

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016051569601**

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

RE: David John Strnad, Respondent
CRD No. 1982721

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent David John Strnad 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I 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

Respondent David John Strnad first became registered in 1989 as a General Securities Representative with a member firm. In September 2005, he left that firm to join the Smith Barney division of Citigroup Global Markets Inc. as a General Securities Representative. His registration was transferred to Morgan Stanley Smith Barney ("Morgan Stanley" or the "Firm") in June 2009 in connection with a broker-deal merger. In February 2016, Strnad left Morgan Stanley on a voluntary basis and joined a different firm as a General Securities Representative.

On July 10, 2018, that firm filed a Form U5 disclosing that Strnad had resigned on a voluntary basis. Although Strnad is not currently registered or associated with a member firm, FINRA retains jurisdiction over him pursuant to Article V, Section 4 of the FINRA By-Laws.

OVERVIEW

From September 2013 through December 2015 (the “relevant period”), Strnad executed approximately 273 transactions involving bank-issued certificates of deposit (“CDs”) in accounts of an elderly customer, KW. Although KW verbally authorized Strnad to purchase new CD issuances after maturity of prior CD issuances, Strnad exceeded the scope of his authority by selling CDs held by KW prior to maturity and using the proceeds to purchase new CDs for KW. As a result of this conduct, Strnad violated FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Unauthorized purchases and sales in a customer’s brokerage account violate FINRA Rule 2010, which requires that a registered representative, “in the conduct of his business . . . observe high standards of commercial honor and just and equitable principles of trade.”

Beginning in approximately 2007, KW sought to invest his assets at the Firm exclusively in CDs, “laddered” to mature at different intervals. KW gave Strnad verbal authorization to buy new CD issuances upon maturity of prior CD issuances. KW did not authorize Strnad to sell CDs prior to maturity or to use the proceeds of such sales to purchase new CD issuances.

During the relevant period, Strnad exceeded the scope of authority granted by KW by selling CDs owned by KW prior to maturity, nearly always at a loss, and using the proceeds of those sales to purchase new CD issuances. Because KW purchased his CDs through the Firm, rather than a bank, KW could sell the CDs in the secondary market without incurring a penalty. Strnad generally sold KW’s CDs at a loss, however, because the CDs were priced below par in the secondary market due to factors such as interest rate fluctuations.

Strnad executed approximately 273 such transactions in KW’s accounts—138 sales prior to maturity and 135 purchases—causing KW to incur losses of approximately \$100,572, net of interest.¹ Strnad inaccurately marked some of these transactions as “unsolicited.” Strnad’s trading caused KW to pay \$4,268.73 in unnecessary commissions.

By virtue of the foregoing, Strnad violated FINRA Rule 2010.

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

- An 18-month suspension from association with any FINRA member firm in any capacity;
- Disgorgement in the amount of \$4,268.73, plus interest; and

¹ After KW’s daughter complained on KW’s behalf, Morgan Stanley provided compensation to KW.

- A fine in the amount of \$10,000.

The fine shall be due and payable either immediately upon reassociation with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

Disgorgement of a portion of commissions received, which is ordered to be paid to FINRA in the amount of \$4,268.73, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621, from September 1, 2013 until the date this AWC is accepted by the National Adjudicatory Council ("NAC"). Disgorgement shall be due and payable either immediately upon reassociation with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

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

I understand that if I am suspended from associating with any FINRA member, I become 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, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the suspension (see FINRA Rules 8310 and 8311).

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against me;
- 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 NAC and then to the U.S. Securities and

Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudice 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.

I 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

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

my: (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. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I 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.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have 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 me to submit it.

13 MAY 2019
Date


David John Arnad

Reviewed by:

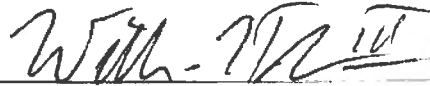


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Accepted by FINRA:

05/30/2019
Date

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



William Thompson
Director
FINRA Department of Enforcement
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