

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

Department of Enforcement,

Complainant,

v.

David R. Newsom,
(CRD No. 4955430),

Respondent.

Disciplinary Proceeding
No. 2011029091701

Hearing Officer - Andrew H. Perkins

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: June 21, 2012

INTRODUCTION

Disciplinary Proceeding No. 2011029091701 was filed on April 24, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent David R. Newsom submitted an Offer of Settlement (Offer) to Complainant dated June 14, 2012. 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

Newsom was registered with FINRA through Chase Investment Services Corp. (CISC) as an Investment Company Products/Variable Contracts Representative (Series 6) and General Securities Representative (Series 7) from July 6, 2005 until his registration was terminated on September 12, 2011.

Although Newsom is not currently 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 the FINRA By-Laws, because the Complaint was filed within two years after the effective date of termination of Newsom's registration with CISC, namely September 12, 2011, and the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member and with failing to respond to FINRA requests for information during the two-year period after the date upon which he ceased to be 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:

FIRST CAUSE OF ACTION

Conversion
(FINRA Rules 2010)

Between January 6, 2009 and July 18, 2011, while working out of a JP Morgan Chase Bank (Bank) Branch Office in Beaumont, Texas (the "Beaumont, TX Bank Branch"), Newsom

converted more than \$400,000 from five customers' Bank accounts. In each instance, Newsom caused funds to be withdrawn by having cashier's checks drawn on their accounts and made payable to his personal accounts at other financial institutions.

Customer RS

Customer RS, born in [REDACTED] maintained an account at the Beaumont, TX Bank Branch. From January 6, 2009 through June 8, 2011, in sixteen separate transactions, Newsom withdrew \$221,130.00 from RS's account, without her knowledge or permission, and deposited those funds, by cashier's check, primarily into his personal accounts at a bank.

Customer DH

Customer DH, born in [REDACTED] maintained an account at the Beaumont, TX Bank Branch. On or about September 20, 2010, Newsom withdrew \$50,000.00 from DH's account, without her knowledge or permission, and deposited those funds, by cashier's check, into his personal account at a credit union.

Customer RF

Customer RF, born in [REDACTED] maintained an account at the Beaumont, TX Bank Branch. On or about March 28, 2011, Newsom withdrew \$15,318.11 from RF's account, without his knowledge or permission, and deposited those funds, by cashier's check, into his personal account at a credit union.

Customer YF

Customer YF, born in [REDACTED] maintained an account at the Beaumont, TX Bank Branch. On or about June 14, 2011, Newsom withdrew \$55,000.00 from YF's account, without her knowledge or permission, and deposited those funds, by cashier's check, into his personal account at a credit union.

Customer PL

Customer PL, born in [REDACTED] maintained an account at the Beaumont, TX Bank Branch. On or about July 18, 2011, Newsom withdrew \$61,317.22 from PL's account, without her knowledge or permission, and deposited those funds, by cashier's check, into his personal account at a credit union.

The acts, practices, and conduct described above, constitute a violation of FINRA Rule 2010.

SECOND CAUSE OF ACTION

Issuance of Unauthorized and Materially False Correspondence
(FINRA Rule 2010)

During April and May 2011, Newsom signed and issued at least five letters, on Bank letterhead, to various entities including National Petroleum, B+B Petroleum, Purchasing Incentives, LLC, and BGIC, Inc. Each letter "confirmed" that Rife Industrial Services had a purported \$586 million line of credit at the Bank for the purchase of petroleum products. Newsom signed each letter as "David Newsom" or "David Newsom/Vice President of Investments."

In fact, Newsom was not employed by the Bank and had no authority to issue any correspondence on the Bank's behalf.

CISC's procedures required that outgoing correspondence be reviewed and approved by the representative's Designated Supervisory Principal prior to issuance. CISC's procedures also required that correspondence be fair and balanced and not contain any false or misleading statements.

Newsom neither sought nor obtained approval to issue the correspondence. Moreover, the letters were materially false. Rife Industrial Services did not have a \$586 million line of credit at the Bank. It had no Bank line of credit, whatsoever.

The acts, practices, and conduct described in paragraphs 14 through 17 above, constitute a violation of FINRA Rule 2010.

THIRD CAUSE OF ACTION
Failure to Respond to Requests for Information
(FINRA Rules 8210 and 2010)

The Initial Inquiries

On September 12, 2011, FINRA received a Form U5 reporting that Newsom “was terminated after he admitted to misappropriating funds from multiple bank customer accounts. In addition, RR admitted to authoring and transmitting correspondence on company stationery, without his supervisor’s prior knowledge or approval. The correspondence purported to confirm that a customer had a \$586 million line of credit when no line of credit existed with JPMorgan Chase Bank, N.A.”

Ten days later, on September 22, 2011, a FINRA investigator with OFDMI-Central Review Group (“CRG”), sent Newsom, pursuant to FINRA Rule 8210, a Request for Information, seeking among other things, a signed statement and relevant documents addressing the termination explanation on Newsom’s Form U5.

The Request was sent by first class and certified mail to Newsom’s CRD Residential Address of Record (“CRD Address”). Newsom’s response was due no later than October 3, 2011. The Request sent by first class mail was not returned. The Request sent by certified mail was returned with the notation “Return to Sender Unclaimed Unable to Forward.” Newsom did not respond to the September 22, 2011 Request.

On October 7, 2011, CRG staff sent Newsom, pursuant to Rule 8210, a Second Request, by first class and certified mail, seeking the same information and documents that had been requested on September 22, 2011. The Second Request was sent by first class and certified mail to Newsom's CRD Address and sought a response by October 17, 2011. The Request sent by first class mail was not returned. The Request sent by certified mail was returned with the notation "Return to Sender Unclaimed Unable to Forward." Newsom never responded to the Second Request.

The District 2 Inquiries

After Newsom failed to respond to the October 7, 2011 letter, CRG staff referred the matter to FINRA's District 2 Office. On December 12, 2011, FINRA District 2 staff sent to Newsom, pursuant to Rule 8210, a detailed request, seeking information and documents pertaining to the thefts from the Bank customers.

The December 12, 2011 letter was sent by first class and certified mail to Newsom's CRD Address and sought a response no later than December 27, 2011. The first class letter was not returned. The certified letter was returned with the notation "Return to Sender Unclaimed Unable to Forward." Newsom never responded to the December 12, 2011 letter.

On December 28, 2011, the staff sent a Second Request to Newsom, pursuant to Rule 8210, seeking the same information that had been requested on December 12, 2011. This Second Request was sent by first class and certified mail to Newsom's CRD Address. The first class letter was not returned. The certified letter was returned and marked "unclaimed." Newsom never responded to the December 28, 2011 letter.

By failing to respond to the Requests for Information dated September 22, 2011, October 7, 2011, December 12, 2011, and December 28, 2011, Newsom violated FINRA Rules 8210 and 2010.

Based on the foregoing, Respondent violated: (i) FINRA Rule 2010 by converting more than \$400,000 from five customers' Bank accounts; (ii) FINRA Rule 2010 by issuing unauthorized and materially false correspondence; and (iii) FINRA Rules 8210 and 2010 by failing to respond to multiple Requests for Information made pursuant to FINRA Rule 8210.

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 in any capacity.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to

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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

A handwritten signature in black ink, appearing to read "Joel Kornfeld", is written over a horizontal line.

Joel T. Kornfeld
Senior Regional Counsel
FINRA Department of Enforcement
300 S. Grand Ave., Suite 1600
Los Angeles, CA 90071
(213) 613-2643; Fax: (213) 617-1570
Email: joel.kornfeld@finra.org