

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

Department of Enforcement,

Complainant,

v.

**Radnor Research & Trading Company,
CRD No. 130120,**

**William Scholander,
CRD No. 2938044,**

and

**Talman Harris,
CRD No. 3209947,**

Respondents.

**Disciplinary Proceeding
No. 2013036681701**

Hearing Officer _____

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. From February 2011 through March 2013 (“the relevant period”), Radnor Research & Trading Company, LLC (“Radnor” or “the firm”) displayed a pattern of disregard of its supervisory obligations that resulted in the failure to meet its important reporting, disclosure, and compliance responsibilities. This disregard included the firm’s failure to report customer complaints, failure to update a registered representative’s Form U4 and failure to ensure that material information was disclosed to customers, as well as the failure to maintain and enforce adequate supervisory systems and written procedures.

2. In late 2011, Radnor failed to report two customer complaints made against its registered representatives. One customer claimed that certain trades were unauthorized and made a demand for damages. A potential customer claimed that a registered representative of the firm had participated in unethical or illegal behavior, suggesting possible market manipulation.

3. Despite those specific claims, Radnor chose not to report the complaints as required by FINRA rules. In so doing, Radnor violated FINRA Rules 4530 and 2010.

4. Radnor also chose not to report the unauthorized trade complaint on the Form U4 of William Scholander ("Scholander"), the registered representative against whom the complaint was made. Scholander knowingly failed to ensure that his Form U4 was timely updated to reflect the complaint. As a result, Radnor and Scholander willfully violated FINRA By-Laws Article V, Section 2 and FINRA Rule 2010.

5. Radnor did not have adequate written procedures and it failed to implement its supervisory system adequately with regard to customer complaint reporting and Form U4 disclosure. With regard to the customer complaint of unauthorized trades, Talman Harris ("Harris"), a registered principal of the firm, took action which prevented compliance personnel in the firm's home office from reviewing the written complaint against his business partner, Scholander. Even after firm compliance personnel became aware of all relevant factors of the complaint, however, Radnor failed to take appropriate action. As a result, Radnor and Harris violated NASD Rule 3010 and FINRA Rule 2010.

6. The firm failed to meet its supervisory responsibilities in other areas as well. Radnor failed to have adequate written procedures and an adequate supervisory system and failed to implement its supervisory procedures and system adequately with regard to

markup/markdown disclosures to customers and canceled trades. It also failed to properly supervise Regulation S sales of private placements and disclosures to customers buying stock when registered representatives of the firm were selling the same stock. It failed to have adequate written procedures regarding due diligence to be done in private placements sold by the firm. As a result, Radnor violated NASD Rule 3010 and FINRA Rule 2010.

7. Between February 2011 and February 2012, the firm also failed to disclose the markup or markdown on 29 riskless principal equity transactions to its customers, in violation of SEC Rule 10b-10, Section 10(b) of the Securities Exchange Act of 1934 and FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

8. Radnor has been a member of FINRA since 2004. During the relevant period, the firm was based in the Philadelphia area and had one branch office in New York. The New York office is now the firm's main office and the firm currently has 17 registered persons working in the two branches.

9. Scholander has been registered with 13 different firms since first registering with FINRA in 1998. He first registered as a general securities representative with Radnor in May 2011 and remains registered with the firm in that capacity.

10. Harris has been registered with 16 different firms since first registering with FINRA in 1998. He has been registered with Radnor since May 2011 as a general securities representative and general securities principal. He was the branch manager of the New York office of Radnor during the relevant period.

FACTS

The Customer Complaints

11. On October 26, 2011, Scholander received an email that included a written complaint against him on behalf of customer XYY, who lived in China. In the letter accompanying the email, XYY stated she never authorized any trading in her Radnor account. The letter went on to explain that XYY had just received a statement showing that she purchased 203,965 shares of Deer Consumer Products resulting in a loss of over \$200,000 in her account. XYY instructed Scholander to cancel the trades and have all of the funds returned to her account.

12. Scholander failed to report XYY's complaint to Radnor's home office initially. He discussed it that day with Harris, his business partner and branch manager.

13. Harris instructed Scholander to speak with the customer to resolve matters. He did not notify anyone at the home office about the complaint.

14. On the contrary, rather than forwarding the complaint e-mail to firm compliance personnel, Harris marked the email as "privileged" in the firm's e-mail review system, thereby preventing anyone in the home office from seeing it in a routine email review.

15. As a result, although they became aware of XYY's complaint by other means, principals in Radnor's home office did not become aware of the October 26, 2011 email until alerted to its existence by FINRA examiners in May 2012.

16. XYY and her translator sent Scholander subsequent emails and correspondence following up on her initial complaint. In those communications, she stated she expected Cambridge Alliance Capital (Harris and Scholander's entity that operates Radnor's New York branch) to refund any loss and threatened legal action if Scholander did not resolve the situation.

17. Thereafter, an attorney contacted Scholander indicating that he had been retained as counsel to get information about XYY's account, which Scholander and Radnor did not provide. An attorney later wrote to Radnor's clearing firm on XYY's behalf requesting documentation, and the clearing firm forwarded that letter to Radnor for a response on or around November 15, 2011. Again, the firm refused to provide responsive documents.

18. Despite XYY's clear written complaint against Scholander, her claim for damages and her retention of counsel, Radnor failed to report the complaint to FINRA.

19. Scholander and Radnor also failed to update Scholander's Form U4 to disclose the complaint. That failure has continued to the date of the filing of this disciplinary action, despite FINRA's notification to Scholander and Radnor that the failure to disclose the complaint violates FINRA's rules.

20. On September 29, 2011, Radnor received a separate reportable complaint from a prospective customer, MA. In an email to registered representative AK, MA alleged that AK was offering shares of Nova Lifestyle, Inc. ("Nova") at inconsistent prices, suggesting AK was manipulating the price of the shares. MA stated that he thought AK's actions were "unethical and may even be illegal."

21. Although MA never did any securities business with Radnor, he was a person with whom Radnor sought to engage in securities activities. His email was a securities-related written grievance involving AK, a person associated with Radnor.

22. Radnor never reported MA's written complaint to FINRA.

23. Radnor's policies and procedures did not provide adequate guidance on what types of complaints or grievances needed to be reported to FINRA. They also did not provide adequate guidance on the handling of customer complaints.

Disclosure of Markups and Markdowns

24. Radnor executed certain equity transactions as riskless principal transactions during the relevant period. Those were designated with a specific code.

25. There were 29 equity riskless principal transactions during the relevant period after eliminating canceled trades. The principal amount of the transactions was as high as \$601,490 with an average transaction size of \$141,167. The markups or markdowns for the transactions were as high as \$25,000 with an average markup or markdown of \$5,987.

26. The firm did not disclose the markups or markdowns to the customers in any of the 29 equity riskless principal transactions.

27. Radnor's policies and procedures did not provide adequate guidance on riskless principal transactions, consisting essentially of a policy statement that mirrored the content in NASD Rule 2440. The firm did not understand how to process riskless principal trades through its clearing firm's system and did not have an adequate system in place to monitor disclosure of markups and markdowns.

Trade Cancellations

28. During the relevant period, Radnor's New York office had a high percentage of canceled transactions in relation to the overall activity at the branch. Canceled transactions equated to approximately 16.5% of the transactions effected at the branch.

29. The canceled transactions were primarily in low-priced securities of issuers for which the branch office had previously acted as a placement agent in connection with PIPE transactions.

30. Radnor's policies and procedures did not provide adequate guidance with regard to review of and maintenance of records regarding canceled transactions. The procedures did not adequately address issues related to the retail business done by the New York office.

31. The firm also failed to adequately supervise trade cancellations and failed to implement the procedures it did have. For example, the firm's procedures required that all reports of canceled transactions be maintained for a period of three years but the firm did not maintain a trade cancellation file during the relevant period and it did not prepare trade cancellation reports.

Nova Sales

32. Between July 2011 and January 2012, Radnor conducted two private placements of Nova pursuant to SEC registration exemptions under Regulation S and Regulation D.

33. During the relevant period, Radnor's written procedures did not describe any required activity with regard to due diligence to be done related to private placements in which the firm participated. The procedures also failed to indicate what firm principals or other registered persons were to accomplish specific tasks or had specific responsibilities regarding due diligence.

34. The firm failed to implement its supervisory procedures and system adequately with regard to Regulation S sales of Nova. Records maintained by the firm of Regulation S purchasers contained evidence, in the form of addresses or telephone numbers, suggesting certain buyers may have been "U.S. persons." Despite circumstances that required additional review and documents that suggested certain sales may not have met the requirements of Regulation S, Radnor failed to do adequate review to ensure that the offering was sold only to foreign clients in order to comply with Regulation S.

35. The firm also failed to adequately supervise its registered representatives' sales of Nova stock from their own accounts during the relevant period.

36. In February and March 2012, Scholander and Harris exercised warrants they had received for the Nova private placements and sold all of their Nova stock. The sales were done at the same time that they and other representatives were entering orders for Radnor customers to purchase Nova shares. The trades were all done as in-house crosses.

37. Radnor failed to ensure that customers were notified of Scholander and Harris' sales. Despite the obvious conflict, the firm relied on Harris to supervise the registered representatives' sales and their communications with the customers.

38. In one instance, Scholander sold the shares to one of his own customers. He did not tell her that she was buying his or his partner Harris' shares specifically.

39. No compliance personnel at the home office of the firm reviewed what registered representatives, including Scholander, were telling the customers about the sales.

FIRST CAUSE OF ACTION

Failure to Report Customer Complaints Violations of FINRA Rule 4530 and FINRA Rule 2010 (Radnor)

40. The Department realleges and incorporates by reference paragraphs 1 through 39 above.

41. FINRA Rule 4530(d) requires member firms to report statistical and summary information regarding written customer complaints to FINRA by the 15th day of the month following the calendar quarter in which customer complaints are received by the member. A "customer" is defined to include both persons who have engaged in securities activities with a member and persons with whom the member has *sought* to engage in securities activities.

42. The member must report any written grievance made by any person with whom the member has engaged in securities activities involving the member or a person associated with the member.

43. With respect to a person with whom the member has sought to engage in securities activities, the member must report any securities-related written grievance made by such person involving the member or a person associated with the member.

44. In October and November 2011, Radnor received various written communications containing a customer complaint from XYY stating clearly that trades reflected in her account were unauthorized, demanding compensation commensurate with the losses resulting from the unauthorized trades, and threatening legal action. Radnor became aware of the complaint no later than November 2011.

45. Separately, on September 29, 2011, Radnor received a reportable written grievance from MA, a person with whom Radnor sought to engage in securities activities. Radnor became aware of the complaint in September 2011.

46. Radnor failed to timely report to FINRA either of these written complaints as required by Rule 4530. Indeed, even after the XYY complaint was brought to the attention of firm management by FINRA, the firm failed and refused to report the complaint and still has not reported either complaint to FINRA as required by Rule 4530.

47. By virtue of this conduct, Respondent Radnor violated FINRA Rules 4530 and 2010.

SECOND CAUSE OF ACTION

Willful Failure to Update Form U4 Violations of the FINRA By-Laws Article V, Section 2(c) and FINRA Rule 2010 (Radnor and Scholander)

48. The Department realleges and incorporates by reference paragraphs 1 through 47 above.

49. Article V, Section 2(c) of the FINRA By-Laws provides that “Every application for registration filed with [FINRA] shall be kept current at all times. . . . Such amendment to the application shall be filed with [FINRA] not later than 30 days after learning of the facts or circumstances giving rise to the amendment.”

50. FINRA uses the Form U4 to screen applicants and monitor their fitness for registration within the securities industry. The information on the Form U4 is also important to FINRA member firms that are evaluating whether to hire an employment applicant. Disclosures from the Form U4 are available to the public through FINRA’s BrokerCheck, and may be important in an investor’s choice of a broker.

51. Question 14(I)(3) on the Form U4 requires disclosure of certain customer complaints. Specifically, question 14(I)(3)(a) asks “Within the past twenty four (24) months, have you been the subject of an investment-related, consumer-initiated, written complaint, not otherwise reported under question 14(2) above, which alleged that you were involved in one or more sales practice violations and contained a claim for compensatory damages of \$5,000 or more (if no damage amount is alleged, the complaint must be reported unless the firm has made a good faith determination that the damages from the alleged conduct would be less than \$5,000)?”

52. Member firms are required to amend U4s for their registered representatives when they become aware of facts requiring disclosure.

53. Registered representatives are required to ensure that their Form U4s are updated properly.

54. XYY's written complaint alleged a sales practice violation and contained a claim for compensatory damages of more than \$5,000.

55. The information about XYY's written complaint was material because it alleges serious misconduct and by virtue of the fact that the information was specifically required to be disclosed in a Form U4.

56. Scholander and Harris were aware of the XYY complaint on or about October 26, 2011, and compliance personnel at Radnor's home office were aware of it no later than November 2011.

57. Despite knowledge of the complaint and even after repeated notice from FINRA, Radnor and Scholander never disclosed the XYY complaint on Scholander's U4, which remains inaccurate to this day. Radnor and Scholander have intentionally failed to disclose this information on Scholander's U4.

58. By virtue of this conduct, Radnor and Scholander willfully violated Article V, Section 2(c) of the FINRA By-Laws and FINRA Rule 2010.

THIRD CAUSE OF ACTION

Failure to Disclose Markups or Markdowns Violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-10 Thereunder and Violations of FINRA Rule 2010 (Radnor)

59. The Department realleges and incorporates by reference paragraphs 1 through 58 above.

60. SEC Rule 10b-10 requires a broker-dealer to give or send the customer written notification of any markup, markdown or similar remuneration it receives in principal transactions involving equity securities.

61. Radnor executed 29 riskless principal transactions for its customers involving equity securities during the relevant period with an average markup or markdown of \$5,987 per transaction.

62. Radnor did not disclose the markups or markdowns in writing to its customers for any of those transactions.

63. Radnor therefore violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-10 promulgated thereunder and, by virtue of those violations, FINRA Rule 2010.

FOURTH CAUSE OF ACTION

Supervision Violations of NASD Conduct Rule 3010 and FINRA Rule 2010 (Radnor and Harris)

64. The Department realleges and incorporates by reference paragraphs 1 through 63 above.

65. NASD Conduct Rule 3010 requires members to establish, maintain and enforce supervisory systems, including written supervisory procedures, which are reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. Under NASD Rule 3010(b), these systems must be documented in the firm's written supervisory procedures. The procedures must be tailored to the specific nature of the business engaged in by the firm, and must set out mechanisms for ensuring compliance and for detecting violations, and not merely set out what conduct is prohibited.

66. During the relevant period, Radnor failed to establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws in several areas. It failed to establish and maintain an adequate supervisory system, including written procedures, with regard to customer complaint reporting, Form U4 disclosure reporting, disclosures of markups and markdowns to customers and canceled trades.

67. The firm also lacked adequate written procedures regarding due diligence to be done in private placements sold by the firm.

68. Aside from its inadequate supervisory system and procedures, Radnor failed to adequately supervise customer complaints, which led to the failure to report the complaints properly as required by FINRA rules. It also failed to properly supervise canceled trades, disclosures of markups and markdowns to customers, Regulation S offerings and disclosures to customers buying stock at the same time registered representatives were selling the same stock.

69. Harris, as a registered principal, also had an obligation to bring the XYY complaint letter to the attention of the firm's compliance staff so that they could take appropriate action. Instead, he prevented review of XYY's email by the home office compliance staff by marking the written customer complaint as privileged.

70. By virtue of this conduct, Radnor and Harris violated NASD Conduct Rule 3010 and FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

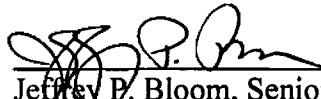
- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;

- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed;
- C. order that the Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondents' conduct, as alleged in the Second Cause of Action, was willful; the omitted information was material; and, the omission to state material facts was on a Form U4 application.

FINRA DEPARTMENT OF ENFORCEMENT

DATED: January 5, 2015

Respectfully submitted,



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