

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016047569601**

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

RE: Newbridge Securities Corporation, Respondent
Member Firm
CRD No. 104065

Bruce H. Jordan, Respondent
General Securities Principal
CRD No. 1223556

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Newbridge Securities Corporation and Bruce H. Jordan (collectively “Respondents”) submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

Newbridge has been a FINRA member since 2000 and is headquartered in Boca Raton, Florida. Newbridge engages in a general securities business and employs approximately 175 registered representatives at 47 branch offices.

Jordan first registered with FINRA in 1983 as a General Securities Representative. Jordan was associated with several FINRA member firms thereafter. Since February 2015, Jordan has been associated with Newbridge and registered with FINRA as a General Securities Principal, General Securities Representative, and Investment Banking Representative. Jordan has served as Newbridge’s Director of Investment Banking since February 2015.

RELEVANT DISCIPLINARY HISTORY

Newbridge has the following relevant disciplinary history:

On September 2, 2011, FINRA issued a letter of Acceptance, Waiver and Consent (No. 2010021106101) in which Newbridge was censured and fined \$20,000. The firm consented to findings that it negligently permitted its registered representatives to sell two private placement offerings using memoranda that contained material omissions of facts in violation of FINRA Rule 2010.

On March 1, 2011, FINRA issued a letter of Acceptance, Waiver and Consent (No. 2009016159401) in which Newbridge was censured and fined \$25,000. The firm consented to findings that it failed to establish, maintain, and enforce supervisory systems and written supervisory procedures related to private offerings sold to its customers, and failed to conduct adequate due diligence for 15 different unregistered offerings in violation of NASD Rules 3010 and 2110, and FINRA Rule 2010.

Jordan has no prior disciplinary history.

OVERVIEW

At various times between July 2013 and July 2016, Newbridge failed to establish and maintain a supervisory system, and failed to establish, maintain, and enforce written supervisory procedures (WSPs), concerning the sale of complex securities such as structured notes and leveraged, inverse and inverse-leveraged exchange-traded funds ("Non-Traditional ETFs") that were reasonably designed to achieve compliance with FINRA's suitability rule.

In addition, from November 2015 through March 2016, Newbridge failed to have a reasonable basis to recommend the sale of a private placement offering because it failed to conduct reasonable due diligence on the offering. In addition, Newbridge and Newbridge's Director of Investment Banking, Jordan, failed to reasonably supervise the offering because they allowed the firm to rely primarily on due diligence conducted by the issuer of the offering.

Also, at various times between November 2015 and March 2016, Newbridge failed to comply with Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 15c2-4 thereunder in that it deposited investor funds into a law firm trust account for a private offering instead of requiring that an independent bank be established as the escrow agent.

By virtue of the foregoing, Newbridge violated Section 15(c) of the Exchange Act and Rule 15c2-4 thereunder, and violated NASD Rule 3010, and FINRA Rules 2111, 3110¹, and 2010.

Additionally, Jordan violated FINRA Rules 3110 and 2010.

¹ FINRA Rule 3110 superseded NASD Rule 3010 effective December 1, 2014.

FACTS AND VIOLATIVE CONDUCT

FINRA identified the violations described below as the result of two routine examinations of Newbridge.

A. Newbridge Failed to Reasonably Supervise the Sale of Structured Products

FINRA Rule 3110 and its predecessor, NASD Rule 3010, require that each member firm establish and maintain a supervisory system, and establish, maintain and enforce WSPs that are reasonably designed to supervise the activities of each registered representative, registered principal, and other associated persons of the firm and achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA rules.

FINRA Rule 2111 requires member firms and their associated persons to have a reasonable basis to believe that a recommended securities transaction is suitable for the customer, based on the information obtained through the reasonable diligence of the firm or associated person to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance.

Structured products are debt securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance or a foreign currency. Structured products typically have two components—a note and a derivative. Some structured products offer full protection on the principal invested, whereas others, such as steepeners, offer limited or no principal protection and carry much greater risk.²

Between July 2013 and September 2015, Newbridge representatives solicited 976 retail customers to invest approximately \$96.9 million in structured products; the customers invested \$54.9 million of those funds in non-principal protected structured notes (most commonly, steepeners). Despite the fact that structured products comprised a significant portion of the firm's business, Newbridge failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to supervise representatives' recommendations of structured products.

Newbridge's system for supervising the suitability of recommendations of structured products centered upon "product profiles" that its compliance department created for each structured product sold by the firm. The product profiles described the risks and characteristics of each structured product and restricted the sale of each such product to certain types of customers. For example, the product profile for non-principal protected notes stated that representatives were not permitted to solicit orders of such securities from customers 70 years of age or older.

² Steepeners are typically longer-term notes and certificates of deposit that are callable by the issuers after a relatively short, pre-specified period (e.g., one year). Steepeners pay interest rates that are initially fixed and float thereafter based on the "steepness" of the yield curve, which is dictated by the spread between longer- and shorter-term interest rates. While the initial fixed interest rates can be higher, if the steepener is not called after a year, the floating rate may drop significantly, to even as low as zero. In addition, the secondary market for steepeners may be illiquid.

However, Newbridge failed to establish any supervisory systems or procedures to reasonably ensure that its reviewing principals, who were tasked with supervising structured product recommendations, were reviewing for compliance with the product profiles and seeking approval, where required, for exceptions to the product profiles.

In addition, no firm principal reviewed the structured product recommendations made by representatives of the firm's branch in Syosset, New York—which included more than \$26 million in non-principal protected structured notes—for compliance with the firm's product profile prohibitions or for suitability more generally.

By virtue of the foregoing, Newbridge violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

B. Newbridge Failed to Reasonably Supervise the Sale of Non-Traditional ETFs

Non-Traditional ETFs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over the course of one trading session—usually a single day. The performance of Non-Traditional ETFs over periods longer than a single trading session “can differ significantly from the performance ... of their underlying index or benchmark during the same period of time.” Because of these risks and the inherent complexity of these products, FINRA has advised broker-dealers and their registered representatives that Non-Traditional ETFs “are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.”³

Newbridge's supervisory system and WSPs prohibited solicited sales of Non-Traditional ETFs. However, between July 2013 and June 2016, Newbridge failed to reasonably enforce this prohibition.

The firm attempted to enforce this prohibition by instituting a surveillance system to detect solicited sales of Non-Traditional ETFs. Prior to July 2013, the firm's software vendor pre-populated the surveillance system with a list of Non-Traditional ETF symbols. The surveillance system then generated an alert for any solicited sales of such symbols. After July 2013, however, the firm's software vendor stopped updating the surveillance system with new Non-Traditional ETF symbols. At that point, the firm was aware that it was required to manually update the system to include new Non-Traditional ETF symbols. The firm, however, failed to update the system with new Non-Traditional ETF symbols and, as a result, failed to detect at least 95 prohibited Non-Traditional ETF sales.

In addition, because the firm's only system for supervising solicited sales of Non-Traditional ETFs was to prohibit them, the firm had no system or procedures to review such sales for suitability or to monitor their holding periods. As a result, Newbridge failed to supervise recommendations by its registered representatives to purchase Non-Traditional ETFs. As noted, the long-term holding of Non-Traditional ETFs raises significant suitability concerns. In 58 of

³ FINRA Regulatory Notice 09-31, *Non-Traditional ETFs* (June 2009).

the 95 solicited Non-Traditional ETF sales that were executed despite the firm's prohibition, customers held the Non-Traditional ETFs for extended periods—up to two years or more.

By virtue of the foregoing, Newbridge violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

C. Private Offering of the CJS Technology Select Fund LLC I (“CJS Fund I”)

Between 2015 and 2016, Newbridge earned \$2,282,977 in connection with its participation in the sale of private placements. Although private placements were a significant portion of the firm's business, between November 2015 and March 2016, Newbridge failed to comply with multiple applicable securities laws and regulations and FINRA Rules in connection with the sale of one private offering.

1. Failure to Conduct or Supervise Reasonable Due Diligence on the CJS Fund I

As noted above, FINRA Rule 2111 requires member firms to have a reasonable basis to believe that a recommended securities transaction is suitable for the customer. Supplementary Material 2111.05(a) states:

The reasonable-basis obligation requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors A member's or associated person's reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.

The Supplementary Material further provides that what constitutes reasonable diligence varies depending on, among other factors, the complexity of and risks associated with the security and the member's familiarity with the security.

With respect to private placements, FINRA Regulatory Notice 10-22 reminded firms of their obligations to conduct a reasonable investigation of the issuer and the securities they recommend. Specifically FINRA Regulatory Notice 10-22 provides that a firm should conduct a reasonable investigation concerning: (1) the issuer and its management; (2) the business prospects of the issuer; (3) the assets held by or to be acquired by the issuer; (4) the claims being made by the issuer; and (5) the intended use of the proceeds of the offering.⁴ Regulatory Notice 10-22 further reminded firms that engage in private placement offerings that they must have supervisory procedures that are reasonably designed to ensure that the firm's personnel, including its registered representatives: (i) engage in an inquiry that is sufficiently rigorous to comply with their legal and regulatory requirements; (ii) perform the analysis required by FINRA's suitability rule; (iii) qualify their customers as eligible to purchase securities offered;

⁴ FINRA Regulatory Notice 10-22, *Regulation D Offerings, Obligation of Broker-Dealers to Conduct Reasonable Investigations in Regulation D Offerings* (April 2010).

and (iv) do not violate the antifraud provisions of the federal securities laws or FINRA rules in connection with their preparation or distribution of offering documents or sales literature. These procedures must be reasonably designed to ensure that each private offering is properly supervised before it is marketed to other firms or sold directly to customers.

While the degree to which a broker-dealer may reasonably rely on the issuer will depend on facts and circumstances, a firm “‘may not rely blindly upon the issuer for information concerning a company,’ nor may it rely on the information provided by the issuer and its counsel in lieu of conducting its own reasonable investigation.”⁵ When a firm is affiliated with an issuer, the firm “‘must ensure that its affiliation does not compromise its independence as it performs its investigation.’”⁶ Further, “[t]o demonstrate that it has performed a reasonable investigation, a [firm] should retain records documenting both the process and results of its investigation.”⁷

Newbridge’s WSPs regarding the recommendation of private placements were not reasonable in that they failed to provide reasonable guidance for conducting due diligence. Newbridge’s WSPs provided that “Due diligence will be conducted for each private placement issue to be offered by Newbridge and is documented in the file for the private placement”; however, the WSPs provided no additional details or guidance on what was required for conducting due diligence on private placements. Instead, the firm’s WSPs stated merely that the Director for Investment Banking, Jordan, was responsible for “conduct[ing] due diligence or engag[ing] counsel or other qualified person[s] to conduct due diligence.”

Between November 2015 and March 2016, Newbridge acted as the exclusive placement agent for the contingent offering of CJS Fund I. Three Newbridge representatives created the CJS Fund I through their separate investment advisory firm. The CJS Fund I acquired shares of a fund from two other entities via forward purchase and sale agreements. Those entities, in turn, purchased units of another fund that purported to own restricted shares in private, pre-IPO companies such as Uber, Lyft, and Palantir. Newbridge solicited customers to invest in CJS Fund I. In total, 80 Newbridge customers invested approximately \$5.8 million.

Newbridge failed to conduct reasonable due diligence on the firm’s sale of CJS Fund I. Instead, Newbridge relied entirely on the CJS Fund I to conduct its own due diligence with respect to the source and provenance of the underlying shares. Newbridge neither requested documentation evidencing the CJS Fund I’s due diligence into the entities involved in the forward purchase and sale agreements, nor verified that CJS Fund I performed such due diligence. Indeed, Newbridge was not familiar with the two entities involved in the forward purchase and sale agreements. Newbridge also failed to investigate the actual ownership, transferability, and pricing of the restricted pre-IPO shares themselves, including whether the forward purchase and sale agreements resulted in excessive markups.

⁵ See *id.*

⁶ See *id.*

⁷ See *id.*

As a result of its failure to perform due diligence, Newbridge recommended the sale of CJS Fund I without having a reasonable basis to believe, based on reasonable diligence, that the recommendation was suitable for at least some investors.

In addition, Jordan, as the Director for Investment Banking, failed to supervise the due diligence of the CJS Fund I and the firm's sale of the CJS Fund I. Specifically, Jordan failed to either conduct independent due diligence or engage another qualified person to conduct due diligence on material aspects of the offering. Instead, as detailed above, Jordan allowed Newbridge to rely primarily on due diligence conducted by the CJS Fund I.

By virtue of the foregoing, Newbridge violated FINRA Rule 2111, and both Newbridge and Jordan violated FINRA Rules 3110 and 2010.

2. Failure to Deposit Escrow Funds into an Independent Bank Escrow Account

Section 15(c)(2) of the Exchange Act and Rule 15c2-4 thereunder require a broker-dealer receiving funds in a contingency offering to promptly (1) deposit funds "in a separate bank account, as agent or trustee for the persons who have the beneficial interests therein, until ... the contingency has occurred; or (2) transmit the funds to an independent bank "which has agreed in writing to hold all such funds in escrow for the persons who have the beneficial interests therein...." The escrow account may not be controlled by the issuer.

Contrary to these requirements, in the offering of CJS Fund I, Newbridge improperly disbursed the offering proceeds to a law firm trust account controlled by the issuer.

By virtue of the foregoing, Newbridge violated Section 15(c) of the Exchange Act and Rule 15c2-4 thereunder, and FINRA Rule 2010.

B. Respondents also consent to the imposition of the following sanctions:

Newbridge consents to the imposition of the following sanctions:

1. A censure;
2. A \$225,000 fine; and,
3. An undertaking to engage an Independent Consultant, pursuant to which Newbridge shall:

- a. Retain, within 60 days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the reasonableness of Newbridge's policies, systems and procedures (written and otherwise) and training with respect to its participation in private placement and minimum contingency offerings;
- b. The Independent Consultant, any firm with which the Independent Consultant is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties, shall not have provided consulting, legal, auditing or other professional services to, or had any affiliation with, Respondent during the two years prior to the date of the Notice of Acceptance of this AWC;
- c. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
- d. Cooperate with the Independent Consultant in all respects, including by providing staff support. Newbridge shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Newbridge shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; Newbridge shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;
- e. At the conclusion of the review, which shall be no more than 90 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the firm and FINRA staff a Written Report. The Written Report shall address, at a minimum, (i) the reasonableness of the firm's policies, systems, procedures, and training with respect to the areas described in Section I.A.C titled "Private Offering of the CJS Technology Select Fund LLC I" of this AWC; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the firm's policies, systems, procedures and training;
- f. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two

years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Newbridge, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performing his or her duties pursuant to this AWC, shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Newbridge or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement;

- g. Within 30 days after delivery of the Written Report, Newbridge shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the firm with a written decision reflecting his or her determination. The firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant;
- h. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Newbridge shall provide FINRA staff with a written implementation report, certified by an officer of Newbridge, attesting to, containing documentation of, and setting forth the details of the firm's implementation of the Independent Consultant's recommendations; and
- i. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

Jordan consents to the imposition of the following sanctions:

1. A two month suspension from association with any FINRA member in a principal capacity; and,
2. A \$5,000 fine.

Respondent Jordan 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, he may not be associated with any FINRA member in a principal capacity during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because he is subject to a statutory disqualification during the suspension or bar, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 them; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 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. Respondents 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. Respondents 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

Accepted by FINRA:

September 26, 2019

Date

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



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