

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

Department of Enforcement,

Complainant,

v.

Christopher Shawn Vaughn,
CRD No. 4956822,

Respondent.

Disciplinary Proceeding
No. 2011028581201

Hearing Officer SNB

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: August 23, 2013

INTRODUCTION

Disciplinary Proceeding No. 2011028581201 was filed on June 13, 2013 by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent submitted an Offer of Settlement (Offer) to Complainant dated August 16, 2013. 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, Respondent has consented, without admitting or denying the allegations of the Complaint, 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, and to the imposition of

the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent entered the securities industry in May 2005. From then until June 2011, he was associated with four FINRA-regulated broker-dealers, including SunTrust Investment Services, Inc. (the Firm). Respondent obtained the Series 63 and Series 6 securities industry licenses in November 2005 and April 2006, respectively. He obtained the Series 7 license in September 2007 and the Series 65 license in December 2007.

Starting in August 2009, Respondent was employed as a registered representative at the Firm until his termination on June 24, 2011. The Firm subsequently reported Respondent's termination in a Form U5 Uniform Termination Notice for Securities Industry Registration filing dated July 18, 2011.

Since his termination from the Firm, Respondent has not been associated with any FINRA-regulated broker-dealer.

Although Respondent 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) Respondent's Complaint was filed within two years after the effective date of termination of Respondent's registration with SunTrust, namely July 18, 2011; and (2) the Complaint charges Respondent with misconduct committed while he was registered or associated with a FINRA member.

FINDINGS AND CONCLUSIONS

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

SUMMARY

Between October 2010 and June 2011 (the Relevant Period), Respondent engaged in a scheme to convert securities owned by his 82-year-old client, Customer SW, whom Respondent had befriended. In October 2010, without Customer SW's knowledge or consent, Respondent surreptitiously made his wife, LV, the sole beneficiary of Customer SW's brokerage account. As part of his efforts to hide his misconduct, Respondent provided a false mailing address for Customer SW on her brokerage application. In June 2011, approximately one month after Customer SW's death, Respondent opened a brokerage account in his wife's name for the express purpose of receiving the assets from Customer SW's account. Respondent's wife then presented to the Firm a death certificate that Respondent obtained from Customer SW's neighbor and successfully caused the assets held in Customer SW's account to be transferred to LV's brokerage account. By virtue of this misconduct as described above, Respondent violated FINRA Rule 2510 and 2010 by converting over \$22,000 of securities from Customer SW's brokerage account. He also violated NASD Rule 3110 and FINRA Rule 2010 by causing the books and records of the Firm to be false by providing a post office box belonging to his wife's grandfather as the mailing address for Customer SW on her brokerage account.

In October 2010, Respondent sold a fixed annuity contract to Customer SW and again, without Customer SW's knowledge or consent, improperly named his wife as the sole beneficiary of the annuity and provided a false mailing address for Customer SW in order to hide his wrongdoing. By virtue of this misconduct, Respondent violated FINRA Rule 2010.

**FIRST CAUSE OF ACTION
CONVERSION
(FINRA RULES 2150 AND 2010)**

FINRA Rule 2510(a) provides that “[n]o member or person associated with a member shall make improper use of a customer’s securities or funds.”

FINRA Rule 2010 provides that “[a] member, in the conduct of [his] . . . business, shall observe high standards of commercial honor and just and equitable principles of trade.”

Conversion, a form of improper use, occurs when there is an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it.

Customer SW Background

In or about 2007, Respondent became acquainted with Customer SW, during Respondent’s association with a prior broker-dealer, where Customer SW maintained an account serviced by Respondent’s co-worker.

Respondent eventually befriended Customer SW and began to provide her with personal assistance, such as running errands on her behalf and helping Customer SW dispose of an adult son’s personal effects following his death in June 2009.

At the time of her son’s death, Customer SW was nearly 82 years old, estranged from much of her family and living alone in a mobile home.

GG, Customer SW’s neighbor, also helped Customer SW by assisting her in the management of her personal affairs, which included helping Customer SW keep track of her bills.

Because her adult son had been the beneficiary under her Last Will and Testament at the time of his death, Customer SW decided to re-draft that document following his death.

In or about September 2009, Respondent took Customer SW and GG to the offices of an attorney, TR, in order to discuss revising Customer SW's Will.

According to Customer SW's revised Last Will and Testament, executed in September 2009 (the Will), GG was the appointed personal representative of Customer SW's estate, empowered to sell and convey any real or personal property owned by Customer SW, without court approval.

In her Will, Customer SW bequeathed the remainder of her estate, following the payment of estate administrative costs, to the CHF hospice, which provided free care to her son before his death.

At no time did Customer SW ever inform GG or TR that she wanted to bequeath any assets from her estate or make any gifts of any assets that she owned to Respondent's wife, LV.

Customer SW Opens an Account at the Firm

In or about October 2010, Customer SW, then 82 years old, opened a brokerage account at the Firm. Respondent was the broker assigned to the account.

GG and TR both understood that Customer SW intended to name GG as the beneficiary on her Firm brokerage account.

On or about October 18, 2010, Respondent assisted Customer SW, who had poor eyesight, complete the Firm's brokerage account application (the Application).

Respondent inserted the first name and social security number of his wife, LV, as the primary beneficiary of Customer SW's brokerage account.

Although LV and Respondent share the same last name, Respondent failed to include LV's last name in the beneficiary section of the Application.

According to the beneficiary instructions on the Application, LV was to receive a 100 percent share of Customer SW's account upon her death.

Customer SW, however, never instructed Respondent to designate LV as the beneficiary of her brokerage account.

When the brokerage account was being opened, Respondent did not inform his immediate supervisor, or any other supervisor at the Firm, that his wife, LV, was the named beneficiary.

Respondent also provided a fictitious mailing address for Customer SW in the Application.

Rather than provide Customer SW's actual residence as her mailing address, Respondent entered in the Application a post office box address belonging to his wife's grandfather, thereby preventing the Firm from delivering monthly account statements and trading confirmations to Customer SW at her actual residential address.

Annuity Transaction

On or about October 19, 2010, one day after assisting Customer SW in opening her brokerage account, Respondent recommended and sold Customer SW a fixed annuity contract issued by LFG for a single premium payment of \$10,000.

Respondent asked Customer SW questions posed on the annuity application form, and hand-wrote her responses.

Customer SW told Respondent that she wanted GG to be named as the beneficiary of the annuity.

However, in direct contravention of Customer SW's instructions, Respondent falsely recorded in the Firm's electronic system that LV was the primary and sole beneficiary of Customer SW's annuity.

In connection with the annuity transaction, Respondent also provided an incorrect mailing address for Customer SW in the Firm's system.

Respondent once again inserted the same post office box address belonging to LV's grandfather as Customer SW's mailing address, thereby preventing the Firm or LFG from delivering information concerning Customer SW's annuity purchase to her actual residential address.

On or about November 19, 2010, Respondent received an email communication from a LFG customer service representative, inquiring about the accuracy of Customer SW's mailing address.

In the email, the customer service representative stated that a copy of Customer SW's annuity policy was returned to LFG because it was sent to an incorrect address.

In response, Respondent sent an email to the LFG customer service representative, falsely representing that the customer address was correct and that he was informed by Customer SW that she had experienced delivery issues with the Post Office.

On or about December 30, 2010, GG sent Respondent via email a copy of Customer SW's Will that indicated that the residual remainder of Customer SW's estate was to be bequeathed to CHF hospice.

On or about December 31, 2010, Customer SW received a packet of documents from LFG concerning her annuity purchase.

When she opened that packet, Customer SW learned for the first time that LV was named as the beneficiary of the annuity.

Customer SW did not know who LV was.

On or about January 1, 2011, GG contacted Respondent via email questioning why Customer SW's address was incorrect on the annuity policy, as well as why LV was named as the beneficiary. GG also indicated that Customer SW wanted her \$10,000 investment returned to her as soon as possible.

In a subsequent three-way telephone conversation, Respondent told Customer SW and GG that he had mistakenly identified LV as the beneficiary of the annuity. Respondent claimed that a member of his wife's family purchased a \$10,000 annuity at the same time as Customer SW, and that this family member had named LV as the beneficiary. Respondent said that he must have mistakenly included LV as the beneficiary for Customer SW's annuity.

Customer SW subsequently made a written request to LFG that her annuity contract be canceled. LFG cancelled Customer SW's annuity contract and Customer SW's \$10,000 investment was refunded to her.

Shortly after she submitted her cancellation request to LFG, Customer SW started to receive delivery of her monthly brokerage account statements at her residential address.

The Conversion

On or about May 1, 2011, Customer SW died.

As of May 31, 2011, Customer SW's brokerage account held two mutual funds worth a combined \$22,417.58.

Sometime after Customer SW's death, GG called Respondent to inform him of Customer SW's death. GG also indicated that she would contact Customer SW's bank to begin the process of identifying her assets.

Respondent arranged to meet with GG. At that meeting, GG gave Respondent a copy of Customer SW's death certificate.

Respondent informed GG that, shortly after opening the brokerage account, Customer SW had contacted him to change the beneficiary on the account from GG to the CFH hospice. Although he promised to provide GG with documentation to that effect, Respondent never provided GG with any documents evidencing a change in beneficiary for Customer SW's brokerage account.

On or about June 2, 2011, Respondent opened a brokerage account at the Firm in LV's name. Respondent was the registered representative assigned to this account.

Respondent opened LV's brokerage account for the express purpose of receiving assets held in Customer SW's brokerage account at the Firm.

On or about June 8, 2011, the securities in Customer SW's account were transferred to LV's account. This transfer was effected following LV's submission of a request for that transfer, and her submission of a copy of Customer SW's death certificate.

The transfer of assets from Customer SW's brokerage account occurred without the permission and authority of GG or the estate of Customer SW.

After learning from the Firm that Customer SW's assets had been transferred to LV's account, TR and GG asked the Firm to conduct an investigation into Respondent's conduct with respect to Customer SW's brokerage account.

The Firm froze LV's brokerage account, pending the Firm's investigation and resolution of the matter.

During the course of its investigation, the Firm found no documentation evidencing that Customer SW requested that LV be named as a beneficiary on either the brokerage account or the annuity.

Respondent was terminated by the Firm in connection with this matter on or about June 24, 2011.

On or about September 22, 2011, Respondent and LV executed a Mutual Release and Settlement Agreement with the Firm, agreeing to transfer the assets held in the LV account back to Customer SW's account or an account maintained in the name of Customer SW's estate.

By the conduct described above, Respondent converted \$22,417.58 in assets from Customer SW.

Respondent's acts, practices, and conduct described above constitute a violation of FINRA Rules 2150(a) and 2010.

**SECOND CAUSE OF ACTION
FALSIFICATION
(FINRA RULE 2010)**

As described above, Respondent named LV as the beneficiary of Customer SW's annuity, rather than GG as Customer SW had instructed him when she purchased the annuity.

Respondent also provided a false mailing address for Customer SW in connection with her annuity purchase.

By virtue of this misconduct, Respondent violated FINRA Rule 2010.

**THIRD CAUSE OF ACTION
CAUSING THE BOOKS AND RECORDS OF THE FIRM TO BE FALSE
(NASD RULE 3110 AND FINRA RULE 2010)**

During the Relevant Period, NASD Rule 3110 required firms to “make and preserve books . . . in conformity with all applicable laws, rules, regulations and statements” of FINRA “and as prescribed by SEC Rule 17a-3.” Further, SEC Rule 17a-3(17) states, in pertinent part, that “[f]or each account with a natural person as a customer or owner” the firm holding that account must maintain an “account record including the customer’s . . . address.”

As set forth above, on or about October 18, 2010, Respondent entered in the brokerage account Application a false mailing address for Customer SW, in that he inserted a post office box address belonging to LV’s grandfather.

The Application became part of the books and records of the Firm.

Respondent caused Firm records reflecting Customer SW’s address to be inaccurate.

By virtue of the foregoing, Respondent caused his Firm’s books and records to be inaccurate, thereby violating NASD Rule 3110 and FINRA Rule 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent 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 Respondent be barred from association with any FINRA member firm in any capacity.

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



Susan Light
SVP & Chief Counsel of Enforcement
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
(646) 315-7333; Fax: (202) 689-3411
susan.light@finra.org