

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012030601701**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Chapin Davis (BD No. 28116),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Chapin Davis submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Chapin Davis alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Chapin Davis has been a member of FINRA since March 1991. The Firm maintains its main office in Baltimore, Maryland. Chapin Davis employs approximately 50 registered persons and maintains five branch offices.

RELEVANT DISCIPLINARY HISTORY

On June 29, 2010, Chapin Davis consented to a censure and fine of \$20,000 by FINRA for failing to transmit all of its Reportable Order Events to the Order Audit Trail System on numerous occasions and failing to establish and maintain a supervisory system that was reasonably designed to achieve compliance with OATS reporting requirements.

On December 30, 2010, Chapin Davis consented to a censure and fine of \$50,000 for failing to develop and implement a reasonably designed written anti-money laundering compliance program ("AMLCP"), and failure to adequately test its AMLCP. The Firm also failed to establish, maintain and/or enforce a supervisory

system and written procedures that were reasonably designed to record and supervise private securities transactions.

FACTS AND VIOLATIVE CONDUCT

In September 2005, FINRA issued NIM 05-59 based on concerns that broker-dealers were not fulfilling their sales practice obligations when selling structured products, particularly to retail customers. One of the obligations addressed in the Notice was the requirement that member firms "ensure that their written procedures for supervisory and compliance personnel include that (1) reasonable-basis suitability is completed before products are offered for sale; (2) associated persons perform appropriate customer - specific suitability analysis; (3) the firm has procedures to determine accounts eligible to purchase structured products; and (4) all promotional materials are accurate and balanced.

From March 2010 to October 2012, Chapin Davis sold approximately \$24.5 million in structured notes and FDIC-insured structured certificates of deposit to retail customers. In connection with the sale of the structured products, Chapin Davis' supervisory system and written supervisory procedures ("WSPs") were inadequate, in that:

- there was no system or WSPs for evaluating and conducting due diligence on the products, including determining risks and suitability issues, as applicable, and approving the products;
- the Firm offered limited training on the products;
- the WSPs included general provisions on suitability requirements, but did not specifically address the products or provide guidance or restrictions unique to the products, including assessment or consideration of customer-specific suitability, as applicable; and
- the Firm did not sufficiently review transactions in the products, including monitoring of accounts for over concentration of the products.

Based on the foregoing, Chapin Davis violated NASD Conduct Rule 3010 and FINRA Rule 2010.

B. Respondent consents to the imposition of the following sanctions:

- A Censure; and
- Fine of \$35,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
- C. If accepted:
 - 1. this AWC will become part of its permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about its disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects its: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

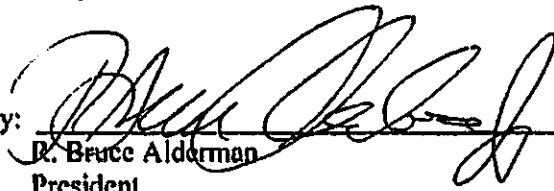
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf

has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

Chapin Davis

10/03/2014
Date (mm/dd/yyyy)

By:


R. Bruce Alderman
President

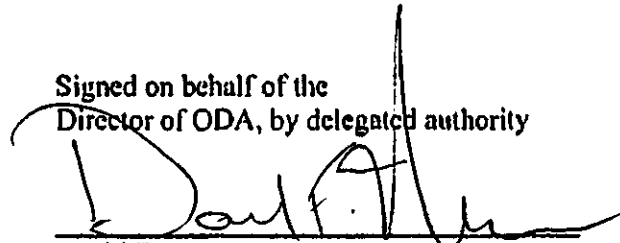
Reviewed by:


Kenton E. Knickmeyer, Esq.
Thompson Coburn, LLP
One U.S. Bank Plaza
St. Louis, MO 63101
(314) 552-6064

Accepted by FINRA:

October 16, 2014
Date

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


David F. Newman
Senior Regional Counsel
FINRA Department of Enforcement
1835 Market Street, Suite 19103
Philadelphia, PA 19103
Tel: (215) 665-1180
Fax: (215) 496-0434
E-Mail: david.newman@finra.org

Statement of Corrective Action

In March, 2012 (i.e., before FINRA began its examination in this matter), Respondent appointed a new Chief Compliance Officer ("CCO"). Among other things, the new CCO initiated a review, revision and expansion of Respondent's Written Supervisory Procedures ("WSPs"). Before the project was completed (and before FINRA's examiners completed the examination and reported their findings to Respondent), in recognition of the magnitude of the effort entailed, Respondent engaged the services of an outside consultant to assist Respondent and its CCO with this project.

The project to review, revise and expand Respondent's WSPs was completed shortly after FINRA issued its Examination Disposition Letter. Respondent's WSPs currently include specific provisions addressing the inadequacies described in the AWC.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.