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FINRA
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
MATTER NO. 20080138504

2008 JUN 17 P 7 16

ENCLOSURE

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

RE: Maximum Financial Investment Group, Inc., Respondent
Broker-Dealer
CRD No. 40096

Christopher T. Paganes, Respondent
Registered Principal
CRD No. 2173707

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the undersigned submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Maximum Financial Investment Group, Inc. or Christopher T. Paganes ("Respondents") alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents 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

Maximum Financial Group, Inc. ("Maximum") became registered with the SEC and became a member of FINRA on July 18, 1996. Maximum operated as a general retail firm, engaging in a number of activities, primarily the sale of corporate equity securities over the counter. Maximum was an "F" firm, or a fully disclosed member that generally did not hold customer funds or securities. The SEC terminated Maximum's registration on December 1, 2008. FINRA expelled Maximum on December 5, 2008, for failure to pay a \$15,000 fine imposed through an AWC.

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Christopher T. Paganos ("Paganos") entered the securities industry in November 1991 as a General Securities Representative of a FINRA member. While at that firm, Paganos also became registered as a General Securities Sales Supervisor in March 1994, a Municipal Securities Representative in October 1994, and a Municipal Securities Principal in December 1994. Between July 1996 and September 29, 2008, Paganos was registered as a General Securities Principal, a Municipal Securities Principal, and a Registered Options Principal with Maximum. Paganos was also registered as an Introducing Broker Financial & Operations Principal (FINOP) with Maximum between November 1998 and September 29, 2008. In addition, between June 2005 and January 2007, Paganos was registered with Great Eastern Securities, Inc., a member of FINRA, as an Investment Company/Variable Contracts Principal, a Municipal Securities Principal, and an Introducing Broker Financial & Operations Principal.

RELEVANT DISCIPLINARY HISTORY

On November 5, 2003, FINRA accepted an AWC with findings that Maximum, acting through its FINOP, Paganos, violated NASD Conduct Rules 2110 and 3110(a), and SEC Rules 15c3-3, 17a-3(a) and 17a-5, by effecting securities transactions while not meeting its minimum net capital requirement. FINRA also found that Maximum and Paganos violated SEC Rule 17a-3(a) by preparing inaccurate trial balance and net capital computations, and Rule 17a-5 by filing inaccurate Part IIA FOCUS Reports. Maximum was censured, Maximum and Paganos were jointly and severally fined \$13,000, and Maximum was fined an additional \$3,000.

On May 11, 2006, FINRA accepted an AWC with findings that Maximum violated NASD Conduct Rules 2110 and 3370 by accepting 44 customer short sale orders in common stocks and, for each order, failing to make or annotate an affirmation that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date. In addition, FINRA found that Maximum violated NASD Conduct Rules 2110 and 3010 because the firm's supervisory system was not reasonably designed to achieve compliance with NASD Rules 3110(b)(1), 3350, 3370 and 6130(d)(6). Maximum was censured, fined \$15,000, and required to revise its written supervisory procedures with respect to the aforementioned NASD rules within 30 days of the acceptance of the AWC.

On November 5, 2007, FINRA accepted an AWC with findings that Maximum violated SEC Rule 15c3-1 and NASD Rule 2110 by effecting securities transactions while not maintaining its minimum net capital requirements. FINRA also found that Maximum violated SEC Rule 17a-3(a) and NASD Conduct Rules 2110 and 3110(a) by preparing inaccurate net capital computations. FINRA further found that Maximum violated SEC Rule 17a-5 and NASD Conduct Rule 2110 by filing inaccurate FOCUS Reports. Lastly, FINRA found that Maximum violated SEC Rule 17a-5(d) by failing to timely submit its annual audit to the NASD. Maximum was censured and fined \$23,500.

OVERVIEW

Maximum, acting through Paganes, the firm's Chief Executive Officer and Chief Compliance Officer, entered into an agreement with a non-registered entity to engage in a retail foreign currency ("forex") business. Maximum, acting through Paganes, failed to properly maintain adequate net capital and required books and records related to conducting forex business, in violation of SEC Rules 17a-3, 15c3-1, 15c3-3, and 17a-5, and in violation of NASD Rules 3110 and 2110. Specifically, between January 2008 and June 18, 2008, Maximum failed to record customer funds received for its forex business as assets and liabilities. This receipt of customer funds increased Maximum's "Aggregate Indebtedness" requirement, which Maximum did not reflect in its accounting. Maximum's failure to record funds received for its forex business led to the firm's failure to maintain required minimum net capital and accurate books and records, and to file inaccurate quarterly FOCUS reports for the first and second quarters of 2008. Further, Maximum, acting through Paganes, failed to establish systems and procedures reasonably designed to monitor for money laundering while engaging in the forex business, in violation of NASD Rules 3011 and 2110.

Paganes failed to timely file a Membership and Registration Rule 1017 application for approval of a material change in business. Over a two month period, Maximum added 18 representatives to the 10 representatives already employed at the firm. Despite repeatedly being told by FINRA staff that Maximum was required to file the Rule 1017 application for approval, Paganes failed to do so. Maximum did not file the Rule 1017 application until seven months after the firm had hired the new representatives. That application was denied by FINRA, and Maximum then took nearly two months to comply with FINRA's decision by reverting to its initial number of 10 representatives.

Maximum, acting through Paganes, violated Rule 1017 on two other occasions. First, Maximum failed to file a Rule 1017 application before transferring 100% of its assets to NWT Financial Group, LLC, also a FINRA member. Second, Maximum failed to timely file a Rule 1017 application prior to engaging in the forex business.

Finally, from September 2005 through May 2007, Maximum, acting through Paganes, failed to amend the firm's Form BD to accurately reflect the firm's direct owners following its sale of a 24.99% ownership interest, in violation of Article IV, Section 1(c) of FINRA's Bylaws.

FACTS AND VIOLATIVE CONDUCT

A. Statement of Facts

1. Failure to comply with FINRA and SEC rules and regulations while engaging in a retail forex business.

On or about September 28, 2007, Maximum entered into a Branch Office Agreement ("Agreement") with BT&R, a company that held itself out as experienced in the retail foreign currency business.¹ The Agreement, among other things, provided that the parties were establishing a branch office for the purpose of soliciting and dealing in spot forex trading. The Agreement obligated Maximum to maintain an adequately capitalized broker-dealer registered with all applicable regulatory authorities. In essence, Maximum agreed to act as a counterparty in forex transactions.

During October and November 2007, BT&R opened three bank accounts in Maximum's name for the purpose of soliciting and dealing in spot forex trading. Beginning in January 2008, and continuing through May 2008, over \$15 million in customer funds specifically related to retail forex transactions was deposited in Maximum's bank accounts. However, neither the forex transactions nor the funds associated with those transactions were reported on the firm's books and records.

Net Capital, Customer Protection and Books and Records Violations

According to the firm's computations, Maximum maintained between \$40,825.24 and \$121,767.02 in net capital as of February 29, 2008, March 31, 2008, and April 30, 2008. However, Maximum failed to include and classify the customer funds it held for forex business as liabilities in its Aggregate Indebtedness ("AI") computation. Had Maximum properly included and classified the customer funds as an asset and a liability on the firm's books and records, its aggregate indebtedness would have ranged from \$2,087,289.40 to \$11,243,784.95 during the same period. As a result, Maximum maintained deficient net capital ranging from \$17,385.61 to \$645,879.36 during the same period. SEC Rule 15c3-1 prohibits firms from conducting a securities business with a public customer while failing to maintain adequate net capital. On February 29, March 31 and April 30, 2008, Maximum, acting through Paganes, conducted a securities business while it had deficient net capital, in violation of SEC Rule 15c3-1 and NASD Conduct Rule 2110 by Maximum, and in violation of NASD Conduct Rule 2110 by Paganes.

SEC Rule 15c3-3 requires broker-dealers to: (a) maintain a separate, adequately funded reserve bank account for the benefit of customers, if they hold customer funds or securities; (b) obtain written notification from the bank of restrictions on the use of the

¹ As described in FINRA Regulatory Notice 08-66, forex transactions involve the purchase and sale of foreign currencies. It is highly speculative, and "the only funds that should be invested in the retail forex market are those that the investor can afford to lose." According to 08-66, retail interest in the forex market is growing despite the risks, in part due to aggressive, and sometimes misleading, advertising.

funds in that special account; (c) prepare reserve computations, and (d) maintain adequate reserves. Maximum, acting through Paganes, held funds for the benefit of customers engaging in forex trading, and therefore should have completed a reserve computation for the obligations to the customers thus enabling it to meet its obligations under Rule 15c3-3. Its failure to do so was a violation of SEC Rule 15c3-3 and NASD Conduct Rule 2110 by Maximum, and NASD Conduct Rule 2110 by Paganes.

SEC Rule 17a-3 and NASD Conduct Rule 3110 require firms to maintain accurate books and records. When a broker-dealer deposits any customer funds into an account in the broker-dealer's name, it must book the funds as an asset, and treat the deposits as a debit to cash. Thus, any customer funds received by a broker-dealer to conduct forex transactions must be booked as a debit to cash, regardless of whether such transactions constitute securities transactions. The receipt of customer funds for forex business also creates a liability in the same amount to the forex customers, pursuant to GAAP. Moreover, the receipt of customer funds for the forex business, deposited into the broker-dealer's bank account, increases the firm's AI requirement. Therefore, the liabilities created by the receipt and deposit of customer funds for the purpose of conducting forex transactions must be included in the computation of the firm's minimum net capital.

Maximum's failure to include forex customer deposits as AI items, acting through Paganes, resulted in the preparation of inaccurate books and records for the period of January 2008 through June 18, 2008, in violation of SEC Rule 17a-3 and NASD Rules 3110 and 2110 by Maximum, and NASD Rules 3110 and 2110 by Paganes. Due to its failure to create accurate books and records, Maximum, acting through Paganes, also failed to file accurate Quarterly FOCUS reports for Q1 and Q2 2008, in violation of SEC Rule 17a-5(d) and NASD Conduct Rule 2110 by Maximum, and NASD Conduct Rule 2110 by Paganes.

Failure to Establish an Anti-Money Laundering Compliance Program for Forex
Conduct Rule 3011 requires the establishment of systems and procedures reasonably designed to monitor for money laundering. The rule is not limited to funds intended for securities products. Pursuant to 31 CFR 103.19(a)(2), a broker-dealer must report a transaction on Form SAR-SF if there is any transaction "...conducted or attempted by, at, or through a broker-dealer..." that involves or aggregates funds of at least \$5,000, and the broker-dealer has reason to be suspicious of the transaction. FINRA has provided guidance to firms stating that they are obligated to conduct reviews for suspicious activity for any money received or distributed in the firm's name, and that the reviews are not contingent on the funds being related to securities.¹

Maximum, acting through Paganes, failed to establish systems and procedures reasonably designed to monitor for money laundering related to forex trading. Paganes also failed to conduct suspicious activity reviews for any incoming or outgoing customer wires,

¹ See NTM 02-47 (July 2002), which provided an overview of the provisions requiring broker-dealers to report suspicious activity, and NTM 02-21 (April 2002), which provided guidance to assist broker-dealers in developing AML compliance programs that fit their business models and needs.

specific to forex business and processed through Maximum's bank accounts. By failing to do so, Maximum and Paganes violated NASD Conduct Rules 3011 and 2110.

Failure to File an Application for Approval of a Change in Business Operations

Maximum's expansion into a retail forex business constituted a material change in business operations under NASD Membership and Registration Rule 1011(i), because the business activity required a higher minimum net capital under SEC Rule 15c3-1. Before engaging in business constituting a material change in business operations, a FINRA member must file for and receive approval of the change under Membership and Registration Rule 1017.¹

Maximum, acting through Paganes, did not file an application to conduct a retail forex business. Its failure to do so was in violation of NASD Membership and Registration Rule 1017 and Conduct Rule 2110 by Maximum and Paganes.

2. Failure by Maximum to file an application for approval of material change in business operations after a significant increase in new representatives.

In January 2007, Maximum hired 16 new representatives. In February 2007, Maximum hired two additional representatives, bringing the total representatives registered with the firm to 28 persons. This 180% increase in representatives over a two month period constituted a material change in business operations. Maximum, acting through Paganes, failed to file an NASD Rule 1017 application for approval with FINRA 30 days before the material change occurred.

In February and March 2007, FINRA staff advised Paganes and Maximum that the firm was required to file a Rule 1017 application. During a routine examination of the firm in April 2007, FINRA staff again advised Maximum that a Rule 1017 application should be filed. At the Exit Conference following the routine examination, Maximum was informed in writing that it had violated NASD Membership and Registration Rule 1017 by failing to file an application for approval of a material change in business when the firm added approximately 18 representatives in a two-month period between January 1, 2007 and February 28, 2007. Maximum was also informed that it was not eligible for the safe harbor under IM-1011-1 ("Safe Harbors for Business Expansions"), because the number of, and percentage increase in its representatives, far exceeded the allowable increase under the safe harbor.

Despite the repeated warnings by FINRA staff, Maximum, acting through Paganes, failed to submit a Rule 1017 application for approval until in or about September 2007, approximately seven months after the material change in business operations had occurred. FINRA denied Maximum's Rule 1017 application in March 2008, primarily because the firm had failed to demonstrate that it maintained a reasonable supervisory

¹ See NTM 08-66, which provided guidance to broker-dealers regarding FINRA rules that may apply to engaging in forex business with their retail customers, and NTM 00-73, which advised broker-dealers of the rule changes governing the FINRA membership application process.

system to ensure compliance with all securities rules and regulations as to the additional registered representatives, in that 12 of them had a disciplinary history at the time of the application.

On or about May 6, 2008, FINRA staff advised Maximum and Paganes that a preliminary determination had been made to recommend that disciplinary action be brought against Maximum and Paganes for not filing the Rule 1017 application to hire the additional representatives. FINRA staff further advised them that Maximum's registered representative base should immediately revert to the number of registered representatives at Maximum as of December 31, 2006. It was not until June 30, 2008, however, that Maximum fully reverted to its December 31, 2006 registered representative base. Specifically, ten representatives remained with the firm until mid May 2008, one representative stayed until June 5, 2008, and the remaining seven representatives remained until late June 2008.

Such acts, practices and conduct constitute a violation of NASD Membership and Registration Rule 1017 and NASD Conduct Rule 2110 by Maximum and Paganes.

3. Failure by Maximum to file an application for approval of material change in business operations based on a transfer of all firm assets.

In or about September 2008, Maximum transferred 100% of its assets to another FINRA member. On October 6, 2008, FINRA staff, via telephone, informed Paganes and his counsel that the firm's failure to file a 1017 application was a violation of NASD Membership and Registration Rule 1017 and NASD Conduct Rule 2110. No application for the transfer of assets was ever filed by Maximum.

Such acts, practices and conduct constitute a violation of NASD Membership and Registration Rule 1017 and NASD Conduct Rule 2110 by Maximum and Paganes.

4. Failure by Maximum to Amend its Form BD

In September 2005, Maximum sold a 24.99% ownership to Great Eastern Holdings. However, Maximum, acting through Paganes, failed to amend the Direct Owners section of its Form BD until May 15, 2007, after FINRA staff had directed the firm to do so.

Such acts, practices and conduct constitute a violation of Article IV, Section 1(c) of NASD's Bylaws by Maximum and Paganes.

OTHER FACTORS

B. Maximum consents to the imposition of an expulsion from membership with FINRA. Paganes consents to a bar from association with any FINRA member in any principal capacity, and a nine month suspension from association with any FINRA member, in

any capacity.¹

Paganes has submitted a sworn financial statement and demonstrated an inability to pay. In light of the financial status of Paganes, no monetary sanctions have been imposed.

Paganes understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, Paganes 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. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against us;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, 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

¹ A fine has not been imposed against Maximum because on December 5, 2008, the firm was expelled by FINRA for failing to pay a \$15,000 fine in connection with another disciplinary matter.

consideration of this AWC, including acceptance or rejection of this AWC.

Respondents 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

Respondents 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 us; and
- C. If accepted:
 - 1. this AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against us;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. We 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. We 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 our right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Paganes may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Paganes understands that he 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.

Paganes, in his individual capacity, and on behalf of Maximum, certifies that he is a person duly authorized to act on its behalf, and that he has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that he has 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 him or Maximum to submit it.

8-13-09
Date

8-13-09
Date

Reviewed by:


Robert Bertsch
Counsel for Respondent

Accepted by FINRA:

8-17-09
Date

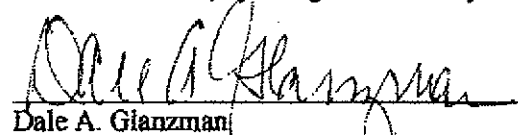
Maximum Financial Investment Group, Inc.
Respondent

By: Chris Pagan

Its owner

Chris Pagan
Christopher T. Paganes, Respondent

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


Dale A. Glanzman
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