

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017055723502**

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

RE: First Financial Equity Corporation, Respondent
Member Firm
CRD No. 16507

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent First Financial Equity Corporation ("FFEC" or "the Firm") 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

FFEC has been a FINRA member since July 1985. The Firm is headquartered in Scottsdale, Arizona and conducts a general securities business. FFEC currently employs 165 registered individuals operating out of 26 branches.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

Between January 2015 and September 2017 (the "Relevant Period"), FFEC failed to timely amend the Firm's registered representatives' Uniform Application For Securities Industry Registration Or Transfer ("Form U4") to disclose 71 outstanding liens, judgments, bankruptcies, and creditor compromises. During the same period, FFEC failed to establish and maintain a system and to establish, maintain, and enforce written procedures reasonably designed achieve compliance with Article V, Section 2 of

FINRA's By-Laws and FINRA Rule 1122 requiring the timely filing of Form U4 amendments to reflect reportable financial events. In addition, from 2014 through 2016, FFEC failed to prepare required annual supervisory control reports and annual CEO certifications. By virtue of this misconduct, FFEC violated Article V, Section 2 of FINRA's By-Laws, as well as FINRA Rules 1122, 3110(a) and (b), 3120, 3130, and 2010.

FACTS AND VIOLATIVE CONDUCT

A. Failure to Timely File Form U4 Amendments

Pursuant to Article V, Section 2 of FINRA's By-Laws, when any person applies to be registered with FINRA, the member firm must file a Form U4 containing, among other things, certain financial disclosures, including outstanding judgments, outstanding liens, and compromises with creditors. That same provision requires every Form U4 filed with FINRA to "be kept current at all times by supplementary amendments." A firm must file each amendment to a Form U4 "not later than 30 days after learning of the facts or circumstances giving rise to the amendment." FINRA Rule 1122 states that "[n]o member or person associated with a member shall file with FINRA information with respect to membership or registration which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or fail to correct such filing after notice thereof." A violation of Article V, Section 2 of FINRA's By-Laws and Rule 1122 is also a violation of FINRA Rule 2010, which requires members in the conduct of their business to observe high standards of commercial honor and just and equitable principles of trade.

During the Relevant Period, FFEC failed to file amended Form U-4s for 20 of the Firm's registered representatives to disclose 71 outstanding liens, outstanding judgments, bankruptcies, and creditor compromises in a timely fashion or, in some cases, at all. These untimely disclosed and undisclosed events consisted of 68 outstanding judgments and outstanding liens totaling approximately \$1.4 million, two bankruptcies, and one creditor compromise. The Firm was informed of each of these events, yet was between three and twenty months late in disclosing 62 of them, with a median delay of seventeen months. Additionally, the Firm completely failed to amend the representatives' Form U-4s to reflect the remaining nine events. By virtue of the foregoing, FFEC violated Article V, Section 2 of FINRA's By-Laws and FINRA Rules 1122 and 2010.

B. Failure to Supervise

FINRA Rule 3110(a) requires that members establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules. FINRA Rule 3110(b) requires that members establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable

securities laws and regulations, and with applicable FINRA rules. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

During the Relevant Period, FFEC failed to establish and maintain a system and failed to establish, maintain, and enforce written procedures that were reasonably designed to supervise the amendment of registered representatives' Form U-4s to reflect reportable financial events. Until her demotion in November 2016, former CCO Melissa Strouse was the only person at the Firm responsible for keeping Form U-4s accurate and current, and she failed to do so.¹ FFEC failed to supervise Strouse to monitor whether she was fulfilling her responsibilities and timely amending the Firm's registered representatives' Form U-4s.

FFEC's disclosure failures continued after Strouse's demotion in November 2016. The Firm failed to clearly communicate who was responsible for amending Form U-4s until Strouse's termination in September 2017, and the Firm had no reasonable supervisory system in place to monitor that the amendments were being timely made. By virtue of the foregoing, FFEC violated FINRA Rules 3110(a) and (b) and 2010.

C. Failure to Prepare Annual Report of Supervisory Controls

FINRA Rule 3120 requires, among other things, that a designated principal submit to the member's senior management at least annually a report detailing the member's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures prepared in response to the test results. The Firm's designated principals failed to prepare the annual Rule 3120 report for 2014, 2015, and 2016. By virtue of the foregoing, FFEC violated FINRA Rules 3120 and 2010.

D. Failure to Prepare Annual CEO Certification

FINRA Rule 3130(b) requires a member firm's CEO or equivalent officer to certify annually that the member has processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with the applicable FINRA Rules and federal securities laws and regulations. FFEC failed to prepare the annual CEO certifications for 2014, 2015, and 2016. By virtue of the foregoing, FFEC violated FINRA Rules 3130 and 2010.

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

- A censure, and
- A fine of \$200,000.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments is due and payable. Respondent has submitted an

¹ Strouse entered into AWC No. 2017055723501 on September 9, 2019.

Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability 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

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 it;
- 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 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 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 it 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.

The undersigned, on behalf of the Respondent Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's 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 it to submit it.

First Financial Equity Corporation
Respondent

12/04/2019
Date

By: G. A. Salazar

Print Name: German A. Salazar

Title: General Counsel

Accepted by FINRA:

12/19/19
Date

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

[Signature]
Robin W. Sardegna
Senior Counsel
FINRA

Department of Enforcement
15200 Omega Drive
Third Floor
Rockville, MD 20850

Statement of Corrective Action

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

To: Robin Sardegna, Senior Counsel, Department of Enforcement
From: First Financial Equity Corporation
Date: December 4, 2019

This statement is submitted by First Financial Equity Corporation ("FFEC") in connection with the Letter of Acceptance, Waiver and Consent ("AWC") submitted on this date. FFEC requests that the Department consider the factors noted below with respect to the AWC regarding certain violations occurring between 2014 and 2017.

Since the purchase of FFEC on July 31, 2017, the new owners have worked diligently to improve the firm's Compliance staffing and systems. Following is a brief summary of some of the more important elements of that process.

1. The immediate demotion of Melissa Strouse from CCO to a lesser staff role and her termination shortly thereafter. Ms. Strouse was the CCO during much of the period in which the violations occurred.
2. Hiring an experienced CCO in 2017.
3. Relocating CCO role to the firm's Denver office to assist with recruitment of staff with prior FINRA experience.
4. Heightened emphasis has been placed on recruitment and retention of qualified persons in Compliance positions.
5. Complete revision and update of the firm's Written Supervisory Procedures.
6. Use of RegEd software has created an online, auditable process for submission of U4 update information. The information is inputted by the licensed person, sent to the OSJ manager and then to the Compliance Department. U4 updates are then noted in the system for future reference.
7. Investment in new Compliance software (Jacommo) implemented in 2019 allow FFEC to perform trade surveillance, supervision, license checking and OFAC/FinCEN scans automatically with a high degree of reliability. By automating tasks that are often performed manually (e.g., data loading, trade review and reporting), the firm can redirect some of its Compliance staff's time and resources on investor protection tasks such as sales rep education, supervision, and risk management.
8. Retention of outside consulting firm to assist and consult with Compliance Department. This includes checking compliance with time-specific items including the CEO certification.

FFEC is confident that its process improvements and staffing enhancements ensure appropriate investor protections and will prevent recurrence of the items occurrences during the 2014 to 2017 period.