

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034450501**

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

RE: Royal Alliance Associates, Inc., Respondent
CRD No. 23131

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Royal Alliance Associates, Inc. ("Royal Alliance" or the "Firm") 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 Royal Alliance 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

Royal Alliance has been a member of FINRA since July 1989. Royal Alliance maintains its headquarters in New York, New York and has approximately 2,100 registered persons and approximately 812 branch offices.

RELEVANT DISCIPLINARY HISTORY

1. In November 2011, Royal Alliance consented to a FINRA AWC (2009017644201) that found, *inter alia*, that the Firm failed to reasonably supervise two registered representatives, who were subject to statutory disqualifications, to ensure that they made required disclosures regarding their outside business activities and state regulatory actions. Royal Alliance agreed to a censure and fine of \$175,000 to settle this matter.
2. In April 2009, Royal Alliance settled an administrative proceeding with the SEC (Exchange Act Rel. No. 59830, Admin. Proc. 3-13456) that found that the Firm failed to supervise a registered representative who engaged in a Ponzi scheme during a four-year period that defrauded 28 investors of at least three million dollars. The SEC imposed a \$500,000 civil monetary penalty against the Firm.

OVERVIEW

From May 2009 to April 2014 (the "Relevant Period"), Royal Alliance failed to apply sales charge discounts to certain customers' eligible purchases of unit investment trusts ("UITs") in violation of FINRA Rule 2010. Additionally, the Firm failed to establish, maintain and enforce a supervisory system and written supervisory procedures ("WSPs") reasonably designed to ensure that customers received sales charge discounts on all eligible UIT purchases in violation of NASD Conduct Rule 3010.

From April 2009 through June 2011, the Firm failed to reasonably supervise registered representative GK in violation of NASD Conduct Rule 3010 and FINRA Rule 2010.

From January 2009 through April 2013, the Firm failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to ensure that registered representatives furnished customers with a prospectus for UIT investments in violation of NASD Conduct Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

A. Royal Alliance Failed to Apply Available UIT Sales Charge Discounts

A UIT is a type of Investment Company that issues securities, typically called "units," representing undivided interests in a relatively fixed portfolio of securities. UITs are generally issued by a sponsor that assembles the UIT's portfolio of securities, deposits the securities in a trust, and sells units of the UIT in a public offering. UIT units are redeemable securities that are issued for a specific term, and entitle an investor to receive his or her proportionate share of the UIT's net assets on redemption or at termination.

UIT sponsors offer investors a variety of ways to reduce the sales fee charged on a UIT purchase. The two most common methods to reduce the fee are "breakpoints," which allow investors to reduce the sales fee by increasing the size of their UIT investments, and discounts on "rollovers" and "exchanges"¹ (collectively "sales charge discounts").

¹ UIT rollover and exchange discounts are generally offered to investors who use the redemption or termination proceeds from one UIT to purchase another UIT, either from the same UIT series (rollover) or a different UIT (an exchange). Generally, in order to receive the rollover or exchange discount, proceeds used to purchase the UIT must have come from a UIT transaction that occurred within the previous 30 days. In both rollovers and exchanges, the customer generally receives a discount of 1% of the public offering price.

On March 31, 2004, FINRA issued Notice to Members 04-26, *Unit Investment Trust Sales*, which reminded broker-dealers that they should develop and implement procedures to ensure customers receive available sales charge discounts for UITs. The Notice further stated that UIT transactions must take place "on the most advantageous terms available to the customer" and that it is the firm's responsibility to "take appropriate steps to ensure that they and their employees understand, inform customers about, and apply correctly any applicable price breaks available to customers in connection with UITs."

During the Relevant Period, Royal Alliance failed to identify and apply sales charge discounts to certain customers' eligible purchases of UITs. Specifically, the Firm failed to apply sales charge discounts to 1,055 eligible UIT purchases resulting in customers paying excessive sales charges of approximately \$204,000. Royal Alliance has paid restitution to all affected customers. Based on the foregoing, the Firm violated FINRA Rule 2010.

Also, during the Relevant Period, Royal Alliance failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to ensure customers received sales charge discounts on all eligible UIT purchases. The Firm relied primarily on its registered representatives to ensure that customers received appropriate UIT sales charge discounts, despite the fact that the Firm did not effectively inform and train representatives and their supervisors to identify and apply such sales charge discounts. The Firm's WSPs regarding sales charge discounts were inadequate. Based on the foregoing, Royal Alliance violated NASD Conduct Rule 3010 and FINRA Rule 2010.

B. Royal Alliance Failed to Reasonably Supervise Registered Representative GK

Registered representative GK worked in a Royal Alliance branch office in New Jersey and earned the majority of his commissions through the sale of UITs. In 2011, Royal Alliance filed a Form U5 reporting GK's voluntary termination from the Firm and disclosing that it was conducting an internal review of GK for exchanging UITs before maturity, making misrepresentations regarding UITs to customers, and failing to deliver UIT prospectuses.

From April 2009 through June 2011, GK effected UIT transactions in customer accounts that presented "red flags" to Royal Alliance, such as the following: a pattern of unsuitable short-term trading of UITs, including the sale of UITs before their maturity dates, resulting in high turnover rates and cost-to-equity ratios in customer accounts; switching between UITs and other securities with similar investment objectives; and designating a disproportionate number of UIT transactions as "unsolicited" in the Firm's order entry system.

These activities were identified as potential compliance issues on Firm surveillance reports as early as June 2009.

Royal Alliance instituted trading parameters to address GK's activities, but did not effectively implement those measures. Further, the Firm never prohibited GK from recommending UIT purchases or rollovers. Nor did the Firm require GK to obtain pre-approval for UIT transactions until January 2011, shortly before his termination. As a result, GK engaged in unsuitable UIT trades at Royal Alliance for nearly two years, until shortly before his termination in June 2011.

Based on the foregoing, Royal Alliance violated NASD Conduct Rule 3010 and FINRA Rule 2010.

C. Royal Alliance Failed to Supervise UIT Prospectus Delivery.

From January 2009 through April 2013, Royal Alliance failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to ensure that customers who purchased a UIT received a prospectus. During this period, the Firm's compliance procedures specified that registered representatives deliver a current prospectus to a client at the time of recommendation. The Firm, however, never implemented any WSPs or a supervisory system to ensure that registered representatives recommending UITs complied with this responsibility. Based on the foregoing, Royal Alliance violated NASD Conduct Rule 3010 and FINRA Rule 2010.

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

- Censure; and
- Fine of \$225,000.

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.

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution to affected customers in the amount of approximately \$204,000, or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to Michael J. Newman, Senior Counsel, FINRA Department of Enforcement, 581 Main Street, Woodbridge, NJ, 07095, either by letter that identifies Respondent and case number 2012034450501, or by email from a work-related account of the registered principal of Respondent firm to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the AWC.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

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 Chief Legal Officer, 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 Respondent;
- C. If accepted:
 - 1. this AWC will become part of Respondent's 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 accordance with FINRA Rule 8313;
 - 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; and
- 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 his behalf has read and understands 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.

11/2/2015
Date (mm/dd/yyyy)

Royal Alliance Associates, Inc.
By: Dmitry Goldin
Dmitry Goldin
President

Reviewed by:

Frank J. Cucolo, Esq.
Frank J. Cucolo, Esq.
Counsel for Respondent
Bressler, Amery & Ross, P.C.
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Florham Park, New Jersey 07932
(973) 660-4446

Accepted by FINRA:

12/2/15
Date

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

Michael J. Newman
Michael J. Newman
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FINRA Department of Enforcement
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