

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014038990602**

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

RE: Crown Capital Securities, L.P., Respondent
Member Firm
CRD No. 6312

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 Respondent 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

Crown Capital Securities, L.P. ("Crown Capital" or the "firm") is a dually registered broker-dealer and investment advisor. Crown Capital has been a member of FINRA since July 5, 1999, and is headquartered in Orange, California. The firm's business lines include: tax-sheltered and variable annuities, mutual funds, registered investment advisor and asset management services, limited partnerships, stocks, bonds, and alternative investments. As of May 2019, the firm has 358 registered representatives, and 188 registered branch offices. The firm has no relevant disciplinary history.

OVERVIEW

Between June 2011 and July 2014 (the "relevant period"), Crown Capital failed to establish and maintain a supervisory system, including written supervisory procedures, for reviewing and monitoring mutual fund switches reasonably designed to achieve compliance with FINRA suitability requirements and failed to reasonably supervise short-term switches of Class A mutual fund shares

conducted by two firm registered representatives, and thus Crown Capital violated NASD Rule 3010(a), NASD Rule 3010(b), and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

The firm's supervisory failures were identified during a sales practice examination conducted by FINRA's Los Angeles District Office. The examination also resulted in disciplinary actions against two firm registered representatives who had engaged in patterns of unsuitable short-term Class A share mutual fund switching in the accounts of five customers.¹

During the relevant period, NASD Rule 3010(a) required member firms to establish and maintain a system to supervise the activities of registered representatives, registered principals and other associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable NASD and FINRA Rules. NASD Rule 3010(b) further required member firms to establish, maintain and enforce written supervisory procedures ("WSPs") reasonably designed to supervise associated persons and ensure their compliance with applicable securities laws and regulations and NASD and FINRA rules.² Violations of NASD Rule 3010 were also violations of FINRA Rule 2010, which requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

Throughout the relevant period, Crown Capital recognized the importance of supervising mutual fund transactions to achieve compliance with FINRA suitability requirements. The firm, through its WSPs, required its compliance personnel to review mutual fund transactions using trade reports generated by its clearing firm, but these reports did not identify mutual fund switch transactions. To supervise mutual fund switches, the firm's WSPs required a registered representative to complete a mutual fund switch form and obtain approval from the representative's supervising principal prior to initiating a switch transaction. If a switch was approved, the customer was required to write a switch letter documenting the transaction (initialed and dated by the supervising principal), to be kept on file at the firm.

Crown Capital's supervisory system, however, was not reasonably designed to supervise mutual fund switches because it relied solely upon the registered representative to alert the firm of a mutual fund switch. The firm had no supervisory mechanism in place to initiate a review of mutual fund switches in the event a representative failed to complete a mutual fund switch form or to otherwise notify the firm of a switch transaction. As a result, during the relevant

¹ See *Donald Traywick*, AWC No. 2014038990601 (April 26, 2018) and *Dep't of Enforcement v. Eric Kuchel*, Discip. Proc. No. 2015047966701 (OHO May 9, 2016).

² NASD Rules 3010(a) and (b) were replaced by FINRA Rules 3110(a) and (b), effective December 1, 2014. Because the supervisory failures in this matter occurred prior to December 1, 2014, NASD Rule 3010 applies.

period, mutual fund switch transactions by the two registered representatives in this matter escaped supervisory scrutiny by the firm.³

During the relevant period, one firm representative effected 61 short-term mutual fund switch transactions by recommending and effecting the purchase of Class A mutual funds in two accounts belonging to one customer, the redemption of those shares within a year of their purchase, and the purchase of Class A mutual fund shares offered by a different mutual fund company using the redemption proceeds. The representative did not follow firm procedure and obtain prior approval or a switch letter from the customer for any of the switch transactions. In connection with these switches, the customer paid unnecessary front-end sales loads of between 3.75 and 5.75% with each newly recommended purchase and incurred losses of approximately \$5,000.

During the same period, a second firm representative effected 49 Class A and two non-Class A short-term mutual fund switch transactions for four customers. Forty-five of the transactions took place within a year. Like the first representative, the second representative did not follow firm procedure and obtain prior approval or a switch letter from any of the customers for any of the switch transactions and consistently moved his customers into a new mutual fund company with each new recommendation and subsequent purchase, resulting in a new sales charge each time. In connection with these switches, the four customers paid front-end sales loads of between 3.75 and 5.75% with each new purchase and incurred losses of approximately \$390,000.

Crown Capital voluntarily compensated the customers who sustained losses due to the unsuitable mutual fund switches conducted by the two representatives, paying a total of approximately \$395,000 in restitution.

As described above, Crown Capital failed to establish and maintain a supervisory system, including written supervisory procedures, for reviewing and monitoring mutual fund switches reasonably designed to achieve compliance with FINRA suitability requirements and, consequently, failed to reasonably supervise mutual fund switches by two registered representatives. By virtue of the foregoing, Crown Capital violated NASD Rule 3010(a), NASD Rule 3010(b), and FINRA Rule 2010.

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

- A censure; and
- A fine of \$75,000.

³ The firm has since updated its mutual fund switch procedures to ensure reviews for switching prior to trade approval. In addition, the firm distributed compliance bulletins to all registered representatives regarding the switching of mutual funds and mutual fund trading procedures.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment(s) are 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 the firm;
- 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; and
- 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 Respondent;
 - 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 Respondent's: (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 understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Respondent 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.

5/28/19
Date (mm/dd/yyyy)

Crown Capital Securities, L.P., Respondent

By: 

[name / title]

Daniel Paulsen CEO

Reviewed by:



Craig R. Bockman
Counsel for Respondent
JonesBell
601 S. Figueroa St., Suite 3450
Los Angeles, CA 90017
Tel: 213-485-1555

Accepted by FINRA:

6-20-2019
Date

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



Carolyn Craig
Senior Director
FINRA Department of Enforcement
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