

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

Department of Enforcement,

Complainant,

v.

Demitrios Hallas (CRD No. 4199832),

Respondent.

Disciplinary Proceeding
No. 2012031943701

Hearing Officer: MC

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: June 23, 2014

INTRODUCTION

Disciplinary Proceeding No. 2012031943701 was filed on May 9, 2014, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Demitrios Hallas submitted an Offer of Settlement (Offer) to Complainant dated June 23, 2014. 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

Hallas entered the securities industry in 2000 and has been associated with numerous FINRA member firms since that time. He first became registered as a General Securities Representative with a FINRA member firm in 2007. He currently holds Series 6, 7, 24, 63 and 65 licenses. Hallas has not been associated with a FINRA member firm since May 22, 2014.

Although he 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 date his last FINRA member firm filed a Form U5 (June 3, 2014), and (2) the Complaint charges him 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

1. In August and September 2011, Respondent Demitrios Hallas recommended that two customers liquidate their investments and invest the proceeds in mutual funds. Hallas had no reasonable basis for recommending these investment switches, which caused the customers to incur unnecessary extra fees and charges. The investment switches were not suitable for the customers' financial circumstances and needs. By recommending securities transactions without a reasonable basis, and consequently recommending unsuitable investment switches, Hallas violated NASD Rule 2310 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

2. Hallas entered the securities industry in 2000 and has been associated with numerous FINRA member firms since that time. He first became registered as a General Securities Representative with a FINRA member firm in 2007. He currently holds Series 6, 7, 24, 63 and 65 licenses.

3. In June 2011, Hallas joined Chase Investments Services Corp. (“Chase”). In February 2012, Hallas was terminated from Chase, according to a Form U5 filed by Chase, for “job performance, including customer complaints alleging unauthorized trades and failure to disclose fees.”

4. In May 2013, Hallas became registered with another FINRA member firm.

FACTS

Customer MR

5. The Department realleges and incorporates by reference paragraphs 1–4 above.

6. In July 2008, MR, through another registered representative at Chase, invested \$75,000 in a fixed annuity offered by Genworth Life Insurance Company of New York (the “Genworth fixed annuity”). At the time she invested in the Genworth fixed annuity, MR was 41 years old and employed as a waitress.

7. The Genworth fixed annuity had a base interest rate of 5.25 percent for the first three years of the contract and a minimum guaranteed interest rate of 3 percent for the next three years of the contract.

8. The Genworth fixed annuity did not subject MR to risk of principal loss.

9. At the time of her investment, MR executed a Fixed Annuity Insurance Authorization Form stating that her investment time horizon was 19 years.

10. Withdrawals within the first six years she held the fixed annuity would subject MR to potential charges, penalties and adverse tax consequences. The Genworth fixed annuity imposed surrender charges ranging from 5 percent to 7 percent of the withdrawn amount for withdrawals made within the first six years of the contract. Withdrawals made prior to age 59 ½ were subject to a 10 percent tax penalty, and all withdrawals were subject to income taxation at rates in effect at the time of the withdrawal.

11. After joining Chase in June 2011, Hallas began contacting certain pre-existing customers of Chase, including MR, to solicit them to invest in securities products.

12. In September 2011, Hallas recommended that MR surrender her investment in the Genworth fixed annuity and invest the proceeds in a bond fund offered by JP Morgan (the “JP Morgan bond fund”).

13. At the time of Hallas’s recommendation, MR was still employed as a waitress with an annual income of less than \$50,000, and her net worth remained largely unchanged.

14. The JP Morgan bond fund had no guaranteed rate of return, and unlike the Genworth fixed annuity, exposed MR to risk of principal loss.

15. Hallas knew that the JP Morgan bond fund exposed MR to greater risk of loss than her investment in the Genworth fixed annuity.

16. Hallas had no reason to believe that the JP Morgan bond fund would provide a financial benefit to MR by outperforming her pre-existing investment in the Genworth fixed annuity.

17. Hallas never ascertained whether MR would incur surrender charges as a result of liquidating the Genworth fixed annuity. He did not contact Genworth to determine whether MR would incur surrender charges. In addition, he failed to review MR’s fixed annuity contract or a

Summary of Charges and Fees Disclosure Form, which showed that MR's fixed annuity was subject to surrender charges during the first six years of the contract.

18. Hallas never advised MR that she would incur a charge in connection with the surrender of her fixed annuity.

19. Hallas prepared an Investment Switch Letter in connection with MR's investment switch which falsely omitted the surrender charge that would be incurred in the transaction. MR reviewed and executed the Investment Switch Letter.

20. MR executed the investment switch recommended by Hallas.

21. In connection with switching from the Genworth fixed annuity to the JP Morgan bond fund, MR incurred a surrender charge on the Genworth fixed annuity amounting to \$4,434.65 and a sales charge on the JP Morgan bond fund amounting to \$2,560.87. As a result of the investment switch, MR had to recognize an additional \$13,386.09 of taxable income.

22. Hallas received a commission of \$2,153.64 from MR's investment switch.

23. Because he failed to ascertain the basic costs associated with MR's investment switch, and whether such costs would be outweighed by any financial benefit to MR, Hallas had no reasonable basis for recommending MR's investment switch.

24. The investment switch was not suitable for MR's financial situation and needs because it exposed her to unnecessary surrender and sales charges and adverse tax consequences.

Customer MB

25. In April 2011, while Hallas was with another FINRA member firm, he recommended that customer MB invest approximately \$270,000 in a Unit Investment Trust offered by First Trust (the "First Trust UIT"), which held tax-exempt municipal bonds. MB made the recommended investment in the First Trust UIT.

26. At the time Hallas recommended that MB invest in the First Trust UIT, MB was 33 years old and, according to her PNC Account Application, had annual income of less than \$65,000. According to a Confidential Investor Profile prepared by Hallas, the amount MB invested in the First Trust UIT was from an inheritance.

27. In July 2011, within a month of joining Chase, Hallas arranged for MB to open an account at Chase.

28. In August 2011, Hallas recommended that MB liquidate \$174,600 from her First Trust UIT, which had appreciated in value, to invest, through Chase, in a municipal bond fund offered by Franklin Templeton Funds (the "Franklin Templeton bond fund").

29. MB executed the investment switch recommended by Hallas.

30. The Franklin Templeton bond fund invested primarily in tax-exempt municipal bonds. Thus, the fund gave MB exposure to the same underlying types of securities as her pre-existing investment in the First Trust UIT, with the same purpose of producing tax-free income.

31. According to MB's August 2011 Chase account statement, the First Trust UIT had a yield of 6.02 percent; the Franklin Templeton bond fund had a yield of 4.14 percent.

32. In connection with investing in the Franklin Templeton bond fund, MB incurred a sales charge of \$6,110. Hallas received a commission of \$4,888.80 as a result of MB's investment switch.

33. Hallas had no reason to believe that the Franklin Templeton bond fund would provide greater financial benefit to MB than the First Trust UIT or that it was better suited to MB's investment objectives or risk tolerance.

34. In light of the sales charge, the investment switch was not suitable for MB's financial situation and needs.

CAUSE OF ACTION
(Unsuitable Recommendations to Customers MR and MB)
Violations of NASD Rule 2310 and FINRA Rule 2010

35. The Department realleges and incorporates by reference paragraphs 1–34 above.

36. NASD Rule 2310 requires that a registered representative, in recommending that a customer engage in a securities transaction, “have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.”

37. In September 2011, Hallas recommended that MR surrender her Genworth fixed annuity and invest the proceeds in the JP Morgan bond fund. Hallas failed to ascertain whether MR would incur a surrender charge for liquidating the Genworth fixed annuity and prepared an Investment Switch Letter stating that there would be no surrender charge. Hallas had no reason to believe that the JP Morgan bond fund would provide greater financial benefit to MR than the Genworth fixed annuity despite knowing that it exposed MR to greater risk than the Genworth fixed annuity. MR executed the recommended investment switch. She incurred surrender and sales charges and suffered adverse tax consequences from switching investments.

38. Because he failed to ascertain the basic costs associated with MR’s investment switch, and whether such costs would be outweighed by any financial benefit to MR, Hallas had no reasonable basis for recommending MR’s investment switch. The investment switch was not suitable for MR’s financial situation and needs because it exposed her to unnecessary charges and adverse tax consequences.

39. In August 2011, Hallas recommended that MB partially liquidate the First Trust UIT and invest the proceeds in the Franklin Templeton bond fund. The Franklin Templeton bond fund gave MB exposure to the same underlying types of securities — municipal bonds —

as her pre-existing investment in the First Trust UIT, with the same purpose of producing tax-free income. MB executed the recommended switch and incurred a sales charge as a result.

40. Hallas had no reason to believe that the Franklin Templeton bond fund would provide greater financial benefit to MB than the First Trust UIT or that it was better suited to MB's investment objectives or risk tolerance. In light of the sales charge, the switch was not suitable for MB's financial situation and needs.

41. Because he lacked a reasonable basis for recommending investment switches by MR and MB, and, as a result, recommended unsuitable investment switches, Hallas violated NASD Rule 2310 and FINRA Rule 2010.

Based upon the foregoing, Respondent violated NASD Rule 2310 and FINRA Rule 2010.

Based upon 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

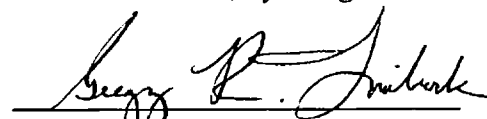
- 1) be suspended from association with any FINRA member in any capacity for 30 days;
- 2) be fined \$5,000; and
- 3) pay restitution to the customer identified as MB in the complaint in the total amount of \$6,110.00, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from August 16, 2011, until the date of this Order

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

SO ORDERED.

FINRA

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

A handwritten signature in black ink, appearing to read "Gregory R. Firehock", is written over a horizontal line.

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