BEFORE THE NATIONAL ADJUDICATORY COUNCIL

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the Association of X[1] as a General Securities Representative with The Sponsoring Firm	Redacted Decision Notice Pursuant to Section 19(d) Securities Exchange Act of 1934 SD10004 Date: 2010

I. Introduction

On October 27, 2009, the Sponsoring Firm filed a Membership Continuance Application ("MC-400" or "the Application") with FINRA's Department of Registration and Disclosure. The Application requests that FINRA permit X, a person subject to a statutory disqualification, to associate with the Sponsoring Firm as a general securities representative. In January 2010, a subcommittee ("Hearing Panel") of FINRA's Statutory Disqualification Committee held a hearing on the matter. X appeared at the hearing, accompanied by Employee 1, the Sponsoring Firm's president, general counsel, and chief compliance officer.[2] FINRA Employee 1, FINRA Attorney 1, and FINRA Attorney 2 appeared on behalf of FINRA's Department of Member Regulation ("Member Regulation").

For the reasons explained below, we deny the Sponsoring Firm's Application.[3]

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[1] The names of the Statutorily Disqualified individual, the Sponsoring Firm, the Proposed names of the Supervisor, and other information deemed reasonably necessary to maintain confidentiality have been redacted.

[2] The Sponsoring Firm originally proposed that Employee 1 would be X's primary supervisor. At the hearing, however, the Hearing Panel informed Employee 1 that the primary supervisor for a statutorily disqualified individual should be a person with daily "hands-on" supervisory responsibility. Accordingly, the Sponsoring Firm submitted post-hearing materials designating a different supervisor, the Proposed Supervisor, which is discussed in detail below.

[3] Pursuant to FINRA Rule 9524(a)(10), the Hearing Panel submitted its written recommendation to the Statutory Disqualification Committee. In turn, the Statutory Disqualification Committee considered the Hearing Panel's recommendation and presented a written recommendation to the National Adjudicatory Council.

II. The Statutorily Disqualifying Event

X is statutorily disqualified because in May 2008, he pled guilty in State 1 to one felony count of driving under the influence of alcohol ("DUI").[4] This was a felony because he previously had been convicted of a misdemeanor DUI in State 1 within 10 years of his January 2008 felony DUI arrest.[5] The State 1 court sentenced him to four months in prison, revoked his license for one year, and placed him on probation for five years. X was released from prison "for good behavior" after 78 days. X's probation will conclude in July 2013. X completed an outpatient alcoholism treatment program in March 2008 prior to his prison sentence, and he testified at the hearing that he has refrained from using alcohol since January 2008 and continues to be an active participant in Alcoholics Anonymous ("AA").

III. Background Information

A. X

1) Employment and Disciplinary History

X has been employed in the securities industry since 1984. He qualified as a general securities representative in October 1984 and as a general securities principal in 1997. He was previously associated with seven firms between August 1984 and September 2009. Since September 2009, X has been engaged in the purchase and sale of Internet domain names and has worked with an Internet advertising company.

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[4] X is statutorily disqualified under Art. III, Sec. 4 of FINRA's By-Laws, which provides that "[a] person is subject to a 'disqualification' with respect to . . . association with a member, if such person is subject to any 'statutory disqualification' as such term is defined in Section 3(a)(39) of the [Securities Exchange Act of 1934 ("Exchange Act")] Act." In turn, Section 3(a)(39)(F) of the Exchange Act provides that:

> A person is subject to a 'statutory disqualification' with respect to . . . association with a member of, a self-regulatory organization, if such person—(F) . . . has been convicted of any offense specified . . . **or any other felony within ten years of the date of the filing of an application** . . . to become associated with a member of, such self-regulatory organization.

(Emphasis supplied.)

[5] X actually has four previous misdemeanor DUI convictions in State 1, but only one of those (a June 1999 conviction) occurred within 10 years of his January 2008 felony DUI arrest. The other three occurred in April 1985, January 1988, and July 1996.

One customer complaint alleging unsuitable recommendations was filed against X in May 1997. The complaint was settled in arbitration with a payment of $190,000. X contributed $25,000 to the settlement.

2) Non-Disclosure of Felony Charge and Conviction

At the time of his arrest for the felony DUI in January 2008, X was employed by Firm 1 as a general securities representative. X testified that he worked from a single-person office as an independent contractor with Firm 1. X admitted that he did not amend his Uniform Application for Securities Industry Registration or Transfer ("Form U4") to disclose his felony charge to Firm 1, nor did he speak to any of his supervisors about the arrest and charge. He testified that he did not realize that it was his responsibility to take action and ensure that Firm 1 filed an amendment with FINRA to his Form U4 to disclose his felony charge because it was not securities related. In July 2008, X was convicted of felony DUI, and he immediately began to serve his 78 days in prison. X testified that he was shocked to be escorted directly from the courtroom to a maximum security prison, and that he did not speak to anyone about it except his fiancé. He also instructed the receptionist in his rented office space to direct any clients who called to the 1-800 number for Firm 1. X testified that he did not have any contact with people from Firm 1 until he was released from prison in October 2008, and he never explained his whereabouts during that time.

X did not amend his Form U4 to disclose the felony charge and conviction until May 2009, when Firm 1 asked all personnel to update their records. He testified that this was the first time he actually read the applicable language on the Form U4 and realized that he had to disclose a felony charge and conviction. Firm 1 did not submit X's amended Form U4 to FINRA until August 2009. Shortly thereafter, in September 2009, Firm 1 filed a Uniform Termination Notice for Securities Industry Registration ("Form U5") for X, terminating him for being "subject to a disqualification."

Pursuant to an Acceptance, Waiver, and Consent ("AWC") dated May 2010, X consented to a three-month suspension in all capacities and a $5,000 fine for his failure to disclose his felony charge and conviction. X is suspended from June 2010 through September 2010.

The record shows no other criminal, disciplinary or regulatory proceedings, complaints, or arbitrations against X.

B. The Sponsoring Firm

The Sponsoring Firm is based in City 1, State 2, and it has been a FINRA member since August 1983. The Sponsoring Firm represents that it has 128 offices of supervisory jurisdiction ("OSJ"), 163 branch offices, 107 registered representatives, and 133 registered principals. It is engaged in a general securities business.

1) Recent FINRA Examinations

FINRA's most recent routine examination of the Sponsoring Firm was conducted in 2009, and it resulted in a Letter of Caution ("LOC"). The LOC cited The Sponsoring Firm for numerous violations, including failure to file an application for a change in ownership; failure to disclose timely an arbitration award; advertising deficiencies; failure to record complete information on several new customer account forms; and failure to supervise adequately its email communications to customers. The Sponsoring Firm provided responses to FINRA's LOC in December 2009, and January 2010, stating that it had addressed the deficiencies noted.

FINRA's 2007 routine examination resulted in a compliance conference addressing numerous issues, including failure to follow supervisory procedures related to outside brokerage accounts; failure to establish adequate supervisory control policies and procedures regarding the supervision of all OSJs; failure to employ adequately heightened supervision of the activities of registered representatives who had patterns of investor complaints or other sales practice abuses; advertising deficiencies; failure to implement an adequate supervisory system and enforce procedures to evidence review and approval of hedge fund subscription agreements; failure to forward customer checks to the Sponsoring Firm's clearing firm in the required time frame; late filing of Forms U4 and U5; failure to file timely information regarding customer complaints; failure to provide adequate training to personnel engaged in telemarketing; and inaccurate net capital computations. The Sponsoring Firm filed a response in January 2008, stating that it had addressed the deficiencies noted.

FINRA's findings from its 2005 routine examination were merged with its earlier findings from the 2004 routine examination, and this resulted in a formal complaint against the Sponsoring Firm. FINRA issued an Order Accepting Offer of Settlement for this complaint in February 2007, imposing a censure and $65,000 fine on the Sponsoring Firm for failing to file timely amendments to Forms U4 and U5; failing to report, late reporting, and inaccurate reporting of customer complaints; failing to retain electronic communications for required periods of time; and failing to have written supervisory procedures relating to TRACE reporting.

2) Other Actions Against The Sponsoring Firm by the Commission, the States, and FINRA

In addition to the above-listed matters, FINRA's Central Registration Depository ("CRD"®) shows that there have been numerous other regulatory actions filed against the Sponsoring Firm by the Commission, various state regulatory organizations, and FINRA.

In September 2006, the Commission issued an order accepting the settlement offers of the Sponsoring Firm and one of its registered representatives for trading municipal bonds at prices that were unrelated to the bonds' prevailing market prices from 2000 to 2002. For its role, the Sponsoring Firm was censured and ordered to pay a fine of $50,000.

Four states have filed regulatory actions against the Sponsoring Firm. In August 2006, Hawaii filed a complaint alleging that the Sponsoring Firm had engaged in "negligent supervision" of one of its former representatives. This matter remains pending.

In 2005, the State 3 Securities Commission settled an action with the Sponsoring Firm and imposed a fine of $100,000 on the Sponsoring Firm for its failure to develop and implement appropriate written procedures designed to supervise its employees to ensure their compliance with State 3 securities laws, and to detect when its registered representatives sold unregistered securities, including viaticals, to State 3 residents.

In 2004, the State 2 Securities Division entered into an offer of settlement and consent with the Sponsoring Firm for the Sponsoring Firm's failure to supervise two registered representatives who were running a hedge fund as an outside business activity. The consent order imposed a fine of $50,000 on the Sponsoring Firm, ordered it to make partial restitution to certain customers, and required the Sponsoring Firm to retain an independent consultant to review the Sponsoring Firm's compliance procedures.

In 2002, the State 4 Division of Securities and Finance entered into a stipulation and consent agreement with the Sponsoring Firm for failing to conduct annual audits of all branch offices and non-branch locations and failing to supervise adequately certain branch offices. The Sponsoring Firm was fined $50,000 and ordered to revise its supervisory procedures to address the violations cited.

In 1997, the State 4 Division of Securities and Finance issued a stipulation and consent agreement finding that the Sponsoring Firm failed to supervise adequately two of its representatives who failed to give required disclosure to customers in order to conduct a securities business under a name other than that of the Sponsoring Firm. The Sponsoring Firm was fined $5,000 and ordered to employ an independent consultant to review its branch office supervisory procedures.

Finally, between 1986 and 2007, FINRA filed nine AWCs against the Sponsoring Firm. The fines imposed ranged from a low of $500 (for quotation reporting violations) to a high of $50,000 (for violations of the reserve requirements). Two of the nine AWCs contained supervisory violations. A 2007 AWC found that the Sponsoring Firm failed to have written supervisory procedures in place to address municipal bond order tickets for accuracy and completeness. The most significant and relevant supervisory AWC in terms of the case before us, however, is the 2002 AWC, which found that the Sponsoring Firm failed to provide adequate supervision and compliance in the following areas: 1) review and approval by a qualified registered principal of all private placements authorized for distribution by the Sponsoring Firm; 2) supervisory responsibility concerning required internal inspections of the Sponsoring Firm's branch offices and OSJs; 3) quarterly review of account activity as required by the Sponsoring Firm's supervisory procedures; and 4) enforcement of the Sponsoring Firm's supervisory procedures concerning outside business activities.

IV. X's Proposed Business Activities and Supervision

The Sponsoring Firm proposes that it will employ X as a general securities representative in its headquarters building in City 1, State 1. The Sponsoring Firm represents that X "will be paid 90% of all commissions he earns, minus the cost of clearance charges."

The Proposed Supervisor, the Sponsoring Firm's compliance officer, is proposed as X's primary supervisor. The Proposed Supervisor is located on the 11th floor of the Sponsoring Firm main building, and the Sponsoring Firm plans to place X on the ninth floor of that building. The Sponsoring Firm represents that the Proposed Supervisor is a salaried employee of the Sponsoring Firm who does not receive overrides or commissions, and that he currently directly supervises two other registered representatives who are subject to Firm-imposed heightened supervision plans.

The Proposed Supervisor first registered as a general securities representative in November 1998. He qualified as a general securities principal in November 1999. He became associated with the Sponsoring Firm in March 2000. Prior to the Proposed Supervisor's association with the Sponsoring Firm, he was registered with one other investment-related firm.

The record shows no criminal, disciplinary or regulatory proceedings, complaints, or arbitrations against the Proposed Supervisor.

Following the hearing, the Sponsoring Firm proposed the following heightened supervisory procedures for X (which we quote in their entirety):[6]

1) An additional ten percent of outgoing email will be reviewed by compliance;
2) All correspondence must be submitted monthly to compliance for review;
3) The representative will not be allowed to have any outside brokerage accounts;
4) In addition to the daily trade review, a trade blotter will be run for the entire month. This blotter will then be reviewed to look for trends in the representative's activity. By doing this for the month it is easier to see possible mutual fund switches, front running, cancel and rebills, or any other possible trading trend;
5) The representative's commission run will be reviewed to look for any potential problems. This will give us an overview of the representative's commission activity; and
6) The branch exam will be audited at least twice during the first year for potential problems.[7]

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[6] The Sponsoring Firm's original supervisory plan had proposed that Employee 1 supervise X from an off-site location. The Hearing Panel requested that the Sponsoring Firm submit a new proposal that included a supervisor in close proximity to X and a plan that provided detailed provisions for the day-to-day supervision of X.

[7] Although the Sponsoring Firm represents that X will be located on the 9th floor of its headquarters building, with his supervisor on the 11th floor, the Sponsoring Firm appears to be proposing that X will be treated as his own branch office, with a twice yearly audit only during the first year of his association.

V. Member Regulation's Recommendation

Member Regulation recommends that the Application be denied for several reasons: 1) X's conviction is serious; 2) X has had repeated drunk driving arrests and convictions, which suggests that he is not only a recidivist, "but also an individual who fails to align himself with established societal rules and laws"; 3) X engaged in intervening misconduct by failing to disclose the felony charge and conviction to Firm 1; and 4) the Sponsoring Firm has a troubling regulatory history.

Moreover, although Member Regulation acknowledges that the Sponsoring Firm "presented an improved plan of heightened supervision and proposes an adequate supervisor in the Proposed Supervisor," it continues to question whether the Sponsoring Firm's proposed plan of supervision is adequate to supervise X, particularly because the Proposed Supervisor has other responsibilities as compliance officer and supervisor of two other individuals who are subject to firm-imposed heightened supervision.

VI. Discussion

A. The Legal Standard

In reviewing this type of application, we consider whether the particular felony at issue, examined in light of the circumstances related to the felony, and other relevant facts and circumstances, creates an unreasonable risk of harm to the market or investors.[8] We assess the totality of the circumstances in reaching a judgment about X's future ability to deal with the public in a manner that comports with FINRA's requirements for high standards of commercial honor and just and equitable principles of trade in the conduct of his business. In so doing, we recognize that the sponsoring firm has the burden of demonstrating that the proposed association is in the public interest despite the disqualification. *See Pedregon*, 2010 SEC LEXIS 1164, at *16 & n.17; *Continued Ass'n of X*, SD06003, slip op. at 5 (NASD NAC 2006), *available at* http://www.finra.org/web/groups/industry/@ip/@enf/@adj/documents/nacdecisions/p036480.pdf (redacted decision).

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[8] *See Frank Kufrovich*, 55 S.E.C. 616, 625 (2002) (upholding FINRA's denial of a statutory disqualification applicant who had committed non-securities related felonies "based upon the totality of the circumstances" and FINRA's explanation of the bases for its conclusion that the applicant would present an unreasonable risk of harm to the market or investors); *see also Timothy P. Pedregon, Jr.*, Exchange Act Rel. No. 61791, 2010 SEC LEXIS 1164, at *20 & n.21 (Mar. 26, 2010) (stating that FINRA's "analysis goes beyond the circumstances relating to the felony, and also encompasses circumstances relating to the proposed association"); *Timothy H. Emerson, Jr.*, Exchange Act Rel. No. 60328, 2009 SEC LEXIS 2417, at *14 (July 17, 2009) (stating that FINRA "appropriately weigh[ed] all the facts and circumstances surrounding [the applicant's] felony conviction and [the firm's] proposed supervisory plan").

We examine the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, whether the person has engaged in any intervening misconduct, and the potential for future regulatory problems, as well as other unique circumstances in the application. We also consider whether the sponsoring firm has demonstrated that it understands the need for, and has the capability to provide, adequate supervision over the statutorily disqualified person.

After carefully reviewing the entire record in this matter, we find that the Sponsoring Firm has not met its burden, and we conclude that X's participation in the securities industry will present an unreasonable risk of harm to the market or investors. Accordingly, for the following reasons, we deny the Application for X to associate with the Sponsoring Firm as a general securities representative.

B. The Nature and Gravity of X's Recent Statutorily Disqualifying Event and His Ongoing Probation

First, we note that X's felony conviction for DUI is recent—May 2008—and represents his fifth conviction for driving under the influence of alcohol. Through his recidivist actions in driving while intoxicated for many years, X has repeatedly demonstrated an inability to comply with the laws of society. We recognize that X has served time in prison for his felony offense, and that he has taken steps to deal with his addiction by completing an outpatient treatment program and attending AA meetings. We also appreciate X's testimony and other evidence about his efforts at rehabilitation, including letters of recommendation from his treatment counselor and other members of AA. We find, however, that the evidence that he proffered does not establish that his association with the Sponsoring Firm would serve the public interest, and that insufficient time has passed to enable X to demonstrate that the change in his behavioral pattern is fundamental and long-lasting and that he can conduct himself in a responsible and compliant fashion in the securities industry.

Second, the State 1 court imposed a serious sentence on X, which continues to date. X received a prison sentence of four months, and five years probation. X remains on probation until July 2013. The record shows that if X fails to comply with the terms of his probation, the court could revoke his probation and order him to serve more time in prison. The Commission has expressly shared FINRA's concern in not allowing disqualified individuals serving probation to be associated with member firms. *See, e.g.*, *Pedregon*, 2010 SEC LEXIS 1164, at *26 & n.29 ("FINRA did not treat [the applicant's] probation as an absolute bar to his re-entry; it properly considered it as one factor, along with many others."); *Kufrovich*, 55 S.E.C. at 627-28 ("We share the NAC's concern that Kufrovich remains on probation."); *Funding Capital Fin. Corp.*, 50 S.E.C. 603, 606 (1991) (same).

Accordingly, we conclude that the nature and recency of X's conviction, and the pendency of the probationary period through July 2013, militate against allowing X's re-entry into the securities industry at this time.

C. X's Regulatory History and His Failure to Timely Disclose the Felony Charge and Conviction

We are also troubled by X's prior regulatory history, and by the additional misconduct in which he engaged after his felony conviction. X's prior history consists of one customer complaint filed against him in May 1997, alleging unsuitable recommendations. The complaint was settled in arbitration for $190,000, with X contributing $25,000. Moreover, X was discharged by Firm 1 in September 2009, after the firm became aware of X's felony charge and conviction, and resulting statutory disqualification, which he had failed to disclose to Firm 1 for more than one year.

X's additional misconduct occurred when he failed to timely amend his Form U4 after he was arrested and charged with a felony in January 2008 and convicted of a felony in July 2008. There is no dispute as to the relevant facts concerning X's failure to disclose. X testified that he did not discuss his January 2008 felony arrest and subsequent July 2008 felony conviction with anyone at Firm 1, even when he was absent from his office for 78 days serving time in prison. Indeed, X recently consented to a three-month suspension and $5,000 fine for failing to disclose his felony charge and conviction.

The responsibility for maintaining the accuracy of a Form U4 lies with each registered representative. *Dep't of Enforcement v. Howard*, Complaint No. C11970032, 2000 NASD Discip. LEXIS 16, at *31-32 (NASD NAC Nov. 16, 2000), *aff'd*, 55 S.E.C. 1096 (2002), *aff'd*, 77 F. App'x 2 (1st Cir. 2003); *see also Dep't of Enforcement v. Mathis*, Complaint No. C10040052, 2008 FINRA Discip. LEXIS 49, at *23 (FINRA NAC Dec. 12, 2008), *aff'd*, Exchange Act Rel. No. 61120, 2009 SEC LEXIS 4376 (Dec. 7, 2009), *appeal pending*, No. 10-429-ag (2d Cir. Feb. 3, 2010). FINRA relies on the information provided on Forms U4 "to monitor and determine the fitness of securities professionals." *Emerson*, 2009 SEC LEXIS 2417, at *16 & n.18. The Commission has consistently found that an individual's failure to notify a firm promptly about a felony charge or to ensure that a Form U4 is accurate "raises questions about his ability to maintain his obligations under the securities laws." *Id*. at *16.

We find that X's disciplinary history, his failure to disclose, and his repeated criminal convictions for DUI all raise questions about his ability to maintain his obligations under the securities laws. *Id*.

D. The Sponsoring Firm and the Supervisor's Ability to Supervise X

We also find that the Sponsoring Firm has failed to demonstrate that it could effectively supervise a statutorily disqualified individual such as X. While we note the lack of disciplinary history for the Proposed Supervisor, we remain concerned by the Sponsoring Firm disciplinary history and by the lack of detail in its proposal to supervise X.

The Sponsoring Firm disciplinary history shows that the Sponsoring Firm has had some very serious problems with its operations throughout the years, particularly in the area of supervisory violations. Indeed, at the hearing, Employee 1 agreed that the Sponsoring Firm's disciplinary history is "deplorable." He argued, however, that he had been asked to join the

Sponsoring Firm in 2005 to address the Sponsoring Firm's "legal problems," and that the Sponsoring Firm has made great strides in the right direction in the last four years, as indicated by the results from FINRA's 2009 and 2007 routine examinations of the Sponsoring Firm. Even if we were to conclude, however, that the results of two recent routine examinations could erase the Sponsoring Firm's lengthy history of deficiencies (which we do not), the record shows that the Sponsoring Firm continues to struggle with its supervisory responsibilities. The 2009 LOC cited the Sponsoring Firm for failing to adequately supervise its email communication to customers, and for failing to establish procedures to administer variable annuity training and to safeguard customer information. Significantly, the 2007 compliance conference raised numerous supervisory deficiencies, including failing to adequately employ heightened supervision of the activities of registered representatives who have had patterns of investor complaints or other sales practice abuses; failing to follow supervisory procedures related to outside brokerage accounts; failing to establish adequate supervisory control policies and procedures regarding the supervision of all OSJs; and failing to implement an adequate supervisory system and enforce procedures to evidence review and approval of hedge fund subscription agreements. Based on this record, we must conclude that although the Sponsoring Firm appears to be concentrating on improving its compliance issues, it is not yet ready to assume the responsibility of supervising a statutorily disqualified individual such as X.

In addition, although the Hearing Panel provided the Sponsoring Firm with the opportunity to submit post-hearing materials including a detailed revised supervisory plan for X, the Sponsoring Firm supplied only the briefest sketch of a supervisory plan. The revised plan provides only that: the Proposed Supervisor will review an additional 10 percent of X's outgoing email; X will submit correspondence monthly to compliance for review; X is restricted from having outside brokerage accounts; the Proposed Supervisor is required to review a trade blotter in addition to the daily trade review; the Proposed Supervisor is required to review X's commission run; and the Proposed Supervisor is required to audit X's branch exam at least twice during the first year.

A firm that requests FINRA's approval to employ a statutorily disqualified individual must establish that it will be able to adequately supervise the individual by imposing a stringent plan of heightened supervision. *See Id.* at *18. The Sponsoring Firm's proposed supervisory plan does not meet this standard as it fails to address many issues, such as full review of X's outgoing email and any review of his incoming email, and how he would be supervised on visits out of the office to clients. Moreover, the proposal that the Proposed Supervisor audit X's "branch" only twice during the first year is particularly problematic. Because the proposed supervisory plan places X and the Proposed Supervisor in the same office building, albeit on separate floors, a procedure that requires the Proposed Supervisor to audit X at his workplace only twice a year, and only for the first year of a statutory disqualification that continues until 2018, is completely inadequate. We also question whether the Proposed Supervisor has sufficient time to devote to the heightened supervision of a statutorily disqualified individual such as X, since he serves as the Sponsoring Firm's compliance officer and already supervises two other representatives who are subject to heightened supervision. The Commission has consistently stated that "the burden of proposing a suitable supervisory plan is on [the Firm], and it cannot satisfy this burden by waiting until [the statutorily disqualified individual] is in the job to work out the details of the plan." *Id.*; *see also Pedregon*, 2010 SEC LEXIS 1164 at *28 &

n.32. Given the Sponsoring Firm's disciplinary history and difficulties with supervision, we conclude that it was especially important for the Sponsoring Firm to produce a detailed and workable heightened supervisory proposal for X, and to demonstrate that it was capable of enforcing such a plan. The Sponsoring Firm failed to do so.

For these reasons, we conclude that under the proffered supervisory plan, the Sponsoring Firm and the Proposed Supervisor are unable to provide the required heightened level of supervision necessary to assure us that they will effectively prevent and detect possible misconduct on the part of X.

VII. Conclusion

Accordingly, we find that it is not in the public interest, and would create an unreasonable risk of harm to the market or investors, for X to associate with the Sponsoring Firm as a general securities representative. We therefore deny the Application.

On Behalf of the National Adjudicatory Council,

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Marcia E. Asquith
Senior Vice President and Corporate Secretary