

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014043789101**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Christian B. Harkness ("Harkness"), Respondent
CRD No. 3022251

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Harkness entered the securities industry in January 1998 and has been associated with several FINRA-regulated broker-dealers. In April 1998, Harkness became registered as a Series 6 Investment Company Products/Variable Contracts Representative and, in May 2000, Harkness became registered as a Series 7 General Securities Representative. In April 2007, Harkness joined UBS Financial Services Inc. ("UBS"), a FINRA-regulated broker-dealer. In September 2009, after Stifel, Nicolaus & Co. ("Stifel" or the "Firm"), a FINRA-regulated broker-dealer, took over the UBS branch in which Harkness worked, Harkness became associated with Stifel as a General Securities Representative.

In a Uniform Termination Notice for Securities Industry Registration ("Form U5") dated December 26, 2014, the Firm reported that it terminated Harkness's employment on December 18, 2014 following an internal review into, among other things, an unapproved loan with a customer. Harkness has not reassociated with another FINRA regulated broker-dealer since his termination from the Firm. However, pursuant to Article V, Section 4 of FINRA's By-Laws, FINRA retains jurisdiction over Harkness.

RELEVANT DISCIPLINARY HISTORY

Harkness has no disciplinary history in the securities industry.

OVERVIEW

Between July 2009 and December 2014 (the "Relevant Period"), Harkness violated NASD Rule 2370 and FINRA Rules 3240 and 2010 by twice borrowing money from a firm customer, without prior written permission from or notice to his employing FINRA-regulated broker-dealers. During the Relevant Period, Harkness also violated NASD Rules 3030 and FINRA Rules 3270 and 2010 by participating in two outside business activities without disclosing such participation to his employing FINRA-regulated broker-dealers. Additionally, Harkness violated FINRA Rule 2010 by submitting five compliance questionnaires between 2010 and 2014 in which he falsely certified that he had disclosed any loans from customers. In three of the five compliance questionnaires, Harkness also falsely certified that he had disclosed all outside business activities.

FACTS AND VIOLATIVE CONDUCT

1. Borrowing from a Customer in Violation of NASD Rule 2370 and FINRA Rules 3240 and 2010.

NASD Rule 2370 (effective prior to June 14, 2010) and FINRA Rule 3240, which superseded NASD Rule 2370 (effective June 14, 2010) prohibit an associated person from borrowing money from or lending money to a customer unless the registered representative's FINRA-regulated broker-dealer employer has written procedures that permit loans from customers and the loan satisfies certain conditions specified under the applicable rule.

FINRA Rule 2010 requires associated persons to "observe high standards of commercial honor and just and equitable principles of trade." Violation of NASD Rule 2370 and FINRA Rule 3240 is considered inconsistent with high standards of commercial honor and just and equitable principles of trade.

During the Relevant Period, the written supervisory procedures ("WSPs") of neither UBS nor Stifel allowed their representatives to borrow money from customers unless the representative sought and received prior written firm approval.

In July 2009, while employed with UBS, Harkness purchased a parcel of farm land from one of his UBS customers. To purchase the land, Harkness executed a promissory note for \$242,250 in favor of the customer. The promissory note included an interest rate and a repayment schedule. The amortization schedule for

the promissory note further stated that the amount due on this "loan" to Harkness was \$242,250.

Thereafter, in 2012, Harkness and the same customer agreed to build a riding arena on the farm land. Because Harkness was unable to contribute to the \$40,000 cost of building the arena, the customer paid for it himself. On June 10, 2012, Harkness executed a repayment agreement pursuant to which both parties acknowledged that Harkness was indebted to the customer for an additional \$20,000, his share of the cost of the riding arena. The repayment agreement also set forth the timeline for repayment and an interest rate.

In 2013, while Harkness was employed at Stifel, Harkness and the Firm customer executed a replacement promissory note for the outstanding amount of the \$242,250 loan that Harkness still owed under the 2009 promissory note. The replacement promissory note was modified to reflect a change in the title-owner of the farm from the Firm customer to a limited liability company formed by the customer. Harkness was made a member of the limited liability company holding title to the farm.

Harkness did not inform or obtain prior written approval for the aforementioned loans and loan modification from his employing FINRA regulated broker-dealers. By virtue of this conduct, Harkness violated NASD Rule 2370 (for conduct occurring before June 14, 2010), FINRA Rule 3240 (for conduct occurring on or after June 14, 2010) and FINRA Rule 2010.

2. *Engaging in two Undisclosed Outside Business Activities in Violation of NASD Rule 3030 and FINRA Rules 3270 and 2010.*

NASD Rule 3030 and FINRA Rule 3270¹ prohibit a registered representative from engaging in any business activity outside the scope of his or her employment without providing written notice to his or her FINRA-regulated broker-dealer employer. A violation of NASD Rule 3030 or FINRA Rule 3270 is also a violation of FINRA Rule 2010.

During the Relevant Period, Harkness was actively involved in the management of the farm with his customer. Harkness had an expectation of making money from the farm through various activities including, *inter alia*, renting portions of the property and selling timber on the property. The customer characterized the relationship with Harkness as a partnership and created a bank account in the name of the partnership to account for the revenue and expenses generated from the farm. Harkness did not disclose his activities with regard to the farm to UBS or Stifel.

In May 2014, Harkness was also named the President of a Minnesota limited liability company that sells promotional products such as buttons, ribbons, key

¹ NASD Rule 3030 was superseded by FINRA Rule 3270 effective December 15, 2010.

tags, hand fans, and other items. In his role as President, Harkness would visit the office from time-to-time and would execute documents on behalf of the company. Harkness did not disclose his position with the company to Stifel.

Through the foregoing, Harkness violated NASD Rule 3030 (for conduct occurring before December 15, 2010), FINRA Rules 3270 (for conduct occurring on or after December 15, 2010), and FINRA Rule 2010.

3. Submitting Five False Compliance Questionnaires to Stifel

Making false statements to a FINRA-regulated broker-dealer violates FINRA Rule 2010.

While associated with Stifel, Harkness submitted five annual compliance questionnaires to the Firm, in January 2010, February 2011, February 2012, April 2013, and March 2014. In each questionnaire, Harkness was asked if he borrowed from or loaned money to any of his customers (other than his personal loans from banks or other financial institutions available on the same terms to the general public) that had not been reported to the Firm's Compliance Department. Each time, Harkness answered "No." In three of the five compliance questionnaires, Harkness was asked if he was engaged in any outside business activities that had not been previously disclosed to the Firm or if he had any additional outside business activities to disclose that were not previously disclosed. Harkness answered these questions in the negative. These responses were false.

As a result of the foregoing conduct, Harkness violated FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

A nine-month suspension from associating with any FINRA member in any capacity and a \$15,000 fine.

The fine shall be due and payable either immediately upon reassociation with a member firm following the nine-month suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any

FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

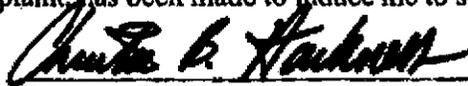
I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

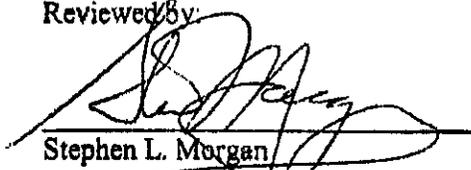
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

11-2-2015
Date (mm/dd/yyyy)


Christian B. Harkness, Respondent

Reviewed by:

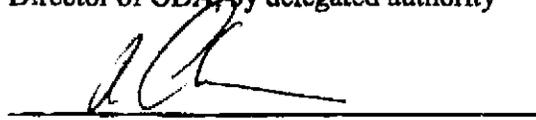


Stephen L. Morgan
Counsel for Respondent
Murphy Desmond S.C.
33 East Main Street, Suite 500
Madison, WI 53703

Accepted by FINRA:

11-9-15
Date

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



Richard Chin
Chief Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street
New York, New York 10281-1003