

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

EDWARD EUGENE WILLIAMS
(CRD No. 2184339),

Respondent.

Disciplinary Proceeding
No. 20110285475

Hearing Officer – RLP

DEFAULT DECISION

January 31, 2013

For misappropriating his customers' funds, in violation of FINRA Rules 2150 and 2010 and NASD Rules 2330(a) and 2110, and for forging his customers' signatures, in violation of FINRA Rule 2010, Respondent is barred from associating with any FINRA member in any capacity.

Appearances

Cynthia Kitay, Esq., Susan Light, Esq., and Steven F. Korostoff, Esq., New York, NY, for the Department of Enforcement.

No appearance by or for Respondent.

DECISION

I. Introduction

FINRA investigators began the inquiry that led to the filing of a complaint against Edward Eugene Williams after Princor Financial Services Corporation, a FINRA member firm, filed a Uniform Termination Notice for Securities Industry Registration (Form U5) on July 15, 2011. The filing notified FINRA that Williams had been discharged a day earlier because he “took early distribution from client’s (his son) account without the client’s consent or

knowledge.”¹ The FINRA Department of Enforcement (“Enforcement”) initiated this proceeding on September 5, 2012.

In its complaint, Enforcement charged Williams with misappropriating his customers’ funds, in violation of (i) FINRA Rule 2150(a) and its predecessor, NASD Conduct Rule 2330(a), and (ii) FINRA Rule 2010 and its predecessor, NASD Conduct Rule 2110.² Enforcement also charged that Williams forged his customers’ signatures on mutual fund distribution checks in violation of FINRA Rule 2010 and NASD Rule 2110. Williams did not answer or otherwise respond to the complaint. Consequently, on November 30, 2012, Enforcement filed a motion for entry of a default decision and request for sanctions, together with the declaration of Cynthia Kitay and eight exhibits. Williams did not respond to the motion.³

II. Jurisdiction

Williams entered the securities industry in September 1991. As of May 1997, he was employed by Princor and registered as an Investment Company Products and Variable Contracts Representative through the firm. Williams has not been associated with any FINRA member firm since his employment with Princor was terminated on July 14, 2011.⁴

¹ Declaration of Cynthia Kitay in Support of Motion for Entry of Default Decision (“Kitay Decl.”) ¶ 6; Complainant’s Exhibit (“CX”)-2, at 2.

² In 2007, after NASD consolidated with the member regulation function of NYSE Regulation and began operating under a new corporate name, the Financial Industry Regulatory Authority (“FINRA”), FINRA began developing a consolidated rulebook. As part of that process, on December 15, 2008, NASD Conduct Rule 2110 was superseded by FINRA Rule 2010, and, in 2009, FINRA adopted without change certain paragraphs of NASD Conduct Rule 2330, including paragraph (a), concerning improper use of customers’ securities or funds, as FINRA Rule 2150. Given that Williams’ misconduct began in early December 2008, this decision refers to both the present and past iterations of these rules. The rules pertinent to this proceeding are available at www.finra.org/Industry/Regulation/FINRARules.

³ Given that Williams is in default as detailed below, the factual determinations in this decision are based on allegations in the attached complaint, which are deemed admitted, as well as the Kitay Declaration and its attached exhibits.

⁴ Complaint ¶¶ 3-5; Kitay Decl. ¶¶ 4-5; CX-1, at 3, CX-2.

Although Williams is not currently registered with a FINRA member firm, FINRA has jurisdiction over this disciplinary proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because the complaint (1) was filed within two years following the July 2011 termination of his registration with Princor, and (2) charges Williams with misconduct that occurred before that termination.⁵

III. Respondent's Default

On September 5, 2012, Enforcement served Williams with a notice of complaint and complaint by, among other means, certified mail (return receipt requested) addressed to his residential address as recorded in FINRA's Central Registration Depository ("CRD address") and to an alternate address. On September 15, 2012, Enforcement received the return receipt, signed by Williams, for the materials that had been sent to the alternate address. Williams did not answer the complaint by the October 3, 2012 deadline.⁶

On October 3, 2012, Enforcement served Williams with a second notice of complaint and complaint by, among other means, certified mail (return receipt requested) to Williams' CRD and alternate addresses. Again, the receipt for the materials sent to the alternate address was returned to Enforcement bearing Williams' signature. Williams did not respond to this second notice, and to date, Williams has not filed an answer with the Office of Hearing Officers or otherwise responded to the complaint.⁷

Williams received actual notice of this proceeding and, therefore, the Hearing Officer finds that Williams defaulted by failing to answer the complaint.

⁵ See Article V, Sec. 4(a), FINRA By-Laws, available at www.finra.org/Industry/Regulation/FINRARules/ (then follow "FINRA Manual" hyperlink to "Corporate Organization: By-Laws").

⁶ Kitay Decl. ¶¶ 19, 21-22; CX-5, at 3.

⁷ Kitay Decl. ¶¶ 23, 25-26; CX-7, CX-8, at 1.

IV. Findings of Fact and Conclusions of Law

A. Misappropriation of Customer Funds

The complaint's first cause of action alleges that Williams misappropriated customer funds, in violation of FINRA Rule 2150(a) and NASD Conduct Rule 2330(a), as well as FINRA Rule 2010 and NASD Conduct Rule 2110. This cause centers on allegations that, beginning in December 2008, Williams requested and obtained unauthorized early withdrawals from IRA accounts held by Prncor customers—his sons—and that, on receipt of the distribution checks, Williams forged his sons' endorsements and deposited the checks into his own bank account.

As of December 2008, KW, Williams' 22-year-old son, maintained a mutual fund IRA account at Prncor, with his father as his registered representative. Early that month, Williams, acting in his capacity as KW's account representative, utilized a mutual fund's website to electronically request an early distribution in the amount of \$200 from KW's IRA account. KW had no knowledge of the early withdrawal request and did not consent to it. On December 17, 2008, after receiving the check made out to KW, Williams forged KW's signature on the back of the check.⁸

In March 2010, Williams again utilized the mutual fund's website to electronically request an early distribution, this time in the amount of \$600, from KW's IRA account at Prncor. Williams received the early distribution check made out to KW and, on March 26, 2010, forged KW's signature on the back of the check, endorsing it for deposit into his own bank account, and then deposited it. Again, KW had no knowledge of the early withdrawal request and did not consent to any withdrawal.⁹

⁸ Complaint ¶¶ 18-21. There is no allegation concerning what Williams did with the check after he forged his son's signature.

⁹ Complaint ¶¶ 22-25.

Williams also effected unauthorized early withdrawals from an account a second son held at Prncor. As of April 2009, BW, who was 21 years old at the time, maintained a mutual fund IRA account at Prncor and his father acted as the account representative. That month, Williams, acting in his capacity as BW's account representative, utilized a mutual fund's website to electronically request an early distribution, in the form of a \$1,500 check made out to BW, from BW's IRA account. BW had no knowledge of the early withdrawal request and did not consent to the withdrawal. On April 13, 2009, after Williams received the check he had requested, he forged BW's signature on the back of the check, endorsing it for deposit into his own bank account, and deposited it.¹⁰

Again, in December 2010, Williams utilized the mutual fund's website to electronically request an early distribution, in the form of a check made out to BW in the amount of \$248.83, from BW's IRA account. On December 31, 2010, after Williams received the check he had requested, he forged BW's signature on the back, endorsed the check for deposit into his own bank account, and deposited it. Again, BW had no knowledge of the early withdrawal request and did not consent to the withdrawal.¹¹

FINRA Rule 2150(a) and its predecessor, NASD Rule 2330(a), prohibit any person associated with a member from making improper use of a customer's securities or funds. FINRA Rule 2010 and its predecessor, NASD Rule 2110, require members and persons associated with members to observe high standards of commercial honor and just and equitable

¹⁰ Complaint ¶¶ 9-12.

¹¹ Complaint ¶¶ 13-16.

principles of trade in conducting their business. The Hearing Officer concludes that Williams violated these rules by misusing his sons' funds.¹²

B. Forgery

As set forth above, as part and parcel of his misappropriation of his sons' funds, on December 17, 2008, April 13, 2009, March 26, 2010, and December 31, 2010, Williams forged his sons' signatures on the early distribution checks. It is well established that such forgery runs afoul of the high standards of commercial honor registered representatives are bound to observe.¹³ Accordingly, the Hearing Officer concludes that Williams violated FINRA Rule 2010 by engaging in forgery.

V. Sanctions

A. Misappropriation of Customer Funds

Williams withdrew funds from his sons' accounts without authority and, in three instances, deposited them into his own bank account. In cases of improper use of customer funds such as this, the FINRA Sanction Guidelines direct adjudicators to consider a bar unless the misuse resulted from a misunderstanding of the client's intentions.¹⁴ There is nothing to suggest that Williams had a mistaken belief that his sons had authorized the withdrawals he made from their accounts. Accordingly, and in the absence of any other mitigating circumstances, Williams will be barred from associating with any FINRA member firm in any capacity.

¹² *E.g., Dep't of Enforcement v. Patel*, No. C02990052, 2001 NASD Discip. LEXIS 42, at *24-25 (NAC May 23, 2001) (stating that "[a]n associated person makes improper use of customer funds where he or she fails to apply the funds (or uses them for some purpose other than) as directed by the customer" and that "[t]he misuse of customer funds also violates Conduct Rule 2110 because such conduct is patently antithetical to the high standards of commercial honor and just and equitable principles of trade that the NASD seeks to promote.") (internal quotations omitted).

¹³ *E.g., Geoffrey Ortiz*, Exchange Act Rel. No. 58416, 2008 SEC LEXIS 2401, at *16 (Aug. 22, 2008).

¹⁴ *FINRA Sanction Guidelines* 36.

B. Forgery

The Sanction Guidelines for forgery recommend that adjudicators impose a monetary sanction of \$5,000 to \$100,000 and, “in cases where mitigating factors exist, consider suspending respondent in any and all capacities for up to two years. In egregious cases, consider a bar.”¹⁵ The principal considerations in assessing sanctions for this violation are: (i) the nature of the document forged or falsified, and (ii) whether the respondent had a good-faith, but mistaken, belief of express or implied authority. Here, Williams signed the names of his sons to early distribution checks in furtherance of his misappropriation of their funds. Given that his sons were unaware of the early distributions and did not consent to them, Williams could not have had a good-faith, but mistaken, belief that he had the authority to sign his sons’ names to the distribution checks. Because Williams engaged in multiple acts of forgery and the record discloses no mitigating factors, a bar is the appropriate sanction for this violation.¹⁶

VI. Order

For misusing his customers’ funds, in violation of FINRA Rules 2150 and 2010 and NASD Rules 2330 and 2110, and for forging his customers’ signatures, in violation of FINRA Rule 2010, Williams is barred from associating with any FINRA member in any capacity. The bars shall become effective immediately if this decision becomes FINRA’s final disciplinary action.


Rada Lynn Potts
Hearing Officer

¹⁵ Sanction Guidelines 37.

¹⁶ Enforcement represents that Williams has agreed to a payment plan to repay his sons for the money he misappropriated. Therefore, Enforcement does not seek, and the Hearing Officer does not order, restitution.

Copies to:

Edward Eugene Williams (*via overnight courier and first-class mail*)

Cynthia Kitay, Esq. (*via electronic and first-class mail*)

Susan Light, Esq. (*via electronic mail*)

Steven F. Korostoff (*via electronic mail*)

David R. Sonnenberg, Esq. (*via electronic mail*)

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Edward Eugene Williams,
CRD No. 2184339

Respondent

DISCIPLINARY PROCEEDING
No. 20110285475

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. During the period December 2008 through March 2010, Edward Eugene Williams, a registered representative with Princor Financial Services Corp., misappropriated approximately \$2,549 by requesting and obtaining distribution checks from his two adult sons' mutual fund IRA accounts at the firm on approximately four occasions and by forging a son's signature on each of the checks. Williams then endorsed three of the checks for deposit into his own bank account.
2. Princor Financial Services learned of Williams' misconduct on July 6, 2011, when one of Williams' sons filed a complaint with the firm alleging that his father, who was also his registered representative, withdrew funds from his IRA account without his approval or permission.

RESPONDENT AND JURISDICTION

3. Williams entered the securities industry in 1991 and obtained his Series 63 and Series 6 registrations on December 2, 1991 and January 6, 1992 respectively. Williams became associated with Princor and Princor's life insurance affiliate in May 1997. His registration with Princor was concurrent with, and a condition of, his employment with the insurance affiliate.
4. Williams was terminated by Princor and the insurance affiliate on July 14, 2011 for taking early distributions from the account of BW, one of Williams' two sons, without BW's consent or knowledge.
5. Although Williams 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 is being filed less than two years after Williams' termination of employment with Princor and (2) the Complaint charges Williams with misconduct committed while he was registered with Princor.

**FIRST CAUSE OF ACTION
MISAPPROPRIATION OF CUSTOMER FUNDS
FINRA Rule 2150(a) and, its predecessor, NASD Rule 2330(a);
FINRA Rule 2010 and, its predecessor, NASD Rule 2110**

6. Enforcement realleges and incorporates by reference paragraphs 1 through 5 above.
7. FINRA Rule 2150(a) and, prior to December 15, 2010, NASD Rule 2330(a), prohibit any person associated with a member from making improper use of a customer's securities or funds.
8. FINRA Rule 2010 and, prior to December 15, 2008, NASD Rule 2110, require members and persons associated with members to observe high standards of

commercial honor and just and equitable principles of trade in conducting their business.

BW's Account

9. In or about April 2009, as BW's registered representative, Williams utilized the mutual fund's website to electronically request an early distribution check made out to BW in the amount of \$1,500 from BW's IRA account held at the Firm. BW was 21 years old at the time.
10. Williams received the early distribution check he requested, dated April 8, 2009.
11. On or about April 13, 2009, Williams forged BW's signature on the back of the distribution check and endorsed it for deposit into Williams' own bank account. Williams then deposited the check into his bank account.
12. BW had no knowledge of the April 2009 early withdrawal request and did not consent to the withdrawal.
13. In or about December 2010, as BW's registered representative, Williams utilized the mutual fund's website to electronically request a second distribution check made out to BW in the amount of \$248.83 from BW's IRA account held at the Firm.
14. Williams received the second early distribution check he requested, dated December 27, 2010.
15. On or about December 31, 2010, Williams forged BW's signature on the back of the second distribution check and endorsed it for deposit into Williams' own bank account. Williams then deposited the check into his bank account.
16. BW had no knowledge of the December 2010 early withdrawal request and did not consent to the withdrawal.

KW's Account

17. Williams also requested and obtained early withdrawals from the IRA account of his second son, KW, without KW's knowledge or consent.
18. In or about December 2008, as KW's registered representative, Williams utilized the mutual fund's website to electronically request an early distribution check made out to KW in the amount of \$200 from KW's IRA account held at the Firm. KW was 22 years old at the time.
19. Williams received the early distribution check he requested, dated December 12, 2008.
20. On or about December 17, 2008, Williams forged KW's signature on the back of the December 12, 2008 early distribution check.
21. KW had no knowledge of the December 12, 2008 early withdrawal request and did not consent to any withdrawal from his IRA account in December 2008.
22. In or about March 2010, as KW's registered representative, Williams utilized the mutual fund's website to electronically request a second early distribution check made out to KW in the amount of \$600 from KW's IRA account held at the Firm.
23. Williams received the second early distribution check he requested, dated March 23, 2010.
24. On or about March 26, 2010, Williams forged KW's signature on the back of the second early distribution check and endorsed it for deposit into Williams' own bank account. Williams then deposited the check into his bank account.
25. KW had no knowledge of the March 2010 early withdrawal request and did not consent to any withdrawal.

26. By reason of the conduct described above, Williams misappropriated customer funds, and thus violated FINRA Rule 2150(a) and NASD Rule 2330(a). Williams also failed to observe high standards of commercial honor and just and equitable principles of trade, and thus violated FINRA Rule 2010 and NASD Rule 2110.

**SECOND CAUSE OF ACTION
FORGERY
FINRA Rule 2010 and NASD Rule 2110**

27. Enforcement realleges and incorporates by reference paragraphs 1 through 26 above.

28. As set forth above, Williams forged the signatures of his sons BW and KW on early distribution checks on or about December 12, 2008, April 13, 2009, March 23, 2010 and December 31, 2010.

29. By engaging in forgery, Williams violated FINRA Rule 2010 and NASD Rule 2110.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

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



Susan Light, Senior VP and Chief Counsel
Steven F. Korostoff, Director, Enforcement
Center
Cynthia Kitay, Senior Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street
New York, N.Y. 10281-1003
Phone: 646-315-7355
Fax: 646-315-3446
Email: cynthia.kitay@finra.org