FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT, Complainant, v. YARON REUVEN (CRD No. 4191455), Respondent.	Disciplinary Proceeding No. 2014040651301 Hearing Officer–KBW **HEARING PANEL DECISION** November 18, 2015

Respondent Yaron Reuven willfully violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010 by failing to timely amend his Form U4 to disclose information relating to his financial condition. For these violations, Respondent is fined $5,000, suspended from associating in any capacity with any FINRA member firm for six months, and ordered to pay hearing costs.

Appearances

Gauhar Naseem, Esq., Michael S. Choi, Esq., and Michael Watling, Esq., for the Department of Enforcement.

Yaron Reuven, pro se.

DECISION

I. Introduction

Respondent Yaron Reuven was a registered representative and the President and Chief Executive Officer of a FINRA member firm, Reuven Enterprises Securities Division, LLC ("RESD"). After a referral by FINRA's Office of Fraud Detection and Market Intelligence, FINRA's Department of Enforcement opened an investigation into whether Reuven had failed to amend his Uniform Application for Securities Industry Registration or Transfer ("Form U4") to reflect events relating to his financial condition. Following the investigation, Enforcement initiated this disciplinary proceeding by filing a complaint with FINRA's Office of Hearing Officers.

In the Complaint and a subsequent Amended Complaint, Enforcement alleged that Reuven willfully failed to timely amend his Form U4 to reflect an Internal Revenue Service ("IRS") lien, two judgments, and a settlement of one of the judgments. In both the Complaint

and the Amended Complaint, Enforcement charged that in failing to amend his Form U4, Reuven willfully violated Article V, Section 2(c) of the FINRA By-Laws and FINRA Rules 1122 and 2010.[1]

In his Answer, Respondent admitted that he had not disclosed the events on his Form U4, but denied that he had willfully withheld the information with an intent to violate industry regulations.

The hearing was held on August 11, 2015, in Boca Raton, Florida, by a hearing panel composed of the Hearing Officer and two current members of the District 7 Committee.[2] The Hearing Panel finds that Enforcement established that Reuven willfully violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010.

II. Findings of Fact and Conclusions of Law

A. Reuven's Background

Reuven entered the securities industry in 2000. Reuven became a General Securities Representative in 2001 and became a General Securities Principal in 2003. Reuven formed RESD in 2006 and ceased to be registered with RESD in January 2013.[3] On March 7, 2013, FINRA cancelled RESD's membership.[4]

Schedule A to RESD's Form BD indicates that RESD was wholly owned by Reuven Enterprises, Inc. ("Reuven Enterprises") and Reuven Enterprises was wholly owned by Reuven.[5] Based on Reuven's subsequent signing of a document as owner of RESD, the Hearing Panel finds that at least until the cancellation of RESD's membership on March 7, 2013, Reuven owned Reuven Enterprises, which owned RESD.[6]

B. Jurisdiction

FINRA's By-Laws provide that FINRA retains jurisdiction over a person for two years after the person ceases to be associated with a member firm.[7] Under FINRA's By-Laws, a natural person is associated with a member firm if the person occupies a status or performs a function similar to that of a "sole proprietor" of the firm.[8] Although Schedule A

[1] FINRA's rules are set forth in the FINRA Manual available at http://www.finra.org/industry/finra-rules. FINRA's Conduct Rules apply to persons associated with a FINRA member firm pursuant to Rule 0140.

[2] The hearing transcript is cited as "Tr." Enforcement's exhibits are cited as "CX."

[3] CX-1, at 2, 4, 7; CX-2, at 24; CX-2c, at 1, 3; Tr. 67-68.

[4] CX-2d, at 1.

[5] CX-2c, at 3, 8.

[6] CX-22; Tr. 208.

[7] FINRA's By-Laws, Article V, Section 4.

[8] Tr. 208; FINRA By-Laws, Article I, Section (rr).

to RESD's Form BD indicated that Reuven was the indirect owner of RESD, Reuven testified that he was the owner of RESD.[9] Accordingly, the Hearing Panel finds that Reuven occupied a status and performed a function similar to a "sole proprietor" of RESD and therefore continued to be associated with a member firm until RESD's membership was cancelled on March 7, 2013. FINRA therefore has jurisdiction over this disciplinary proceeding because (1) the Complaint and the Amended Complaint were filed within the two years after March 7, 2013, and (2) the Complaint and Amended Complaint charged Reuven with misconduct that commenced while he was associated with a member firm.

C. Events Relating to Reuven's Financial Condition

1. IRS Lien

In June 2011, the IRS filed a Notice of Federal Tax Lien against Reuven. The lien was for $1,388,977.98 and related to Reuven's 2006-2010 tax years. In early July 2011, Reuven learned of the IRS lien, which remains unsatisfied.[10]

2. AEL Judgment

In April 2012, AEL obtained a default judgment against Reuven for $43,195 relating to computers that he had leased from AEL. Soon after, Reuven learned of the default judgment, which remains unsatisfied.[11]

3. AEB Judgment and Settlement

In July 2012, AEB obtained a default judgment against Reuven for $70,920.71 relating to credit card debt and a line of credit that AEB had extended to him. Shortly afterward, Reuven learned of the AEB default judgment. In October 2012, Reuven entered into a settlement with AEB under which he paid $25,000 to satisfy the judgment.[12]

D. Failure to Disclose Events

During the relevant period, the Form U4 included Question 14M, which asked, "Do you have any unsatisfied judgments or liens against you?"[13] Form U4 also included Question 14K(1), which asked, "Within the past 10 years have you made a compromise with creditors, filed a bankruptcy petition or been the subject of an involuntary bankruptcy petition?"

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[9] Tr. 210.

[10] CX-3a; Tr. 43-44, 232.

[11] CX-3b; CX-3g, at 7; Tr. 44, 48.

[12] CX-3c; CX-3e; CX-3f; Tr. 44-45, 61.

[13] CX-2, at 12; CX-2a, at 12.

However, Reuven did not amend his Form U4 to reflect the IRS lien, the AEL judgment, the AEB judgment, or the AEB settlement.[14]

E. Reuven Violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010

Registered representatives like Reuven must complete and file with FINRA a Form U4 to become registered through a FINRA member firm. Article V, Section 2(c) of FINRA's By-Laws requires a registered representative to keep his or her Form U4 current at all times by filing a supplementary amendment within 30 days after learning of facts or circumstances giving rise to the amendment. FINRA Rule 1122, in turn, prohibits associated persons from filing registration information that "is incomplete or inaccurate so as to be misleading, or fail[ing] to correct such filing after notice thereof." In addition, failing to file a timely amendment to a Form U4 when required violates the high standards of commercial honor and just and equitable principles to which FINRA holds its members under FINRA Rule 2010.[15]

The IRS lien, the AEL judgment and, initially, the AEB judgment were not satisfied. Therefore, in response to Question 14M, Reuven should have amended his Form U4 to reflect the lien and judgments. By failing to amend his Form U4 to reflect them, Reuven violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010.[16]

Enforcement also alleged that Reuven violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010 by failing to amend his Form U4 so that his response to Question 14K(1) reflected his settlement with AEB. This allegation raises the topic of whether Reuven's settlement with AEB is a "compromise with creditors" within the meaning of Question 14K(1).[17] Under the facts and circumstances of this case, the Hearing Panel does not find it necessary to address this topic. As noted earlier, Reuven should have reported the unsatisfied AEB judgment in response to Question 14M. The settlement resulted in the satisfaction of the AEB judgment. Therefore, Reuven violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010 by failing to amend his response to Question 14M to reflect the satisfaction of the AEB judgment. Accordingly, whether Reuven should also have amended his

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[14] Tr. 43-44.

[15] *Dep't of Enforcement v. The Dratel Grp., Inc.*, No. 2009016317701, 2015 FINRA Discip. LEXIS 10, at *11 (NAC May 6, 2015).

[16] *The Dratel Grp., Inc.*, 2015 FINRA Discip. LEXIS 10, at *11-12; *Dep't of Enforcement v. North Woodward Fin. Corp.*, No. 2010021303301, 2014 FINRA Discip. LEXIS 32, at *18-19 (NAC July 21, 2014), *aff'd*, Exchange Act Release No. 74913, 2015 SEC LEXIS 1867 (May 8, 2015), *appeal docketed*, No. 15-3729 (6th Cir. July 7, 2015).

[17] *Compare* Form U4 and U5 Interpretative Questions and Answers, at 11, https://www.finra.org/sites/ default/files/AppSupportDoc/p119944.pdf (interpreting the phrase "a compromise with creditors" for the purpose of responding to Question 14K on Form U4 as generally involving "an agreement between a borrower and a creditor in which a creditor agrees to accept less than the full amount owed in full satisfaction of an outstanding debt.") and *Dep't of Enforcement v. Cody*, No. 2005003188901, 2009 FINRA Discip. LEXIS 17, at *35-36 (OHO Jan. 29, 2009) (holding that Question 14K(1) did not require disclosure of a settlement of an arbitration award with a single creditor), *aff'd in part, rev'd in part*, 2010 FINRA Discip. LEXIS 8 (NAC May 10, 2010), *aff'd*, Exchange Act Release No. 64565, 2011 SEC LEXIS 1862 (May 27, 2011), *aff'd*, 693 F.3d 251 (1st Cir. 2012).

response to Question 14K(1) to reflect the settlement with AEB does not affect the sanctions that the Hearing Panel considers appropriate in this case.

F. Reuven Is Subject to Statutory Disqualification

Under Article III, Section 3(b) of FINRA's By-Laws, a "statutorily disqualified" person cannot become or remain associated with a FINRA member firm unless FINRA has approved the association.[18] A person is subject to a statutory disqualification under Section 3(a)(39)(F) of the Securities Exchange Act of 1934 if the person "has *willfully* made or caused to be made in any application . . . to become associated with a member of . . . a self-regulatory organization . . . any statement which was at the time, and in the light of the circumstances under which it was made, false or misleading with respect to any *material* fact, or has omitted to state . . . any *material* fact which is required to be stated therein."[19] Thus, a registered person is subject to statutory disqualification for failing to timely update his or her Form U4 if the failure was willful and the omitted information was material.[20]

1. Reuven's Failures Were Willful

Reuven argues that his failures were not willful because he understood the questions on the Form U4 to cover only unsatisfied liens and judgments that related to a securities regulator or client and therefore did not understand that he was obligated to disclose the IRS lien and the two judgments.[21] However, whether Reuven's failure was "willful" does not depend on whether he understood that the Form U4 called for disclosure of the four events.[22] "A willful violation under the federal securities laws means 'that the person charged with the duty knows what he is doing.'"[23] A finding of willfulness does not require intent to violate the law, but merely intent to do the act that constitutes a violation of the law.[24] It is undisputed that Reuven had contemporaneous knowledge of the IRS liens, the AEL judgment, and the AEB judgment, yet failed to amend his Form U4 to report the events. Thus Reuven's failures were willful.

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[18] FINRA By-Laws, Article III, Section 3.

[19] 15 U.S.C. § 78c(a)(39)(F) (emphasis added).

[20] *The Dratel Grp., Inc.*, 2015 FINRA Discip. LEXIS 10, at *18 (holding that individual respondent was statutorily disqualified because the NAC found that the individual respondent willfully failed to disclose material information on his Form U4).

[21] Tr. 219, 226-27.

[22] *The Dratel Grp., Inc.*, 2015 FINRA Discip. LEXIS 10, at *14-15.

[23] *Robert D. Tucker*, Exchange Act Release No. 68210, 2012 SEC LEXIS 3496, at *41 (Nov. 9, 2012) (quoting *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000)) (quotation omitted).

[24] *Wonsover*, 205 F.3d at 414; *Arthur Lipper Corp. v. SEC*, 547 F.2d 171, 180 (2d Cir. 1976).

2. The Omitted Information Was Material

In the present context, "[i]nformation is material if it would have 'significantly altered the total mix of information made available.'"[25] "[B]ecause of the importance that the industry places on full and accurate disclosure of information required by the Form U4, [it is presumed] that essentially all the information that is reportable on the Form U4 is material."[26] The information that Reuven omitted was material because the IRS lien and the judgments "raise concerns about whether [Reuven] could responsibly manage his own financial affairs, and ultimately cast doubt on his ability to provide trustworthy financial advice and services to investors relying on him to act on their behalf as a securities industry professional."[27]

III. Sanctions

As the Securities and Exchange Commission has explained, Form U4 "is critical to the effectiveness of the screening process used to determine who may enter (and remain in) the industry. It ultimately serves as a means of protecting the investing public."[28] "Form U4 is used by all self-regulatory organizations (including FINRA), state regulators, and broker-dealers to determine and monitor the fitness of securities professionals who seek initial or continued registration with a member firm."[29]

In determining the appropriate sanction, the Hearing Panel considered FINRA's Sanction Guidelines ("Guidelines") for failing to file forms or amendments. For failures to file forms and amendments, the Guidelines recommend a fine of $2,500 to $73,000 and consideration of suspension in any or all capacities for five to 30 business days.[30] For egregious cases (such as those involving repeated failures to file), the Guidelines call for consideration of a longer suspension, for up to two years, or a bar.[31]

The Guidelines provide three Principal Considerations in Determining Sanctions that are specific to failing to file an amendment. Principal Consideration No. 1 applies to Reuven's conduct and is considered aggravating: the nature and significance of the information at issue.[32]

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[25] *North Woodward Fin. Corp.*, 2014 FINRA Discip. LEXIS 32, at *17 n.13 (quoting *Mathis v. SEC*, 671 F.3d 210, 220 (2d Cir. 2012)).

[26] *Dep't of Enforcement v. McCune*, No. 2011027993301, 2015 FINRA Discip. LEXIS 22 at *12 (NAC July 27, 2015) (citations omitted).

[27] *Tucker*, 2012 SEC LEXIS 3496, at *32.

[28] *Joseph S. Amundsen*, Exchange Act Release No. 69406, 2013 SEC LEXIS 1148, at *24 n.44 (Apr. 18, 2013) (quoting *Robert D. Tucker*, Exchange Act Release No. 68210, 2012 SEC LEXIS 3496, at *26 (Nov. 9, 2012)), *petition for review denied*, 575 F. App'x 1 (D.C. Cir. 2014) (citations omitted).

[29] *Id*. at *23 (quoting *Tucker*, 2012 SEC LEXIS 3496, at *26) (citations omitted).

[30] FINRA Sanction Guidelines at 69 (2015), http://www.finra.org/industry/sanction-guidelines.

[31] Guidelines at 70.

[32] Guidelines at 69. The other two principal considerations specific to Form U4 violations do not apply to Reuven: whether the failure resulted in a statutorily disqualified individual becoming or remaining associated with a firm; and whether a firm's misconduct resulted in harm to a registered person, another member firm, or any person or

As set forth above, the undisclosed information was material. Reuven's failure to disclose the required information significantly affected the mix of information available to regulators assessing whether to scrutinize Reuven's conduct, member firms assessing whether to hire Reuven, and investors assessing whether to trust Reuven's competence and integrity.[33]

In addition, the Hearing Panel considered other aggravating factors. Reuven's repeated failures to amend his Form U4 constituted a pattern of misconduct that extended over a substantial period of time.[34] Reuven's failures were intentional.[35]

The Hearing Panel also considered one mitigating factor: that Reuven admitted his misconduct and expressed remorse from the time he was first questioned by FINRA.[36] In responding to a FINRA Rule 8210 request that asked about his failure to disclose the IRS lien and the judgments on his Form U4, Reuven acknowledged that he had not updated his Form U4 to reflect these events despite being aware of the events and stated, "I sincerely apologize if I misunderstood the regulation."[37]

After considering all these factors, the Hearing Panel concludes that Reuven's misconduct was egregious and a $5,000 fine and a suspension of six months are reasonable and appropriate sanctions that will serve the remedial purposes of the Guidelines.

IV. Order

For willfully violating Article V, Section 2(c) of FINRA's By-Laws and FINRA Rules 1122 and 2010, Respondent Yaron Reuven is fined $5,000, suspended from associating in any

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entity. Because these considerations do not apply, the Hearing Panel did not consider them either aggravating or mitigating.

[33] Enforcement argued that Principal Considerations in Determining Sanctions, No. 10) (directing adjudicators to consider whether respondent attempted to mislead a customer, regulatory authority, or member firm) is applicable. The Hearing Panel considered the potential impact of the omitted information in connection with the Guidelines specific to failing to file an amendment.

[34] *See* Guidelines at 6 (Principal Considerations in Determining Sanctions, No. 8) (directing adjudicators to consider whether the respondent engaged in numerous acts and/or a pattern of misconduct); Guidelines at 6 (Principal Considerations in Determining Sanctions, No. 9) (directing adjudicators to consider whether the respondent engaged in misconduct over an extended period of time).

[35] *See* Guidelines at 7 (Principal Considerations in Determining Sanctions, No. 13) (directing adjudicators to consider whether the respondent's misconduct was the result of an intentional act, recklessness, or negligence). The Hearing Panel rejected Reuven's testimony regarding his understanding of the two questions for several reasons, including the clarity of the two questions, the presence of other questions on the Form U4 that were expressly limited to investment-related matters, Reuven's failure to coherently explain the basis for his understanding, and Reuven's testimony that he was aware while at RESD that RESD had amended a Form U4 for a registered representative when RESD found out that he had failed to disclose on the form that he had been charged with rape. Tr. 234.

[36] *See Denise M. Olson*, Exchange Act Release No. 75838, 2015 SEC LEXIS 3629, *21-22 (Sept. 3, 2015).

[37] CX-3.

capacity with any FINRA member firm for six months, and is subject to statutory disqualification.[38]

Reuven is also ordered to pay the costs of the hearing in the amount of $3142.53, consisting of an administrative fee of $750 and the cost of the transcript.

If this decision becomes FINRA's final disciplinary action, Reuven's suspension shall become effective on January 18, 2016, and shall end on July 17, 2016. The fine shall be due and payable if and when Reuven re-enters the securities industry.

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Kenneth Winer
Hearing Officer
For the Hearing Panel

[38] The Hearing Panel considered all of the arguments of the parties and rejected the arguments to the extent that they were inconsistent with the views expressed herein.