

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

NSM SECURITIES, INC.
(CRD No. 134357),

NIYUKT R. BHASIN
(CRD No. 2282048),

and

NAVEEN K. BHAGWANI
(CRD No. 5423037),

Respondents.

Disciplinary Proceeding
No. 2011027667402

Hearing Officer - DRS

**ORDER ACCEPTING OFFER OF
SETTLEMENT FROM NSM SECURITIES,
INC. AND NIYUKT R. BHASIN**

Date: September 26, 2014

INTRODUCTION

Disciplinary Proceeding No. 2011027667402 was filed on February 28, 2014, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents NSM Securities, Inc. and Niyukt R. Bhasin submitted an Offer of Settlement (Offer) to Complainant dated September 23, 2014. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, NSM and Bhasin have consented, without admitting or denying the allegations of the Complaint, as amended by the Offer of Settlement, 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, to the entry of findings and violations consistent with the allegations of the Complaint, as amended by the Offer of Settlement, and to the imposition of the sanctions set forth below, and fully understand that this Order will become part of their respective permanent disciplinary records and may be considered in any future actions brought by FINRA.

BACKGROUND

A. NSM Securities, Inc.

NSM was a FINRA member from August 2005 through February 2014.¹ Prior to 2014, NSM was an introducing broker-dealer that generated most of its revenue from commissions charged to its retail customer accounts. NSM maintained its principal place of business in West Palm Beach, Florida and also had another office in New York. During the period relevant to the Complaint, approximately 20 to 35 registered persons were associated with NSM at any one point in time.

In October 2013, NSM agreed to a Consent Order with the Arkansas Securities Department, wherein the firm agreed to cease and desist from further violations of Ark. Code Ann. §§ 23-42-301(b)(1), 23-42-301(f)(1), and 23-42-308(a)(2)(j) and pay a \$7,000 fine, in connection with registration and licensing violations and related supervisory violations.

B. Niyukt R. Bhasin

Bhasin entered the securities industry in 1992 and first registered with FINRA in January 1993 as a General Securities Representative ("GSR"). He later acquired Series 24 and 63

¹ In January 2014, NSM filed Form BDW, wherein it requested that its FINRA membership be terminated. In February 2014, FINRA cancelled the firm's membership for its failure to pay outstanding fees. In March 2014, the SEC terminated NSM's registration.

licenses. Since 1992, Bhasin has been associated with five FINRA members. From February 10, 2005 through January 22, 2014, Bhasin was associated with NSM and registered with FINRA through the firm as a GSR, General Securities Principal, and Operations Professional. Bhasin currently is not registered with FINRA nor is he associated with a FINRA member. On September 3, 2014, FINRA suspended Bhasin from associating with any FINRA member in all capacities for his failure to comply with an arbitration award. The suspension remains in effect.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:²

1. From March 2007 through September 2012 (the “relevant period”), NSM Securities, Inc., acting through and at the direction of its founder, owner, President, and CEO, Niyukt R. Bhasin, derived most of its revenue from actively and aggressively trading stocks in the commission-based accounts of its retail customers. Prioritizing his firm’s profits over the duties owed to its customers, Bhasin chose not to establish a supervisory system tailored to NSM’s business. Instead, he fostered a culture of non-compliance that resulted in widespread sales practice violations, numerous customer complaints, related reporting violations, and cold-calling abuses.

2. During the relevant period, NSM, through Bhasin, failed to establish, maintain, and enforce a system, including written supervisory procedures (“WSPs”), reasonably designed to supervise the core activity in which its brokers engaged—active and aggressive trading. Specifically, NSM, through Bhasin, failed to reasonably monitor for, detect, and prevent churning, excessive trading, related violations of Regulation T, and unsuitable investment recommendations. NSM, through Bhasin, also failed to adequately review electronic

² The findings herein are pursuant to the Offer of Settlement of NSM and Bhasin and are not binding on any other person or entity named as a respondent in this or any other proceeding.

correspondence, adequately handle customer complaints, and place certain brokers who were the subjects of multiple customer complaints and arbitrations on heightened supervision. As a result of the foregoing, NSM and Bhasin violated NASD Rules 3010(a) and (b) and 2110 and FINRA Rule 2010.

3. NSM's culture of non-compliance fostered by Bhasin harmed his firm's customers, as NSM's lax to non-existent oversight of its brokers resulted in significant sales practice abuses. Specifically, NSM, acting through its brokers Naveen K. Bhagwani and Shondeep S. Balchandani, engaged in unauthorized trading in seven accounts, churned and excessively traded five accounts, and recommended qualitatively unsuitable investments to two customers. As a result of the foregoing, NSM, Bhagwani, and Balchandani willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and also violated NASD Rules 2310 and 2110, IM-2310-2, and FINRA Rules 2020 and 2010.

4. In implementing Bhasin's active and aggressive trading strategy and in order to generate commissions, NSM committed multiple violations of Regulation T and the related NASD/FINRA Rules governing the extension of credit. Specifically, NSM, acting through its brokers, made a practice of allowing customers to buy securities in cash accounts where the cost to buy the securities was met by the sale of the same securities (a/k/a free-riding). As a result of the foregoing, NSM violated NASD Rules 2520(f)(9) and 2110 and FINRA Rules 4210(f)(9) and 2010.

5. NSM's active and aggressive trading strategy, as developed and instituted by Bhasin, led to numerous customer complaints. Between February 2009 and May 2012, NSM, through Bhasin, failed to report 27 complaints to FINRA and also failed to timely report another

three complaints to FINRA. Therefore, NSM and Bhasin violated NASD Rule 3070(c) and FINRA Rules 4530(d) and 2010.

6. Since December 2010, NSM, through Bhasin, has failed to disclose and/or timely disclose material facts—six arbitrations and two customer complaints—on its brokers' Form U4s or Form U5s. Bhasin willfully failed to disclose three of the arbitrations on his own Form U4 and also willfully filed several false and misleading amendments to his Form U4, wherein he failed to disclose the arbitrations. In addition, NSM, through Bhasin, filed an untimely and inaccurate Form U5 for its former Chief Compliance Officer ("CCO"). Therefore, NSM and Bhasin acted in contravention of Article V, Sections 2 and 3 of FINRA's By-Laws and violated FINRA Rules 1122 and 2010.

7. Lastly, NSM, through Bhasin, failed to institute adequate procedures for cold-calling prospective customers—one of its primary means of procuring new customers. As a result, from April 2009 through October 2010, NSM, through its brokers and other representatives, initiated telephone solicitations to persons whose numbers were on the firm's do-not-call list and/or the national do-not-call list. Therefore, NSM and Bhasin violated NASD Rules 2212(a)(2), (a)(3) and (d) and FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

NSM Securities, Inc.

8. NSM became a FINRA member in August 2005.

9. On January 22, 2014, NSM filed Form BDW, wherein the firm requested that its FINRA membership be terminated. On February 20, 2014, FINRA cancelled NSM's membership for failing to pay fees.

10. Bhasin founded NSM and has owned the company from its inception through the present. Since its inception, Bhasin has served as the President and CEO of NSM. Since approximately August 1, 2011, he also has served as its CCO.

11. Prior to filing Form BDW, NSM was an introducing broker-dealer that generated most of its revenue from commissions charged to its retail accounts.

12. NSM maintained its principal place of business in West Palm Beach, Florida and also had another branch office in New York, New York.

13. During the relevant period, approximately 20 to 35 registered persons were associated with NSM at any one point in time.

14. Under Article IV of FINRA's By-Laws, FINRA possesses jurisdiction over NSM because: (a) the Complaint charges the firm with misconduct committed while it was a FINRA member; and (b) the Complaint was filed within two years of the firm's requested termination of its FINRA membership.

Niyukt R. Bhasin

15. Bhasin entered the securities industry in 1992. He first became registered with FINRA in January 1993 as a General Securities Representative ("GSR") (Series 7 license). He subsequently acquired Series 24 and 63 licenses. Since 1992, Bhasin has been associated with five FINRA members.

16. From February 10, 2005 through January 22, 2014, Bhasin was associated with NSM and registered with FINRA through the firm as a GSR, General Securities Principal, and Operations Professional.

17. At all relevant times, Bhasin was the President, CEO, and majority owner of NSM. He controlled NSM.

18. Bhasin currently is not associated with a FINRA member.

19. Although Bhasin is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the effective date of termination of Bhasin's registration with NSM, namely, January 22, 2014; and (b) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member firm.

Naveen K. Bhagwani

20. Bhagwani entered the securities industry when he joined NSM in September 2007. He first became registered with FINRA in October 2007 as a Corporate Securities Limited Representative ("CSLR") (Series 62 license). He subsequently obtained a Series 63 license.

21. On September 17, 2007, NSM filed a Form U4 for Bhagwani, commencing his association with it as of that day. On October 4, 2011, NSM filed a Form U5 for Bhagwani, terminating his association with it as of the prior day. Bhagwani was registered with FINRA, through NSM, as a CSLR from October 9, 2007 through October 4, 2011.

22. On April 12, 2012, NSM filed two amended Form U5s for Bhagwani, wherein the firm, for the first time, disclosed that he was the subject of a written complaint and civil lawsuit by customer NG, alleging margin-related suitability violations, and of a written complaint by customer RS, alleging that he traded on margin in his account without a margin agreement.

23. On January 3, 2013, NSM filed another amended Form U5 for Bhagwani, wherein the firm, for the first time, disclosed that he was the subject of a written complaint and FINRA arbitration by customer MV, alleging suitability violations.

24. Bhagwani currently is not associated with a FINRA member.

25. Although Bhagwani is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date when NSM filed an amended Form U5 for him disclosing, for the first time, the written complaint and arbitration of customer MV, namely, January 3, 2013, and that amended Form U5 was filed within two years after the effective date of termination of his registration with NSM, namely, October 4, 2011; and (b) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

Shondeep S. Balchandani

26. Balchandani entered the securities industry in June 2006. He first became registered with FINRA in August 2006 as a GSR. He subsequently obtained a Series 63 license.

27. On March 9, 2007, NSM filed a Form U4 for Balchandani, commencing his association with it as of that day. On October 31, 2011, NSM filed a Form U5 for Balchandani, terminating his association with it as of that day. Balchandani was registered with FINRA, through NSM, as a GSR from March 9, 2007 through October 31, 2011.

28. On March 6, 2012, NSM filed an amended Form U5 for Balchandani, wherein the firm, for the first time, disclosed that he was the subject of a written complaint and FINRA arbitration by customers HP and SJP, alleging suitability violations.

29. Balchandani currently is not associated with a FINRA member.

30. Although Balchandani is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date when NSM filed an amended Form U5 for him disclosing, for the first time,

the written complaint and arbitration of customers HP and SJP, namely, March 6, 2012, and that amended Form U5 was filed within two years after the effective date of termination of his registration with NSM, namely, October 31, 2011; and (b) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

FACTS COMMON TO MOST CAUSES OF ACTION

Bhasin's Business Model

31. Bhasin, who is of Indian descent, founded NSM to, among other things, establish a broker-dealer where brokers of Indian descent would predominantly obtain and service customers of Indian descent. During the relevant period, NSM operated accordingly.

32. The homepage of NSM's website provides that it seeks to "take advantage of unique opportunities created in today's rapidly changing investment climate." Bhasin's trading strategy, however, was little more than aggressive short-term trading in the commission-based accounts of the firm's retail customers.

33. Bhasin's active and aggressive trading strategy—which was widely employed by his firm's brokers—is to concentrate a commission-based account in a few securities, predominantly stocks or other equities, liquidate the positions shortly after acquiring them, and then repeat the process. Bhasin also encouraged his brokers to use leverage or margin, which magnified the considerable risks associated with his aggressive strategy. As designed, Bhasin's short-term trading strategy resulted in high turnover rates and cost-to-equity ratios in, and generated relatively large commissions from, customer accounts.

34. Bhasin incentivized his brokers to actively trade accounts by basing their payout on a sliding scale; NSM paid its brokers between 60 and 80 percent of their monthly gross

commissions depending on their production level (*i.e.*, the higher the production, the higher the payout).

35. Bhasin was keenly aware of the commissions generated from his firm's customers—whom he referred to as “rental income.”

36. In order to procure a steady stream of revenue from his “rental income” during the relevant period, Bhasin directed his brokers to cold call prospects. In these calls, NSM brokers, at Bhasin's direction, often solicited prospects by enticing them with the possibility of 15 percent returns over the course of one to three months.

37. Bhasin's aggressive short-term trading strategy, coupled with his laissez-faire attitude towards compliance, led to widespread sales practice abuses and numerous customer complaints.

Bhasin's Control over NSM

38. During the relevant period, NSM acted by and through Bhasin, as well as its brokers. Bhasin was the President, CEO, and majority owner of NSM and acted within the scope of his employment when he and his firm committed the violations charged herein.

39. During the relevant period, Bhasin was responsible for making and made all major decisions for his firm. He controlled the operations of NSM and its brokers, including the hiring and firing of brokers. He possessed the ultimate power to direct the policies, procedures, and personnel of NSM.

40. In order to implement his suspect strategy, Bhasin predominantly hired persons who had no prior experience in the securities industry.

41. Bhasin hired a large number of NSM brokers who were not only new to the securities industry, but who also were new to the United States, working on H-1B visas sponsored by Bhasin, through NSM.

42. Bhasin directed his firm's brokers to employ his aggressive short-term trading strategy. At times, he pressured them to actively trade customer accounts, with little regard for the customers' investment objectives and risk tolerances. He even instructed his brokers on which specific stocks to buy and sell.

43. Bhasin also set sales targets for his brokers. On occasion, he exerted control over them by threatening to cut their commissions or take away accounts if they failed to meet his sales targets.

44. In addition, Bhasin instructed his fledgling brokers on cold-calling, prospecting for customers, opening accounts, and recommending stocks. At times, he listened in on phone calls between his brokers and new or prospective customers to coach them on what to say.

45. As the President and CEO of NSM, Bhasin was responsible for ensuring that his firm established, maintained, and enforced a system to supervise the activities of its registered and associated persons in a manner reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

46. In that capacity, Bhasin also was responsible for ensuring that the supervisory duties or functions that he delegated were being appropriately exercised or handled.

47. In addition, the WSPs designated specific areas of supervisory responsibilities to Bhasin, including: Customer Complaint Filing Requirements, Compliance Interviews and Meetings, Review of Equity Transactions, Cold Calling and Telemarketing, Margin, and Regulation T.

**Supervision—Failure to Supervise and Deficient WSPs
(NASD Rules 3010 and 2110 and FINRA Rule 2010)**

48. NASD Rule 3010(a) requires each member to establish and maintain a system to supervise the activities of its registered and associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

49. NASD Rule 3010(b) requires each member to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages” and supervise the activities of its registered and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

50. FINRA Rule 2010 (f/k/a NASD Rule 2110) requires members and associated persons, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.”

51. During the relevant period, NSM’s WSPs were both deficient and inadequately implemented.

52. NSM’s WSPs were deficient in several key areas relative to its business. They failed to define excessive trading; they failed to provide guidance on how the firm would monitor for excessive trading and churning; they failed to define which customers would receive letters regarding the activity in their accounts and when and why such letters would be sent to customers; and they also failed to provide guidance on monitoring for unsuitable recommendations.

53. Both the 2008 and 2009 versions of the WSPs provided that NSM would use “exception reports” to monitor for excessive trading and churning. Despite the fact that its clearing firm had made such exception reports available to it since at least November 2006, NSM did not begin obtaining the reports to monitor for excessive trading and churning until July 2010.

54. Prior to June 2009, NSM took no discernible steps to monitor for excessive trading or churning, other than to review trades in isolation on a daily basis through order tickets and its trade blotter.

55. On June 19, 2009, Bhasin instructed all NSM brokers to begin calculating the turnover rates and cost-to-equity ratios on each trade ticket prior to entering a trade so that the CCO at the time, Irving Burstein, could monitor trades for excessive trading and churning.

56. Bhasin, however, failed to ensure that this system was adequately implemented or enforced. The brokers only occasionally calculated and reported the turnover rates and cost-to-equity ratios for their trades. Further, NSM did nothing to ensure that the brokers' calculations were correct.

57. As noted, beginning in July 2010, NSM finally began obtaining exception reports from its clearing firm to monitor for excessive trading and churning. These Monthly Active Account Reports (the "Exception Reports") identified accounts that triggered one of the following criteria on a monthly basis: (a) commissions in excess of \$10,000; (b) more than 10 trades; (c) cost-to-equity ratio in excess of 50 percent; or (d) losses greater than 15 percent.

58. The Exception Reports made clear that numerous accounts were being aggressively traded and needed to be further investigated for possible excessive trading and churning.

59. Although Bhasin designated responsibility to Burstein to review accounts for excessive trading and churning, Bhasin chose not to provide him with the Exception Reports.

60. In any given month from July 2010 through September 2012, one-third to one-half of NSM's brokers had accounts that appeared on the Exception Reports. NSM and Bhasin,

however, did not take adequate steps or implement reasonable supervisory measures to prevent excessive trading and churning.

61. The firm's 2008 and 2009 WSPs also provided that "comfort letters" would be sent to certain customers, but they failed to define what the term "comfort letter" meant or specify the circumstances when such letters would be sent to customers.

62. In July 2010, NSM began sending letters to customers whose names appeared on the Exception Reports. These "Active Account Review" letters ("Active Account Letters") simply stated that the firm's compliance department "routinely reviews active accounts to verify suitability and investment objectives," indicated whether or not the customer's account was a margin account, and displayed the customer's investment objective(s) and risk tolerance.

63. The Active Account Letters did not define what "active accounts" were, nor did they explain why the customer was receiving the letter. NSM did not require customers to sign and return, or even acknowledge receipt of, Active Account Letters.

64. From July 2010 until his departure in July 2011, Burstein sent the Active Account Letters to customers.

65. In July 2011, Bhasin began sending more detailed Active Account Letters. Although the new Active Account Letters explained that the customer was receiving the letter due to the amount of activity in his or her account, Bhasin did not ensure that the letters were correct. Between May and September 2012, NSM sent out 18 Active Account Letters with misplaced decimal points on certain figures that made them misleading. For example, NSM sent an Active Account Letter to customer SA dated September 11, 2012, wherein the firm represented that her account had a monthly turnover rate of 0.751 for activity in August 2012,

when, in fact, the actual monthly turnover rate for that month, as reflected in the Exception Report, was 7.51.

66. In addition, NSM did not implement an adequate or reasonable supervisory system to review trades for unsuitable recommendations. According to the firm's WSPs, it only monitored for unsuitable recommendations through a review of the daily trade blotter. A stand-alone review of the daily trade blotter, however, was a grossly inadequate means of reviewing trades for possible unsuitable recommendations, especially in light of the firm's active and aggressive trading strategy.

67. NSM's WSPs also failed to specify how trades would be reviewed to monitor for possible unsuitable recommendations. In other words, the WSPs failed to set forth the criteria to determine suitability.

68. NSM also failed to place brokers on heightened supervision in accordance with its WSPs. The WSPs required the firm to put a broker on heightened supervision when he or she had a "history of customer complaints, disciplinary actions, and/or arbitrations."

69. During the relevant period, based on the foregoing criteria, NSM failed to put Balchandani, Bhagwani, and brokers NB, HJ, RK, IA, and RD on heightened supervision.

70. Numerous customers complained either to or about the foregoing NSM brokers. During the relevant period, 11 customers complained about Bhagwani; 12 customers complained about Balchandani; 9 customers complained about NB; 15 customers complained about HJ; 5 customers complained about RK; 3 customers complained about RD; and 3 customers complained about IA. The complaints generally echoed the same themes: excessive trading, unauthorized trading, and unsuitable recommendations—critical sales practice areas for NSM's business model for which its supervisory systems were grossly deficient.

71. As set forth below in greater detail, NSM and Bhasin also failed to report numerous customer complaints to FINRA.

72. In September 2005, Bhasin hired Burstein to serve as a compliance officer. Bhasin subsequently appointed Burstein to serve as the firm's CCO from June 14, 2007 to July 31, 2011.

73. Burstein, however, failed to perform his assigned duties under NSM's WSPs.

74. As Bhasin knew, Burstein's daily activities were limited to reviewing trade tickets and the trade blotter at the end of the day and listening to the brokers' cold calls.

75. During the relevant period, the firm's WSPs designated specific duties to Burstein, including the review of customer accounts to detect and monitor for: (a) unsuitable transactions; (b) excessive trading activity; (c) unauthorized trading; (d) excessive losses; (e) excessive securities concentrations; and (f) large debit balances.

76. Burstein failed to reasonably review customer accounts and transactions for any of these things.

77. His review of customer account activity was limited to a quarterly review of the documents in the customer files, which were selected on a random basis. Bhasin knew that Burstein was not adequately reviewing customer accounts and transactions for the foregoing activity. Yet, Bhasin did nothing about it.

78. The WSPs also designated responsibility to Burstein for: reviewing (but not reporting) customer complaints; reviewing incoming and outgoing correspondence, including email; handling registration and licensing matters; and implementing and enforcing heightened supervision programs for brokers, when required or necessary. Burstein also failed to adequately perform these responsibilities.

79. Bhasin knew that Burstein was not adequately performing these responsibilities. In fact, Bhasin stripped Burstein of many of the tools and the authority that Burstein needed to perform his responsibilities.

80. Even though Bhasin designated Burstein as the supervisor responsible for reviewing email, Bhasin did not provide Burstein with a computer to review email.

81. Burstein was designated to review correspondence, but Bhasin controlled access to correspondence and often failed to provide Burstein with customer complaints.

82. Burstein also recommended placing certain brokers who had been the subjects of multiple customer complaints on heightened supervision, but Bhasin refused to follow Burstein's recommendations.

83. Finally, once NSM began obtaining the Exception Reports in July 2010, Bhasin refused to provide them to Burstein, even though the firm's WSPs designated Burstein as the supervisor responsible for reviewing customer account activity for excessive trading and suitability violations.

84. As a result of the grossly inadequate supervisory system established by Bhasin, NSM brokers made unsuitable recommendations to their customers, engaged in unauthorized trading, and excessively traded and churned accounts. This misconduct, in turn, resulted in many NSM customers suffering significant losses during the relevant period.

85. In connection with its active and aggressive trading strategy, and as detailed below, NSM violated Regulation T and the related NASD/FINRA Rules governing the extension of credit during the relevant period. Specifically, NSM made a practice of allowing customers to buy securities in cash accounts where the cost to buy the securities was met by the sale of the same securities (a/k/a free-riding).

86. Bhasin was aware of this violative practice from emails and reports from NSM's clearing firm, and yet, he took no steps to prevent it.

87. NSM and Bhasin failed to establish and maintain a system to supervise the activities detailed above that was reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. As detailed above, they also failed to monitor for, detect and investigate "red flags" suggestive of misconduct by the firm's brokers.

88. In addition, and as detailed above, NSM and Bhasin failed to establish, maintain, and enforce WSPs to supervise its business, including its active and aggressive investment strategy, and supervise its registered and associated persons, that were reasonably designed to achieve compliance applicable securities laws and regulations and NASD/FINRA Rules.

89. As a result of the foregoing, NSM and Bhasin violated NASD Rules 3010(a) and (b) and 2110 (for misconduct prior to December 15, 2008) and FINRA Rule 2010 (for misconduct on or after December 15, 2008).

FACTS RELATING TO BALCHANDANI'S MISCONDUCT

Customer VR

90. In August 2008, customer VR opened a non-discretionary account at NSM after receiving a cold call from Balchandani. VR had limited investment experience prior to opening an account at NSM.

91. After the account was funded, Balchandani recommended the purchase of 200 shares of ICICI Bank (an Indian company) Limited Sponsored ADR. In keeping with Bhasin's aggressive and active trading strategy, within a few days, Balchandani recommended and purchased another 800 shares of the same security, thus concentrating the entire account in one security.

92. After the initial recommended transactions, Balchandani began making unauthorized purchases on margin in the account.

93. Between August 12, 2008 and October 21, 2008, Balchandani effected 12 unauthorized transactions in VR's account. (See Schedule A.1 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

94. In October 2008, Balchandani sold all of the securities that he had purchased in VR's account to meet margin calls, leading to total realized losses of approximately \$104,625. Balchandani's trading in VR's account generated approximately \$15,857 in commissions for himself and NSM.

95. VR subsequently closed his account and initiated an arbitration proceeding against NSM and Balchandani in February 2009.

Customers VP and SVP

96. Customers VP and SVP opened a non-discretionary joint account at NSM in February 2011 after receiving numerous cold calls from Balchandani. Balchandani filled out VP and SVP's new account form and falsely indicated that they were sophisticated investors and that their investment objective was "speculative" and their risk tolerance was "aggressive."

97. VP and SVP were not sophisticated investors. Their previous investment experience was limited to a self-directed account at a discount broker-dealer.

98. In addition, Balchandani failed to ask VP and SVP about their investment objectives and risk tolerance when he opened the account.

99. Upon opening their NSM account, VP and SVP transferred a diverse portfolio of cash and securities from their discount brokerage account to their NSM account; these holdings reflected that VP and SVP had a moderate risk tolerance.

100. Following Bhasin's aggressive trading strategy, Balchandani immediately recommended that VP and SVP liquidate their entire portfolio, which generated approximately \$153,430 in proceeds.

101. Between March 9, 2011 and October 4, 2011, Balchandani effected 17 transactions in VP and SVP's account, of which, 14 were unauthorized. (See Schedule A.2 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

102. By placing unauthorized trades in the account of VP and SVP, Balchandani exercised control over the account.

103. From February 2011 to October 2011, when Balchandani served as the broker on VP and SVP's account, the annualized turnover rate for the account was 27.00 and the annualized cost-to-equity ratio for the account was 68 percent. During the same time period, the account suffered realized losses in excess of \$56,000, while Balchandani generated approximately \$19,551 in commissions and fees for himself and NSM.

Customers SP and NP

104. On May 29, 2009, customer NKP opened two non-discretionary Uniform Transfer to Minors Act ("UTMA") accounts for his minor children, SP (then 11 years old) and NP (then 15 years old), with Balchandani at NSM. Both accounts were intended to be used to fund the children's college educations. The investment objective and risk tolerance for both accounts were, as correctly coded on their new account documents, respectively "preservation of capital" and "conservative."

105. When SP's account was opened, her parents transferred in cash and a diversified portfolio of securities worth approximately \$115,890.

106. Beginning in March 2010, and consistent with Bhasin's strategy, Balchandani

began to excessively trade SP's account; all of this trading was unauthorized. Therefore, Balchandani exercised control over SP's account. In total, Balchandani effected 29 unauthorized transactions in SP's account. (See Schedule A.3 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

107. By July 2010, SP's entire account was concentrated in a single stock—Netflix; this concentration level was unsuitable for SP. (See Schedule B.1 attached to the Complaint and incorporated therein for a table of all unsuitable recommendations.)

108. In August 2010, Balchandani liquidated the position and concentrated the entire account in an extremely speculative security—Direxion Daily Small Cap Bull 3X – TNA, a triple-leveraged exchange-traded fund (“ETF”), which was entirely unsuitable for a conservative investor, like SP.

109. In September 2010, Balchandani liquidated the position and invested all of the proceeds in another speculative ETF—Direxion Daily Small Cap Bear 3X – TZA, an inverse ETF, which also was entirely unsuitable for a conservative investor, like SP.

110. As a result of Balchandani's unauthorized, excessive, and unsuitable trading, between May 2009 and October 2011, SP's account suffered losses of approximately \$72,485, while Balchandani generated approximately \$32,377 in commissions for himself and NSM. During the period that Balchandani handled SP's account, the account's annualized turnover rate was 4.77, and the annualized cost-to-equity ratio was 13.83 percent.

111. When NP's account was opened on May 29, 2009, his parents transferred in approximately \$102,000 in cash and a diversified portfolio of securities from another broker dealer.

112. Beginning in May 2010, and following Bhasin's strategy, Balchandani also began

to excessively trade NP's account; all of this trading was unauthorized. Therefore, Balchandani exercised control over the account. In total, Balchandani effected 27 unauthorized transactions in NP's account between June 2009 and October 2011. (See Schedule A.4 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

113. Balchandani made several purchases far in excess of the available cash in NP's account and then liquidated those same securities to cover the costs of the purchases.

114. On May 25, 2010, Balchandani purchased 1,000 shares of Baidu stock, which exceeded the available cash by \$173.47. On June 20, 2010, Balchandani liquidated the shares to cover the purchase price.

115. On September 24, 2010, Balchandani purchased 10,000 shares of Direxion Daily Small Cap Bear 3X Leverage ETF, a leveraged inverse ETF, unsuitable for a conservative investor, like NP. (See Schedule B.2 attached to the Complaint and incorporated therein for a table of all unsuitable recommendations.) The purchase price for these shares exceeded the funds available in the account by nearly three times. On October 4, 2010, Balchandani sold a portion of this position to cover the purchase price. Through this single purchase and sale, Balchandani generated commissions of \$9,820.

116. During the period that Balchandani handled NP's account, June 2009 through October 2011, the annualized turnover rate was 5.77, and the annualized cost-to-equity ratio was 13.20 percent. Due to Balchandani's unauthorized, excessive, and unsuitable trading, NP's account suffered losses of approximately \$6,444, while Balchandani generated approximately \$20,439 in commissions for himself and NSM.

117. In November 2011, customer NKP complained to Bhasin about Balchandani's misconduct in SP's and NP's accounts and transferred the accounts out of NSM.

FACTS RELATING TO BHAGWANI'S MISCONDUCT

Customer DB

118. On November 10, 2010, DB opened a non-discretionary account at NSM with NB as his broker of record. At the time, DB owned and operated a hotel in Dodge City, Kansas.

119. Although the new account form reflected that DB was an experienced investor who had an investment objective of "speculative" and a risk tolerance of "aggressive," this information was false. DB was not an experienced investor and did not have a speculative or aggressive profile.

120. In November and December 2010, DB made deposits totaling \$74,820 into his account. On December 28, 2010, without DB's authorization or consent, NB purchased 1,000 shares of Baidu stock for a total cost of \$102,321, resulting in a commission of \$3,451.

121. DB learned of the transaction when there was a margin call on his account in early January 2011. At that time, Bhagwani became the broker of record on the account, and he told DB to deposit more cash into the account to cover the margin call.

122. Because DB did not have any additional available funds to deposit in his NSM account, he borrowed money from another source to cover the purchase of Baidu stock.

123. Between January 2011 and October 2011, when Bhagwani was the broker on DB's account, he effected 29 unauthorized transactions in the account, and the account suffered realized losses of \$99,426 and generated \$39,892 in commissions for Bhagwani and NSM. (See Schedule A.5 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

124. Consonant with Bhasin's strategy, Bhagwani actively and aggressively traded the account to generate commissions. For the period when Bhagwani was the broker of record on

the account, the annualized turnover rate was 17.62, and the annualized cost-to-equity ratio was 34.64 percent.

Customer RS

125. RS opened a non-discretionary account with NSM in January 2010 after receiving several cold calls from another NSM broker. Shortly after opening the account, RS became dissatisfied with the broker's handling of his account—the volume of trades, the failure to explain fees, and the pressure to invest more money in the account.

126. In autumn of 2010, RS submitted paperwork to transfer his account to another firm. Bhagwani then called RS and convinced him to maintain his account at NSM. Bhagwani falsely claimed to be a supervisor at NSM and promised that he would provide a better level of service to RS by removing the margin debit and by providing RS with free transactions until the account increased in value. At the time, RS's account held cash and securities worth \$243,082, with a margin debit of (\$97,998) and a net value of \$145,086.

127. After Bhagwani became the broker of record for RS's account, rather than removing the margin debit balance, as he had promised, Bhagwani continued trading on margin in the account. The margin debit in RS's account ballooned over the first half of 2011, reaching a high of (\$253,877) by the end of July 2011. This represented approximately 73 percent of the total account value of \$347,832.

128. Consonant with Bhasin's strategy, Bhagwani actively and aggressively traded the account to generate commissions. To that end, Bhagwani made 18 unauthorized transactions in RS's account. (See Schedule A.6 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.)

129. In August 2011, Bhagwani sold securities in RS's account to cover margin calls. This resulted in significant realized losses. By the end of September 2011, due to the August margin calls and other losses, the account had a net value of only \$12,574.

130. In total, RS suffered realized losses of \$143,223, while Bhagwani and NSM generated \$9,954 in commissions and fees.

Customer AM

131. After an October 2008 cold call from Bhagwani, customer AM opened a non-discretionary account at NSM with Bhagwani.

132. Between May 2009 and September 2011, Bhagwani effected 225 unauthorized transactions in AM's account. (See Schedule A.7 attached to the Complaint and incorporated therein for a table of the unauthorized transactions.) Through his unauthorized trading, Bhagwani effected control over AM's account.

133. Even when Bhagwani communicated with AM, he often misled AM.

134. In addition, Bhagwani excessively traded AM's account. Beginning in July 2010, AM's account regularly appeared on the firm's Exception Reports. In the July 2010 Report, the annualized turnover rate for the account was 12.81 and the annualized cost-to-equity ratio was 33.51. The account appeared on ten of the next twelve Exception Reports, with generally increasing turnover rates. In the July 2011 Report, the annualized turnover rate for the account was 36.56 and the annualized cost-to-equity ratio was 19.25.

135. Bhagwani's excessive trading ultimately had a damaging effect on AM's account. While Bhagwani was the broker on AM's account, he generated approximately \$201,752 in commissions and fees for himself and the firm from it, while the account suffered \$34,453 in losses.

136. During the period when Bhagwani was broker of record on AM's account, the annualized turnover rate for the account was 27.35, and the annualized cost-to-equity ratio for the account was 50 percent.

Unauthorized Transactions

(NASD Rule 2110 and FINRA Rule 2010)

137. As described above and detailed in Schedules A.1, A.2, A.3, and A.4, Balchandani effected: 12 unauthorized trades in VR's non-discretionary account between September and October 2008; 14 unauthorized trades in VP and SVP's non-discretionary account between March and October 2011; 29 unauthorized trades in SP's non-discretionary account between July 2009 and September 2011; and 27 unauthorized trades in NP's non-discretionary account between June 2009 and October 2011. Balchandani executed the foregoing trades, without the knowledge, authorization, or consent of the customers or any persons with trading authority over the accounts.

138. As set forth above and detailed in Schedules A.5, A.6, and A.7, Bhagwani effected: 29 unauthorized trades in DB's non-discretionary account between January and October 2011; 18 unauthorized trades in RS's non-discretionary account between January and August 2011; and 225 unauthorized trades in AM's non-discretionary account between May 2009 and July 2011. Bhagwani executed the foregoing trades, without the knowledge, authorization, or consent of the customers or any persons with trading authority over the accounts.

139. NSM is liable for the unauthorized trading of Balchandani and Bhagwani under the doctrine of *respondeat superior* and as a control person under Section 20(a) of the Exchange Act.

140. As a result of the foregoing, NSM and Balchandani violated NASD Conduct Rule 2110 (for misconduct pre-dating December 15, 2008) and FINRA Rule 2010 (for misconduct on or after December 15, 2008), and NSM and Bhagwani violated FINRA Rule 2010.

Churning
(Willful Violations of Section 10(b) of the Exchange Act, Rule 10b-5 and
Violations of FINRA Rules 2020 and 2010)

141. Section 10(b) of the Exchange Act prohibits the use of any “manipulative or deceptive device or contrivance” in connection with the purchase or sale of a security.

142. Rule 10b-5, promulgated under the Exchange Act, provides that:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

(a) To employ any device, scheme, or artifice to defraud,

(b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

143. FINRA Rule 2020 (f/k/a NASD Rule 2120) prohibits the same misconduct.

144. Balchandani churned the three accounts of customers VP and SVP, SP, and NP.

145. Balchandani controlled the activity in the accounts of customers VP and SVP, SP, and NP by executing unauthorized transactions in their accounts.

146. The excessive trading activity in the accounts of customers VP and SVP, SP, and NP, as evidenced by the high annualized turnover rates and high annualized cost-to-equity ratios in the accounts, was inconsistent with their respective financial circumstances and/or investment objectives.

147. Balchandani acted with scienter. He intentionally or at least recklessly handled the accounts of customers VP and SVP, SP, and NP in a manner in which he placed his interests above his customers' interests. Specifically, Balchandani handled the accounts with the intention and for the purpose of generating commissions for himself and NSM, and without the intention of serving his customers' interests.

148. In the course of conduct described above, Balchandani, in connection with the purchases and sales of securities, directly or indirectly, by the use of the means or instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange, knowingly or at least recklessly: employed devices, schemes or artifices to defraud; engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person; and effected transactions in securities by means of any manipulative, deceptive, or other fraudulent scheme, device, or contrivance.

149. In connection with his misconduct, Balchandani employed the means of interstate commerce, the mails, and the facility of a national exchange by causing confirmation and account statements reflecting the subject trades to be sent to customers VP and SVP, SP, and NP by executing the subject trades through national securities exchanges.

150. Bhagwani churned AM's and DB's accounts.

151. Bhagwani controlled the activity in AM's and DB's accounts by executing unauthorized transactions in their accounts.

152. The excessive trading activity in AM's and DB's accounts, as evidenced by the high annualized turnover rates and high annualized cost-to-equity ratios in the accounts, was inconsistent with their financial circumstances and/or investment objectives.

153. Bhagwani acted with scienter. He intentionally or at least recklessly handled the accounts of customers AM and DB in a manner in which he placed his interests above his customers' interests. Specifically, Bhagwani handled AM's and DB's accounts with the intention and for the purpose of generating commissions for himself and NSM, and without the intention of serving AM's or DB's interests.

154. In the course of conduct described above, Bhagwani, in connection with the purchases and sales of securities, directly or indirectly, by the use of the means or instrumentalities of interstate commerce, or of the mails, or of any facility of any national securities exchange, knowingly or at least recklessly: employed devices, schemes or artifices to defraud; engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person; and effected transactions in securities by means of any manipulative, deceptive, or other fraudulent scheme, device, or contrivance.

155. In connection with his misconduct, Bhagwani employed the means of interstate commerce, the mails, and the facility of a national exchange by causing confirmation and account statements reflecting the subject trades to be sent to AM and DB and by executing the subject trades through national securities exchanges.

156. NSM is liable for the foregoing fraudulent misconduct of Balchandani and Bhagwani under the doctrine of *respondeat superior* and as a control person under Section 20(a) of the Exchange Act.

157. By churning the aforementioned accounts, NSM, Balchandani, and Bhagwani willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and also violated FINRA Rules 2020 and 2010.

Customer-Specific Suitability Violations
(Violations of NASD Rule 2310 and FINRA Rule 2010)

158. Before it was superseded by FINRA Rule 2311 on July 9, 2012, NASD Conduct Rule 2310 required associated persons and members, in recommending the purchase, sale, or exchange of a security, to have reasonable grounds for believing that their recommendation is suitable for the customer based on the customer's disclosed security holdings and financial situation and needs.

159. Balchandani recommended, through his unauthorized transactions, purchases and sales of securities to customers SP and NP without having reasonable grounds to believe that his recommendations were suitable for them based on their disclosed security holdings and financial situation and needs.

160. Specifically, Balchandani's recommendations to purchase and sell the securities set forth on Schedules B.1 and B.2 were unsuitable for SP and NP in light of: (a) the risky and aggressive nature of the recommended securities; (b) the relatively large size of the recommended securities—which caused the accounts to be overconcentrated; (c) their investment objectives of preserving their capital to pay for their college educations; and (d) their conservative risk tolerances.

161. Rather than tailoring the investment strategy in the UTMA accounts of SP and NP to their investment objectives and financial situation and needs, Balchandani improperly treated the accounts as if they were speculative trading accounts.

162. NSM is liable for the unsuitable investment recommendations made by Balchandani under the doctrine of *respondeat superior* and as a control person under Section 20(a) of the Exchange Act.

163. By recommending unsuitable investments to SP and NP, NSM and Balchandani violated NASD Rule 2310 and FINRA Rule 2010.

Excessive Trading/Quantitative Suitability Violations
(Violations of NASD Rule 2310, IM-2310-2, and FINRA Rule 2010)

164. Before it was superseded by FINRA Rule 2311, IM-2310-2(b)(2) specifically prohibited excessive trading.

165. Balchandani excessively traded the accounts of customers VP and SVP, SP, and NP.

166. Balchandani controlled the activity in the accounts of customers VP and SVP, SP, and NP by executing unauthorized transactions in their accounts.

167. The excessive trading activity in the accounts of customers VP and SVP, SP, and NP, as evidenced by the high annualized turnover rates and high annualized cost-to-equity ratios in the accounts, was inconsistent with their respective financial circumstances and/or investment objectives.

168. Bhagwani excessively traded AM's and DB's accounts.

169. Bhagwani controlled the activity in AM's and DB's accounts by executing unauthorized transactions in their accounts.

170. The excessive trading activity in AM's and DB's respective accounts as evidenced by the high annualized turnover rates and high annualized cost-to-equity ratios in the accounts, was inconsistent with their respective financial circumstances and/or investment objectives.

171. NSM is liable for the excessive trading of, and quantitatively unsuitable investment recommendations made by, Balchandani and Bhagwani under the doctrine of *respondeat superior* and as a control person under Section 20(a) of the Exchange Act.

172. As a result of the foregoing, NSM, Balchandani, and Bhagwani violated NASD Conduct Rule 2310, IM-2310-2, and FINRA Rule 2010.

Violations of FINRA Margin Requirements
(NASD Rules 2520 and 2110 and FINRA Rules 4210 and 2010)

173. Section 7(c) of the Exchange Act makes it unlawful for a firm to extend or maintain credit for a customer, except in compliance with certain regulations. Regulation T, as promulgated by the Federal Reserve Board pursuant to Section 7, imposes restrictions on the ability of a broker-dealer to extend credit for the purpose of purchasing, carrying or trading in securities.

174. During the relevant period, NASD Rule 2520(f)(9) and later FINRA 4210(f)(9) prohibited “free-riding” in cash accounts and provided that, “no member shall permit a customer to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities.”

175. NSM, through HJ, NB, Balchandani and RK, improperly made a practice of effecting trades in the cash accounts of customers where the cost to buy the securities was met by the sale of the same securities.

Free-Riding in CJP's Account

176. On February 23, 2010, HJ purchased 2,000 shares of Arcelormittal SA stock in CJP's cash account for a total of \$128,951, the cost of which was met by the sale of 750 shares of the position on March 2, 2010.

177. On August 25, 2010, HJ purchased 1,500 shares of Direxion Daily Small Cap Bull 3X ETF in CJP's cash account, the cost of which was met by the sale of the entire position on August 26, 2010.

178. On August 26, 2010, HJ purchased \$112,513 worth of securities, which included 1000 shares of CREE in CJP's cash account, the cost of which was met by selling 650 shares of CREE on September 2, 2010.

179. On September 27, 2010, HJ purchased 1000 shares of Schlumberger Ltd. stock in CJP's cash account, the cost of which was met by a sale of the same stock, when HJ sold 600 shares of the stock on October 4, 2010.

180. Finally, on January 13, 2011, HJ purchased 1000 shares of International Paper stock in CJP's cash account, the cost of which was met by the sale of the stock on January 24, 2011.

Free Riding in MP's Account

181. On March 16, 2011, NB purchased 500 shares of Apple stock in customer MP's cash account, the cost of which was met by the liquidation of another position on March 23, 2011. Following this transaction, NSM's clearing firm informed NSM that the account was in violation of Regulation T.

182. On September 13, 2011, NB purchased 1000 shares of Goldman Sachs stock in MP's cash account, the cost of which was met in part by the sale of 100 shares of the same stock on September 20, 2011. On September 26, 2011, NSM's clearing firm informed NSM, through Bhasin, that the account was restricted for 90 days for being in violation of Regulation T.

Free-Riding in NP's Account

183. On May 25, 2010, Balchandani purchased 1,000 shares of Baidu stock in NP's cash account, the cost of which was met by the sale of the stock on June 10, 2010.

184. On September 24, 2010, Balchandani purchased 10,000 shares of Direxion Daily Small Cap Bear 3X Leverage, an ETF, in NP's cash account, the cost of which was met by the sale of over two-thirds of the same position on October 4, 2010.

Free-Riding in AP's Account

185. On March 26, 2008, RK purchased in excess of \$55,000 worth of Citigroup stock for AP's account even though the cash in the account was approximately \$4,800. The purchase of the stock was met by sales of the stock on March 28, 2008 and April 1, 2008. On April 2, 2008, the account was placed on a 90-day trading restriction by NSM's clearing firm for violating Regulation T.

186. On August 26, 2008, RK purchased 2,000 shares of ICICI Bank Limited stock for \$63,250 in AP's margin account. The purchase of the stock was met by the sale of the entire position on August 29, 2008. On September 3, 2008, the NSM's clearing firm again placed the account on a 90-day trading restriction for violating Regulation T.

187. On December 26, 2008, RK purchased 1500 shares of Arcelormittal SA stock for \$36,537. The purchase of the stock was met by the sale of the entire position on January 2, 2009. On January 10, 2009, NSM's clearing firm again placed the account on a 90-day trading restriction for violating Regulation T.

188. On June 27, 2011, RK purchased 1750 shares of Tata Motors stock for \$39,095, even though the cash available was \$3152. The purchase of the stock was met by the sale of the entire position on June 29, 2011. On July 5, 2011, NSM's clearing firm once again placed the account on a 90-day trading restriction for violating Regulation T.

189. By reason of the foregoing, NSM violated NASD Rules 2520(f)(9) (for misconduct before December 2, 2010) and 2110 (for misconduct before December 15, 2008) and

FINRA Rule 4120(f)(9) (for misconduct on or after December 2, 2010) and 2010 (for misconduct on or after December 15, 2008).

Failure to Report and Timely Report Events under NASD Rule 3070
(NASD Rule 3070 and FINRA Rules 4530 and 2010)

190. Before it was superseded by FINRA Rule 4530 on July 1, 2012, NASD Rule 3070(c) required members to report to FINRA “statistical and summary information regarding customer complaints in such detail as [FINRA] shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member.” Under Rule 3070(a), a “‘complaint’ includes any written grievance by a customer involving the member or person associated with a member.”

191. FINRA Rule 4530(d) imposes similar reporting requirements on members.

192. During the relevant period, Bhasin was responsible for reporting NSM’s customer complaints to FINRA under NASD Rule 3070 and FINRA Rule 4530.

193. As detailed in Schedule C, which is attached to the Complaint and incorporated therein, from February 2009 to February 2011, NSM failed to report to FINRA statistical and summary information regarding 27 written customer complaints, including eight regarding its cold-calling practices, as required by NASD Rule 3070(c).

194. As detailed in Schedule D, which is attached to the Complaint and incorporated therein, from June 2011 through May 2012, NSM also failed to timely report to FINRA statistical and summary information regarding three additional complaints, as required by NASD Rule 3070(c) and FINRA Rule 4530(d).

195. The untimely reported complaints ranged from five to six months late.

196. As a result of the forgoing, NSM and Bhasin violated NASD Rule 3070(c) and FINRA Rules 4530(d) and 2010.

Willful Form U4 Violations
(FINRA Rules 1122 and 2010 and Article V, Section 2(c) of the FINRA By-Laws)

Form U4 Requirements

197. Article V, Section 2(c) of the FINRA By-Laws generally provides that every application for registration filed with FINRA shall be kept current at all times by supplementary amendments that must be filed within 30 days after learning of the facts or circumstances giving rise to the amendment.

198. From at least 2010 through the present, Disclosure Question 14I(1) of Form U4, which has changed slightly over that time period, has required registered persons to disclose instances in which they have been named as a respondent or defendant in an investment-related, consumer-initiated arbitration or civil litigation which alleged that they were involved in one or more sales practice violations and which is: (a) still pending; (b) resulted in an arbitration award against them; (c) was settled prior to May 18, 2009 for \$10,000 or more; or (d) was settled after May 18, 2009 for \$15,000 or more.

199. FINRA Rule 1122 provides that: “[n]o member or person associated with a member shall file with FINRA information with respect to membership or registration which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or fail to correct such filing after notice thereof.”

Arbitration Filed by Customers CP and JP

200. On February 11, 2011, CP and JP, who were customers of NSM, initiated an arbitration proceeding with FINRA Dispute Resolution, Inc. (“FINRA-DR”), wherein they named NSM and NSM registered representatives Bhasin, Balchandani, Bhagwani, RD, MOB, and Burstein as respondents and alleged that those respondents were involved in one or more sales practice violations. Specifically, in their Statement of Claim, CP and JP alleged, among

other things, that Balchandani, Bhagwani and RD churned their account and made misrepresentations of material facts to them concerning their accounts and that Bhasin, MOB, and Burstein failed to supervise Balchandani, Bhagwani and RD.

201. Bhasin was aware of the arbitration filed by CP and JP by March 14, 2011, at the latest.

202. On February 12, 2012, NSM settled the proceeding for \$255,000.

203. On, August 21, 2012, Bhasin finally disclosed the arbitration filed by CP and JP; in that filing, Bhasin falsely stated that the notice of the arbitration was served on March 1, 2012. Bhasin, however, reported the arbitration on Balchandani's Form U4 on March 25, 2011, and stated in that filing that the firm had received the Statement of Claim on March 14, 2011.

204. Bhasin willfully failed to disclose a material fact—the arbitration filed by CP and JP—on his Form U4.

Arbitration Filed by KS, RKS, and SS

205. On September 28, 2011, NSM customers KS, RKS, and SS initiated an arbitration proceeding with FINRA-DR, wherein they named NSM and NSM registered representatives Balchandani, Bhagwani, Bhasin, Burstein, and MOB as respondents and alleged that respondents were involved in one or more sales practice violations. Specifically, in their Statement of Claim, KS, RKS, and SS alleged that NSM and Balchandani ignored their investment objectives and risk tolerance, recommended and purchased wholly unsuitable investments, traded without authorization, excessively traded their accounts, and engaged in free-riding in their accounts. The Statement of Claim further alleged that Bhasin, MOB, and Burstein failed to supervise Balchandani.

206. Bhasin was aware of the arbitration filed by KS, RKS, and SS by September 30, 2011.

207. Bhasin willfully failed to disclose a material fact—the arbitration filed by KS, RKS, and SS—on his Form U4.

208. In June 2012, NSM settled the claims with KS, RKS, and SS for \$70,000. As part of the settlement agreement, KS, RKS, and SS agreed to dismiss their claims against Bhasin.

Arbitration filed by VY

209. On October 23, 2012, NSM customer VY initiated an arbitration proceeding against NSM, registered representative AK, Bhasin, and NSM's clearing firm. The arbitration alleged that NSM and its representatives engaged in sales practice violations including churning, unsuitable recommendations, and an unsuitable investment strategy. The Statement of Claim further alleged that Bhasin failed to supervise AK. Bhasin was aware of the arbitration filed by VY by October 31, 2012, at the latest. Bhasin willfully failed to disclose a material fact—the arbitration filed by VY—on his Form U4.

Summary of Bhasin's Willful Form U4 Violations

210. Bhasin willfully failed to disclose material facts or information—the foregoing arbitrations—on his Form U4, and he also willfully filed false and misleading amendments to his Form U4 wherein he failed to disclose the arbitrations.

211. By engaging in such misconduct, Bhasin acted in contravention of Article V, Section 2 of FINRA's By-Laws and violated FINRA Rules 1122 and 2010.

Form U4 and Form U5 Violations
(FINRA Rules 1122 and 2010 and Article V, Section 2(c) of the FINRA By-Laws)

Additional Form U4 Requirements

212. From at least 2010 through the present, Disclosure Question 14I(3), has required registered persons to disclose instances in which they have been the subject of an investment-related, consumer-initiated, written complaint, not otherwise reported under Question 14I(2), which alleged that they were involved in one or more sales practice violations and contained a claim for compensatory damages of \$5,000 or more.

Arbitration Filed by Customer AJ

213. On or about November 15, 2010, AJ, who was a customer of NSM, initiated an arbitration proceeding with FINRA-DR, wherein he named NSM as a respondent and alleged that his NSM broker, Bhagwani, was involved in one or more sales practice violations. Specifically, in his Statement of Claim, AJ alleged, among other things, that Bhagwani excessively traded his account and engaged in fraud.

214. NSM and Bhasin were aware of the arbitration filed by AJ by December 1, 2010, at the latest.

215. On or about January 31, 2011, NSM, acting through Bhasin, settled the arbitration for \$23,000.

216. NSM was required to file an amendment to Bhagwani's Form U4 to report the arbitration within 30 days of December 1, 2010 and the settlement within 30 days of January 31, 2011. NSM failed to timely file such amendment. The firm filed the requisite amendment to Bhagwani's Form U4 on May 19, 2011, approximately five and a half months and two months late, respectively.

Arbitration Filed by Customer SSS

217. On or about February 28, 2011, SSS, who was a customer of NSM, initiated an arbitration proceeding with FINRA-DR, wherein he named NSM and NSM broker RK as respondents and alleged that RK was involved in one or more sales practice violations. Specifically, in his Statement of Claim, SSS alleged, among other things, that RK excessively traded his account and engaged in fraud.

218. NSM and Bhasin were aware of the arbitration filed by SSS by April 11, 2011, at the latest.

219. NSM was required to file an amendment to RK's Form U4 to report the arbitration within 30 days of April 11, 2011. NSM failed to timely file the amendment. The firm filed the requisite amendment on November 11, 2011, approximately six months late.

Arbitration Filed by Customers CP and JP

220. On February 11, 2011, CP and JP, who were customers of NSM, initiated an arbitration proceeding with FINRA-DR, wherein they named NSM and NSM registered representatives Bhasin, Balchandani, Bhagwani, RD, MOB, and Burstein as respondents and alleged that the respondents were involved in one or more sales practice violations. Specifically, in their Statement of Claim, CP and JP alleged, among other things, that Balchandani, Bhagwani, and RD churned their account and made misrepresentations of material facts to them concerning their accounts and that Bhasin, MOB, and Burstein failed to supervise Balchandani, Bhagwani, and RD.

221. NSM and Bhasin were aware of the arbitration filed by CP and JP by March 14, 2011, at the latest.

222. NSM was required to file an amendment to Bhagwani's, Balchandani's, RD's, Bhasin's, MOB's, and Burstein's Form U4s to report the arbitration within 30 days of March 14, 2011.

223. NSM timely filed an amendment to report the arbitration on Balchandani's Form U4 on March 25, 2011, but failed to report the arbitration on any of the remaining respondents' Form U4s at that time.

224. NSM completely failed to report the arbitration on Bhagwani's Form U4 or Form U5.

225. NSM did not report the arbitration on RD's Form U4 until November 8, 2012, approximately 19 months late, and Burstein's Form U5 until September 4, 2012, approximately 17 months late.

Written Complaint Filed by CJP

226. On September 4, 2012, NSM received a written complaint involving a sales practice violation in excess of \$5,000 from an attorney for NSM customer CJP. The complaint accused NSM and its registered representative HJ of churning, unauthorized trading, and unsuitable margin trading and sought damages of \$492,674.14.

227. While NSM reported this complaint via a summary FINRA Rule 4530 filing on October 10, 2012, the firm failed to update HJ's Form U4 to report the complaint at that time. This complaint should have triggered a filing by October 4, 2012 under question 14I(3) as HJ was the subject of an investment-related, consumer-initiated complaint, which alleged that he was involved in one or more sales practice violations involving compensatory damages of \$5,000 or more.

228. Rather than promptly reporting this complaint on HJ's Form U4, NSM waited until after HJ had left the firm and filed a Form U5 amendment to report the complaint on December 11, 2012, approximately three months late.

Written Complaint Filed by BP

229. On January 11, 2012 and January 16, 2012, NSM customer BP sent separate written complaints to NSM and registered representative RN. The written complaints alleged that NSM and RN and other brokers had made misrepresentations, and unsuitable recommendations, and engaged in unsuitable trading. On April 2, 2012, NSM made the required FINRA Rule 4530 filing. According to the filing, the complaint involved the poor performance of equity-listed securities, and the disputed amount was "\$5,000 or more/Cannot determine." However, NSM failed to timely report the complaint on RN's Form U4.

230. NSM was required to file an Amendment to RN's Form U4 within 30 days of January 11, 2012, based upon question 14I(3)(a) on RN's Form U4, as the complaint was a written, investment-related, consumer-initiated complaint alleging sales practice violations and a claim of compensatory damages of \$5,000 or more. NSM, through Bhasin, however, failed to update RN's Form U4 to report the complaint until January 3, 2013, approximately 11 months late.

Form U5 Requirements

231. Article V, Section 3(a) of the FINRA By-Laws requires, among other things, firms to give notice to FINRA, through Form U5, of the termination of the association of a person who is registered with them within 30 days of the termination.

232. From at least 2012 through the present, Disclosure Question 7E.1 of Form U5 has required registered persons to disclose instances in which they have been named as a respondent

or defendant in an investment-related, consumer-initiated arbitration or civil litigation which alleged that they were involved in one or more sales practice violations and which is: (a) still pending; (b) resulted in an arbitration award against them; (c) was settled prior to May 18, 2009 for \$10,000 or more; or (d) was settled after May 18, 2009 for \$15,000 or more.

Arbitration Filed by Customer MV

233. On August 21, 2012, MV, who was a customer of NSM, initiated an arbitration proceeding with FINRA-DR, wherein he named NSM and NSM registered representative Bhagwani as respondents and alleged that they were involved in one or more sales practice violations. Specifically, in his Statement of Claim, MV alleged that NSM and Bhagwani engaged in unauthorized trading.

234. NSM was aware of the arbitration filed by MV by September 19, 2012, at the latest.

235. NSM was required to file an amendment to Bhagwani's Form U5 to report the arbitration within 30 days of September 19, 2012. NSM failed to timely file such an amendment. The firm filed the requisite amendment to Bhagwani's Form U5 on January 3, 2013, approximately three months late.

Untimely and Inaccurate Form U5 for Burstein

236. On July 31, 2011, Bhasin fired Burstein, NSM's CCO. Bhasin did not tell Burstein why he fired him.

237. NSM was required to file an initial Form U5 for Burstein within 30 days of July 31, 2011. NSM, however, failed to timely file his Form U5. The firm filed the requisite Form U5 for Burstein on October 13, 2011, approximately six weeks late.

238. In addition, NSM filed an inaccurate initial Form U5 for Burstein. On the October 13, 2011 Form U5, NSM falsely listed Burstein's termination date as October 13, 2011 (instead of July 31, 2011) and also falsely listed his termination as being "Voluntary" (instead of being involuntary).

Summary of Form U4 and Form U5 Violations

239. By failing to file and timely file the aforementioned amendments to Form U4s, NSM and Bhasin, who was responsible for filing amendments to the Form U4s and Form U5s of NSM's registered and associated person, acted in contravention of Article V, Section 2 of FINRA's By-Laws and violated FINRA Rules 1122 and 2010.

240. By failing to timely file the aforementioned amendment to Bhagwani's Form U5 and by untimely filing a Form U5 for Burstein with false information, NSM and Bhasin acted in contravention of Article V, Section 3 of FINRA's By-Laws and violated FINRA Rules 1122 and 2010.

Telemarketing Violations (NASD Rule 2212 and FINRA Rule 2010)

241. Before it was superseded by FINRA Rule 3230 on June 29, 2012, NASD Rule 2212 set forth certain requirements for members and associated persons that engaged in telemarketing. NASD Rule 2212(a) prohibited members and associated persons from initiating a telephone solicitation to any person who: (a) had previously stated that he or she did not wish to receive a call made by or for the member; or (b) had registered their phone number on the Federal Trade Commission's national do-not-call registry, with limited exceptions.

242. In addition, NASD Rule 2212(d) required members to establish and implement procedures to comply with NASD Rule 2212(a), including having written policies for maintaining a do-not-call list, training personnel engaged in telemarketing about the existence

and use of a do-not-call list, and recording and maintaining a do-not call list. NASD Rule 2212(d) further required members to honor: (a) a person's do-not-call request within a reasonable period of time, not to exceed 30 days; and (b) a firm-specific do-not-call request for five years from the date of the request.

243. Bhasin was responsible for NSM's compliance with NASD Rule 2212.

244. NSM, through Bhasin, failed to institute adequate procedures to prevent telephone solicitations to persons whose numbers were on the firm-specific and national do-not-call lists.

245. Between 2009 and October 2010, NSM brokers or representatives made 21 telephone solicitations to 15 persons whose numbers were already on the firm's do-not-call list, as evidenced by the fact that those numbers were added to the list again after their first appearance on the list. They made 11 of the 21 solicitations to seven persons whose numbers also appeared on the national do-not-call list. (See Schedule E, which is attached to the Complaint and incorporated therein.) As result of the foregoing, NSM and Bhasin violated NASD Rule 2212(a)(2), (a)(3) and (d) and FINRA Rule 2010.

Based on the foregoing, NSM: (1) violated NASD Rules 2212(a)(2), (a)(3) and (d), 2310, 2520(f)(9), 3010(a) and (b), 3070(c), and 2110, IM-2310-2, and FINRA Rules 1122, 2020, 4210(f)(9), 4530(d), and 2010; (2) willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder; and (3) acted in contravention of Article V, Sections 2 and 3 of FINRA's By-Laws. Based on the foregoing, Bhasin violated NASD Rules 2212(a)(2), (a)(3) and (d), 3010(a) and (b), 3070(c), and 2110 and FINRA Rules 1122, 4530(d), and 2010 and also acted in contravention of Article V, Sections 2 and 3 of FINRA's By-Laws. Bhasin's failure to update

his Form U4 was willful; the omitted information was material; and the omission to state material facts was on a Form U4 application

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter NSM and Bhasin from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

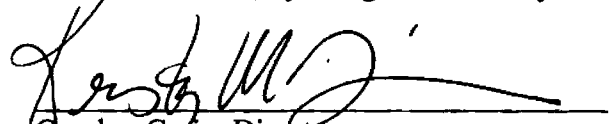
It is ordered that NSM be expelled from FINRA membership and that Bhasin be barred from association with any FINRA member in all capacities.

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 Order.

SO ORDERED.

FINRA

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



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