# Quarterly Disciplinary Review

April 2008

**FINRA publishes this quarterly review to provide firms with a summary sampling of recent disciplinary actions involving misconduct by registered representatives. The sample includes settled matters and decisions in litigated cases (National Adjudicatory Council decisions and decisions of the SEC in FINRA cases). These summaries call attention to, and remind registered representatives and firms of, specific conduct that violates FINRA rules and may result in disciplinary action.**

**FINRA also provides detailed disciplinary information and decisions and a summary of monthly disciplinary actions on its Web site.**

## Unethical Conduct—Affixing Customer Signature to Documents

- FINRA settled a matter that involved a registered representative who, without their knowledge or consent, signed three customers' names to Account Registration Forms and Change of Broker-Dealer Authorization Forms when he moved as a registered person from one member firm to another.

  FINRA concluded that this conduct violated Rule 2110 (ethical standards). As a result, FINRA suspended the representative for six months and fined him $5,000.

- Another settled matter involved a registered representative who affixed a public customer's signature to a 403(b) payroll deduction application in order to increase the customer's retirement account contribution to $200 per pay period. Although the customer may have intended to increase his payroll deduction, he denied that he or his spouse had granted the representative permission to sign the customer's name to the form. The representative did not include a notation on the document evidencing that he had signed the customer's name, and did not notify his firm that he was signing on the customer's behalf.

  FINRA found that the representative's conduct violated Rule 2110 (ethical standards). As a result, FINRA suspended the representative for 90 days and fined him $5,000.

## Exam Cheating

- FINRA settled a matter involving a registered representative who cheated on a qualifications examination. During a restroom break, the representative possessed unauthorized materials, including notes and formulas related to the examination.

  FINRA concluded that the representative violated Rule 2110 (ethical standards). As a result, FINRA fined the representative $5,000 and suspended him in all capacities for two years.

## Exercise of Discretion Without Authority and Parking Certificates of Deposit

- FINRA's National Adjudicatory Council (NAC) issued a decision in a case involving a registered representative who exercised discretion in a customer account without prior written authorization, parked certificates of deposit (CDs) in a customer account, and misrepresented to his firm the reasons for transferring the certificates of deposit from one customer account to another. The representative's customer had verbally granted him permission to exercise discretion in his account, but had not granted discretion in writing. The NAC found that the representative parked CDs in the customer's account for the purpose of later selling the CDs to other customers who the representative had not been able to contact. The NAC also found that the representative routinely misrepresented to his member firm the reason for the subsequent transfer of the CDs from one customer to another by claiming that the CDs were purchased by mistake.

  FINRA's NAC concluded that the representative violated Rules 2110 (ethical standards) and 2510(b) (discretionary accounts). As a result, the NAC censured the representative and fined him $10,000.

## Forgery

- FINRA settled a matter involving a registered representative who signed a customer's name to a "Foreign Travel or Residence Supplement" that was part of a life insurance application without the customer's knowledge or consent. The customer had previously signed a similar form, but the representative later learned that he had given the customer the wrong form. The representative signed the customer's name on the correct form without the customer's knowledge or approval.

  FINRA concluded that the representative's conduct violated Rule 2110 (ethical standards). As a result, FINRA suspended the representative in all capacities for two months and fined him $5,000.

- FINRA's NAC issued a decision in a case involving a registered person who signed a registered principal's name on customer documents. The registered person had a limited principal registration and, as such, had authority to approve some, but not all, customer account forms. Customer accounts that were not within the registered person's limited registration required another firm principal's approval. The registered person signed the other registered principal's name to account forms that were not within his limited registration. The NAC found that the registered person's claim that the principal had granted him authority to sign his name lacked credibility, so they rejected it.

  FINRA's NAC concluded that the registered person's conduct violated Rule 2110 (ethical standards). As a result, the NAC barred the registered person from associating with any member firm in any capacity.

## Outside Business Activities

- FINRA settled a matter that involved a registered representative who, for compensation, sold equity index annuities through an outside insurance company. The representative sold these products to three firm customers and received more than $10,000 in compensation without providing the firm with prompt written notice of his outside business activities.

  FINRA determined that the representative violated Rules 2110 (ethical standards) and 3030 (outside business activities). As a result, FINRA fined the representative $5,000 and suspended him for three months in all capacities.

## Private Securities Transactions

- FINRA settled a matter that involved a registered representative who engaged in private securities transactions without providing prior written notice to, or receiving written approval from, his member firm. The representative sold limited partnership interests valued at more than $1.2 million to 14 customers and earned commissions in excess of $50,000.

  FINRA found that the representative violated Rules 2110 (ethical standards) and 3040 (selling away). FINRA suspended the representative in all capacities for one year and fined him $56,650, which included the disgorgement of his commissions.

## Failure to Update Form U4 Timely

- Another FINRA settlement involved a registered representative who failed to update his Form U4 disclosures within 30 days as required by FINRA Rules. The representative was charged with two counts of felony perjury and two counts of felony commercial burglary. On the same day that he was charged, the registered representative pled guilty to one felony commercial burglary charge, and the remaining three counts were dismissed. The representative failed to update his Form U4 to disclose the four felony charges and guilty plea until five months later.

  FINRA held that the representative's conduct violated Article V, Section 2(c) of the FINRA By-Laws (requirement to keep Form U4 information current), Rule 2110 (ethical standards) and IM-1000-1 (misleading information in registration materials). As a result, FINRA suspended the representative in all capacities for three months and fined him $2,500.