

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Hsin-Chin Hsu
(CRD No. 1655196),

Respondent.

DISCIPLINARY PROCEEDING
No. 2008015805401

Hearing Officer:

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. While a registered representative with Merrill Lynch, Pierce, Fenner & Smith, Inc. ("Merrill Lynch" or "the Firm"), Hsin-Chin Hsu fraudulently transferred 25 profitable trades (the "25 Profitable Trades") that were originally billed to the accounts of seven of his customers into the accounts of his ex-wife and sister, resulting in profits to his ex-wife's account of approximately \$47,118. and profits to his sister's account of approximately \$2,625. In addition, Hsu forged three of his managers' signatures on approximately 10 trade correction forms to transfer 10 of the 25 Profitable Trades

2. By transferring the 25 Profitable Trades to the accounts of his ex-wife and sister Hsu violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, as well as NASD Conduct Rules 2120 and 2110. In addition, by forging the signatures of three of his managers, Hsu violated NASD Rule 2110.

RESPONDENT AND JURISDICTION

3. Hsu began his employment with Merrill Lynch in February 1987 and remained there until his termination on October 21, 2008. While at Merrill Lynch, Hsu worked as a registered representative and held Series 7 and 63 licenses. On or about November 20, 2008, the Firm filed a Uniform Termination Notice for Securities Industry Registration reporting that "Mr. Hsu was terminated after the firm concluded that he had violated firm policy by moving securities from clients' accounts to another client's account in several instances without the clients' consent". Respondent is currently employed by a FINRA member firm in a registered representative capacity and holds Series 7 and 63 licenses.

FACTS

4. Between April and August 2008 (the "relevant period"), Hsu, while a registered representative with Merrill Lynch, serviced the accounts of customers ST, JT, CL, WI, NW, FT, and SC.

5. During the relevant period, Hsu transferred the 25 Profitable Trades that were originally billed to the accounts of customers ST, JT, CL, WI, NW, FT, and SC, into the accounts of either his ex-wife or his sister.

6. Hsu caused 23 of the 25 Profitable Trades to be transferred into the account of his ex-wife, CC, and two of the trades to be transferred into the account of his sister, JC. A schedule listing, among other things, the date of the initial trade, the trade correction date, the securities involved, and the accounts, is attached as Exhibit A. Hsu effected these fraudulent transfers by submitting trade correction forms known as Non-Market Error Trade Correction forms (the "Trade Correction Forms") to the Firm's wire room.

7. At Merrill Lynch during this time period, trade correction forms were required to be reviewed and signed by a manager prior to being processed.

8. Hsu forged approximately 10 of the 25 Trade Correction Forms used to transfer the 25 Profitable Trades by placing photocopies of the signatures of Firm managers JK, KM and KS on the forms without their knowledge or approval. Hsu then submitted those forms, with the photocopied signatures, to the wire room for processing.

9. All of the 25 Profitable Trades that Hsu moved to his ex-wife and sister's accounts were profitable at the time Hsu caused the trade corrections to be made. By moving 23 trades from the customers' accounts to his ex-wife's account, Hsu transferred approximately \$47,118 in profits that belonged to those customers to his ex-wife. By moving two trades from the customers' accounts to his sister's account, Hsu transferred approximately \$2,625 in profits that belonged to those customers to his sister.

10. Merrill Lynch became aware of Hsu's transfer of profitable trades and related forgeries during October, 2008. After an investigation, the Firm terminated Hsu and is in the process of making restitution to the affected customers.

**FIRST CAUSE OF ACTION
SECTION 10(b) OF THE EXCHANGE ACT, AND RULE 10b-5 THEREUNDER,
NASD CONDUCT RULES 2120 AND 2110**

11. The Department realleges and incorporates by reference paragraphs 1 through 10 above.

12. Exchange Act Rule 10b-5(1), promulgated under Section 10(b) of the Exchange Act, states that "It shall be unlawful for any person" in connection with the purchase or sale of any security, "[t]o employ any device, scheme, or artifice to defraud." Exchange Act Rule 10b-

5(3) states that "It shall be unlawful for any person," in connection with the purchase or sale of any security, "[t]o engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person."

13. NASD Conduct Rule 2120 states that "No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance."

14. Through the activities described above, Hsu transferred profitable trades from the accounts of customers ST, JT, CL, WI, NW, FT, and SC into the accounts of his ex-wife and his sister. Hsu thereby engaged in fraudulent and deceptive practices and employed a scheme to defraud.

15. By engaging in this conduct, Hsu violated Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, as well as NASD Conduct Rules 2120 and 2110.

**SECOND CAUSE OF ACTION
CONDUCT INCONSISTENT WITH JUST AND EQUITABLE PRINCIPLES OF TRADE,
NASD CONDUCT RULE 2110**

16. The Department realleges and incorporates by reference paragraphs 1 through 15 above.

17. NASD Conduct Rule 2110 requires that members and associated persons observe "high standards of commercial honor and just and equitable principles of trade."

18. As described above, Hsu caused the transfer of the 25 Profitable Trades from the accounts of customers ST, JT, CL, WI, NW, FT, and SC into the accounts of his ex-wife and his

sister. Hsu thereby engaged in conduct that was inconsistent with high standards of commercial honor and just and equitable principles of trade and violated NASD Rule 2110.

**THIRD CAUSE OF ACTION
Forgery
NASD Conduct Rule 2110**

19. The Department realleges and incorporates by reference paragraphs 1 through 18 above.

20. NASD Conduct Rule 2110 requires that members and associated persons observe "high standards of commercial honor and just and equitable principles of trade."

21. As described above, Hsu forged the signatures of managers JK, KM and KS on the Firm Trade Correction Forms by photocopying those signatures onto the forms without the knowledge of JK, KM or KS.

22. Hsu thereby engaged in conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of NASD Conduct Rule 2110.

RELIEF REQUESTED

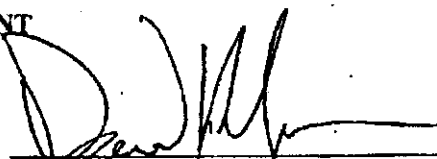
WHEREFORE, the Department respectfully requests that the panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions (including disgorgement and interest) be imposed;
- B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date:

12/31/10



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