

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

James D. Grimes (CRD No. 4106942),

Respondent.

DISCIPLINARY PROCEEDING
No. 2011028219201

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between approximately January 2007 and February 2010, while associated with Financial Network Investment Corporation (FNIC), James D. Grimes transferred \$306,000 from three customer accounts to an account owned by another customer, without the consent or knowledge of any of the customers. Grimes then wrote checks totaling \$250,446 from the account into which the funds had been transferred, without that customer's knowledge or authorization, and converted those funds to his personal use. By these actions, Grimes violated NASD Rules 2110, 2330(a) and 3110(a), and FINRA Rules 2010 and 2150(a).

RESPONDENT AND JURISDICTION

2. James D. Grimes entered the securities industry in April 2001 with a FINRA member firm, and first became registered as a General Securities Representative in June 2001. From April 2006 to April 2010, Grimes was registered with FNIC. Most recently, Grimes was registered with Triad Advisors from April 2011 to August 2011.
3. Although Grimes 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 (1) the Complaint was filed within two years after the effective date of termination of Grimes's registration with Triad Advisors, namely, August 23, 2011; and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

FACTS

4. During the time period at issue, LJ, KP, the Estate of TM, and SBHA maintained customer accounts at FNIC. Grimes was the registered representative for those accounts.
5. Between January 2007 and February 2010, Grimes effected four unauthorized money transfers totaling \$306,000 from the accounts of LJ, KP and the Estate of TM. Grimes transferred those funds to the account of SBHA. The transfers were as follows:
 - (a) On or about February 8, 2007, Grimes transferred \$137,000 from the account of LJ to the account of SHBA.

- (b) On or about February 13, 2008, Grimes transferred \$123,000 from the account of LJ to the account of SHBA.
 - (c) On or about February 13, 2009, Grimes transferred \$17,000 from the account of the Estate of TM to the account of SHBA.
 - (d) On or about February 12, 2010, Grimes transferred \$29,000 from the account of KP to the account of SHBA.
6. These transfers occurred without the knowledge or authorization of the owners of the accounts. Grimes effected the unauthorized transfers by submitting written journal request forms to FNIC that contained forged client signatures.
7. Between January 2007 and February 2010, Grimes wrote 54 checks, totaling \$250,446, withdrawing funds from the SHBA account. Most of the checks were made payable to cash. All of the proceeds were converted by Grimes for his personal use. Grimes forged the signature of DC, the owner of the SHBA account, on those checks.

FIRST CAUSE OF ACTION
(Conversion (NASD Rules 2330 and 2110,
FINRA Rules 2150(a) and 2010))

8. The Department realleges and incorporates by reference paragraphs 1 - 7 above.
9. NASD Rule 2330(a) and FINRA Rule 2150(a) prohibit a registered representative from making improper use of customer funds or securities. NASD Rule 2330(a) applies to conduct occurring before December 14, 2009. FINRA Rule 2150(a) applies to conduct on and after December 14, 2009.

10. NASD Rule 2110 and FINRA Rule 2010 require a registered representative, in the conduct of his or her business, to “observe high standards of commercial honor and just and equitable principles of trade.” NASD Rule 2110 applies to conduct occurring before December 15, 2008. FINRA Rule 2010 applies to conduct on and after December 15, 2008.
11. Grimes transferred \$306,000 to the SHBA account from the accounts of LJ, KP, and the Estate of TM, without authorization, then wrongfully converted \$250,446 of those funds from the SBHA account for his own use.
12. By performing unauthorized transfers and converting customer funds, Grimes violated NASD Conduct Rules 2330(a) and 2110, and FINRA Conduct Rules 2150(a) and 2010.

SECOND CAUSE OF ACTION

(Books and Records (NASD Conduct Rules 3110(a) and 2110, FINRA Rule 2010))

13. The Department realleges and incorporates by reference paragraphs 1 - 12 above.
14. Former NASD Rule 3110(a), which applies to conduct prior to December 5, 2011, required FINRA member firms to “make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations and statements of policy promulgated thereunder and with the Rules of this Association and as prescribed by SEC Rule 17a-3.” SEC Rule 17a-3(a)(1) requires member firms to make and keep current certain books and records relating to their business activities, including blotters or other records of original entry regarding all receipts and disbursements of cash and all other debits and credits.

15. The four journal request forms and the 54 checks described above were maintained by FNIC as part of its books and records. Those documents appeared to contain genuine customer signatures but the signatures were forged. The records were therefore inaccurate.

16. By falsifying journal requests and checks, Grimes caused FNIC's books and records to be inaccurate. He thereby violated NASD Conduct Rules 3110(a) and 2110 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed.
- C. order that 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: 10/5/2012



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