsibility for ensuring the firm had in place a supervisory structure designed to reasonably detect and deter prohibited activities, including churning and excessive trading, and he was further responsible for annually reviewing the firm's WSPs and certifying its "processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations."

Mezzatesta directly reported to Rudiger in her role as CCO.

Rudiger knew or reasonably should have known that the firm's supervisory system as it relates to excessive trading and churning, and its supervision for excessive trading and churning, as performed by Mezzatesta and Harrison, were unreasonable.

Although the firm's WSPs contained a brief reference to cost-to-equity ratios and turnover rates, they did not explain how to calculate or obtain these figures or identify what cost-to-equity ratio or turnover rate would be indicative of potential excessive trading or churning. The WSPs also did not explain how supervisors should investigate and address potential excessive trading or churning.

Rudiger also knew that the firm, supervising through Mezzatesta and Harrison, did not use cost-to-equity ratios and turnover rates to monitor for excessive trading and churning. Rudiger knew, or reasonably should have known, that failing to consider these metrics when evaluating the securities recommendations by firm representatives was unreasonable, but he took no meaningful action to address the firm's supervisory failures.

By virtue of the foregoing, R&R, Rudiger, Mezzatesta, and Harrison violated FINRA Rules 3110 and 2010. R&R also violated the Compliance Obligation of Reg BI for the period from June 30, 2020, through October 31, 2023.

### **FACTS**

Unless otherwise specified, all of the conduct alleged herein occurred during the Relevant Period.

#### **R&R, Rudiger, and Reid Recommended a High-Volume, High-Cost Market-Timing Strategy That Made It Virtually Impossible for Customers to Earn a Profit**

Throughout the Relevant Period, R&R's business primarily involved recommending customers engage in a high-volume, high-cost market-timing strategy. The firm's WSPs state that it "concentrates on providing high net worth, sophisticated investors with recommendations of equity securities that they may not have identified on their own" and that it "makes clear to its customers that all transactions recommended by the firm could be considered speculative, that high volume trading has higher cost, and that the firm's business is not suitable for all investors." Rudiger and Reid obtained the substantial majority of their business by cold calling new customers and telling them about the firm's purported expertise in equities.

During the Relevant Period, Rudiger and Reid recommended that customers engage in a high-volume, high-cost trading strategy that involved swapping large positions in equity securities of large, well-known companies, frequently using margin, based on purported equities research by Harrison.

Harrison would identify stocks within a particular sector based on his purported analysis of their "fundamentals" and "technical." As a stock's fundamentals or technicals changed or Harrison identified different stocks based on their fundamentals and technicals, Rudiger and

Reid recommended that their customers sell out of their existing large positions to fund the purchase of different equities.

Rudiger and Reid recommended many of the same transactions across numerous customers, regardless of a customer's investment profile or financial condition. Rudiger and Reid would call their customers and inundate them with the research provided by Harrison, including analytics and projections. Rudiger and Reid would then call their customers again after a relatively short period of time, generally between one and three months (but at times as short as one or two days) and recommend selling the previously recommended equity and replacing it with another one, based on new research and data that they would share with the customer.

Because Rudiger, Reid, and R&R charged customers commissions of between 2% and 4% on both the purchase and sale of these large positions, regardless of the size of the purchase, plus a \$99 "service charge" per trade, the strategy recommended by Rudiger and Reid necessarily resulted in high costs to the customer.

Often, Rudiger and Reid made the same recommendation to multiple customers at the same time. During the Relevant Period, the average principal amount per trade for the Rudiger Accounts was over \$100,000, with some individual trades exceeding \$1 million. The average principal amount per trade for the Reid Accounts during the Reid Relevant Period was over \$50,000, with some individual trades exceeding \$200,000.

During the Relevant Period, Rudiger and Reid executed the majority of trades in their customers' accounts on a riskless principal basis and charged transaction costs in the form of markups and markdowns.

In a handful of instances, Rudiger and Reid executed trades on an agency basis and charged commissions.

For the trades placed on a riskless principal basis, the markup or markdown was reflected on the trade confirmation as a dollar amount per share. The trade confirmations did not show the markup or markdown as a percentage of the trade or the total markup or markdown as a dollar amount for the trade.

For trades placed on an agency basis, the commission amounts were reflected separately on the trade confirmation.

R&R did not have a set commission structure or percentage. Instead, Rudiger and Reid determined on a trade-by-trade basis the commissions<sup>2</sup> charged to their customers.

According to Rudiger and Reid, they based their commissions principally on the firm's alleged experience and expertise and the amount of research involved in the trade, all of which they viewed as substantial in every single instance, and charged their customers accordingly. They generally charged a commission of between 2% and 4% on both the purchase and the sale, even though many of the trades were well-known equities, such as X (f/k/a Twitter), Bausch Health, and Under Armour.

For example, the commissions charged by Rudiger to the Rudiger Accounts on individual trades during the Relevant Period averaged approximately \$3,470 per trade, and reached as high as \$49,500, for selling 50,000 shares of Etsy.

The commissions charged by Reid to the Reid Accounts on individual trades during the Reid Relevant Period averaged over \$1,220 per trade, and reached as high as \$10,800, for buying 60,000 shares of an oil and gas company.

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<sup>2</sup> Because the firm used commissions and markups/markdowns interchangeably, for ease of reference, both commissions and markups/markdowns are hereinafter referred to in this Complaint as "commissions."

In addition to the percentage commissions determined by Rudiger and Reid, the firm also, the overwhelming majority of the time, assessed customers an additional \$99 per-trade commission.

R&R labeled this \$99 commission as a “service charge” on customer trade confirmations. The firm’s WSPs throughout the Relevant Period, however, referred to the \$99 charge as a “minimum transaction commission.”

At least two of Rudiger’s and Reid’s customers believed that the \$99 charge represented the total commission on each trade rather than the minimum commission in addition to those commissions or markups and markdowns that Rudiger and Reid also charged their customers.

The Securities and Exchange Commission (“SEC”) informed the firm in May 2015 that the \$99 charge—then characterized as a handling fee—“appears to be excessive and unreasonable in relation to the specific services provided and/or expenses associated with the firm’s ‘handling’ of customers trades . . . [and] [i]t is apparent that a large portion of the \$99 handling fee is another form of commission revenue for the firm.”

Rather than eliminating the charge or disclosing it to customers as a minimum commission, R&R changed the label from handling fee to “service charge” on customer trade confirmations.

During the Relevant Period, R&R collectively charged the Rudiger Accounts and the Reid Accounts over \$59,000 in minimum transaction commissions characterized as service charges.

Rudiger and Reid also placed trades for many of their customers on margin, which resulted in additional costs in the form of margin interest.

During the Relevant Period, R&R charged the Rudiger Accounts over \$178,000 in margin interest, and charged over \$19,000 in margin interest to the Reid Accounts.

The high costs associated with the trading strategy Rudiger recommended to the 15 Rudiger Accounts during the Relevant Period, which necessarily required these customers to pay Rudiger and R&R substantial commissions and fees, as well as margin interest, made it virtually impossible for the Rudiger Accounts to realize a profit. Ultimately, the strategy recommended by Rudiger caused all of these customers to lose money. Indeed, during the Relevant Period, for many customers, their losses closely tracked their aggregate trade costs.

As a result of Rudiger's trading strategy during the Relevant Period, the 15 Rudiger Accounts paid a total of \$2,048,443.53 in total trade costs (including margin interest) on recommended trades while incurring total realized losses on the trades of \$1,997,714.60.

All of the Rudiger Accounts had annualized cost-to-equity ratios of 20% or more during the Relevant Period, with such ratios as high as 111.59%.

The high costs associated with the trading strategy Reid recommended to the five Reid Accounts during the Reid Relevant Period, which necessarily required these customers to pay Reid and R&R substantial commissions and fees, as well as margin interest, made it virtually impossible for the Reid Accounts to realize a profit. Ultimately, the strategy recommended by Reid caused all of these customers to lose money.

As a result of Reid's trading strategy during the Reid Relevant Period, the five Reid Accounts paid a total of \$149,532.03 in total trade costs (including margin interest) on recommended trades while incurring total realized losses on the trades of \$703,236.03.

All of the Reid Accounts had cost-to-equity ratios (annualized for the four Reid Accounts in which Reid employed his trading strategy for more than 12 months) of 20% or more, with such ratios as high as 73.95%.

R&R, Rudiger, and Reid did not evaluate or consider how the cumulative costs associated with their trade recommendations (i.e., commissions, including the \$99 minimum transaction commission, margin interest, and other fees) would affect the performance of their customers' accounts.

Neither Rudiger nor Reid ever calculated the cost-to-equity ratios or turnover rates for any of their respective customer accounts, nor did they seek to obtain such information from R&R.

Rudiger and Reid, who each had approximately three decades of experience as a broker, did not consider the high cost-to-equity ratios or turnover rates when recommending this strategy, let alone whether those metrics were indicative of potential excessive trading in their customers' accounts.

Rudiger and Reid recommended this strategy without assessing whether it could be profitable for their customers given the effect of the high costs, thus placing their own and their firm's financial benefit ahead of their customers.

### **R&R and Rudiger Excessively Traded and Churned Customer Accounts**

During the Relevant Period, Rudiger, acting as an agent of R&R and within the scope of his duties, recommended and engaged in a pattern of trading in eight accounts held by customers identified on Schedule A as Customers A through H that caused them to incur significant trading costs and made it virtually impossible for the accounts to earn a profit.

Through at least June 29, 2020, Rudiger exercised *de facto* control over the trading in these accounts. Customers A through H relied on Rudiger to select stocks and to make purchase

and sale recommendations, including the timing, frequency, and volume of the transactions that he executed.

During the Relevant Period, Rudiger solicited 98% of the trades in these accounts. Customers A through H followed Rudiger's recommendations such that Rudiger controlled the trading in their accounts.

Although the new account documents for Customers A through H listed their investment objectives as aggressive growth/aggressive income or speculation and they were willing to accept investment risk, they did not agree to engage in a trading strategy where the high costs made it virtually impossible that the trading could be profitable.

R&R and Rudiger charged these accounts over \$755,000 during the Relevant Period, which resulted in annualized cost-to-equity ratios ranging from 34.85% to 111.59%. Rudiger's trading in these accounts also resulted in annualized turnover rates ranging from 7.01 to 17.33 and caused combined losses of \$1,259,021.51, with individual account losses ranging from \$16,349.56 to \$346,820.82.

In Customer A's account, the total trading costs exceeded the losses resulting from trading during the Relevant Period. Although the equities recommended by Rudiger in this account appreciated in value overall, that upside was outweighed by the high commissions and other trading costs charged by R&R and Rudiger.

In five accounts (Customers A, C, E, F, and H), Rudiger's trading resulted in annualized cost-to-equity ratios over 45% and annualized turnover rates above 11.

The amount that each of these accounts needed to increase in value to make up for the high trading costs made it virtually impossible that these accounts could earn a profit.

### **R&R and Reid Excessively Traded and Churned Customer Accounts**

During the Reid Relevant Period, Reid, acting as an agent of R&R and within the scope of his duties, recommended and engaged in a pattern of trading in five accounts held by customers identified on Schedule A as Customers P through T that caused them to incur significant trading costs and made it virtually impossible for the accounts to earn a profit.

Although the new account documents for Customers P through T listed their investment objectives as speculation and they were willing to accept investment risk, they did not agree to engage in a trading strategy where the high costs made it unlikely that the trading could be profitable.

R&R and Reid charged these accounts over \$125,000 during the Reid Relevant Period, which resulted in annualized cost-to-equity ratios ranging from 46.52% to 73.95%. Reid's trading in these accounts also resulted in annualized turnover rates ranging from 8.46 to 16.76 and caused combined losses of \$703,236.03, with individual account losses ranging from \$43,242.83 to \$394,707.17.

In three accounts (Customers P, Q, and R), Reid's trading during the Reid Relevant Period resulted in annualized cost-to-equity ratios over 45% and annualized turnover rates above 11.

The amount that each of these accounts needed to increase in value to make up for the high trading costs made it virtually impossible that these accounts could earn a profit.

### **R&R Lacked a System Reasonably Designed to Supervise Rudiger and Reid's Excessive Trading and Churning**

#### *The Firm's WSPs*

Throughout the Relevant Period, R&R maintained WSPs that were unreasonable with respect to churning and excessive trading.

On March 2, 2018, FINRA exam staff issued R&R an examination report (the “2018 Exam Report”) that noted certain deficiencies, including that the firm failed to establish and maintain a supervisory system reasonably designed to monitor trading activity for patterns of potential excessive trading. The 2018 Exam Report found that the firm conducted only manual blotter reviews and did not use any exception reports or other tools, and stated that the procedures in the firm’s WSPs for the “daily review to monitor for excessive trading in customer accounts . . . would not identify potential problematic patterns ‘over time.’”

Although the firm revised its WSPs on March 28, 2018, and again in February 2019 and June 2020, the sections relating to supervision of churning and excessive trading were not meaningfully improved.

Throughout the Relevant Period, the WSPs stated that quantitative suitability requires a representative with “actual or de facto control over a customer account” to “have a reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer when taken together in light of the customer’s investment profile” and that “[f]actors such as the turnover rate, cost-equity ratio, and the use of in-and-out trading in a customer’s account may provide a basis for a [sic] finding a violation of the quantitative suitability obligation.”

As to churning, the WSPs stated that churning is the “practice of recommending transactions solely for the purpose of generating commissions” and “is inherently unsuitable and is prohibited.”

The firm’s WSPs did not explain how to calculate or obtain cost-to-equity ratios or turnover rates, identify what cost-to-equity ratio or turnover rate would be indicative of potential excessive trading, or include any other benchmark to identify potential excessive trading or

churning. The WSPs also did not explain when and how supervisors should consider cost-to-equity ratios, turnover rates, or other red flags as indicative of churning or excessive trading, or how supervisors should investigate and address potential churning or excessive trading.

The WSPs provided that the firm's Senior Management and Compliance were responsible for ensuring a supervisory structure designed to reasonably detect and deter prohibited activities.

The WSPs also provided that the firm "must ensure that the reports requested [from its clearing firm] are sufficient to undertake appropriate surveillance activities to detect and deter fraudulent or noncompliant activities, including . . . churning." The procedures delegated to Mezzatesta responsibility for obtaining "all appropriate exception reports to undertake sufficient surveillance of account activity to detect and deter regulatory violations."

After March 2018, the firm's WSPs required pre-trade reviews by the CCO or a designated principal (i.e., Mezzatesta or Harrison) along with daily and monthly blotter reviews by Mezzatesta. The WSPs did not at any point require the firm to use any exception reports or other tools to identify potential excessive trading or churning.

After March 2018, the WSPs also required representatives to submit order tickets to the CCO or, in the CCO's absence, a designated principal "for pre-review and approval" before a transaction was entered. According to the WSPs, this pre-trade review involved reviewing an "account workbook" from R&R's clearing firm containing customer and account information, including the account value, margin balance, investment objective, risk tolerance, and customer age, as well as an activity workbook containing all transactions and costs incurred in the account for up to the prior two years.

The daily and monthly blotter reviews that the WSPs required Mezzatesta to conduct were substantially identical to, and duplicative of, the pre-trade reviews.

*Mezzatesta Failed to Reasonably Discharge the Supervisory Responsibilities Delegated to Her Related to Churning and Excessive Trading*

Mezzatesta bore primary responsibility for R&R's supervision of churning and excessive trading at the firm. Specifically, throughout the Relevant Period, the firm's WSPs assigned to Mezzatesta primary responsibility for conducting pre-trade suitability reviews and sole responsibility for daily and monthly blotter suitability reviews.

For her pre-trade suitability reviews, as well as for her daily and monthly blotter suitability reviews, Mezzatesta's review process was manual and relied principally on her review of individual order tickets and daily and monthly trade blotters. However, Mezzatesta did not factor cost-to-equity ratio or turnover rate into any of her reviews, and did not reasonably consider the cumulative cost of trading in these accounts.

During the Relevant Period, Mezzatesta never detected high commissions in her review of accounts, never identified an account for further review and investigation, and never identified any churning, excessive trading, or quantitative suitability concerns.

Mezzatesta knew or should have known the importance of cost-to-equity ratios and turnover rates for detecting potential churning and excessive trading, including because those metrics were specifically referenced in the firm's WSPs. She and the firm nevertheless failed to use those metrics to supervise for churning and excessive trading during the Relevant Period.

Throughout the Relevant Period, R&R's WSPs also delegated to Mezzatesta responsibility for obtaining exception reports sufficient to detect churning and excessive trading. Mezzatesta knew that R&R's clearing firm offered exception reports that would show cost-to-equity ratios and turnover rates and Mezzatesta stated that the firm would order such reports if

she believed they were needed. She understood that such reports could be useful for supervising churning and excessive trading; however, she never discussed obtaining those reports with anyone else at the firm and R&R did not obtain them.

Mezzatesta failed to request or use any exception reports relating to churning or excessive trading despite receiving a copy of the 2018 Exam Report in March 2018 highlighting the firm's failure to use exception reports or other tools to identify potential trading issues over time.

*Harrison Failed to Reasonably Supervise Rudiger's and Reid's  
Trading for Churning and Excessive Trading*

Throughout the Relevant Period, Harrison served as the designated supervising principal for Rudiger and Reid and was also considered part of R&R's Senior Management, and therefore bore responsibility for ensuring the firm had in place a supervisory structure designed to reasonably detect and deter prohibited activities, including churning and excessive trading.

As Rudiger and Reid's designated supervising principal, Harrison was responsible for conducting pre-trade suitability reviews of their trades when Mezzatesta was unavailable and for day-to-day supervision of their activity with respect to suitability.

In practice, Harrison conducted pre-trade reviews of approximately half of Rudiger and Reid's trades during the Relevant Period.

In conducting his pre-trade reviews, Harrison only considered commissions to ensure that the commissions on trades involving proceeds from an earlier trade on the sale and purchase combined did not exceed five percent.

Harrison was unaware whether R&R had any way of tracking a customer's cumulative trading costs over time and did not suggest that Rudiger or Reid consider costs before making recommendations to their customers. He never calculated the turnover rate or cost-to-equity ratio

for any R&R customer, did not know whether those metrics were available to him, and did not reasonably consider the cumulative costs of trading in customer accounts.

Harrison did not know what would be considered a high turnover rate or a high cost-to-equity ratio.

Harrison never determined that any of Rudiger's or Reid's trades were unsuitable or not in a customer's best interest.

Harrison also received a copy of the 2018 Exam Report highlighting the firm's failure to use exception reports or other tools to identify potential trading issues over time. He did not request or obtain any exception reports to detect potential churning or excessive trading and did not have any discussions about doing so with Mezzatesta.

The 2018 Exam Report also included a list of 15 customer accounts with annualized cost-to-equity ratios above 20% and annualized turnover rates above six for the period April 1, 2016, through March 31, 2017, which the report described as indicative of potential excessive trading. Rudiger was the broker of record for at least seven of the accounts on the list.

Despite receiving notice of Rudiger's potentially excessive trading in 2018, Harrison failed to reasonably supervise Rudiger's trading, allowing his conduct to continue. As a result, Rudiger continued to excessively trade seven accounts that were flagged in the 2018 Exam Report, held by Customers B, F, G, H, I, K, and O. Those accounts had annualized cost-to-equity ratios during the Relevant Period ranging from 34.85% to 101.66% and annualized turnover rates ranging from 6.92 to 16.09.

Harrison knew or should have known that the firm's WSP updates in 2018 and all subsequent updates during the Relevant Period did not address the deficiencies in the firm's supervisory system regarding excessive trading noted in the 2018 Exam Report.

Harrison also knew or should have known the importance of cost-to-equity ratios and turnover rates for detecting potential churning and excessive trading. He and the firm nevertheless failed to use those metrics to supervise for churning and excessive trading during the Relevant Period.

*Rudiger Failed to Reasonably Discharge His Supervisory Responsibilities as CEO and a Member of R&R's Senior Management*

Throughout the Relevant Period, Rudiger served as CEO and was considered Senior Management at R&R.

As CEO and a member of R&R's Senior Management, Rudiger bore responsibility for ensuring the firm had in place a supervisory structure designed to reasonably detect and deter prohibited activities, including churning and excessive trading. Rudiger was responsible for conducting an annual review of the firm's WSPs and certifying that the firm's "processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures [were] reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations."

Rudiger received the 2018 Exam Report, which highlighted the firm's failure to use exception reports or other tools to identify potential trading issues over time and identified multiple of his own customers' accounts as having indicia of excessive trading.

Rudiger knew or reasonably should have known that the firm's WSP updates in 2018 and all subsequent updates during the Relevant Period did not address the issues relating to the firm's supervisory system regarding excessive trading noted in the 2018 Exam Report.

Rudiger knew or reasonably should have known that Mezzatesta and Harrison did not obtain exception reports to identify potential churning or excessive trading during the Relevant Period following the 2018 Exam Report.

Rudiger also knew that neither Harrison nor Mezzatesta raised with him any churning, excessive trading, or quantitative suitability concerns with his customers' accounts during the Relevant Period or determined that any of his trades were unsuitable or not in a customer's best interest.

Rudiger knew that the firm did not use cost-to-equity ratios or turnover rates to supervise for churning or excessive trading. He knew or reasonably should have known the importance of cost-to-equity ratios and turnover rates for detecting potential churning and excessive trading. He and the firm nevertheless failed to use those metrics to supervise for churning and excessive trading during the Relevant Period.

#### **R&R, Mezzatesta, and Harrison Failed to Identify and Investigate 20 Customer Accounts with Indicia of Excessive Trading**

During the Relevant Period, Rudiger's and Reid's trading caused a total of 20 accounts (all 15 Rudiger Accounts and all five Reid Accounts) to have annualized cost-to-equity ratios over 20% (ranging from 34.85% to 111.59%), annualized turnover rates above six (ranging from 6.92 to 17.33), and combined costs of nearly \$2.2 million (including almost \$2 million in commissions) and losses of over \$2.7 million, as reflected in Schedule A.<sup>3</sup>

The accounts for Customers A through T each bear indica of excessive trading or churning. Mezzatesta and Harrison failed to identify or investigate the red flags of potential churning and excessive trading by Rudiger and Reid in the Rudiger Accounts and Reid Accounts and failed to appropriately address Rudiger and Reid's churning and excessive trading in any way reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA rules.

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<sup>3</sup> For one account, Customer R, the trading at issue took place over approximately nine months and therefore the cost-to-equity and turnover metrics for that account have not been annualized.

As a result, neither Mezzatesta nor Harrison ever identified or investigated a single instance of potential churning or excessive trading by Rudiger or Reid in the accounts for Customers A through T during the Relevant Period.

## **FIRST CAUSE OF ACTION**

### **Churning**

#### **Willful Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 and Violations of FINRA Rules 2020 and 2010 (R&R, Rudiger, and Reid)**

Section 10(b) of the Exchange Act is an anti-fraud rule. It prohibits the use of “any manipulative or deceptive device or contrivance” in connection with the purchase or sale of any security.

Exchange Act Rule 10b-5 further prohibits, in relevant part: (a) employing “any device, scheme, or artifice to defraud”; (b) making “any untrue statement of a material fact or omit[ting] to state a material fact necessary in order to make the statements made ... not misleading”; and (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 provides that “[n]o member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

FINRA Rule 2010 requires FINRA member firms and associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

Churning is fraudulent conduct that occurs in a broker-customer relationship when: (i) a broker controls or exercises actual or de facto control over his customer’s account; (ii) the

trading in the account is excessive in light of the customer's investment profile; and (iii) the broker acts with scienter, i.e., with intent to defraud or with reckless disregard of the customer's interests.

Churning is a manipulative and deceptive device that violates Section 10(b) of the Exchange Act, Rule 10b-5 thereunder, and FINRA Rules 2020 and 2010.

During the Relevant Period, Rudiger exercised de facto control of the trading in the accounts of Customers A, C, E, F, and H. Rudiger controlled the volume and frequency of the trading in the accounts, he decided what securities to buy and sell, the quantity of each transaction, and the timing of each transaction. Customers A, C, E, F, and H relied on Rudiger to contact them with trade ideas and routinely followed his recommendations—98% of the transactions in these customers' accounts during the Relevant Period were solicited. Rudiger also determined the commission he would charge for each transaction.

An annualized cost-to-equity ratio of 20 percent or more or an annualized turnover rate of six or more generally indicates that excessive trading has occurred.

Rudiger's trading in the accounts of Customers A, C, E, F, and H was excessive and quantitatively unsuitable as evidenced by the high annualized cost-to-equity ratios and turnover rates, the size of the transactions, the transaction costs incurred, and the losses caused by Rudiger's trading. Rudiger's trading in the accounts of Customers A, C, E, F, and H resulted in annualized cost-to-equity ratios between 58.18% and 111.59% and annualized turnover rates between 11.26 and 17.33.

During the Reid Relevant Period, Reid exercised de facto control of the trading in the accounts of Customers P, Q, and R. Reid controlled the volume and frequency of the trading in the accounts, he decided what securities to buy and sell, the quantity of each transaction, and the

timing of each transaction. Customers P, Q, and R relied on Reid to contact them with trade ideas and routinely followed his recommendations—98% of the transactions in each of these customers' accounts during the Reid Relevant Period were solicited. Reid also determined the commission he would charge for each transaction.

Reid's trading in the accounts of Customers P, Q, and R was excessive and quantitatively unsuitable as evidenced by the high annualized cost-to-equity ratios and turnover rates, the size of the transactions, the transaction costs incurred, and the losses caused by Reid's trading. Reid's trading in the accounts of Customers P, Q, and R resulted in annualized cost-to-equity ratios between 53.85% and 73.95% and annualized turnover rates between 12.55 and 16.76.

In excessively trading these customers' accounts, Rudiger and Reid maximized their own financial benefit at the expense of their customers, generating collective costs of \$548,566.77 (\$499,251.80 of which were commissions) and causing realized losses of \$1,104,850.61 on accounts with an aggregate average monthly account value of \$365,402.34.

Respondents acted with scienter. In churning their customers' accounts, Rudiger and Reid each acted with intent to defraud or, at the very least, with reckless disregard of their customers' interests, seeking to maximize their own compensation in disregard of the interests of their customers. Respondents were willfully blind to the cumulative trading costs they each imposed on their respective customers.

Rudiger and Reid deliberately incurred unreasonably high trading costs in their customers' accounts that made it virtually impossible that the accounts could be profitable.

Rudiger's trading in the accounts of Customers A, C, E, F, and H caused more than \$570,000 in losses while generating commissions of more than \$406,000.

Reid's trading in the accounts of Customers P, Q, and R caused approximately \$532,000 in losses while generating commissions of more than \$92,000.

Rudiger's and Reid's fraudulent acts were carried out by the use of means or the instrumentalities of interstate commerce and through the U.S. mail, and involved securities transactions on national securities exchanges.

R&R is liable for Rudiger's and Reid's churning of their customers' accounts because Rudiger and Reid were both agents of R&R acting within the scope of their duties when they engaged in this misconduct.

As a result of the foregoing conduct, R&R, Rudiger, and Reid willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and violated FINRA Rules 2020 and 2010.

## **SECOND CAUSE OF ACTION**

### **Excessive Trading Willful Violations of Exchange Act Rule 15l-1 Regulation Best Interest and Violations of FINRA Rule 2010 (R&R, Rudiger, and Reid)**

Since June 30, 2020, broker-dealers and their associated persons have been required to comply with Exchange Act Rule 15l-1, Regulation Best Interest. Reg BI's Best Interest Obligation requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person making the recommendation ahead of the interest of the retail customer.

Reg BI defines a retail customer as “a natural person, or the legal representative of such person, who: (i) Receives a recommendation of any securities transaction or investment strategy involving securities from a broker or dealer; and (ii) Uses the recommendation primarily for person, family, or household purposes.”

Pursuant to the Care Obligation, as set forth in Exchange Act Rule 15c-1(a)(2)(ii)(C), an associated person of a broker or dealer is required to exercise reasonable diligence, care, and skill to:

Have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer’s best interest when viewed in isolation, is not excessive and is in the retail customer’s best interest when taken together in light of the retail customer’s investment profile and does not place the financial or other interest of the broker, dealer, or such natural person making the series of recommendations ahead of the interest of the retail customer.

The Care Obligation applies to a series of recommended transactions regardless of whether the broker-dealer or associated person exercises control over the customer’s account.

A violation of Reg BI also constitutes a violation of FINRA Rule 2010.

During the Relevant Period, Rudiger made a series of recommendations to Customers C, D, G, M, and O without exercising reasonable diligence, care, and skill to have a reasonable basis to believe that the series of recommended transactions were in the best interests of those customers based on the customers’ investment profile.

During the Reid Relevant Period, Reid made a series of recommendations to Customers Q, R, and T without exercising reasonable diligence, care, and skill to have a reasonable basis to believe that the series of recommended transactions were suitable for or in the best interests of those customers based on the customers’ investment profile.

Rudiger’s trading was not in the best interest of Customers C, D, G, M, and O, as evidenced by the high annualized cost-to-equity ratios and turnover rates, the size of the

transactions, the transaction costs incurred, and the losses caused by Rudiger's trading. Rudiger's trading in the accounts of Customers C, D, G, M, and O resulted in annualized cost-to-equity ratios between 34.85% and 69.30% and annualized turnover rates between 6.92 and 11.97.

Reid's trading in the accounts of Customers Q, R, and T during the Reid Relevant Period was not in the best interest of Customers Q, R, and T as evidenced by the high annualized cost-to-equity ratios and turnover rates, the size of the transactions, the transaction costs incurred, and the losses caused by Reid's trading. Reid's trading in the accounts of Customers Q, R, and T resulted in annualized cost-to-equity ratios between 53.85% and 67.77% and annualized turnover rates between 12.55 and 14.92.

At the time Rudiger recommended the trades to Customers C, D, G, M, and O, and Reid recommended the trades to Customers Q, R, and T—all of whom were retail investors—neither Rudiger nor Reid had a reasonable basis to believe that the recommended transactions were not quantitatively excessive in light of the customers' investment profiles when deciding what securities to buy and sell, how frequently to buy and sell securities, and what commissions to charge.

The series of recommendations that Rudiger made to Customers C, D, G, M, and O and that Reid made to Customers Q, R, and T were excessive and not in those customers' best interests and, when making those recommendations, Rudiger and Reid each placed their own interests ahead of the interests of their customers.

Rudiger's and Reid's failures to comply with Regulation Best Interest's Care Obligation constitutes a violation of Regulation Best Interest's General Obligation.

R&R is liable for Rudiger's and Reid's violation of Regulation Best Interest because Rudiger and Reid were both agents of R&R acting within the scope of their duties when they engaged in this misconduct.

As a result of the foregoing conduct, Rudiger, Reid, and R&R willfully violated Exchange Act Rule 15l-1(a)(1) and violated FINRA Rule 2010.

### **THIRD CAUSE OF ACTION**

#### **Excessive Trading / Quantitative Suitability Violations of FINRA Rules 2111 and 2010 (R&R, Rudiger, and Reid)**

FINRA Rule 2111(a) requires an associated person to:

have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.

As explained in Supplementary Material .05, "Rule 2111 is composed of three main obligations: reasonable-basis suitability, customer-specific suitability, and quantitative suitability."

From May 1, 2014, through June 29, 2020, FINRA Rule 2111, Supplementary Material 2111.05(c) provided that "[q]uantitative suitability requires a member or associated person who has actual or de facto control over a customer account to have a reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer when taken together in light of the customer's investment profile, as delineated in Rule 2111(a). No single test defines excessive activity, but

factors such as the turnover rate, the cost-equity ratio, and the use of in-and-out trading in a customer's account may provide a basis for finding that a member or associated person has violated the quantitative suitability obligation.”

FINRA Rule 2111 is still in effect, but as of June 30, 2020, it no longer applies to recommendations that are subject to Reg BI, and the element of control was removed from the quantitative suitability component.

A violation of FINRA Rule 2111 is also a violation of FINRA Rule 2010.

From February 1, 2018, through at least June 29, 2020, Rudiger exercised de facto control of the trading in the accounts of Customers A through H. The customers relied on Rudiger to contact them with trade ideas and routinely followed his recommendations—98% of the transactions in these customers' accounts from February 1, 2018, through June 29, 2020, were solicited.

Rudiger's trading in the accounts of Customers A through H was excessive and quantitatively unsuitable as evidenced by the high cost-to-equity ratios, the frequency of the transactions, and the transaction costs incurred. Rudiger's trading in the accounts of Customers A through H from February 1, 2018, through June 29, 2020, resulted in annualized cost-to-equity ratios during this period between 34.85% and 111.59% and annualized turnover rates between 7.01 and 17.33.

Reid Customers P and S are not natural persons or the legal representatives of natural persons, and therefore they are not retail customers within the scope of Reg BI.

Reid's trading in the accounts of Customers P and S during the Reid Relevant Period (all of which occurred after June 29, 2020) was excessive and quantitatively unsuitable as evidenced by the high cost-to-equity ratios, the frequency of the transactions, and the transaction costs

incurred. Reid's trading in the accounts of Customers P and S resulted in annualized cost-to-equity ratios of 46.52% and 73.95% and annualized turnover rates of 8.46 and 16.76.

R&R is liable for Rudiger's and Reid's unsuitable trading of their customers' accounts because Rudiger and Reid were both agents of R&R acting within the scope of their duties when they engaged in this misconduct.

As a result of the foregoing conduct, R&R, Rudiger, and Reid violated FINRA Rules 2111 and 2010.

#### **FOURTH CAUSE OF ACTION**

##### **Reasonable Basis Regulation Best Interest / Reasonable Basis Suitability Willful Violations of Exchange Act Rule 15l-1 Regulation Best Interest and Violations of FINRA Rules 2111 and 2010 (R&R, Rudiger, and Reid)**

FINRA Rule 2111(a) requires an associated person to:

have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation.

As explained in Supplementary Material .05, "Rule 2111 is composed of three main obligations: reasonable-basis suitability, customer-specific suitability, and quantitative suitability."

In accordance with Supplementary Material .05(a) to FINRA Rule 2111, the "reasonable-basis obligation requires a[n] ... associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors." (Emphasis

in original.) An “associated person’s reasonable diligence must provide the ... associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.”

Pursuant to the Reg BI Care Obligation, for conduct after June 30, 2020, Exchange Act Rule 15l-1(a)(2)(ii)(A) similarly requires an associated person of a broker or dealer to exercise reasonable diligence, care, and skill to “[u]nderstand the potential risks, rewards, and costs associated with the recommendation, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers.”

From February 1, 2018, to June 29, 2020, R&R and Rudiger recommended a high-volume, high-cost market-timing strategy to the Rudiger Accounts that made it virtually impossible for those accounts to realize a profit. The strategy, which involved repeatedly taking large equity positions in stocks, often using margin, and then selling out of them after relatively short periods to fund purchases of different stocks, resulted in customers paying unreasonable costs.

Rudiger did not have a reasonable basis to believe that the investment strategy he recommended for the Rudiger Accounts from February 1, 2018, to June 29, 2020, was suitable for any customer in light of the high costs associated with the strategy, which made it virtually impossible for the Rudiger Accounts to realize a profit.

Rudiger continued to recommend this strategy between June 30, 2020, and October 31, 2023, in the accounts of customers C, D, G, M, and O, without a reasonable basis to believe that it could be in the best interest of at least some retail customers.

During the Reid Relevant Period, R&R and Reid similarly recommended a high-volume, high-cost market-timing strategy to the Reid Accounts that made it virtually impossible for those accounts to realize a profit. The strategy recommended by Reid, which involved repeatedly taking large equity positions in stocks, often using margin, and then selling out of them after relatively short periods to fund purchases of different stocks, resulted in customers paying unreasonable costs.

Reid did not have a reasonable basis to believe that the investment strategy he recommended to Customers P and S during the Reid Relevant Period was suitable for any customer, or that the strategy he recommended to customers Q, R, and T was in the best interest of any customer, in light of the high costs associated with the strategy, which made it virtually impossible for the Reid Accounts to realize a profit.

Rudiger's and Reid's failures to comply with Regulation Best Interest's Care Obligation constitutes a violation of Regulation Best Interest's General Obligation.

R&R is liable for Rudiger's and Reid's unsuitable recommendations to their customers, as well as the recommendations that were not in their customers' best interest, because Rudiger and Reid were both agents of R&R acting within the scope of their duties when they engaged in this misconduct.

As a result of the foregoing, R&R, Rudiger, and Reid violated FINRA Rules 2111 and 2010, and, for conduct after June 29, 2020, in retail customer accounts, willfully violated Exchange Act Rule 15l-1(a)(1) and violated FINRA Rule 2010.

**FIFTH CAUSE OF ACTION**

**Failure to Establish and Maintain a Supervisory System, Including Written Procedures,  
Reasonably Designed to Achieve Compliance with Securities Laws and Regulations and  
FINRA Rules Prohibiting Churning and Excessive Trading  
Violations of FINRA Rules 3110 and 2010  
(R&R and Rudiger)**

**-and-**

**Failure to Establish and Maintain Written Policies and Procedures Reasonably Designed to  
Achieve Compliance with Regulation Best Interest  
Willful Violations of Exchange Act Rule 15l-1 Regulation Best Interest and Violations of  
FINRA Rule 2010  
(R&R)**

FINRA Rule 3110(a) requires that member firms establish and maintain a system, including written supervisory procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

FINRA Rule 3110(b) requires that member firms establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

FINRA Rule 3110 requires that a firm's designated supervisors exercise reasonable supervision.

To comply with this supervisory obligation, a firm's designated supervisors must reasonably investigate red flags of potential misconduct and take appropriate action when misconduct has occurred.

Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15l-1(a)(2)(iv), requires broker-dealers, as of June 30, 2020, to establish, maintain, and enforce written policies and

procedures reasonably designed to achieve compliance with Reg BI, including the Care Obligation.

Proper and effective supervision is a critical component of broker-dealer operations and is fundamental to ensuring compliance with FINRA rules.

A violation of Exchange Act Rule 15c-1(a)(1) and FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Throughout the Relevant Period, the firm lacked a supervisory system reasonably designed to supervise for churning and excessive trading.

Rudiger, as R&R's CEO and a member of the firm's Senior Management, was responsible for ensuring the firm had in place a supervisory system designed to reasonably detect and deter prohibited activities, including churning and excessive trading. Rudiger was also responsible for annually reviewing the firm's WSPs and certifying that its processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures were reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations.

The firm's written procedures with respect to excessive trading and churning, for which Rudiger was ultimately responsible, were unreasonably designed. None of the firm's procedures effective during the Relevant Period explained (1) how to calculate or obtain cost-to-equity ratios or turnover rates, (2) what threshold of cost-to-equity ratio or turnover rate indicates potential excessive trading, (3) when and how supervisors should consider cost-to-equity ratios, turnover rates, or other red flags as indicative of churning or excessive trading, or (4) how supervisors should investigate and address potential churning or excessive trading.

During the Relevant Period, the firm conducted manual suitability reviews and did not use available exception reports that included information regarding cost-to-equity ratio and turnover rate and did not otherwise calculate, obtain, or consider those metrics in conducting any supervisory reviews of Rudiger's or Reid's trading for quantitative suitability.

As a result, R&R failed to identify or investigate the red flags of potential churning and excessive trading by Rudiger and Reid in the Rudiger Accounts and the Reid Accounts, including the high costs incurred by the accounts over time, large trade sizes, annualized cost-to-equity ratios over 20%, turnover rates over six, and significant account losses.

Rudiger knew that Mezzatesta and Harrison did not use exception reports to identify potential churning or excessive trading during the Relevant Period, did not use cost-to-equity ratios or turnover rates to supervise for churning or excessive trading, and that, despite the 2018 Exam Report, neither Harrison nor Mezzatesta raised with him any churning, excessive trading, or quantitative suitability concerns with his customers' accounts during the Relevant Period or determined that any of his trades were unsuitable or not in a customer's best interest.

Despite his own awareness of red flags, Rudiger failed to ensure that the firm, through Mezzatesta and Harrison, used exception reports or considered cost-to-equity ratios or turnover rates in supervising for churning and excessive trading during the Relevant Period.

Rudiger knew or reasonably should have known that the firm's WSP updates in 2018 and all subsequent updates during the Relevant Period did not address the deficiencies in the firm's supervisory system regarding excessive trading noted in the 2018 Exam Report and that its system for supervising for churning and excessive trading, as conducted by Mezzatesta and Harrison, was not reasonably designed to achieve compliance with securities laws and regulations and FINRA rules.

As a result of Rudiger's supervisory failures, R&R failed to establish and maintain a supervisory system during the Relevant Period reasonably designed to achieve compliance with securities laws and regulations and FINRA rules prohibiting churning and excessive trading.

R&R's deficient supervisory system, for which Rudiger was ultimately responsible, resulted in Rudiger's, Reid's, and R&R's willful violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, willful violations of Exchange Act Rule 15l-1, and violations of FINRA Rules 2111, 2020, and 2010.

As a result of the firm's failure to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI, including the Care Obligation, R&R willfully violated Exchange Act Rule 15l-1(a)(2)(iv) and FINRA Rule 2010 (from June 30, 2020, to October 31, 2023).

Additionally, R&R's and Rudiger's failure to establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with securities laws and regulations and FINRA rules prohibiting churning and excessive trading violated FINRA Rules 3110 and 2010 (from February 1, 2018, to October 31, 2023).

## **SIXTH CAUSE OF ACTION**

### **Failure to Supervise Violations of FINRA Rules 3110 and 2010 (Mezzatesta and Harrison)**

FINRA Rule 3110(a) requires that member firms establish and maintain a system, including written supervisory procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

FINRA Rule 3110 requires that a firm's designated supervisors exercise reasonable supervision.

To comply with this supervisory obligation, a firm's designated supervisors must reasonably investigate red flags of potential misconduct and take appropriate action when misconduct has occurred.

A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Throughout the Relevant Period, Mezzatesta and Harrison held supervisory responsibility for detecting, investigating, and addressing potential churning and excessive trading by Rudiger and Reid and together comprised the entirety of the firm's supervisory system with respect to churning and excessive trading.

As set forth in greater detail above, Mezzatesta and Harrison missed or ignored multiple red flags indicating that Rudiger and Reid were churning or excessively trading the Rudiger Accounts and Reid Accounts, did not use available exception reports that included information regarding cost-to-equity ratio and turnover rate, and did not otherwise calculate, obtain, or consider those metrics in conducting any of their supervisory reviews of Rudiger and Reid's trading for quantitative suitability.

As a result, Mezzatesta and Harrison failed to identify or investigate the red flags of potential churning and excessive trading by Rudiger and Reid in the Rudiger Accounts and Reid Accounts, and failed to reasonably address Rudiger and Reid's churning and excessive trading.

Mezzatesta's and Harrison's failures to reasonably supervise resulted in Rudiger's, Reid's, and R&R's willful violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, willful violations of Exchange Act Rule 15c-1, and violations of FINRA Rules 2111, 2020, and 2010.

As a result of the foregoing conduct, throughout the Relevant Period, Mezzatesta and Harrison violated FINRA Rules 3110 and 2010.

Based on the foregoing, Respondents R&R, Rudiger, and Reid willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, willfully violated Exchange Act Rule 15c-1(a)(1), and violated FINRA Rules 2020, 2111, and 2010.

Based on the foregoing, Respondents R&R, Rudiger, Mezzatesta, and Harrison violated FINRA Rules 3110 and 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

### SANCTIONS

It is ordered that Respondents be sanctioned as follows:

Reid & Rudiger LLC

- Expulsion from FINRA membership.<sup>4</sup>

Clifford R. Reid and Edward J. Rudiger Jr.

- A bar from association with any FINRA member in all capacities.<sup>5</sup>

Marc Harrison and Kelli A. Mezzatesta

- A three-month suspension from association with any FINRA member in all principal capacities;
- A \$5,000 fine; and
- An undertaking that, within 90 days of reassociation with a FINRA member firm, Marc Harrison and Kelli A. Mezzatesta will each attend and

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<sup>4</sup> In light of the expulsion, no monetary sanctions, including an order of restitution, is imposed on Reid & Rudiger LLC.

<sup>5</sup> In light of the bars, no monetary sanctions, including orders of restitution, are imposed on Reid and Rudiger.

satisfactorily complete 20 hours of continuing education related to supervision. Marc Harrison and Kelli A. Mezzatesta will notify FINRA of the name and contact information of the provider who is providing the continuing education at least 10 days prior to attending the training. Within 30 days following completion of the 20 hours of continuing education, Marc Harrison and Kelli A. Mezzatesta will submit written proof to FINRA that the continuing education program has been satisfactorily completed. Upon written request showing good cause, FINRA staff may extend any of the deadlines related to the continuing education portion of the sanction.

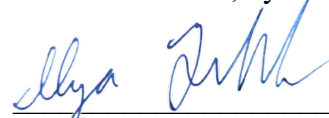
The fine shall be due and payable either immediately upon re-association with a member firm or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. FINRA's Finance Department will contact you regarding payment upon your re-association with a member firm.

The sanctions imposed herein shall become effective on a date set by FINRA staff. The suspensions shall become effective on the date of the notice of acceptance of this Offer. A bar or expulsion shall become effective on the date of the notice of acceptance of this Offer.

SO ORDERED.

FINRA

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



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Ilya Feldsherov  
Senior Counsel  
FINRA Department of Enforcement  
Brookfield Place  
200 Liberty Street  
New York, NY 10281

## Schedule A

Matter No. 2019060647601

Customer Account Activity										Customer Investment Profile Information According to Account Records					
Customer	Acct. No.	Trade Start Date	Trade End Date	No. of Trades	Average Monthly Account Value	Total Costs of Trades (incl. margin interest)	Cost-to- Equity Annualized	Turnover Rate Annualized	Realized Profit or Loss on Trades	Year Born	Investment Objective	Risk Tolerance	Annual Income (retail) / Annual Revenue (non-retail)	Net Worth (retail) / Total Assets (non-retail)	Liquid Net Worth (retail) / Assets Invested (non-retail)
A	*0714	2/26/2018	3/27/2019	21	\$ 14,228.17	\$ 18,522.83	111.59%	17.09	\$ (16,349.56)	1944	Speculation	Maximum Risk	\$100,000 - 199,999	\$1,000,000 - 2,999,999	\$250,000 - 499,999
B	*0493	2/22/2018	3/13/2020	31	\$ 99,892.47	\$ 133,069.89	63.94%	10.25	\$ (337,426.88)	1947	Speculation	Maximum Risk	\$750,000 - 999,999	\$3,000,000+	Not specified
C	*1454	2/26/2018	4/19/2022	35	\$124,421.76	\$ 251,469.41	69.30%	11.97	\$ (346,820.82)	1930	Speculation	Maximum Risk	\$1,000,000	\$10,000,000	\$6,000,000
D	*1311	2/26/2018	3/16/2021	33	\$ 39,750.71	\$ 59,061.28	59.43%	9.36	\$ (137,007.99)	1951	Agg. Growth / Agg. Income	Moderate Risk	\$400,000 - 499,999	\$3,000,000+	\$1,000,000 - 2,999,999
E	*1316	5/10/2018	6/7/2019	15	\$ 16,257.68	\$ 11,034.25	58.18%	17.33	\$ (18,137.84)	1956	Speculation	High Risk	\$1,000,000+	\$3,000,000+	\$1,000,000 - 2,999,999
F	*0065	2/26/2018	3/13/2020	29	\$ 76,223.89	\$ 114,715.37	72.24%	11.26	\$ (140,934.64)	1934	Speculation	Maximum Risk	\$50,000	\$1,000,000	\$100,000
G	*1372	2/26/2018	7/25/2023	41	\$135,494.64	\$ 204,618.96	34.85%	7.01	\$ (211,810.48)	1966	Speculation	High Risk	\$200,000 - 299,999	\$3,000,000+	\$3,000,000+
H	*0015	2/26/2018	3/13/2020	25	\$ 28,376.71	\$ 47,238.14	76.83%	11.88	\$ (50,533.30)	1943	Speculation	Maximum Risk	\$1,000,000+	\$3,000,000+	\$3,000,000+
I	*0193	2/26/2018	4/26/2019	26	\$ 31,034.08	\$ 36,807.76	101.66%	16.09	\$ (18,890.04)	1936	Agg. Growth / Agg. Income	Moderate Risk	\$250,000	\$6,000,000	\$50,000
J	*1331	2/26/2018	2/25/2019	27	\$ 42,034.11	\$ 41,893.98	92.00%	15.49	\$ (28,047.16)	1961	Speculation	Maximum Risk	\$300,000 - 399,999	\$3,000,000+	\$1,000,000 - 2,999,999
K	*0675	2/26/2018	3/13/2020	30	\$ 48,331.94	\$ 75,853.09	75.33%	12.26	\$ (77,693.23)	1954	Speculation	Maximum Risk	\$200,000 - 299,999	\$1,000,000 - 2,999,999	\$500,000 - 999,999
L	*1336	2/26/2018	11/25/2019	35	\$436,847.85	\$ 502,003.97	62.68%	10.46	\$ (157,980.24)	1944	Speculation	High Risk	\$1,000,000+	\$3,000,000+	\$3,000,000+
M	*1614	6/13/2018	7/14/2020	22	\$ 52,920.33	\$ 57,341.28	56.53%	9.03	\$ (177,728.77)	1937	Speculation	High Risk	\$200,000 - 299,999	\$1,000,000 - 2,999,999	\$1,000,000 - 2,999,999
N	*1502	2/27/2018	4/22/2020	85	\$205,115.72	\$ 202,517.38	43.88%	7.84	\$ (112,623.25)	1941	Speculation	Maximum Risk	\$300,000 - 399,999	\$1,000,000 - 2,999,999	\$250,000 - 499,999
O	*1583	2/26/2018	10/31/2023	84	\$137,808.46	\$ 292,295.94	43.14%	6.92	\$ (165,730.40)	1989	Speculation	High Risk	\$50,000 - 99,999	\$3,000,000+	\$3,000,000+
P	*1746	6/7/2022	10/27/2023	20	\$ 22,359.10	\$ 23,424.91	73.95%	16.76	\$ (94,124.45)	N/A	Speculation	Maximum Risk	\$100,000 - 499,999	\$1,000,000 - 49,999,999	\$1,000,000 - 9,999,999
Q	*0306	4/19/2022	10/27/2023	28	\$ 69,556.01	\$ 74,634.16	67.77%	14.92	\$ (394,707.17)	1943	Speculation	Maximum Risk	\$500,000 - 749,999	\$3,000,000+	Not specified
R	*0223	3/21/2022	12/9/2022	20	\$ 13,979.03	\$ 7,527.50	53.85%	12.55	\$ (43,242.83)	1940	Speculation	Maximum Risk	\$100,000 - 199,999	\$500,000- 999,999	\$100,000 - 249,999
S	*0387	2/23/2022	2/28/2023	17	\$ 32,953.67	\$ 16,605.80	46.52%	8.46	\$ (47,849.22)	N/A	Speculation	Maximum Risk	Not specified	Not specified	Not specified
T	*1700	4/19/2022	10/27/2023	21	\$ 26,569.85	\$ 27,339.66	64.99%	14.36	\$ (123,312.36)	1950	Speculation	Maximum Risk	\$300,000 - 399,999	\$3,000,000+	\$1,000,000 - 2,999,999