

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Jeffrey E. Krupnick (CRD No. 4307569),

Respondent.

DISCIPLINARY PROCEEDING
No. 2014043869901

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between January 2012 and November 2014 (the “relevant period”), while registered with member firm Wells Fargo Advisors, LLC (“Wells Fargo” or the “firm”), registered representative Jeffrey Krupnick (“Krupnick” or “Respondent”) converted approximately \$143,000 from his half-brother, firm customer MK. By reason of the foregoing, Krupnick violated FINRA Rules 2150(a) and 2010.

RESPONDENT AND JURISDICTION

2. Krupnick first became registered with a FINRA member firm on February 22, 2001 as a General Securities Representative (Series 7). He obtained his Series 66 license on May 15, 2001. On May 9, 2008, Krupnick registered with FINRA member firm Wells Fargo. On December 12, 2014, Krupnick’s registration with Wells Fargo was terminated. Krupnick is currently registered with another FINRA member firm.

FACTS

Krupnick Opens Several Brokerage Accounts for MK

3. MK is Krupnick's half-brother.
4. In July 2011, after years of estrangement, MK became Krupnick's brokerage customer and transferred his brokerage accounts from another broker-dealer to Wells Fargo.
5. Between July 2011 and February 2014, Krupnick opened a total of eight brokerage accounts for MK at Wells Fargo. Krupnick acted as the representative of record for each account, including the following:
 - a. In July 2011, Krupnick opened a brokerage account (ending 6211) jointly in Krupnick's and MK's names (the "Joint Account").
 - b. In August 2011, Krupnick opened a brokerage account (ending 2930) in the name of MHO, a business owned by MK (the "Business Account"). MK was the only account holder on this account.
 - c. In August 2011, Krupnick opened a revocable brokerage trust account (ending 9857) in MK's name only (the "Margin Trust Account"). MK was the trustee for this account.
 - d. In July 2012, Krupnick opened a separate revocable brokerage trust account (ending 4742) in MK's name only (the "Non-Margin Trust Account"). MK was the trustee for this account.
 - e. In February 2014, Krupnick opened a new revocable brokerage trust collateral account (ending 2588) in MK's name only (the "Consolidated Trust Account"). MK was the trustee for this account.

6. During the relevant period, as further alleged below, Krupnick transferred funds from MK's other brokerage accounts at Wells Fargo into the Joint Account, which held only cash, never any securities.

Krupnick Transfers Funds into and Takes Control of the Joint Account

7. From February 2013 through May 2013, Krupnick deposited a total of approximately \$15,400 in traveler's checks belonging to MK into the Joint Account.

8. In October 2013, Krupnick transferred \$6,000 from his personal brokerage account at the Firm (ending 8861) ("Krupnick's Brokerage Account") to the Joint Account—this deposit, however, was preceded by an \$8,000 transfer by Krupnick from the Joint Account to Krupnick's Brokerage Account.

9. In total, during the relevant period, Krupnick transferred:

- a. Approximately \$8,000 out of MK's Business Account into the Joint Account via journals or auto-journals.
- b. More than \$87,000 out of MK's Margin Trust Account into the Joint Account—all on margin—via journals or auto-journals.
- c. More than \$44,000 out of MK's Non-Margin Trust Account into the Joint Account via journals.
- d. More than \$41,000 out of MK's Consolidated Trust Account into the Joint Account via journals.

10. Although Krupnick did not contribute funds to the Joint Account, he named himself as the primary account holder on the Joint Account and assumed primary control over the account.

11. Krupnick also implemented a standing order to journal interest and dividends directly from MK's Business Account and MK's Margin Trust Account into the Joint Account on a monthly basis.

12. During the relevant period, Krupnick removed a total of \$171,415.64 out of the Joint Account by withdrawing cash, making transfers to his personal brokerage account, making payments from the Joint Account to his personal credit cards, and making "tele-transfers" to his home equity line of credit held at Wells Fargo.

Krupnick Incurs Substantial Debt during the Relevant Time Period

13. During the period that he managed MK's accounts, Krupnick had significant debt.

14. For example, Krupnick used more than 20 different credit cards that, starting in October 2013, had a combined balance of approximately \$25,000; by October 2014, the combined balance had increased to approximately \$50,000.

15. During the relevant period, Krupnick also had a mortgage and a home equity line of credit, with monthly minimum payments for both accounts averaging just under \$2,200.

16. During this same time, Krupnick also had an outstanding loan from a commercial bank for approximately \$18,000 that he used to build a swimming pool, as well as additional monthly car and home maintenance (*e.g.*, lawn, aquarium, and pool) expenses.

Krupnick Makes Unauthorized Expenditures from the Joint Account

17. Although Krupnick used some of the funds in the Joint Account to make purchases for and on behalf of MK, Krupnick used the majority of the funds to pay for his own personal expenses, such as paying down his credit cards and paying for his home improvements.

18. For example, in October 2014, Krupnick made nine payments totaling \$7,813.92 out of the Joint Account directly to his personal credit card accounts.

19. Krupnick also used funds that originated from MK's brokerage accounts to pay for photographers, flowers, airlines, hotels, and other expenses related to Krupnick's wedding in Hawaii.

20. MK did not authorize the transfers, withdrawals, payments and journals Krupnick made from the Joint Account to pay for Krupnick's personal expenses.

21. The unauthorized transfers, cash withdrawals, payments and journals totaled approximately \$143,000.¹

MK Discovers Krupnick's Misconduct and Alerts the Firm

22. During the fall of 2014, MK was having trouble obtaining copies of monthly statements and was unable to access his accounts online.

23. MK had previously requested copies of the statements from Krupnick but had not received them.

24. In November 2014, MK contacted Krupnick's supervisors at Wells Fargo to notify the firm of unauthorized account withdrawals made by Krupnick and to report that he had not received statements for certain of his accounts.

¹ See Schedule A. attached, for an itemized list of transactions.

25. On November 18, 2014, the firm began an internal investigation into MK's allegations against Krupnick.

26. On November 26, 2014, during the firm's ongoing investigation, Krupnick resigned from Wells Fargo.

27. Krupnick made no attempt to repay MK's funds until after MK complained to Wells Fargo in November 2014.

28. After MK complained to the firm, Krupnick claimed that he used some of the funds to purchase items on behalf of MK, such as cigars, e-cigarettes, and gold.

29. Krupnick also falsely claimed that the majority of the funds he took from the Joint Account—which originated from MK's other brokerage accounts and which he spent on himself—were undocumented "loans" from MK.

30. However, during the relevant time, Krupnick did not maintain a record of the funds he used for personal expenses that originated from MK's brokerage accounts and which he was allegedly borrowing.

31. In May 2015, Krupnick and Wells Fargo reimbursed MK for the funds Krupnick had withdrawn or transferred from MK's brokerage accounts and which Krupnick had expended for his personal use. Krupnick reimbursed MK approximately \$121,000, while the firm paid MK approximately \$34,000.

CAUSE OF ACTION
(Conversion of Customer Funds—FINRA Rules 2150(a) and 2010)

32. The Department re-alleges and incorporates by reference paragraphs 1–31, above.

33. FINRA Rule 2150(a) provides that "No member or person associated with a member shall make improper use of a customer's securities or funds."

34. Conversion is an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it.

35. Conversion of a brokerage customer's funds violates FINRA Rules 2150(a) and 2010.

36. By making unauthorized transfers from MK's brokerage accounts into the Joint Account and then using those funds without authorization for his own personal benefit, Krupnick converted MK's funds in violation of FINRA Rules 2150(a) and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent 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; and
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 21, 2016



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AMENDED SCHEDULE A

LIST OF UNAUTHORIZED WITHDRAWALS, TRANSFERS & PAYMENTS

Transaction Date	Amount	Type	Note
1/24/2012	\$600.00	Cash Withdrawal	
2/13/2012	\$500.00	HELOC	HELOC = "Tele-Transfer" to Krupnick's Wells Fargo Home Equity Line of Credit (HELOC) account xxxx-2934
3/7/2012	\$750.00	HELOC	
3/26/2012	\$500.00	HELOC	
4/5/2012	\$130.79	HELOC	
4/5/2012	\$1,270.00	HELOC	
6/5/2012	\$700.00	HELOC	
7/6/2012	\$750.00	HELOC	
7/13/2012	\$1,080.00	Cash Withdrawal	
7/24/2012	\$600.00	Cash Withdrawal	
7/30/2012	\$1,000.00	Cash Withdrawal	
8/20/2012	\$500.00	HELOC	
9/19/2012	\$500.00	HELOC	
9/19/2012	\$500.00	TO xxxx-8861	xxxx-8861 = Krupnick's personal brokerage account at Wells Fargo
10/16/2012	\$500.00	HELOC	
10/24/2012	\$550.00	TO xxxx-8861	
11/6/2012	\$750.00	HELOC	
12/5/2012	\$1,000.00	HELOC	
1/16/2013	\$500.00	HELOC	
2/6/2013	\$500.00	HELOC	
2/13/2013	\$500.00	TO xxxx-8861	
2/14/2013	\$1,000.00	TO xxxx-8861	

3/4/2013	\$600.00	TO xxxx-8861	
3/5/2013	\$500.00	HELOC	
3/28/2013	\$175.00	TO xxxx-8861	
4/3/2013	\$500.00	HELOC	
4/9/2013	\$500.00	Cash Withdrawal	
4/9/2013	\$410.00	TO xxxx-8861	
5/6/2013	\$500.00	HELOC	
6/11/2013	\$500.00	HELOC	
6/14/2013	\$5,000.00	TO xxxx-8861	
6/26/2013	\$8,000.00	TO xxxx-8861	
7/3/2013	\$500.00	HELOC	
7/12/2013	\$646.50	TO xxxx-8861	
7/18/2013	\$4,600.00	TO xxxx-8861	
7/26/2013	\$3,600.00	TO xxxx-8861	
8/2/2013	\$229.86	TO xxxx-8861	
8/6/2013	\$500.00	HELOC	
8/21/2013	\$7,000.00	TO xxxx-8861	
9/4/2013	\$500.00	HELOC	
9/6/2013	\$4,137.74	TO xxxx-8861	
9/18/2013	\$8,000.00	TO xxxx-8861	
10/2/2013	\$500.00	HELOC	
10/3/2013	\$746.83	TO xxxx-8861	
10/10/2013	\$8,000.00	TO xxxx-8861	
11/5/2013	\$500.00	HELOC	
11/6/2013	\$2,500.00	TO xxxx-8861	
11/13/2013	\$3,000.00	TO xxxx-8861	
12/3/2013	\$500.00	HELOC	
12/11/2013	\$2,200.00	TO xxxx-8861	
12/17/2013	\$500.00	Cash Withdrawal	
12/18/2013	\$5,000.00	TO xxxx-8861	
12/24/2013	\$750.00	Cash Withdrawal	
1/6/2014	\$500.00	HELOC	
1/6/2014	\$1,200.00	TO xxxx-8861	
1/13/2014	\$5,000.00	TO xxxx-8861	
1/17/2014	\$4,000.00	TO xxxx-8861	
1/30/2014	\$2,500.00	TO xxxx-8861	
2/3/2014	\$500.00	Cash Withdrawal	
3/11/2014	\$500.00	HELOC	
4/2/2014	\$500.00	HELOC	
4/7/2014	\$1,500.00	Cash Withdrawal	
4/15/2014	\$500.00	Cash Withdrawal	
4/21/2014	\$900.00	Cash Withdrawal	
5/1/2014	\$1,000.00	Cash Withdrawal	
5/5/2014	\$1,000.00	Cash Withdrawal	
5/6/2014	\$500.00	HELOC	
5/16/2014	\$600.00	Cash Withdrawal	
5/28/2014	\$2,500.00	Cash Withdrawal	

6/3/2014	\$400.00	Cash Withdrawal	
6/4/2014	\$1,500.00	TO xxxx-8861	
6/4/2014	\$500.00	HELOC	
6/9/2014	\$500.00	Cash Withdrawal	
6/13/2014	\$2,000.00	TO xxxx-8861	
6/27/2014	\$700.00	Cash Withdrawal	
7/2/2014	\$3,000.00	TO xxxx-8861	
7/3/2014	\$500.00	HELOC	
7/11/2014	\$2,500.00	TO xxxx-8861	
7/15/2014	\$800.00	Cash Withdrawal	
7/15/2014	\$600.00	Cash Withdrawal	
7/21/2014	\$400.00	Cash Withdrawal	
8/5/2014	\$500.00	HELOC	
8/12/2014	\$200.00	Cash Withdrawal	
8/12/2014	\$1,000.00	TO xxxx-8861	
8/19/2014	\$2,700.00	Cash Withdrawal	
8/26/2014	\$4,000.00	TO xxxx-8861	
9/3/2014	\$500.00	HELOC	
9/5/2014	\$1,200.00	TO xxxx-8861	
9/15/2014	\$2,000.00	TO xxxx-8861	
9/19/2014	\$1,300.00	Credit Card Payment	
10/1/2014	\$1,000.00	Credit Card Payment	
10/6/2014	\$500.00	HELOC	
10/6/2014	\$1,500.00	Credit Card Payment	
10/14/2014	\$4,500.00	TO xxxx-8861	
10/14/2014	\$1,000.00	Credit Card Payment	
10/17/2014	\$500.00	Credit Card Payment	
10/20/2014	\$500.00	Credit Card Payment	
10/21/2014	\$500.00	Credit Card Payment	
10/28/2014	\$1,002.45	Credit Card Payment	
10/28/2014	\$1,500.00	Credit Card Payment	
10/28/2014	\$311.47	Credit Card Payment	
11/4/2014	\$500.00	HELOC	
*Total Unauthorized	\$143,340.64		*Total unauthorized amount (i) credits \$6,000 deposit on 10/14/2013; and (ii) includes \$750 from \$1,500 transfer on 12/06/2012