

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2017054755209**

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

RE: Corey A. White (Respondent)
General Securities Principal, Registered Options Principal
CRD No. 4537015

Pursuant to FINRA Rule 9216, Respondent Corey A. White 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 in this AWC.

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

White entered the securities industry when he associated with Financial West Group in May 2002. While associated with Financial West, White was registered with FINRA as a General Securities Representative (from August 2002 to August 2017), a General Securities Principal (from November 2002 to August 2017), a Registered Options Principal (from September 2008 to August 2017), an Operations Professional (from October 2011 to August 2017), and an Investment Banking Principal (from February 2010 to August 2017). Between January 2013 and July 2017, White served as the firm's Chief Compliance Officer and Registered Options Principal. Since August 2017, White has been associated with another FINRA member firm and registered with FINRA in the same capacities as he was with Financial West.

Respondent does not have any relevant disciplinary history.

OVERVIEW

Between January 2013 and July 2017, White was responsible for establishing, maintaining, and enforcing the firm's supervisory systems and Written Supervisory Procedures (WSPs). Additionally, White was responsible for monitoring the activities of

all associated persons through the review of daily trade blotters and exception reports. White failed to reasonably discharge these responsibilities. White also failed to reasonably respond to red flags indicating representatives were excessively trading and recommending qualitatively unsuitable transactions, including transactions involving Non-Traditional Exchange Traded Products (ETPs), low-priced securities and options. As a result, White violated NASD Rules 3010(a) and (b), and FINRA Rules 3110(a) and (b), 2360(b)(20) and 2010.¹

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2016 cycle examination of Financial West.

NASD Rule 3010(a) and FINRA Rule 3110(a) require that each member establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with the applicable securities laws and regulations, and with NASD and FINRA Rules. NASD Rule 3010(b) and FINRA Rule 3110(b) further require firms to establish, maintain, and enforce written procedures to supervise the types of businesses they engage in and the activities of their associated persons. A firm's duty to supervise its registered representatives includes the responsibility to reasonably investigate "red flags" of potential misconduct.

FINRA Rule 2360(b)(20)(C) requires that members provide principal supervisory review of options trading in customer option accounts, including, but not limited to: (i) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved; (ii) the size and frequency of options transactions; (iii) commission activity in the account; (iv) profit or loss in the account; and (v) undue concentration in any options class or classes.

A violation of NASD Rule 3010 and FINRA Rules 3110 and 2360(b)(20)(C) also constitute a violation of FINRA Rule 2010, which requires members and associated person to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

Financial West's supervisory systems and Written Supervisory Procedures and White's supervisory responsibilities.

During the relevant period, the firm's WSPs assigned White the responsibility to establish, maintain, and enforce the firm's supervisory systems and WSPs and to update the WSPs as needed to comply with rule changes and FINRA regulatory notices. The WSPs further stated that it was White's responsibility "to continuously monitor the activities of all associated persons and develop and enforce procedures that are reasonably designed to detect and prevent prohibited activities and violations of the securities rules and regulations." In addition to these responsibilities, White was responsible for providing final approval for all options trades.

¹ FINRA Rule 3110 superseded NASD Rule 3010 on December 31, 2014.

The WSPs stated that White was responsible for reviewing daily trade blotters and daily exception reports, as well as monthly exception reports, known as Monthly Account Supervision or MAS reports, and to “sign a log evidencing the review of the Monthly Exception Reports.” White also was responsible for reviewing whether Office of Supervisory Jurisdiction (OSJ) Supervisors were reasonably complying with their supervisory responsibilities, including conducting their own review of the MAS reports and daily blotters.

White failed to reasonably discharge his supervisory responsibilities regarding the firm’s systems and procedures.

White failed to establish WSPs reasonably designed to enable firm supervisors to review for potentially excessive trading. For example, during the relevant period, the firm had no procedures: (1) addressing or establishing thresholds for annualized turnover rates and cost-to-equity ratios; (2) specifying criteria regarding when to investigate active trading; or (3) addressing when supervisors should contact customers to verify that the trading in their accounts was consistent with their investment objectives and risk tolerance. Similarly, the firm failed to have a supervisory system and WSPs reasonably designed to achieve compliance with FINRA suitability standards concerning the sale of Non-Traditional ETPs to its retail customers.²

Non-Traditional ETPs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over only the course of one trading session—usually a single day. FINRA has advised broker-dealers that Non-Traditional ETPs are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets. In June 2009, FINRA issued Regulatory Notice 09-31 which provided specific guidance regarding the risks and suitability concerns associated with Non-Traditional ETPs, and the need for a supervisory system to address those issues. In January 2012, FINRA issued Regulatory Notice 12-03 which stated, among other things, that firms should have formal written procedures to ensure that their registered representatives do not recommend a complex product to a retail investor before the firm has implemented heightened supervisory and compliance procedures. Further, Regulatory Notice 12-03 stated that firms should monitor the sale of these products in a manner that is reasonably designed to ensure that each product is recommended only to a customer who understands the essential features of the product and for whom the product is suitable.

In April 2017, in response to FINRA’s 2016 cycle exam findings, White, using a third-party vendor, updated the firm’s WSPs regarding leveraged and inverse-leveraged Exchange Traded Funds (ETFs), but not for all Non-Traditional ETPs. The updated WSPs required White to conduct and document an annual review of all recommended ETF transactions. White failed to conduct the annual review.

² Non-Traditional ETPs include leveraged and inverse-leveraged Exchange Traded Funds, Exchange Traded Notes, and other complex Exchange Traded Products.

White failed to reasonably respond to red flags indicating excessive and unsuitable trading in customers' accounts.

During the relevant period, White failed to reasonably monitor representatives' trading to detect potential sales practice abuses. For example, White did not review the MAS exception reports because "there were too many to review." Additionally, White failed to take reasonable steps to determine whether the firm's OSJ Supervisors were reviewing the MAS reports or otherwise complying with their responsibilities to detect and prevent excessive and unsuitable trading.

In October 2013, following the departure of the former OSJ Supervisor of the Brentwood office, White appointed another OSJ Supervisor from the firm's home office to conduct a suitability review of the trading in the Brentwood office. In December 2013, this appointed OSJ Supervisor notified White of excessive and unsuitable trading in the Brentwood office by multiple representatives. In December 2014, White learned that the firm's compliance staff were neither reviewing the MAS reports nor reviewing or supervising the OSJ managers' reviews of the MAS reports as required by the WSPs. White failed to respond to these "red flags" indicative of excessive and unsuitable trading. White also failed to update the firm's WSPs or to reasonably supervise the review of the MAS reports.

Between January 2013 and December 2016, White encountered additional red flags indicating trading misconduct by five representatives involving 10 accounts belonging to six customers:

- the accounts repeatedly appeared on the MAS exception reports and reflected high annualized turnover rates, a high volume of transactions, high commission amounts, and large losses;
- the accounts experienced in-and-out trading—*i.e.*, a pattern of buying and selling the same security multiple times over a short period of time, and indicative of excessive trading;
- the customers had investment objectives that were inconsistent with the short-term trading activity occurring in the accounts, including trading in low-priced securities; and
- the customers sustained losses due to the representatives' excessive trading.

White failed reasonably to respond to these red flags.

White also failed to reasonably supervise transactions involving Non-Traditional ETPs. In March 2016, White learned that a customer with conservative investment objectives had been holding for more than one trading session, a double-leveraged Non-Traditional ETP that had been recommended by a firm representative. White failed to investigate or otherwise respond to this red flag. As a result, the customer held this ETP position for over 570 days, incurring losses of approximately \$32,000.

Additionally, under the firm's WSPs, White was responsible for monitoring and approving options trades (from January 2013 to January 2015) and reviewing the

recommended options trades for suitability (from April 30, 2013 to January 2015). White failed to reasonably discharge these responsibilities. White failed to monitor and approve 370 options transactions (251 buys and 119 sells) that a firm representative executed in one customer's account. Certain of these options transactions involved short-term purchases in long-term calls through which the representative was speculating on a bullish, short-term move in the underlying equity. These transactions were inconsistent with the customer's investment objective and conservative risk tolerance. Many of the long calls expired worthless and resulted in losses.

Therefore, White violated NASD Rules 3010(a) and (b), and FINRA Rules 3110(a) and (b), 2360(b)(20) and 2010.

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

- a bar from associating with any FINRA member in all principal capacities and
- a \$20,000 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction 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 a 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 him;
- 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 its acceptance or rejection.

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 action 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 its subject matter 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 testimonial obligations or 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.

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; Respondent has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce him to submit this AWC.

March 10, 2021

Date

Corey A. White
Corey A. White
Respondent

Reviewed by:

Edward S. Zusman
Edward S. Zusman
Markun Zusman Freniere & Compton LLP
465 California St, Suite 401
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Accepted by FINRA:

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

March 19, 2021

Date

Jill Jablonow
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