

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

Department of Enforcement,

Complainant,

v.

CHARLES WILLIAM DOLLER III,
CRD No. 2389795,

Respondent.

Disciplinary Proceeding
No. 2012033522902

Hearing Officer RLP

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: _____

INTRODUCTION

Disciplinary Proceeding No. 2012033522902 was filed on November 14, 2013, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent, Charles William Doller III (Respondent), submitted an Offer of Settlement (Offer) to Complainant dated December 11, 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 as amended by the Offer of Settlement, 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 as amended by the Offer of Settlement, 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 1993 and has been associated with seven present and former FINRA registered broker-dealers. Respondent holds the following securities licenses: Series 62, Series 63, and Series 24, and obtained them in between 1993 and 2010.

Between December 2009 and July 2012, Respondent held the positions of President and general securities principal at Hudson Valley. Respondent was also a 50 percent owner of the Firm. Gillis held the positions of CEO, CCO, FINOP and registered representative at Hudson Valley. Gillis was also a 50 percent owner of the Firm.

During 2012, Respondent was also dually associated with FINRA-registered broker-dealer WCG as a limited registered representative. WCG filed with FINRA a Uniform Termination Notice for Securities Registration (Form U-5) dated October 4, 2012, reporting Respondent's voluntary termination. Respondent is not currently employed by any FINRA registered broker-dealer.

Although Respondent is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for the purposes of this proceeding pursuant to Article V, Section 4 of FINRA's By-Laws, because (a) the Complaint was filed within two years after the date upon which Respondent ceased to be associated with WCG, namely October 4, 2012; and (b) 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

Between December 11, 2009 and July 31, 2012, Respondent was the President and co-owner of the former FINRA registered broker-dealer, Hudson Valley. As a securities principal, Respondent was responsible for supervising the trading activities of Gillis, the Firm's CEO, CCO, FINOP and co-owner.

In or about July 2012, Respondent failed to detect or prevent Gillis from engaging in a scheme to defraud Hudson Valley's customers and another entity in order to cover losses caused by Gillis' improper day trading millions of dollars of stock in the Firm's Average Price Account. Specifically, Respondent failed to detect that Gillis engaged in deceptive unauthorized trading in customer accounts, which included unauthorized purchases of 85,000 shares of stock for three customers at fictitious markups averaging over 200%. These unauthorized trades were charged to customer accounts in order to mask losses incurred by Gillis' improper day trading in the Average Price Account. Gillis' improper trading resulted in customer losses exceeding \$500,000.

Furthermore, between June 2011 and July 2012, Respondent failed to adequately supervise Gillis' trading activities in Gillis' personal brokerage account at Hudson Valley, as well as trades effected in Gillis' wife's brokerage account.

By engaging in such misconduct, Respondent violated NASD Rule 3010 and FINRA Rule 2010.

THE FACTS

Background

Starting June 1989, Hudson Valley was a FINRA registered broker-dealer until its expulsion from FINRA in November 2012. Hudson Valley was small introducing-broker dealer, headquartered in Croton-on-Hudson, New York, that transacted a general securities business. Since in or about March 2011, Respondent and Gillis were the only two individuals who handled securities transactions on behalf of the Firm.

On or about July 7, 2011, the Firm notified FINRA that it opened a branch office in Saranac Lake, New York. Gillis worked from the Saranac Lake branch exclusively since its opening.

During 2012, the Firm's minimum net capital requirement was \$5,000. Section 15c3-1 of the Securities Exchange Act of 1934 and Rule 15c3-1(a)(2) thereunder, requires a broker-dealer to maintain a minimum net capital level of \$100,000, if the broker-dealer engages in more than 10 transactions in any one calendar year for its own proprietary investment account. The Firm maintained an Average Price Account separate and apart from its proprietary account. During 2012, Hudson Valley could not engage in more than 10 transactions for its own proprietary account because the Firm's net capital level was below \$100,000. As CFO, Gillis was responsible for monitoring net capital levels at the Firm.

Gillis maintained a personal brokerage account at Hudson Valley. FINRA Rule 4210 requires broker-dealer customers who engaged in pattern day trading to maintain a minimum equity account level of \$25,000. During several months in 2012, Gillis failed to maintain the \$25,000 minimum account equity level in his personal brokerage account in order to engage in pattern day trading.

2010 Cycle Examination

On or about October 29, 2010, at the conclusion of its cycle examination of the Firm (2010 Cycle Examination), FINRA's Member Regulation Department issued a report to Gillis noting that Hudson Valley failed to assign a supervisor to review Gillis' trading activities in customer accounts and that the Firm failed to place Gillis on heightened supervision given that he was a producing manager at the Firm.

Respondent, in his capacity as President and managing principal of Hudson Valley, sent a letter to Member Regulation, dated November 10, 2010 (the November 2010 Letter) in response to the 2010 Cycle Examination report. Respondent represented to FINRA that he was presently "supervising the customer account activity" of Gillis and that Gillis would be placed on heightened supervision, in which Respondent would perform "daily reviews of all trade tickets" submitted by Gillis.

Respondent further indicated in his November 2010 Letter that "one trading day per month will be randomly chosen and that trading day's activities will be more thoroughly reviewed." Respondent also represented in the November 2010 Letter that the procedures to supervise Gillis' trading would be incorporated into Hudson Valley's written supervisory procedures.

However, neither Respondent nor Gillis ever revised the Firm's written supervisory procedures to include the methodology for supervising Gillis' trading activities as detailed in the November 2010 Letter. Moreover, between June 2011 and July 2012, Respondent failed to adequately perform daily reviews of Gillis' order tickets or conduct random reviews of transactions entered by Gillis during any particular trading day.

Gillis' Scheme to Defraud to Cover Day Trading Losses and Unauthorized Trading

In order to circumvent established net capital and minimum account equity requirements for Firm proprietary transactions and personal day trading, in or about February through July 2012, Gillis used the Firm's Average Price Account to improperly day trade millions of dollars of stock. Gillis ensured that he would personally benefit from his day-trading by making his personal brokerage account, as well as his wife's brokerage account, the counterparty to certain purchases and sales in the Average Price Account.

When allocating shares from the Average Price Account to his personal brokerage account or his wife's account in connection with these transactions, Gillis marked-up or marked-down corresponding share prices, giving his personal brokerage account and his wife's account more favorable prices in order to transfer money from the Average Price Account to either his personal brokerage account or his wife's account. Gillis thereafter withdrew the proceeds of his improper day trading through the issuance of checks and a wire transfer totaling over \$19,000.

However, Gillis' day-trading activities caused significant monetary losses in the Average Price Account.

On or about July 27, 2012, Gillis entered a short-sale of 23,000 shares of HIJ stock in the Average Price Account at \$233.77 per share for a total price of approximately \$5.4 million. Gillis later entered a covered buy-order in the Average Price account for 31,000 shares of HIJ at \$237.33 per share for a total cost of approximately \$7.4 million. The Average Price Account sustained a loss of almost \$82,000 from the short-sale and carried a long position in HIJ of nearly \$1.9 million.

As a result of the trading losses in the Average Price Account, in or about July 2012, Gillis engaged in a fraudulent post-execution trade allocation scheme, whereby, without

receiving any customer orders, Gillis bought thousands of shares of securities on the open market in the Average Price Account and allocated those shares to the customer accounts of TS Trust, SK Trust and UR Pension Fund at markups ranging between approximately 177% and 280%.

As a result of Gillis' fraudulent post-execution scheme, during July 2012 TS Trust, SK Trust and UR Pension Fund were charged nearly \$560,000 for the unauthorized purchases of 85,000 shares LMN stock at excessive markups averaging over 200%. During July 2012, Gillis also converted over \$90,000 of TS' funds in connection with this unauthorized purchase of LMN stocks.

At the time Gillis purchased LMN stock for the TS Trust account, Gillis knew that Hudson Valley's clearing firm would ultimately hold TS financially responsible for the purchase. In fact, in order to pay for the unauthorized purchase of LMN, Hudson Valley's clearing firm entered a margin sell-out of several thousand shares of various stocks in the TS Trust Account. By engaging in unauthorized trading and allocating shares to customer accounts at excessive markups, Gillis was able to conceal losses he sustained in the Average Price Account.

In addition to the unauthorized customer trades associated with the scheme to defraud, between February and July 2012, Gillis executed at least 18 additional unauthorized trades in the form of short-sales and covered purchases of over 668,000 shares in the UR Pension Fund. Gillis' unauthorized trades resulted in an additional loss of nearly \$400,000 to the UR Pension Fund.

As result of Gillis' involvement in defrauding investors and another entity in connection with improper day trading in the Average Price Account, in November 2012, Gillis, individually and on behalf of the Firm executed a Letter of Acceptance, Waiver and Consent (AWC) with FINRA, in which both Gillis individually and on behalf of the Firm, without admitting or

denying FINRA's findings, consented to findings that among other things, that the Firm through Gillis engaged in a scheme to defraud in violation of Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 thereunder, Section 15(c)(1)(A) of the Exchange Act and Rule 15c1-2 thereunder, and FINRA Rules 2020 and 2010. As part of that settlement, Gillis consented to a bar from association with any FINRA-registered firm in any capacity. The Firm through Gillis consented to expulsion from membership with FINRA.

**Failure to Supervise
(NASD Rule 3010 and FINRA Rule 2010)**

NASD Rule 3010(a) requires each member to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD [and FINRA] Rules. Final responsibility for proper supervision shall rest with the member."

NASD Rule 3010(b) provides that "[e]ach member shall establish, maintain, and enforce written procedures to supervise...the activities of...registered principals...that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of ... [FINRA]."

FINRA Rule 2010 requires members and associated persons to "observe high standards of commercial honor and just and equitable principles of trade."

A violation of FINRA Rule 3010 constitutes a violation Rule 2010.

Responsibility for the supervisory function of a registered broker-dealer is incumbent upon the most senior members of management. The President of a broker-dealer is responsible for compliance with all of the requirements imposed on his or her firm.

In his November 2010 Letter to FINRA, Respondent represented that he would supervise Gillis' trading in customer account and would subject Gillis to heightened supervision by performing daily reviews of all trade tickets submitted by Gillis. Respondent also represented in his November 2010 Letter that he would randomly choose one trading day per month and closely review Gillis' trading activities.

However, starting in or about June 2011 when Gillis was working exclusively from the Firm's Saranac Lake branch office, Respondent did not adequately perform supervisory reviews of Gillis' trading activities. Specifically, between June 2011 and July 2012, Respondent failed to adequately perform daily reviews of Gillis' order tickets or perform random reviews of transactions entered by Gillis during any particular trading day.

Moreover, Respondent did not regularly review exception reports made available by Hudson Valley's clearing firm to determine whether Gillis' trading activities warranted further supervisory review.

In connection with the Firm's Average Price Account, Respondent had access to daily trade blotters and trade confirmations that would have enabled him to review any trades effected by Gillis in the Average Price Account. Had Respondent reviewed trading activity in the Average Price Account as part of his efforts to supervise Gillis' trading in customer accounts, he would have discovered red flags that would have prompted him to more closely review Gillis' trading, which may have led him to discover that Gillis' was improperly using the Average Price Account to engage in day trading.

The Firm's Average Price Account was to be used to facilitate the filling of large customer buy or sell orders of a given security. Under these circumstances, the Firm's Average Price Account would be appropriately used to a buy or sell a security in small increments

throughout trading day, and then allocate the accumulated long or short position to one or more customer accounts for an average price or volume-weighted average price after the market close. The Average Price Account's balance should typically be flat because the account is designed to allocate positions to customer accounts after the market close.

Had Respondent reviewed Gillis' trading activity in the Average Price Account, he would have discovered that between February and July 2012, the Average Price Account had negative monthly balances such as : (i) February: -\$21,819.17; (ii) April: -\$60,970.60; and (iii) July: -\$242,471.87. The presence of these large negative balances in the Average Price Account was inconsistent with solely using this account to facilitate large purchases or sales of securities on behalf of customers. Moreover, had Respondent reviewed the allocations Gillis made from the Average Price Account to customer accounts, Respondent would have discovered instances where Gillis marked-up or marked-down share prices at vast variances for stock bought or sold in the Average Price Account.

In short, by failing to properly supervise Gillis' trading activities, Respondent was unaware that Gillis was improperly using the Firm's Average Price account for personal day trading. Respondent failed to determine that Gillis defrauded Firm customers and another entity in order to cover losses that Gillis caused to the Average Price Account.

Respondent also failed to adequately perform the daily review of all trade tickets submitted by Gillis to the Firm, as he represented in the November 2010 letter to FINRA. Had Respondent implemented the procedures for reviewing and monitoring Gillis' trading activity as detailed in his November 2010 Letter to FINRA, Respondent could have detected and prevented Gillis from engaging in fraudulent customer transactions and unauthorized trading in customer accounts.

Based on the foregoing, Respondent violated NASD Rule 3010 and FINRA 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

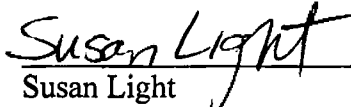
It is ordered that Respondent be suspended from association with any FINRA-registered firm in any principal capacity for a period of two years and pay a \$20,000 fine either immediately upon reassociation with a member firm following the two-year principal suspension, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

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

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