

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2014039096601**

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

RE: Daryl Eugene Allison, Respondent  
General Securities Principal  
CRD No. 3686

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Daryl Eugene Allison ("Allison" or "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**

Allison entered the securities industry in February 1970, when he associated with a FINRA member firm. Allison subsequently associated with two other member firms including Caprock Securities, Inc. ("Caprock")<sup>1</sup> from June 1979 to November 2015. Since May 2015, Allison has been associated with a member FINRA member firm as a general securities representative. During the time period relevant to this matter, Allison served as Caprock's President and Chief Compliance Officer ("CCO"). In these capacities, Allison was responsible for establishing, maintaining and enforcing Caprock's supervisory systems and written supervisory procedures ("WSPs"). He was also responsible for supervising the firm's registered representatives. During his career in the securities industry, Allison has obtained Series 1, 4, 24 and 63 securities licenses.

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<sup>1</sup> Caprock's FINRA membership was cancelled on November 10, 2015, due to its failure to pay fees owed to FINRA.

## **RELEVANT DISCIPLINARY HISTORY**

Allison's prior relevant disciplinary history includes the following:

On November 7, 2011, FINRA issued a Letter of Acceptance, Waiver and Consent (No. 2009017068502) in which Allison was fined \$6,000 and suspended in a principal capacity for 10 business days for violations of FINRA Rule 2010 and NASD Rules 2110 and 3010 by failing to reasonably supervise two registered representatives, and failing to enforce WSPs.

On October 8, 2009, the Texas State Securities Board ("TSSB") (Case No. IC09-SUS-23) suspended Allison in all capacities in the state of Texas for 21 days for: (1) failing to enforce WSPs; (2) allowing a representative who was not registered in Texas to offer and sales securities in Texas; (3) failing to timely provide information to TSSB staff; (4) failing to disclosed required information on a registered representative's Form U4; and (5) failing to maintain customer account statements.

On July 8, 1997, FINRA issued a Letter of Acceptance, Waiver and Consent (No. C06970013) in which Allison was censured and fined \$7,500 jointly and severally with a FINRA member firm. Allison was also required to requalify by examination as a general securities principal, and the member firm was required to retain an independent consultant to review its deficient WSPs. Allison failed to enforce the member firm's deficient WSPs.

On June 9, 1988, FINRA accepted an Offer of Settlement (Complaint No. TEX-589) in which Allison was censure and fined \$3,000 jointly and severally with a FINRA member firm for violations of Sections 10(b) and 15(c) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-9 and 15c2-4 thereunder by failing to return investor funds received in connection with a contingent securities offering, when the offering failed to raise the minimum contingency amount. Allison and the member firm also failed to properly escrow customer funds from the offering.

## **OVERVIEW**

Allison, acting on behalf of former FINRA member firm Caprock in his capacity as President and CCO, failed to reasonably supervise two registered representatives' offers and sales of closed-end mutual funds ("CEFs") to customers, failed to enforce Caprock's WSPs regarding the review of exception reports to detect problematic trading activity in customer accounts, and failed to conduct and/or to adequately document branch office inspections. Allison, on behalf of Caprock, also failed to document supervisory reviews of certain email correspondence and failed to capture, review and/or retain other email correspondence. Finally, Allison failed to

ensure that Caprock's books and records accurately reflected the representative of record on certain customer accounts and transactions.

### **FACTS AND VIOLATIVE CONDUCT**

#### **1. Failure to Supervise Activities of Two Registered Representatives and Enforce Written Supervisory Procedures**

NASD Rule 3010(a) requires members 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)(1) requires a member to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable NASD and FINRA Rules.

During the period from November 2012 to July 2014, Allison, acting on behalf of Caprock, failed to supervise two registered representative's offers and sales of CEFs to nine customers by ignoring or failing to detect numerous red flags indicating that the CEF transactions were possibly unsuitable for the customers. Allison also failed to enforce Caprock's WSPs regarding the review of exception reports to detect problematic trading activity in customer accounts.

As a result of the foregoing conduct, Allison violated NASD Rule 3010(a) and (b) and FINRA Rule 2010.

#### **2. Branch Office Inspections**

NASD Rule 3010(c)(1) requires each member to inspect at least annually every office of supervisory jurisdiction and every non-supervising branch office at least every three years. NASD Rule 3010(c)(2) also requires members to retain a written record of the dates upon which each review and inspection is conducted and to reduce all inspections to a written report. The inspection reports must be kept on file by the member for a minimum of three years and include, without limitation, the testing and verification of the member's policies and procedures, including supervisory policies and procedures in the following areas: (1) safeguarding of customer funds and securities; (2) maintaining books and records; (3) supervision of customer accounts serviced by branch office managers; (4) transmittal of funds between customers and registered representatives and between customers and third parties; (5) validation of customer address changes; and (6) validation of changes in customer account information.

During the period from June 2011 to July 2014, Allison failed to conduct and/or to adequately document inspections of Caprock's branch offices. During this period, Allison routinely inspected one of Caprock's three branch offices, but failed to adequately document the inspections in accordance with NASD Rule 3010(c). Allison's inspection reports were mere checklists that did not contain any information regarding testing and verification of Caprock's policies and procedures and did not address all of the areas required by NASD Rule 3010(c)(2) such as the validation of changes in customer account information and customer address changes.

In addition to preparing inadequate inspection reports, Allison completely failed to conduct inspections of two non-OSJ branch offices during the more than three-year time period from June 2011 to July 2014.

As a result of the foregoing conduct, Allison violated NASD Rule 3010(c) and FINRA Rule 2010.

3. Failure to Capture, Review and/or Retain Electronic Correspondence and Other Recordkeeping Violations

NASD Rule 3110(a), which was in effect until December 4, 2011, requires member firms to preserve records, including correspondence, in conformity with all applicable laws, rules and regulations including Exchange Act Rules 17a-3 and 17a-4. FINRA Rule 4511(a), which superseded NASD Rule 3110 on December 5, 2011, similarly requires members to "make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules." SEC Rule 17a-3(a)(6) requires that "every broker or dealer who transacts a business in securities ... make and keep current ... A memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. The memorandum shall show ... the identity of each associated person, if any, responsible for the account; the identity of any other person who entered or accepted the order on behalf of the customer..." Exchange Act Rule 17a-4(b)(4) requires member firms to maintain and preserve, for a period of not less than three years, originals of all correspondence sent and received relating to the member's securities business.

NASD Rule 3010(d)(3) requires each member to retain correspondence of registered representatives relating to its investment banking or securities business in accordance with Rule 3110. NASD Rule 3010(d)(2) requires member firms to review associated persons' correspondence to ensure compliance with the firms' WSPs, as well as FINRA and SEC Rules. NASD Rule 3010(d)(1) mandates that a record evidencing the review be maintained.

During the period from November 2012 to July 2014, Allison, acting on behalf of Caprock, failed to establish and implement an adequate supervisory system for the capture, review and/or retention of all of Caprock's email correspondence.

Specifically, Allison failed to ensure that Caprock maintained records to evidence supervisory reviews of email correspondence, and failed to ensure that the email correspondence of registered representatives located in one of Caprock's branch offices was captured, reviewed and retained.

Additionally, during the period from June 2011 to July 2014, Allison failed to ensure that all Caprock customer account and transaction records accurately reflected the registered representative of record.

As a result of the foregoing conduct, Allison violated NASD Rules 3010(a), (b) and (d), NASD Rule 3110 (for conduct on or before December 4, 2011), FINRA Rule 4511 (for conduct on or after December 5, 2011) and FINRA Rule 2010.

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

A bar from association with any FINRA member firm in any principal capacity and a \$10,000 fine.

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 he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

Respondent understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent may not be associated with any FINRA member in any principal capacity during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because Respondent is subject to a statutory disqualification during the principal bar, if he remains associated with a member firm in a non-barred capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this AWC.

## **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 Respondent;
- 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

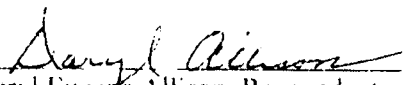
C. If accepted:

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 he 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.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

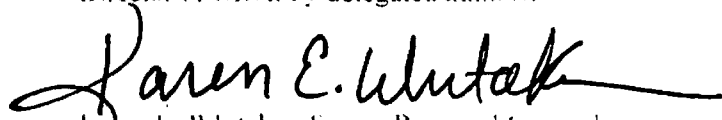
11-18-2014  
Date

  
Daryl Eugene Allison, Respondent

Accepted by FINRA:

December 19, 2016  
Date

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

A handwritten signature in black ink, reading "Karen E. Whitaker". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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