

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

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

REID & RUDIGER LLC
(CRD No. 47263),

Respondent.

Expedited Proceeding

No. RF260001

RCM No. 20250873960

Hearing Officer—MJD

EXPEDITED DECISION

June 29, 2026

Respondent Reid & Rudiger LLC requested a hearing in response to FINRA’s designation of the firm as a Restricted Firm and imposition of a \$133,000 maximum Restricted Deposit Requirement pursuant to FINRA Rule 4111. The designation and deposit requirement are approved.

Appearances

For the Complainant: Mark Fernandez, Esq., Michael Manning, Esq., and Christopher Perrin, Esq., Department of Enforcement, Financial Industry Regulatory Authority

For the Respondent: Francis J. Skinner, Esq., Gloor Law and Arbitration, LLC

DECISION

I. Introduction

On February 19, 2026, pursuant to FINRA Rule 4111 (Restricted Firm Obligations), FINRA’s Department of Member Supervision (the “Department”)¹ notified Respondent Reid & Rudiger LLC (“R&R” or the “Firm”) that it was designated as a “Restricted Firm”² and

¹ Rule 4111(i)(3) states that the “Department” means FINRA’s Department of Member Regulation. The witnesses who testified in this proceeding referred to the department as Member Supervision. *See, e.g.*, Hearing Transcript (“Tr.”) 37, 72. For purposes of this Decision, “Department” means both Member Regulation and Member Supervision.

² A “Restricted Firm” is a FINRA member designated as such in accordance with Rule 4111(e)(1)(B) and (C). Rule 4111(i)(16).

subjected the Firm to the maximum Restricted Deposit Requirement³ of \$133,000 (hereinafter the “Notice”). The maximum Restricted Deposit Requirement of \$133,000 would require the Firm to deposit cash or securities equal to that amount in a segregated Restricted Deposit Account. The Notice also informed the Firm of the grounds and factual basis for the Department’s action.

In response to the Notice, on February 26, 2026, R&R timely filed a request for a hearing with FINRA’s Office of Hearing Officers (“OHO”) pursuant to FINRA Rule 9561(a)(5) (“Hearing Request”).⁴ In its Hearing Request, R&R asserted various defenses, including that the Department had incorrectly applied Rule 4111, and therefore improperly determined that it was a Restricted Firm, and that complying with the \$133,000 maximum Restricted Deposit Requirement would be a financial hardship for the Firm.⁵ It asked for the withdrawal of the Department’s Restricted Firm designation and requested that the matter be remanded for reconsideration of a lesser Restricted Deposit Requirement.⁶

On April 7 and 8, 2026, I held a hearing by videoconference. FINRA’s Department of Enforcement (“Enforcement”) presented the testimony of two witnesses—Paxton Dunn and Ginger Corrao, a senior director and a risk monitoring analyst in the Department, respectively. Dunn generally testified about how the Department developed procedures to apply Rule 4111. Corrao testified about her review of R&R, the Department’s determination that it was a Restricted Firm, and the \$133,000 maximum Restricted Deposit Requirement. The Firm presented the testimony of Marc Harrison and Kelli Mezzatesta, the Managing Director and Chief Compliance Officer of the Firm, respectively. Harrison testified primarily about the Firm’s

³ “Restricted Deposit Requirement” is one of two amounts: (1) the specific maximum for a member, determined by the Department, taking into consideration the nature of the firm’s operations and activities, revenues, commissions, assets, liabilities, expenses, net capital, the number of offices and registered persons, the nature of the disclosure events counted in the numeric thresholds, insurance coverage for customer arbitration awards or settlements, concerns raised during FINRA exams, and the amount of any of the firm’s or its associated persons’ Covered Pending Arbitration Claims, unpaid arbitration awards or unpaid settlements related to arbitrations; then based on the Department’s review of these factors, an amount that would be consistent with the objectives of Rule 4111, but would not significantly undermine the continued financial stability and operational capability of the firm as an ongoing enterprise over the next 12 months; or (2) the amount, adjusted after the Consultation with the firm, determined by the Department. FINRA Rule 4111(i)(15).

⁴ Rule 9561(a)(5) states that “[a] member served with a notice [of Restricted Firm designation] may file with the Office of Hearing Officers a written request for a hearing pursuant to Rule 9559.” “[I]n a request for a hearing [before a Hearing Officer] of a Department determination that imposes a Restricted Deposit Requirement or other obligations under Rule 4111, the principal issues raised may include whether (1) the member firm should not be designated a Restricted Firm; (2) the Department incorrectly included disclosure events when calculating whether the member firm meets the Preliminary Criteria for Identification; (3) a Restricted Deposit Requirement would impose an undue financial burden on the member firm; or (4) the obligations imposed are inconsistent with the standards set forth in proposed Rule 4111(e).” Notice of Filing of a Proposed Rule Change, Exchange Act Release No. 90527, 85 Fed. Reg. 78540, 78549-78550 (Dec. 4, 2020).

⁵ R&R Request for Hearing (“Hr’g Request”) (Feb. 26, 2026).

⁶ Hr’g Request.

financial condition. Mezzatesta testified about two arbitration settlements, an arbitration award, and an investigation involving the Firm's registered persons.

After considering the testimony and documentary evidence presented at the hearing and the parties' legal arguments, I find that the Department correctly determined that R&R is a Restricted Firm and properly imposed a maximum Restricted Deposit Requirement. I therefore approve the Restricted Firm designation and the \$133,000 maximum Restricted Deposit Requirement. I also order R&R to pay the costs of the hearing.

II. The Regulatory Framework for FINRA Rule 4111

FINRA adopted Rule 4111 to conduct annual evaluations of member firms with a history of misconduct, including those with a concentration of registered persons with a significant history of misconduct. Rule 4111 requires firms that are designated as "Restricted Firms" under Rule 4111(e)(1)(B) and (C) to deposit cash or qualified securities in a restricted account and comply with specified conditions or restrictions. Rule 9561, adopted at the same time as Rule 4111, established the procedures for regulating activities under Rule 4111, including procedures to request a hearing with OHO in an expedited proceeding pursuant to FINRA Rule 9559. FINRA explained the purpose and operation of Rules 4111 and 9561 in FINRA Regulatory Notice 21-34.⁷

Below is a general description of how Rules 4111 and 9561 operate for all firms who fall under the Restricted Firm review process.

A. The Department Calculates the Preliminary Criteria for Identification

The annual Rule 4111 process begins with the calculation of the firm's "Preliminary Identification Metrics" to determine if a firm meets the "Preliminary Criteria for Identification."⁸ The annual "Evaluation Date" is June 1.⁹

⁷ FINRA Regulatory Notice 21-34 (FINRA Adopts Rules to Address Firms With a Significant History of Misconduct) (Sept. 28, 2021), <https://www.finra.org/rules-guidance/notices/21-34>; *see also* FINRA Information Notice (FINRA Announces Rule 4111 Evaluation Date) (Feb. 1, 2022), <https://www.finra.org/rules-guidance/notices/information-notice-020122>.

⁸ Rule 4111(b).

⁹ FINRA Information Notice, at 2. "Evaluation Date" refers to the date, each calendar year, as of which the Department calculates the Preliminary Identification Metrics to determine if the member meets the Preliminary Criteria for Identification. Rule 4111(i)(5). The Evaluation Date "is not the date when FINRA would actually perform the annual calculation of the Preliminary Criteria for Identification. Rather, FINRA plans to actually perform the annual calculation at least 30 days after the Evaluation Date, to account for the time between when relevant disclosure events occurred and when firms must report those events on the Uniform Registration Forms." FINRA Regulatory Notice 21-34, at 7. In 2025, the Evaluation Date for all firms, including R&R, was June 1. Tr. 151; Joint Exhibit ("JX-") 14, at 1.

The Preliminary Identification Metrics are computed for each of six categories of events or conditions identified in Rule 4111(i)(4)(A) through (i)(4)(F).¹⁰ “These six categories are based on events or conditions disclosed through the Uniform Registration Forms, with the exception of one event category (Member Firm Adjudicated Events), which also includes customer arbitrations filed with FINRA’s dispute resolution forum.”¹¹

The first three categories involve registered persons with disclosure events that (1) have been adjudicated (“Registered Person Adjudicated Events”),¹² (2) are currently pending and not yet adjudicated (“Registered Person Pending Events”),¹³ or (3) arise from the termination from, or internal review by, a member with whom they were previously associated (“Registered Person Termination and Internal Review Events”).¹⁴ The fourth and fifth categories address the firm’s own adjudicated and pending matters, as opposed to those of its registered persons: “Member

¹⁰ FINRA Regulatory Notice 21-34, at 4.

¹¹ FINRA Regulatory Notice 21-34, at 4. The six categories are based on events or conditions disclosed through FINRA’s registration forms, specifically, Form U4 (Uniform Application for Securities Industry Registration or Transfer), Form U5 (Uniform Termination Notice for Securities Industry Registration), Form U6 (Uniform Disciplinary Action Reporting Form), and Form BD (Uniform Application for Broker-Dealer Registration) (collectively the “Uniform Registration Forms”). Rule 4111(i)(17) (defining “Uniform Registration Forms”).

¹² “Registered Person Adjudicated Events” means any one of the following events that are reportable on the registered person’s Uniform Registration Forms: (1) a final investment-related, consumer-initiated customer arbitration award or civil judgment in which the registered person was a named party or was a “subject” of the customer arbitration award or civil judgment; (2) a final investment-related, consumer-initiated customer arbitration settlement, civil litigation settlement, or a settlement prior to a customer arbitration or civil litigation for at least \$15,000 in which the registered person was a named party or a “subject of the action”; (3) a final investment-related civil judicial matter that resulted in a finding, sanction, or order; (4) a final regulatory action that resulted in a finding, sanction, or order, and was brought by the [Securities and Exchange Commission (“SEC”)], [the Commodities Futures Trading Commission (“CFTC”)], other federal agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or (5) a criminal matter in which the registered person was convicted of or pleaded guilty or no contest in a domestic, foreign, or military court to any felony or any reportable misdemeanor. Rule 4111(i)(4)(A).

¹³ “Registered Person Pending Events” includes any one of the following events that are reportable on the registered person’s Uniform Registration Forms: (1) a pending investment-related civil judicial matter; (2) a pending investigation by a regulatory authority; (3) a pending regulatory action brought by the SEC or CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; (4) a pending criminal charge associated with any felony or any reportable misdemeanor. Rule 4111(i)(4)(B).

¹⁴ “Registered Person Termination and Internal Review Events” means any one of the following events associated with the registered person at a previous member that are reportable on the registered person’s Uniform Registration Forms: (1) a termination in which the registered person voluntarily resigned, was discharged, or was permitted to resign from a previous member, or (2) a pending or closed internal review by a previous member. Rule 4111(i)(4)(C).

Firm Adjudicated Events”¹⁵ and “Member Firm Pending Events.”¹⁶ The sixth and last disclosure category addresses the situation where a registered person was formerly associated with a previously expelled firm irrespective of whether the registered person had engaged in misconduct at the current or former firm (“Registered Persons Associated with Previously Expelled Firms”).¹⁷

To calculate metrics for each category, the Department counts the number of disclosure events or, for the Expelled Firm Association category, the number of the Registered Persons Associated with Previously Expelled Firms.¹⁸ For the two adjudicated-events categories for registered persons and the firm, the counts include disclosure events that were resolved during the “Evaluation Period,” defined as the five years preceding the Evaluation Date.¹⁹ For the two pending-events categories and the internal review-event category, the counts include disclosure events that are pending as of the Evaluation Date.²⁰ For the three registered person disclosure-event categories, the Department counts disclosure events for all “Registered Persons In-Scope,” which is defined as all persons registered with the firm for at least one day during the one year prior to the Evaluation Date.²¹

The sum of each of the six categories is then standardized to determine the firm’s six Preliminary Identification Metrics. For the first five categories above (the “Registered Person and Member Firm Events”), the Preliminary Identification Metrics are in the form of an average number of events per the number of Registered Persons In-Scope at the firm.²² This is calculated

¹⁵ “Member Firm Adjudicated Events” is any one of the following events that is reportable on the firm’s Uniform Registration Forms or based on customer arbitrations filed with FINRA Dispute Resolution: (1) a final investment-related, consumer-initiated customer arbitration award in which the firm was a named party; (2) a final investment-related civil judicial matter that resulted in a finding, sanction, or order; (3) a final regulatory action that resulted in a finding, sanction, or order, and was brought by the SEC or CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority or a self-regulatory organization; or (4) a criminal matter in which the firm was convicted of or pleaded guilty or no contest in a domestic, foreign, or military court to any felony or any reportable misdemeanor. Rule 4111(i)(4)(D).

¹⁶ “Member Firm Pending Events” is any one of the following events that is reportable on the firm’s Uniform Registration Forms: (1) a pending investment-related civil judicial matter; (2) a pending regulatory action that was brought by the SEC, the CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or (3) a pending criminal charge associated with any felony or any reportable misdemeanor. Rule 4111(i)(4)(E).

¹⁷ “Registered Persons Associated with Previously Expelled Firms” means any Registered Person In-Scope who was registered for at least one year during the five years preceding the Evaluation Date with a previously expelled firm and whose registration with the previously expelled firm terminated during the Evaluation Period. Rule 4111(i)(4)(F). Rule 4111(i)(6) defines “Evaluation Period” as the prior five years from the Evaluation Date.

¹⁸ FINRA Rule 4111(i)(4); *see also* FINRA Regulatory Notice 21-34, at 4.

¹⁹ Rule 4111(i)(10)(A), (C), and (D); *see also* FINRA Regulatory Notice 21-34, at 4.

²⁰ Rule 4111(i)(10)(B), (C), and (E); *see also* FINRA Regulatory Notice 21-34, at 4.

²¹ Rule 4111(i)(10)(A)-(C), (i)(13); FINRA Regulatory Notice 21-34, at 4.

²² Rule 4111(i)(12).

by taking each category's sum and dividing it by the number of Registered Persons In-Scope at the firm.²³

The Department then uses the six Preliminary Identification Metrics to determine if the firm meets the Preliminary Criteria for Identification. This is done by determining whether the firm's Preliminary Identification Metrics meet the specific numeric Preliminary Identification Metrics Thresholds as set forth in Rule 4111(i)(11).²⁴ To ensure that the firm is compared only to its similarly sized peers, the Rule provides separate threshold metrics, or percentages, according to seven firm size categories (ranging from 1 to 4 Registered Persons In-Scope to 500 or more Registered Persons In-Scope) for each Preliminary Identification Metric.²⁵ Generally, the larger the firm, the lower the threshold metric. For example, the Registered Person Adjudicated Metric for a firm with 10 to 19 Registered Persons In-Scope is 0.20, or 20 percent; for a firm with 500 or more Registered Persons In-Scope, the metric is 0.10, or 10 percent.²⁶

The firm will meet the Preliminary Criteria for Identification under Rule 4111 if both of the following conditions apply:

- (1) Two or more of the firm's Preliminary Identification Metrics equal or exceed the corresponding Preliminary Identification Metrics Threshold for the firm's size, and at least one of the Preliminary Identification Metrics is the Registered Person Adjudicated Event Metric, the Member Firm Adjudicated Event Metric, or the Expelled Firm Association Metric;²⁷ and
- (2) The firm has two or more Registered Person or Member Firm Events during the five-year Evaluation Period.²⁸

In this expedited proceeding, only the first two categories are implicated—the Registered Person Adjudicated Events and Registered Person Pending Events. The Department identified three adjudicated events and four pending events that would preliminarily result in R&R being a Restricted Firm.

²³ Rule 4111(i)(10)(A) to (E). The sixth and last Preliminary Identification Metric is the Expelled Firm Association Metric. This figure is calculated as the sum of Registered Persons Associated with Previously Expelled Firms, divided by the number of Registered Persons In-Scope at the firm. Rule 4111(i)(10)(F).

²⁴ FINRA Regulatory Notice 21-34, at 5.

²⁵ Rule 4111(i)(11).

²⁶ Rule 4111(i)(11).

²⁷ Rule 4111(b), (i)(9)(A).

²⁸ Rule 4111(b), (i)(9)(B).

B. The Department Conducts an Initial Evaluation

Once the Department has determined that the firm meets the Preliminary Criteria for Identification as of the Evaluation Date for a given year, it is required to conduct an initial internal evaluation under Rule 4111(c)(1). FINRA Regulatory Notice 21-34 states that the purpose of the Department’s initial evaluation “is to determine whether it is aware of information that would show that the member firm—despite having met the Preliminary Criteria for Identification—does not pose a high degree of risk.”²⁹ The Department reviews whether the computation of the firm’s Preliminary Identification Metrics included disclosure events or other conditions that are not consistent with the purpose of the Preliminary Criteria for Identification and “are not reflective of a firm posing a high degree of risk.”³⁰ The Department is also required to consider whether the firm “has addressed the concerns signaled by the disclosure events or conditions or altered its business operations such that the Preliminary Criteria for Identification calculation no longer reflects the member’s current risk profile.”³¹

FINRA Regulatory Notice 21-34 provides examples that could cause the Department to reconsider an initial finding that the firm has met the Preliminary Criteria for Identification. These examples include situations where the computations the Department performed include disclosure events “that were not sales-practice related, were duplicative (involving the same customer and same matter), or mostly involved compliance concerns best addressed by a different regulatory response by FINRA (*e.g.*, enforcement actions, more frequent examination cycles, temporary cease and desist orders).”³²

If the Department determines after the internal evaluation that the firm no longer warrants further review, it “shall close out the review of the member for such year.”³³ But if the Department determines that the firm warrants further review, the Rule 4111 process will continue.

C. The Firm’s One-Time Opportunity to Reduce Staff

If, after its internal review, the Department determines that the firm still meets the Preliminary Criteria for Identification for the first time and warrants further review under Rule 4111, the firm will have a one-time opportunity to reduce its staffing levels so that it no longer

²⁹ FINRA Regulatory Notice 21-34, at 8.

³⁰ Rule 4111(c)(1).

³¹ Rule 4111(c)(1).

³² FINRA Regulatory Notice 21-34, at 8.

³³ Rule 4111(c)(3).

meets the Preliminary Criteria for Identification.³⁴ The firm has 30 days to provide evidence to the Department that it reduced its staff by identifying the terminated individuals.³⁵

In cases where the firm reduces its staff and the Department determines that it no longer meets the Preliminary Criteria for Identification, the Department will close out that year's Rule 4111 process for the firm.³⁶ But if the Department determines that the firm still meets the Preliminary Criteria for Identification even after the firm reduces its staff, the Department will proceed with determining the firm's Restricted Deposit Requirement.³⁷

D. The Restricted Deposit Requirement

If the Department determines that the firm still meets the Preliminary Criteria for Identification, it will calculate the firm's maximum Restricted Deposit Requirement based on the firm's size, operations, and financial condition.³⁸ Specifically, Rule 4111(i)(15)(A) requires that the Department consider the firm's "operations and activities, revenues, commissions, assets, liabilities, expenses, net capital, [and] the number of offices and registered persons." The Rule also requires the Department to consider "the nature of the disclosure events counted in the numeric thresholds, insurance coverage for customer arbitration awards and settlements, concerns raised during FINRA exams, and the amount of any of the firm's or its associated persons' Covered Pending Arbitration Claims, unpaid arbitration awards or unpaid settlements related to arbitrations."³⁹

Rule 4111(i)(15)(A) further requires that the maximum Restricted Deposit Requirement should be "consistent with the objectives of this Rule [and] would not significantly undermine the continued financial stability and operational capability of the firm as an ongoing enterprise over the next 12 months."⁴⁰ FINRA has stated that the maximum Restricted Deposit Requirement "should be significant enough to change the member firm's behavior but not force the member firm out of business solely by virtue of the imposed deposit requirement."⁴¹

³⁴ Rule 4111(c)(2).

³⁵ Rule 4111(c)(2).

³⁶ Rule 4111(c)(3).

³⁷ FINRA Regulatory Notice 21-34, at 9.

³⁸ "Maximum" is used to indicate that a firm's maximum Restricted Deposit Requirement will be the highest deposit requirement the firm will be subject to during that year's Rule 4111 process. FINRA Regulatory Notice 21-34, at 9 n.31.

³⁹ Rule 4111(i)(15)(A).

⁴⁰ Rule 4111(i)(15)(A).

⁴¹ FINRA Regulatory Notice 21-34, at 9.

E. The Department’s Consultation with the Firm

After determining the maximum Restricted Deposit Requirement, the Department is required to proceed to a Consultation with the firm pursuant to Rule 4111(d)(2) and (3).⁴² This provides the firm with an opportunity to show the Department that it does not meet the Preliminary Criteria for Identification and therefore should not be designated a Restricted Firm.⁴³ The firm can also explain why it should not be subject to the maximum Restricted Deposit Requirement.⁴⁴ The firm, however, bears the burden of demonstrating that it should not be designated a Restricted Firm and should not be subject to the Restricted Deposit Requirement.⁴⁵

The firm may overcome the presumption that it should be designated a Restricted Firm by “clearly demonstrating” that the calculation of the Preliminary Criteria for Identification included events that should not have been included because, “for example, they are duplicative, involving the same customer and the same matter, or are not sales practice related.”⁴⁶

The firm may overcome the second presumption—that it should be subject to the maximum Restricted Deposit Requirement—by “clearly demonstrating” that it “would face significant undue financial hardship” and that “a lesser deposit requirement would satisfy the objectives of this Rule and be consistent with the protection of investors and the public interest.”⁴⁷

The Rule identifies what criteria the Department should consider during the Consultation process when evaluating whether the firm should be designated a Restricted Firm and subject to a Restricted Deposit Requirement. These include information the firm provides, including relevant documents it submits for the Department to review in its computation of the Preliminary

⁴² Rule 4111(i)(1) defines “Consultation” as “one or more meetings or consultations between the Department and a member that meets the Preliminary Criteria for Identification.” After calculating the maximum Restricted Deposit Requirement, the Department informed R&R in a letter dated December 18, 2025, that it would proceed with a Consultation with the Firm pursuant to Rule 4111(d). Stipulations (“Stip.”) ¶ 20; JX-16. The Consultation took place on January 20, 2026. JX-17, at 2. FINRA was represented at the Consultation by Enforcement counsel who entered their appearances in this expedited proceeding, Corrao, and Corrao’s supervisor in the Department. Tr. 158. R&R was represented by Harrison, Mezzatesta, and Edward J. Rudiger, Jr. Tr. 161.

⁴³ FINRA Regulatory Notice 21-34, at 10.

⁴⁴ FINRA Regulatory Notice 21-34, at 10.

⁴⁵ Rule 4111(d)(1).

⁴⁶ Rule 4111(d)(1)(A). During the Consultation, R&R argued that the four pending disclosure events should be counted as one because they derive from a single Enforcement investigation. Tr. 159. The three adjudicated events, R&R argued, should be excluded because they were nuisance claims that the Firm settled for small amounts, evidencing that they lacked merit. Tr. 159.

⁴⁷ Rule 4111(d)(1)(B).

Criteria for Identification, and any plan the firm may submit “proposing in detail the specific conditions or restrictions” that the firm asks the Department to consider.⁴⁸

F. The Department’s Decision and Notice to Firm

Once the Consultation is complete, the Department is obligated to render a decision within 30 days and serve it on the firm.⁴⁹ If the firm fails to rebut the presumption that it should be designated a Restricted Firm and subject to a maximum Restricted Deposit Requirement, the Department should designate the firm as a Restricted Firm and require it to establish a Restricted Deposit Account. The firm will then be obligated to deposit the maximum Restricted Deposit Requirement into the Account. The decision also may require the firm to “implement and maintain specified conditions and restrictions” on its operations and activities to address the concerns raised by the Preliminary Criteria for Identification and protect investors and the public interest.⁵⁰

Pursuant to Rule 9561(a), the Department must issue to the firm a notice of its decision setting forth the obligations imposed on the firm under Rule 4111 and informing it of its right to request a hearing with OHO. A timely request for a hearing will allow the firm to deposit in its Restricted Deposit Account the lesser of 25 percent of its Restricted Deposit Requirement or 25 percent of its average net capital during the prior year until OHO or the National Adjudicatory Council (“NAC”) issues a decision under Rule 9559.⁵¹

G. Hearing Officer’s Authority Under Rule 4111

If, pursuant to Rule 9561(a), a firm designated as a Restricted Firm requests a hearing with OHO, Rule 4111(e)(2) provides that this will not stay the effectiveness of the Department’s decision. A hearing officer’s authority is limited by Rule 9559(n)(6). The Rule provides that a hearing officer “may approve or withdraw any and all of the Rule 4111 Requirements [set forth in the notice of decision], or remand the matter to the department that issued the notice for further consideration of specified matters.” A hearing officer, however, “may not modify any of

⁴⁸ Rule 4111(d)(3)(C). R&R did not submit any documentation supporting its arguments. Tr. 158-60. FINRA staff that attended the Consultation presented R&R’s arguments to the “governance committee,” consisting of senior leaders of the Department, Enforcement, and other FINRA offices, which found they had no merit. Tr. 162-64; *see also* JX-17, at 2-3. The Department therefore determined that R&R failed to rebut the presumption in Rule 4111(d)(1)(A) and (B) that it should be designated a Restricted Firm and subject to the maximum Restricted Deposit Requirement. Tr. 91-96, 134; JX-17, at 2.

⁴⁹ Rule 4111(e)(1), (e)(2).

⁵⁰ Rule 4111(e)(1)(B). Supplemental Material .03 to Rule 4111 provides examples of “conditions and restrictions” the Department may impose on a Restricted Firm, which include limiting business expansion and changes in control, requiring a compliance audit by a third party, limiting business lines and product types offered, and limiting the opening of new customer accounts.

⁵¹ Rule 4111(e)(2).

the Rule 4111 Requirements imposed by the notice [of decision] or impose other requirements, obligations or restrictions available under Rule 4111.”⁵²

III. The Department’s Notice to the Firm

On February 19, 2026, the Department sent R&R the Notice stating that it had reached a decision under Rule 4111(e) to designate it a Restricted Firm and subject it to the maximum Restricted Deposit Requirement of \$133,000.⁵³ The Notice informed the Firm that it had to establish a Restricted Deposit Account within 15 days and deposit the \$133,000 maximum Restricted Deposit Requirement unless it timely requested a hearing with OHO.⁵⁴

The Notice informed R&R that its Restricted Firm designation arose because two of the six metrics—the Registered Person Adjudicated Events Metric and the Registered Person Pending Events Metric—met or exceeded the Preliminary Identification Metrics Thresholds for those metrics for a firm of its size.⁵⁵ According to the Notice, the Department determined that R&R had 10 Registered Persons In-Scope, which placed it in Firm Size Category 3 (firms with 10 to 19 Registered Persons In-Scope).⁵⁶

The Notice explained that the Department had found that R&R had three Registered Person Adjudicated Events which resulted from settlements of two customer arbitration claims and one arbitration award: Clifford Reid had one event and Rudiger had two.⁵⁷ This resulted in a Registered Person Adjudicated Events Metric of 0.30.⁵⁸ This exceeded the applicable threshold for this metric of 0.20 for a Category 3 size firm under Rule 4111(i)(11).⁵⁹

The Notice also informed the Firm that it had four Registered Person Pending Events (for Reid, Rudiger, Harrison, and Mezzatesta), resulting in a Registered Person Pending Events Metric of 0.40.⁶⁰ This exceeded the threshold for that metric of 0.10 for a firm of R&R’s size pursuant to Rule 4111(i)(11).⁶¹ According to the Notice, these two Preliminary Identification

⁵² Rule 9559(n)(6).

⁵³ Stip. ¶ 22; JX-17.

⁵⁴ JX-17, at 3.

⁵⁵ JX-17, at 2.

⁵⁶ JX-17, at 2; Rule 4111(i)(11).

⁵⁷ JX-17, at 2.

⁵⁸ JX-17, at 2.

⁵⁹ JX-17, at 2; Rule 4111(i)(11).

⁶⁰ JX-17, at 2.

⁶¹ JX-17, at 2.

Metrics met the Preliminary Criteria for Identification conditions under Rule 4111(i)(9)(A), thus justifying designating R&R as a Restricted Firm.⁶²

The Notice stated that the Department had considered but rejected the Firm's arguments that the three Registered Person Adjudicated Events should be excluded because two represented arbitration settlements that were resolved to avoid litigation costs.⁶³ The Notice explained that Rule 4111 establishes an objective test for what constitutes a disclosure event. For customer complaints, arbitrations, and civil litigations, the Rule uses a \$15,000 threshold.⁶⁴ If a settlement meets or exceeds \$15,000, it counts as a disclosure event regardless of a firm's reasons for settling the claim.⁶⁵

The Department also rejected R&R's argument that the four Registered Person Pending Events should be considered one event because they resulted from one investigation.⁶⁶ The Notice explained that R&R was required to report four separate pending events pursuant to Rule 4111 reporting requirements, which count the number of disclosure events appearing on registered persons' Central Registration Depository ("CRD"), not the number of underlying investigations.⁶⁷

The Notice also defended the Department's calculation of the \$133,000 maximum Restricted Deposit Requirement, stating that it had applied the factors set forth in Rule 4111(i)(15).⁶⁸ Specifically, it stated that the Department considered that R&R had pending arbitration claims totaling \$6,067,484, average quarterly revenues of \$756,666, and average quarterly compensation of \$466,952.⁶⁹

The Notice further stated that the Firm had not reduced the number of associated persons with disciplinary histories and had failed to improve its supervisory procedures and controls even though FINRA had identified the deficiencies.⁷⁰ It also noted that a recent examination had resulted in referrals to Enforcement for further action involving Reid, Rudiger, Harrison, and Mezzatesta.⁷¹

⁶² JX-17, at 2.

⁶³ JX-17, at 2.

⁶⁴ JX-17, at 2.

⁶⁵ JX-17, at 2.

⁶⁶ JX-17, at 2.

⁶⁷ JX-17, at 2.

⁶⁸ JX-17, at 3.

⁶⁹ JX-17, at 3.

⁷⁰ JX-17, at 3.

⁷¹ JX-17, at 3. The Notice did not impose any conditions or restrictions on R&R aside from the maximum Restricted Deposit Requirement. JX-17.

IV. The Firm's Hearing Request

R&R timely filed a request for a hearing with OHO pursuant to Rule 9561(a)(5) on February 26, 2026.⁷² In a one-page letter, the Firm asked for the withdrawal of the Department's Restricted Firm designation and requested that the matter be remanded for reconsideration of a lesser Restricted Deposit Requirement.⁷³ It asserted six defenses:

- The Department failed to conduct a reasonable internal evaluation of the Preliminary Criteria for Identification because it did not treat multiple CRD occurrences as one occurrence even though they derived from the same investigation.⁷⁴
- The Department failed to reasonably conduct an internal evaluation of the Firm's Preliminary Criteria for Identification metrics because it included unresolved pending investigation events that are better addressed by a different regulatory response, specifically, the action that resulted in the filing of a Complaint by Enforcement against the four persons.⁷⁵
- The Department's consideration of FINRA's own investigation as one of the metrics for determining the Preliminary Criteria for Identification is "inherently rife with conflicts of interest."⁷⁶ R&R argues that "[e]quitable principles, and the doctrines of unclean hands and fundamental fairness," require that FINRA exclude it from the calculation of the Preliminary Criteria for Identification.⁷⁷
- The Department relied on "inaccurate" figures in calculating the maximum Restricted Deposit Requirement and failed to arrive at a reasonable deposit amount that "will not significantly undermine the continued financial stability and operational capability of the [F]irm as an ongoing enterprise over the next 12 months."⁷⁸
- The \$133,000 maximum Restricted Deposit Requirement is "excessive, arbitrary, and capricious."⁷⁹

⁷² Hr'g Request.

⁷³ Hr'g Request.

⁷⁴ Hr'g Request.

⁷⁵ Hr'g Request.

⁷⁶ Hr'g Request.

⁷⁷ Hr'g Request.

⁷⁸ Hr'g Request.

⁷⁹ Hr'g Request.

- The \$133,000 maximum Restricted Deposit Requirement “will be a hardship to the Firm.”⁸⁰

V. Findings of Fact and Conclusions of Law

A. R&R’s Background

R&R has been a member firm since 1999.⁸¹ According to CRD, on April 30, 2026, three weeks after the hearing in this expedited proceeding, R&R filed a Uniform Request for Broker-Dealer Withdrawal (Form BDW) disclosing that it had ceased operations on April 29. The Firm’s request to withdraw its registration with FINRA remains pending.

At the time of the hearing, R&R was primarily a retail firm with revenues derived from charging commissions on transactions in equity securities.⁸² The Firm had four registered persons who made recommendations to retail customers.⁸³ R&R operated two branch offices and had approximately 300 customers.⁸⁴ Its total revenues in 2024 and 2025 were \$3 million and just over \$2 million, respectively.⁸⁵ In 2025, R&R had a net loss.⁸⁶ R&R has been subject to a minimum net capital requirement of \$5,000 since July 1, 2023.⁸⁷

B. Jurisdiction

R&R remains a FINRA member because FINRA has not yet approved the Firm’s withdrawal request. R&R did not dispute FINRA’s jurisdiction to designate it as a Restricted Firm and impose a maximum Restricted Deposit Requirement, and the parties did not dispute OHO’s jurisdiction in this expedited proceeding that resulted from R&R’s request for a hearing.⁸⁸

⁸⁰ Hr’g Request.

⁸¹ Tr. 413.

⁸² Tr. 150, 384.

⁸³ Tr. 378.

⁸⁴ Tr. 377-78, 412.

⁸⁵ Stip. ¶ 1.

⁸⁶ Tr. 385; Stip. ¶ 1.

⁸⁷ Stip. ¶ 2.

⁸⁸ Rule 9559(a) provides, “The hearing procedures under this Rule shall apply to a member, person associated with a member, person subject to FINRA’s jurisdiction or other person who is served with a notice issued under the Rule 9550 Series and who timely requests a hearing.”

C. The Department Correctly Applied Rule 4111 in Determining That R&R Is a Restricted Firm

1. Preliminary Identification

In July 2025, the Department began its annual Rule 4111 calculation using June 1, 2025, as the Evaluation Date of the Preliminary Identification Metrics to determine if R&R met the Preliminary Criteria for Identification.⁸⁹ Based on the Department's calculations described below, two of R&R's Preliminary Identification Metrics exceeded the thresholds—the Registered Person Adjudicated Events Metric and the Registered Person Pending Event Metric.⁹⁰ As a result, R&R met the Preliminary Criteria for Identification, which was the first year that R&R had done so.⁹¹

For the 2025 review period, Corrao, the Department's risk monitoring analyst, determined that R&R had 10 Registered Persons In-Scope.⁹² Accordingly, Corrao placed R&R in the Category 3 size firm (firms with between 10 and 19 Registered Persons In-Scope).⁹³

2. Assessment of Disclosure Events

Next, Corrao reviewed the disclosures to determine if they in fact met the definition set forth in Rule 4111 and should be included in the computation.⁹⁴ The seven disclosures that she reviewed had been identified by the automated system the Department used during the preliminary stage that resulted in the system preliminarily determining that R&R exceeded the threshold for two metrics.⁹⁵ Her review included confirming for each registered representative who had adjudicated and pending events that the events were properly included and accurately described.⁹⁶ Corrao validated each of the disclosure events and did not exclude any event from her calculations.⁹⁷

The seven disclosure events counted against four persons registered with the Firm, as described below.⁹⁸

⁸⁹ Tr. 151; JX-17, at 1-2.

⁹⁰ Tr. 51-54; Complainant's Exhibit ("CX-") 8.

⁹¹ Tr. 151-52.

⁹² Tr. 171-72; CX-10, at 1-2, 13, 26, 28, 31, 37, 39-40, 42, 51; Rule 4111(i)(13).

⁹³ Rule 4111(i)(11).

⁹⁴ Tr. 54-55, 169-70.

⁹⁵ Tr. 51-54, 168-70; CX-8.

⁹⁶ Tr. 57-58; CX-9.

⁹⁷ Tr. 58-60; CX-9.

⁹⁸ CX-9.

a. The Three Registered Person Adjudicated Events

The three adjudicated events involve two settlements and one award reached in arbitration claims that three customers filed with FINRA Dispute Resolution Services alleging misconduct by Reid (one settlement) and Rudiger (one settlement and one award).⁹⁹

In August 2021, Reid agreed to settle a customer arbitration claim for \$21,000, as reflected in the Disclosure Occurrence Composite in FINRA’s CRD records.¹⁰⁰

In December 2021, an arbitration panel awarded \$98,666 to a customer who had alleged that Rudiger had engaged in fraudulent misconduct, as reflected in his CRD Disclosure Occurrence Composite.¹⁰¹ R&R settled another customer arbitration claim involving Rudiger for \$15,000 in May 2023, as reflected in his CRD Disclosure Occurrence Composite.¹⁰²

Corrao validated the three adjudicated events to confirm that each one alleged “investment-related, consumer-initiated” customer sales practice violations and the amounts in the two settlements and the one award equaled or exceeded the necessary minimum amount of \$15,000, as set forth in Rule 4111(i)(4)(A).¹⁰³ Also, each of the adjudicated events occurred no earlier than 2021, and therefore fell within the five-year period preceding the June 1, 2025, Evaluation Date, as required by Rule 4111(i)(10)(A).

The three adjudicated events exceeded the Preliminary Identification Metrics Thresholds of 0.20 for the Registered Person Adjudicated Event Metrics for a Category 3 size firm.¹⁰⁴ The three events resulted in a metric of 0.30 (3 events divided by 10 Registered Persons In-Scope).¹⁰⁵

b. The Four Registered Person Pending Events

The four pending events arise from Wells notices Enforcement sent to Reid, Rudiger, Harrison, and Mezzatesta on August 14, 2024, that had originated from a single investigation into customer sales practices at R&R.¹⁰⁶ The receipt of the Wells notices was reported as a

⁹⁹ CX-9.

¹⁰⁰ CX-2A, at 4. The customer had alleged compensatory damages of \$218,388. CX-2A, at 2.

¹⁰¹ CX-1, at 4-6.

¹⁰² CX-3, at 4.

¹⁰³ Tr. 206-07, 210-11.

¹⁰⁴ Rule 4111(i)(11).

¹⁰⁵ Tr. 168-70; CX-9.

¹⁰⁶ Tr. 197; Respondent’s Exhibit (“RX-”) 5; RX-6; RX-7; RX-8. The investigation originated in 2020. Tr. 338-40; RX-1; RX-2.

“A Wells notice is a communication from a regulator or self-regulatory organization, such as FINRA, stating that it intends to recommend bringing an enforcement or disciplinary action against the recipient.” *Dep’t of Enforcement v.*

disclosure occurrence in each registered representative's CRD record, together with a summary description of the preliminary determination to recommend disciplinary action.¹⁰⁷ The matters were pending as of the June 1, 2025, Evaluation Date, as required by Rule 4111(i)(10)(B) in order to be considered in the Preliminary Identification Metrics.

In Rudiger's case, Enforcement's Wells notice informed him that it had made a preliminary determination to recommend disciplinary action for his alleged (1) willful violations of Section 10(b) of the Securities Exchange Act of 1934 and Exchange Act Rule 10b-5 and violations of FINRA Rules 2020 and 2010 for churning customer accounts; (2) violations of FINRA Rules 2111 and 2010 for excessive trading in customer accounts; and (3) supervisory failures associated with excessive trading and churning, in violation of FINRA Rules 3110 and 2010.¹⁰⁸

Reid was informed in his Wells notice that Enforcement had made a preliminary determination to recommend disciplinary action for violations of FINRA Rules 2111 and 2010 for excessive trading in customer accounts.¹⁰⁹

Mezzatesta and Harrison were each informed in their Wells notices that Enforcement had made a preliminary determination to recommend disciplinary action for supervisory failures associated with excessive trading and churning, in violation of FINRA Rules 3110 and 2010.¹¹⁰

Corrao, the Department's risk monitoring analyst, determined that the pending investigative events involved sales practice violations and were not duplicative, even though they derived from one investigation, because they resulted in four separate CRD disclosures.¹¹¹

3. The Firm's Rejection of the Staff Reduction Option

On October 2, 2025, the Department informed R&R that it met the Preliminary Criteria for Identification set forth in Rule 4111(i)(9) but the Department had not yet formally determined

Springsteen-Abbott, No. 2011025675501r, 2017 FINRA Discip. LEXIS 23, at *9 n.4 (NAC July 20, 2017) (citing FINRA Regulatory Notice 09-17 (Mar. 2009), <https://www.finra.org/rule-guidance/notices/09-17> at 5, n.2 (explaining FINRA's Wells process)), *modified*, Exchange Act Release No. 88156, 2020 SEC LEXIS 2684 (Feb. 7, 2020), *petition for review dismissed in part and denied in part*, 989 F.3d 4 (D.C. Cir. 2021).

¹⁰⁷ CX-4, at 1-3, 17-18; CX-5, at 1-3, 31-32; CX-6, at 1-3, 43-44; CX-7, at 1-3, 17-18.

¹⁰⁸ RX-8.

¹⁰⁹ RX-7.

¹¹⁰ RX-5; RX-6. Enforcement sent Reid, Rudiger, Harrison, and Mezzatesta superseding Wells notices on December 1, 2025. Tr. 341-44; RX-10; RX-11; RX-12; RX-13. Corrao did not include the superseding Wells notices in her analysis. Tr. 195.

¹¹¹ Tr. 208-09. The investigation and Wells notices were followed by Enforcement's filing of a Complaint against R&R, Rudiger, Reid, Harrison, and Mezzatesta with OHO in March 2026, after the Department had already designated the Firm as a Restricted Firm. Tr. 349-50; CX-20.

that it had been designated a Restricted Firm.¹¹² The Department provided notice under Rule 4111(c)(2) that R&R had an opportunity to conduct the one-time staff reduction option.¹¹³ On November 13, 2025, R&R informed the Department that it had decided to not exercise its option for a one-time staff reduction under Rule 4111(c)(2).¹¹⁴

4. Hearing Officer’s Findings Regarding the Restricted Firm Designation

I have reviewed each of the three specific occurrences that constitute the Registered Person Adjudicated Events and find that they were properly counted in the Registered Person Adjudicated Event Metric. As required by Rule 4111(i)(4)(A)(i) and (ii), the events involved “final investment-related, consumer-initiated customer arbitration” awards or settlements for amounts that equaled or exceeded \$15,000 in which each registered person—in this case, Reid and Rudiger—was a named party or was a “subject of” the customer arbitration award or settlement.¹¹⁵ The events, each of which occurred within the five years prior to the June 1, 2025, Evaluation Date, were reportable on Reid’s and Rudiger’s Uniform Registration Forms—specifically, Form U4—and were recorded as disclosure occurrences in CRD.¹¹⁶ The three Registered Person Adjudicated Events also exceeded the Preliminary Identification Metric Threshold of 0.20 for a Category 3 size firm, as set forth in Rule 4111(i)(11). The three events resulted in a Preliminary Identification Metric of 0.30 because R&R had 10 Registered Persons In-Scope as of the Evaluation Date.¹¹⁷

Each of the four Registered Person Pending Events was also properly counted in the Registered Person Pending Events Metric. The August 14, 2024, Wells notices Enforcement sent to Reid, Rudiger, Harrison, and Mezzatesta were reportable on their Uniform Registration Forms—specifically, Form U4—and were recorded as disclosure occurrences in their CRD records.¹¹⁸ They each met the definition of a Registered Person Pending Event because each one constituted a “pending investigation by a regulatory authority,” under Rule 4111(i)(4)(B)(ii). They were also pending as of the Evaluation Date, as required by Rule 4111(i)(10)(B).¹¹⁹ The four events resulted in a Preliminary Identification Metric of 0.40, thus exceeding the Registered Person Pending Event Metric threshold of 0.10 for a Category 3 size firm under Rule 4111(i)(11).¹²⁰

¹¹² Stip. ¶ 16; JX-14, at 1.

¹¹³ Stip. ¶ 16; JX-14, at 2.

¹¹⁴ Tr. 155; Stip. ¶ 18; JX-15.

¹¹⁵ CX-1, at 2-4; CX-2A, at 2-4; CX-3, at 2-4.

¹¹⁶ CX-1, at 4; CX-2A, at 4; CX-3, at 4.

¹¹⁷ Tr. 168-70; CX-8.

¹¹⁸ CX-4, at 1-3, 18; CX-5, at 2, 32; CX-6, at 2-3, 44; CX-7, at 1-2, 18.

¹¹⁹ Tr. 194-95; CX-4, at 1-3; CX-5, at 2-3; CX-6, at 2-3; CX-7, at 1-3; CX-8; CX-9.

¹²⁰ Tr. 181-84; CX-8; CX-9.

Together, the two Registered Person Events also satisfy the definition of “Preliminary Criteria for Identification” in Rule 4111(i)(9) because (1) two Preliminary Identification Metrics are equal to or exceed the Preliminary Identification Metric Thresholds, and at least one of them is a Registered Person Adjudicated Event Metric, and (2) the firm has two or more Registered Person Events during the Evaluation Period.

I find that R&R failed to demonstrate it should not be designated a Restricted Firm. I do not find persuasive R&R’s various arguments that the Department incorrectly counted the Registered Person Adjudicated Events. First, the Firm argues that the two adjudicated events involving settlements of two customer arbitrations should not be counted because they were resolved for their nuisance value to mitigate legal expenses and at steep discounts from the compensatory damages alleged in the statements of claim.¹²¹ Rule 4111(i)(4) is unambiguous; it states that customer arbitration claims settled for amounts equal to or greater than \$15,000 meet the definition of Registered Person Adjudicated Events. One claim was settled for \$15,000 and the other for \$21,000.¹²²

R&R argues that Corrao failed to properly factor into her analysis that the two low settlements of customer arbitrations “are not reflective of a firm posing a high degree of risk” under Rule 4111(c)(1).¹²³ The Rule, however, also requires the Department to consider if R&R had addressed the concerns raised by the disclosure events such that the Preliminary Criteria for Identification “no longer reflects the member’s current risk profile.”¹²⁴ Corrao testified that in her qualitative assessment of the Firm she found that it had not improved its supervisory controls, suggesting that R&R still presents a risk to the investing public.¹²⁵ I find that the settlements were properly included.

R&R argues that including pending events is “unreasonable” because they are only allegations and “are not conclusive.”¹²⁶ The Firm insists that it “should get its day in court.”¹²⁷ It also argues that Rule 4111 has a built-in conflict of interest because FINRA “has the power to make a subjective determination . . . that it just doesn’t like a firm or someone at the firm or how the firm does business and . . . serve a sufficient number of Wells notices . . . to trigger the second pending event metric pushing the firm into 4111 world.”¹²⁸ R&R points out that, as

¹²¹ Tr. 446-47. The Firm also argued that the Department should have considered that the \$98,666 arbitration award involving Rudiger represented just 35 percent of the customer’s alleged compensatory damages amount of nearly \$280,000. Tr. 298-99, 446; CX-1, at 3-4.

¹²² CX-2A, at 4; CX-3, at 4.

¹²³ Tr. 458-59.

¹²⁴ Rule 4111(c)(1).

¹²⁵ Tr. 214-15; CX-11.

¹²⁶ Tr. 447.

¹²⁷ Tr. 447-48.

¹²⁸ Tr. 449.

explained in FINRA Regulatory Notice 21-34, the Department, pursuant to Rule 4111(c)(1), must evaluate whether the disclosure events “mostly involved compliance concerns best addressed by a different regulatory response by FINRA (*e.g.*, enforcement actions, more frequent examination cycles, temporary cease and desist orders).”¹²⁹ Dunn and Corrao testified, however, that the Department had in fact determined that the disclosures involved sales practice misconduct and supervisory issues, not compliance concerns.¹³⁰

The Firm then argues that the four pending Registered Person Pending Events should be counted as one event because they arose from a single investigation.¹³¹ R&R relies on the language of Rule 4111(d)(1)(A), which states that events should not be included if they “involv[e] the same customer and the same matter.” However, a logical reading of this limitation, including considering its context and objective, is whether disclosures involving “the same matter” are counted more than once for the same registered person—not that one investigation should count as one event regardless of the number of registered persons being investigated.¹³² The plain language of Rule 4111(i)(4)(B), however, focuses on the number of disclosure events that appear on the registered person’s Uniform Registration Forms, in this case, Form U4, not the number of investigations. Here, even R&R’s counsel acknowledged that even if the four pending events were consolidated into one event, the Registered Person Pending Event Metric would still meet the 0.10 Registered Person Pending Event Threshold for a Category 3 size firm under Rule 4111(i)(11).¹³³

I find that the four pending events were properly included in the Department’s determination that R&R is a Restricted Firm. The text of Rule 4111 plainly states that disclosures of regulatory investigations on registered persons’ Form U4 should be counted.

D. The Department’s Calculation of the \$133,000 Maximum Restricted Deposit Requirement Is Reasonable and Consistent with Rule 4111

1. Overview of the Department’s Methodology

Rule 4111 does not provide a precise formula for the staff to use to calculate the amount of the maximum Restricted Deposit Requirement.¹³⁴ Accordingly, the staff relied on the factors listed in Rule 4111(i)(15)(A), which include the nature of the Firm’s operations and activities,

¹²⁹ Tr. 455; JX-19, at 8; FINRA Regulatory Notice 21-34, at 8.

¹³⁰ Tr. 104-07, 138-39, 209-10, 262-64.

¹³¹ Tr. 448, 450-51.

¹³² See *Dep’t of Enforcement v. Charles Schwab & Co.*, No. 2011029760201, 2014 FINRA Discip. LEXIS 5, at *15 (Bd. of Governors Apr. 24, 2014) (“In determining whether rule language is plain and unambiguous, we must read all parts of the rule together and give full effect to each part. . . . We therefore examine rule text as a whole by considering its context, object, and policy.”)

¹³³ Tr. 455-56.

¹³⁴ Tr. 63.

revenues, commissions, assets, liabilities, expenses, net capital, number of officers and registered persons, the nature of the disclosure events, insurance coverage for customer arbitration awards and settlements, and the amount of pending arbitration claims, and unpaid arbitration awards or unpaid settlements related to arbitrations.¹³⁵

Dunn, the Department's director, testified that the staff developed a methodology intended to be "consistent, fair and repeatable" that applies to any firm that reaches this stage of the Rule 4111 process.¹³⁶ He explained that the process the staff developed was intended to remove "subjectivity" from the determination of the maximum Restricted Deposit Requirement and ensure that they were not "punishing" a firm.¹³⁷ The Department started by looking first at R&R's financials to establish a range within which the deposit amount would fall.¹³⁸ After determining a range, according to Dunn, the staff developed a "methodology as to where the [F]irm would fall in the range."¹³⁹ This would include factoring any pending and unpaid arbitration amounts to account for risk to R&R.¹⁴⁰

2. The Department Establishes a Preliminary Range for the Restricted Deposit Requirement

To establish a floor and a ceiling for the range, the staff looked at R&R's average quarterly compensation expenses and average quarterly revenue for the eight quarters ending June 30, 2025.¹⁴¹ It used quarterly averages in order to "smooth out any spikes or troughs" in the period.¹⁴² R&R's average quarterly compensation expense during the period was \$466,952 and its average revenue during the same period was \$756,666.¹⁴³ The staff then multiplied the \$466,952 compensation figure by 5 percent to help determine the floor of the range, which was \$23,348.¹⁴⁴ The staff "backtested" percentage figures lower and higher than 5 percent but

¹³⁵ Tr. 64-66. Because the Firm elected to not reduce the number of its personnel, the Department then proceeded to calculate the maximum Restricted Deposit Requirement. Tr. 62-64.

¹³⁶ Tr. 66.

¹³⁷ Tr. 66.

¹³⁸ Tr. 66-67.

¹³⁹ Tr. 67.

¹⁴⁰ Tr. 67.

¹⁴¹ Tr. 67-69, 240-41; CX-18. The idea of using a range to determine the maximum Restricted Deposit Requirement was "vetted" with senior leaders of the Department, FINRA's Office of the Chief Economist, and senior FINRA executives. Tr. 72.

¹⁴² Tr. 70.

¹⁴³ CX-13.

¹⁴⁴ Tr. 69-70; CX-13. The figures for R&R's average total quarterly compensation were drawn from its Supplemental Statement of Income and FOCUS Reports. Tr. 73-74, 231-34; *see also* Stip. ¶ 1; JX-1 to JX-8; CX-18.

determined that 5 percent was “both consistent with [Rule 4111] and fair to the member firms.”¹⁴⁵

The staff conducted a similar calculation using the average quarterly revenue amount of \$756,666 and settled on 10 percent to help establish the ceiling of the range after considering percentages above 10 percent.¹⁴⁶ The 5 percent and 10 percent tool to determine the range for the maximum Restricted Deposit Requirement is intended to be used for all member firms being reviewed under Rule 4111.¹⁴⁷ The 5 percent and 10 percent floor/ceiling figures are not specified in Rule 4111.

3. The Department Conducts a Qualitative Assessment

After coming up with a range to help determine the maximum Restricted Deposit Requirement, the staff then devised a “qualitative assessment”—a methodology that called upon the risk monitoring analyst to ask three questions about a member firm.¹⁴⁸ The questions required Corrao to answer or evaluate the following: (1) “Looking at the past twelve months, has the quality of the firm’s roster improved?”; (2) the “Adequacy of the firm’s Supervisory Procedures and Controls over the last eighteen months”; and (3) the “Results of the most recent FINRA and SEC examinations over the last 4 years.”¹⁴⁹ Each question had three potential answers and each was assigned a score between 1 and 3.¹⁵⁰ According to Corrao, the process results in total scores that range from 3 to 9 for each firm.¹⁵¹

In R&R’s case, Corrao’s qualitative assessment resulted in a total score of 8 points.¹⁵² She assigned two points to the first question because, after reviewing the Firm’s roster, she determined that the number of persons associated with R&R who had disciplinary histories had neither decreased nor increased over the preceding 12 months.¹⁵³

Corrao assigned 3 points to the second inquiry in the qualitative assessment because she determined that R&R had failed to improve its supervisory procedures and controls over the

¹⁴⁵ Tr. 70, 116.

¹⁴⁶ Tr. 71; CX-13.

¹⁴⁷ Tr. 75, 114-15.

¹⁴⁸ Tr. 76-77, 327; CX-11.

¹⁴⁹ CX-11. Dunn testified that the staff began with a larger number of possible questions, including possible answers to each question, to use to evaluate a firm but narrowed them down to the three that were ultimately adopted for all firms. Tr. 78-80. The questions and potential answers were vetted with senior leaders in the Department and FINRA executives. Tr. 80-81.

¹⁵⁰ Tr. 76, 125-26; CX-11.

¹⁵¹ Tr. 76-77.

¹⁵² Tr. 81, 212-13.

¹⁵³ Tr. 214.

prior 18 months even after, as she testified, FINRA had identified deficiencies to the Firm.¹⁵⁴ Corrao testified that she relied on the FINRA investigation that led to the four 2024 Wells notices sent to R&R's registered persons as well as a 2024 SEC examination.¹⁵⁵

Corrao assigned 3 points to the third inquiry in the qualitative assessment that asks for the results of recent FINRA and SEC examinations.¹⁵⁶ Corrao testified that because an examination was referred to Enforcement for further action, leading to the issuance of the four Wells notices, the proper score for this inquiry was 3 points.¹⁵⁷

4. The Department Applies a Multiplier to the Preliminary Restricted Deposit Amount

After completing the qualitative assessment for R&R, the staff proceeded to the next step in the process of determining the maximum Restricted Deposit Requirement. Using the previously calculated low (\$23,348) and high (\$75,667) ends of the range, the staff calculated five equally spaced dollar increments within the range according to five different totals (between 3 and 9) depending on the answers to the three qualitative questions.¹⁵⁸ With a qualitative assessment score of 8, R&R fell at the high end of the range and at the fifth increment—\$66,947, which the staff labelled the “Preliminary Restricted Deposit” amount.¹⁵⁹

The staff then factored in R&R's excess net capital (\$333,674) and Covered Pending Arbitration Claims (\$6,067,484).¹⁶⁰ They did so because Rule 4111(i)(15)(A) specifically

¹⁵⁴ Tr. 214-16; CX-11.

¹⁵⁵ Tr. 215-17; CX-17.

¹⁵⁶ Tr. 224-25; CX-11.

¹⁵⁷ Tr. 224-25; CX-11.

¹⁵⁸ Tr. 83; CX-19, at 1.

¹⁵⁹ Tr. 83-84; CX-19, at 1.

¹⁶⁰ Tr. 84-85; CX-19, at 2. Rule 4111(i)(2) defines “Covered Pending Arbitration Claim” as an unresolved “investment-related, consumer-initiated claim” filed against a member or its associated person and whose claim amount exceeds the member's excess net capital. “[T]he claim amount includes compensatory loss amounts only, not requests for pain and suffering, punitive damages or attorney's fees, and shall be the maximum amount for which the member or associated person . . . is potentially liable.”

In calculating the total amount of \$6,067,484 for pending arbitration claims, Corrao reviewed the allegations set forth in three customer statements of claim filed with FINRA Dispute Resolution Services that were pending as of the June 1, 2025, Evaluation Date, to ensure that they made sales-practice allegations. Tr. 226, 320; CX-12. The three claims alleged compensatory damages of \$470,000, \$5 million, and \$597,484, each of which exceeded the Firm's excess net capital of \$333,674. Tr. 227-30; JX-11, at 36; JX-12, at 9; JX-13, at 1, 8; CX-12.

The customer arbitration claim that alleged compensatory damages of \$470,000 was settled for \$65,000 in August 2025, two months after the Evaluation Date. Tr. 354-56; RX-14. In October 2025, after the Evaluation Date and the settlement, a FINRA Dispute Resolution panel granted R&R's request to expunge the arbitration claim in Rudiger's CRD records. Tr. 355-56; RX-15, at 3-4. The customer arbitration expunged does not involve any of Rudiger's

requires that these factors be considered in arriving at the maximum Restricted Deposit Requirement.¹⁶¹ To incorporate the two factors, the staff then determined that it was appropriate to apply a multiplier to the preliminary restricted deposit amount of \$66,947.¹⁶² The Department deemed this a consistent approach that could be applied to all firms of considering the risks associated with pending and unpaid arbitrations and settlements.¹⁶³

After testing different multipliers ranging as high as 10 that would be applicable to all firms, the staff decided to use potential multipliers of 1, 1.5, and 2.¹⁶⁴ A multiplier of 1, meaning that the preliminary restricted deposit amount would not be increased, is used when the unpaid and pending arbitrations are less than a firm's excess net capital.¹⁶⁵ A multiplier of 1.5 is applied when the unpaid and pending arbitrations exceed excess net capital but are less than or equal to 50 percent of a firm's average revenue for the previous eight quarters.¹⁶⁶ A multiplier of 2 is applied in cases where unpaid and pending arbitrations exceed a firm's excess net capital and exceed 50 percent of a firm's average revenue for the preceding eight quarters.¹⁶⁷ The multiplier for R&R was calculated to be 2 because R&R's unpaid and pending arbitrations (\$6,067,484) exceeded both (1) its excess net capital of \$333,674, and (2) 50 percent of the Firm's average revenue for the previous eight quarters (.50 x \$756,666).¹⁶⁸ Multiplying \$66,947 by 2 equals \$133,984.¹⁶⁹

Dunn testified that the methodology the Department developed was designed to comply with the definition of Restricted Deposit Requirement set forth in Rule 4111(i)(15)(A), which states that it should be consistent with the objectives of the Rule and "would not significantly undermine the continued financial stability and operational capability of the firm as an ongoing enterprise over the next 12 months."¹⁷⁰ A governance committee consisting of senior leaders of the Department, Enforcement, and other FINRA offices rounded the \$133,984 figure down to

adjudicated events that the Department relied on to determine that R&R is a Restricted Firm. CX-12; CX-13. Instead, the existence of the claim and the \$470,000 compensatory damages the customer alleged he suffered were used only to help calculate the maximum Restricted Deposit Requirement. Tr. 228; CX-12; CX-13.

¹⁶¹ Tr. 84-86.

¹⁶² Tr. 84-86.

¹⁶³ Tr. 86-87.

¹⁶⁴ Tr. 87; CX-19, at 2. The concept of using a multiplier was vetted with senior leaders in the Department, the Office of the Chief Economist, and FINRA executives. Tr. 88. The use of a multiplier is not mentioned in Rule 4111.

¹⁶⁵ Tr. 88-89; CX-19, at 2.

¹⁶⁶ Tr. 89; CX-19, at 2.

¹⁶⁷ Tr. 89; CX-19, at 2.

¹⁶⁸ CX-19, at 2.

¹⁶⁹ Tr. 90; CX-19, at 2.

¹⁷⁰ Tr. 90-91.

\$133,000 to arrive at the maximum Restricted Deposit Requirement for R&R.¹⁷¹ The governance committee determined that the \$133,000 maximum Restricted Deposit Requirement was reasonable based chiefly on R&R's excess net capital of more than \$300,000.¹⁷²

5. Hearing Officer's Findings Regarding the \$133,000 Maximum Restricted Deposit Requirement

I find that the \$133,000 maximum Restricted Deposit Requirement is reasonable based on the factors set forth in Rule 4111(i)(15)(A). The amount is consistent with the objectives of Rule 4111 and does not "significantly undermine the continued financial stability and operational capability of [R&R] as an ongoing enterprise over the next 12 months," as the Rule requires.¹⁷³

Based on the facts and circumstances in this case, the maximum Restricted Deposit Requirement of \$133,000 is an appropriate amount for R&R. The Department started by setting a dollar-amount range for R&R's deposit by calculating 5 percent of the Firm's average total compensation over eight quarters and 10 percent of its average total revenues over the same period.¹⁷⁴ This resulted in a range of \$23,348 to \$75,667.¹⁷⁵ To help place R&R within the range, the Department then developed a qualitative assessment consisting of three broad questions intended to address the Firm's operations and activities.¹⁷⁶ The assessment reasonably determined that R&R fell near the high end of the qualitative assessment range.¹⁷⁷ Using equal increment dollar amounts between \$23,348 and \$75,667, the Department preliminarily determined a deposit amount of \$66,947.¹⁷⁸

After considering R&R's excess net capital and total pending and unpaid arbitrations, the Department applied a multiplier of 2 to the \$66,947 preliminary deposit calculation.¹⁷⁹ This resulted in a maximum Restricted Deposit Requirement of \$133,000, an amount approved by the governance committee after it confirmed the Firm could continue operating.¹⁸⁰

I have considered Harrison's testimony that R&R would have little money left over to pay its other obligations if it had to make the \$133,000 deposit now.¹⁸¹ I also have considered

¹⁷¹ Tr. 90; CX-19, at 2.

¹⁷² Tr. 92-93, 134.

¹⁷³ Rule 4111(i)(15)(A).

¹⁷⁴ Tr. 68-70; CX-13.

¹⁷⁵ CX-13.

¹⁷⁶ Tr. 77-79, 213-15; CX-11.

¹⁷⁷ Tr. 81.

¹⁷⁸ Tr. 84, 113-15; CX-19, at 1.

¹⁷⁹ Tr. 84-88, 115-16, 226-30; CX-12; CX-19, at 2.

¹⁸⁰ Tr. 90, 235-36.

¹⁸¹ Tr. 401-02.

R&R's January 1 to February 27, 2026, profit and loss statement and balance sheet which indicate that, although its finances are tight, the Firm has sufficient funds to pay the deposit.¹⁸² The profit and loss statement shows, however, that R&R had net income of \$99,237 for the two-month period.¹⁸³ Although there are no certainties, at this rate, R&R would have annual net income exceeding \$500,000.

In recent years, R&R has had considerable revenues for a small firm, which demonstrates that it is a financially healthy business. Its quarterly revenues since the third quarter of 2023 ranged from \$315,750 to nearly \$1.5 million, while its excess net capital for the same period ranged from \$180,343 to \$826,870.¹⁸⁴

Based on the foregoing, I approve the \$133,000 maximum Restricted Deposit Requirement.

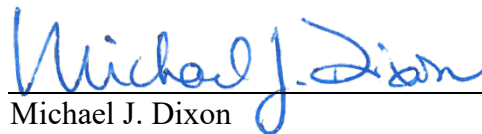
* * *

After carefully reviewing the evidence presented during the hearing of this expedited proceeding and the parties' arguments, pursuant to FINRA Rules 4111 and 9559(n)(6), I approve the Department's determination that R&R is a Restricted Firm and the imposition of the \$133,000 maximum Restricted Deposit Requirement. I decline to withdraw any of the Rule 4111 requirements or remand the matter to the Department for further consideration.

VI. Order

Based on the foregoing, and pursuant to FINRA Rules 4111, 9559(n)(6), and 9561(a), I approve FINRA's determination that Reid & Rudiger LLC is a Restricted Firm and imposition of a \$133,000 maximum Restricted Deposit Requirement.

Respondent is also **ORDERED** to pay the costs of this proceeding, which include \$5,144.88 for the hearing transcript plus a \$750 administrative fee, for a total of \$5,894.88. These costs are due and payable upon the issuance of this Decision.¹⁸⁵


Michael J. Dixon
Hearing Officer

¹⁸² RX-20; RX-21.

¹⁸³ RX-20, at 2.

¹⁸⁴ Stip. ¶ 1.

¹⁸⁵ I considered and rejected without discussion all other arguments by the parties.

Copies to:

Reid & Rudiger LLC, Respondent (via overnight courier and first-class mail to CRD address and to Marc Harrison, Managing Director and Custodian of Records)
Francis J. Skinner, Esq., Counsel for Respondent (via OHO Docket Portal)
Mark Fernandez, Esq., FINRA Enforcement (via OHO Docket Portal)
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