

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2018059111001**

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

RE: Chelsea Financial Services, Respondent
Member Firm
CRD No. 47770

Christopher Vetrano, Respondent
General Securities Representative, General Securities Principal, Investment Banking
Representative, Investment Banking Principal, Operations Professional
CRD No. 2476447

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Chelsea Financial Services ("Chelsea Financial" or the "Firm") and Christopher Vetrano (together, "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

Chelsea Financial has been a FINRA member since 2000. The Firm is headquartered in Staten Island, New York and has approximately 68 registered representatives across approximately 19 registered branch offices.

Vetrano first became registered with FINRA as a General Securities Representative in 1994. He became registered in that capacity through Chelsea Financial in March 2007. Vetrano subsequently became registered through Chelsea Financial as a General Securities Principal in November 2008, an Investment Banking Representative in January 2010, an Operations Professional in November 2011, and an Investment Banking Principal in October 2018. Vetrano remains registered in those capacities through Chelsea Financial.

RELEVANT DISCIPLINARY HISTORY

Neither the Firm nor Vetrano has any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

From January 2016 through July 2018 (the “Relevant Period”), Chelsea Financial failed to establish and maintain a supervisory system, and failed to establish, maintain, and enforce written supervisory procedures (“WSPs”), that were reasonably designed to achieve compliance with FINRA’s suitability rule as it pertains to excessive trading. In addition, Chelsea Financial and Vetrano—who was the Firm’s designated supervisory principal responsible for conducting suitability reviews—failed to reasonably supervise a former registered representative, CB,¹ who, while registered through Chelsea Financial, recommended unsuitable and excessive trading in three customer accounts.

As a result of the foregoing, Chelsea Financial and Vetrano violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

A. Chelsea Financial Failed to Establish and Maintain a Supervisory System, and Failed to Establish, Maintain, and Enforce WSPs, that Were Reasonably Designed to Achieve Compliance with FINRA’s Suitability Rule as it Pertains to Excessive Trading.

FINRA Rule 3110 requires 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 person of the firm and achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA rules. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

FINRA Rule 2111 requires member firms or their associated persons to have a reasonable basis to believe that a recommended securities transaction or investment strategy is suitable for the customer in light of the customer’s investment profile. Recommended securities transactions may be unsuitable if, when taken together, they are excessive and the level of trading is inconsistent with the customer’s investment profile. No single test defines when trading is excessive, but factors such as the turnover rate and the cost-to-equity ratio may provide a basis for finding that a member firm or associated person has violated FINRA’s suitability rule.

During the Relevant Period, Chelsea Financial failed to establish, maintain, and enforce

¹ FINRA previously barred CB from associating with any FINRA member firm in any capacity.

WSPs that were reasonably designed to achieve compliance with FINRA's suitability rule as it pertains to excessive trading.

First, the Firm's WSPs provided confusing and contradictory guidance regarding how to assess whether trading may be excessive. The Firm's WSPs stated that "excessive trading may be indicated where there is an annualized cost to equity ratio in excess of 20%." However, the WSPs also stated that "COA"—a term that the WSPs failed to define—"is a more modern indication of excessive trading ... and [the Firm] will focus its review on COA." Although undefined in the WSPs, the Firm later told FINRA staff that "COA" meant "costs over assets," but neither "costs" nor "assets" was defined, notwithstanding the statement in the WSPs that the Firm "focus[ed] its review" on COA. Additionally, the WSPs directed the Firm's supervisory staff to "not specifically review for turnover." Yet, despite this directive, the WSPs also stated that "[a]s a general proposition excessive trading may be indicated by a turnover rate in excess of six."

Second, the Firm's WSPs failed to provide any guidance to supervisors regarding how they should monitor for potentially excessive trading, whether it be through the use of automated exception reports, review of daily trade blotters, or otherwise.

Chelsea Financial also failed to establish and maintain a supervisory system that was reasonably designed to achieve compliance with FINRA's suitability rule as it pertains to excessive trading. During the Relevant Period, the Firm's in-fact system for supervising for potentially excessive trading consisted of a manual review of the Firm's daily trade blotter and a review of a monthly automated exception report produced by the Firm's clearing firm, which identified all customer accounts in which 10 or more trades were executed during the prior one-month period. As noted, the WSPs did not mention either of these methods, and the Firm otherwise failed to provide any guidance to supervisors about how to use them to monitor for excessive trading.

Vetrano, the Firm's designated supervisory principal, performed the reviews of the daily trade blotter and the monthly exception report during the Relevant Period. However, neither the trade blotter nor the exception report included any indicators of excessive trading, such as turnover or cost-to-equity ratios, leaving Vetrano to perform calculations manually.

Moreover, the Firm also failed to provide guidance to supervisors, either in its WSPs or otherwise, regarding the steps that they should take if they detected potentially excessive trading. As a result, in practice, when Vetrano identified trading that he thought might be excessive, he failed to take reasonable steps to investigate. Instead, he sometimes sent customers an "active account letter," which recited the customer's demographic information and investment objectives, and stated generally that "your trading strategy...may result in significantly greater gains or losses than alternative methods of investing and/or trading strategies." But the letter did not provide information to the customer about the level of trading in, or the amount of commissions charged to, the account. On other occasions when Vetrano identified trading that he believed might be excessive, he limited the amount of per-transaction commissions that could be charged to

the account to either \$50 or \$100 per trade. However, that limitation could be circumvented by simply increasing the number of trades placed in the account. Indeed, as discussed below, the per-trade cap on commissions at times exacerbated the excessive trading in the account because it caused Chelsea Financial registered representative CB to increase the number of trades in customer accounts to overcome the per-trade commission cap.

As a result of the foregoing, Chelsea Financial violated FINRA Rules 3110 and 2010.

B. Chelsea Financial and Vetrano Failed to Reasonably Supervise CB

FINRA Rule 3110 requires that a member firm, acting through its supervisory personnel, take reasonable steps to ensure that transactions are in compliance with applicable securities laws and regulations, and that supervisors investigate red flags of potential misconduct and take appropriate action when misconduct has occurred. During the Relevant Period, Chelsea Financial and Vetrano failed to reasonably supervise former Firm registered representative CB.

During the Relevant Period, Vetrano was CB's direct supervisor. As set forth below, Vetrano observed multiple red flags indicating that CB was recommending excessive and unsuitable trading in the customer accounts of three customers, but Vetrano failed to reasonably respond to these red flags.

The accounts for the three customers had annualized turnover ratios ranging from 39.37 to 43.51, and annualized cost-to-equity ratios ranging from 80.74% to 206.52%, during the Relevant Period. After these accounts appeared on the Firm's monthly exception report, Vetrano performed manual cost-to-equity calculations for each account. Vetrano's calculations revealed cost-to-equity ratios ranging from 27% to 94.7%.

In response, Vetrano sent active account letters to all three customers, but, as described above, the letters did not provide the customers with any information about the level of trading in, or the amount of commissions charged to, their accounts. Vetrano also instituted a per-trade cap on the commissions that could be charged in each of the three accounts. However, as noted above, the per-trade cap on commissions often exacerbated the excessive trading in the affected accounts. For example, in June 2016, after identifying a cost-to-equity ratio of approximately 34.65% in one customer's account, Vetrano applied a \$50 per-trade cap on commissions charged to the account. By the time the account was closed in February 2017, the cost-to-equity ratio had risen to 91.45%.

As one example of the affected customers, Customer A was a hairdresser and small business owner who listed on her new account documents an annual income of between \$25,000 and \$50,000. Customer A opened her account with approximately \$13,500 in equity. In November 2016, Customer A's account appeared on the Firm's monthly exception report, and Vetrano sent an active account letter to Customer A, which, as described above, did not provide the customer with any information about the level of trading in, or the amount of commissions charged to, her account. In December 2016,

Vetrano's review of Customer A's account revealed that, in the previous three months, the account's equity had declined to approximately \$6,000, and the annualized cost-to-equity ratio in the account was 94.7%. In response, Vetrano imposed a commissions cap of \$50 per trade in Customer A's account. But, between that time and the time Customer A closed her account in May 2017, the annualized cost-to-equity ratio rose to 154.89%, and the account's total losses rose to more than \$9,000. Other than sending the active account letter in November 2016 and instituting the per-trade commission cap in December 2016, Vetrano took no other actions to follow up on the red flags of unsuitable and excessive trading in connection with Customer A's account.

In all, as a result of CB's recommendations of excessive and unsuitable transactions, CB's three customers collectively paid approximately \$68,899 in commissions, and their accounts collectively experienced losses of approximately \$34,515, during the Relevant Period.

As a result of the foregoing, Chelsea Financial and Vetrano violated FINRA Rules 3110 and 2010.

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

For Chelsea Financial:

- a censure;
- a fine of \$15,000;²
- restitution to the customers listed on Attachment A in the total amount of \$68,899, plus interest as further described below; and
- an undertaking, within 30 days of the issuance of the Notice of Acceptance of this AWC, to review and revise, as necessary, the Firm's supervisory system and WSPs, regarding supervision of excessive trading. Within 90 days of the Notice of Acceptance of this AWC, a registered principal on behalf of the Firm shall certify in writing to David Camuzo, Senior Counsel, that: (i) the Firm has completed its review; and (ii) as of the date of the certification, the Firm has established systems and WSPs reasonably designed to achieve compliance with the applicable securities laws, regulations, and NASD and FINRA rules addressed in this AWC.

For Vetrano:

- a three-month suspension from association with any FINRA member in any

² Pursuant to the General Principles Applicable to all Sanction Determinations contained in the *Sanction Guidelines*, FINRA imposed a reduced fine against Chelsea Financial in this case after it considered, among other things, the Firm's revenues and financial resources, as well as its agreement to pay full restitution to the affected customers. *See* Notice to Members 06-55.

principal capacity;

- a fine of \$10,000; and
- a requirement that within 90 days of the Notice of Acceptance of this AWC, Vetrano will undertake to attend and satisfactorily complete 40 hours of continuing education concerning supervisory responsibilities by a provider not unacceptable to FINRA. Vetrano will notify David Camuzo, Senior Counsel, of the name and contact information of the provider who is providing the continuing education at least 10 days prior to attending the training. Within 30 days following completion of such training, Vetrano will submit written proof that the continuing education program has been satisfactorily completed to David Camuzo, FINRA's Department of Enforcement, 581 Main Street, Suite 710, Woodbridge, New Jersey 07095, and by email to David.Camuzo@finra.org. All correspondence must identify the respondent and matter number.

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 methods by which they propose to pay the fines imposed.

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

Restitution is ordered to be paid to the customers listed on Attachment A hereto in the total amount of \$68,899, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from July 31, 2018, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Chelsea Financial shall submit satisfactory proof of payment of restitution and pre-judgment interest (separately specifying the date and amount of each paid to each customer listed on Attachment A) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Chelsea Financial. The email must identify Chelsea Financial and the case number and include a copy of the check, money order or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after acceptance of the AWC.

If for any reason Chelsea Financial cannot locate any customer identified in Attachment A after reasonable and documented efforts within 120 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, Chelsea Financial shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. Chelsea Financial shall provide satisfactory proof of such action to the FINRA staff member identified above and in the

manner described above, within 14 calendar days of forwarding the undistributed restitution and interest to the appropriate state authority.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA staff, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

As noted above, pursuant to the General Principles Applicable to all Sanction Determinations contained in the *Sanction Guidelines*, FINRA imposed a reduced fine in this case as against Chelsea Financial after it considered, among other things, the Firm's revenues and financial resources. See Notice to Members 06-55.

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

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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondents;
 - 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 in this provision affects Respondents': (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Chelsea Financial, 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.

By his own account, Vetrano 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; Vetrano has agreed to the AWC's provisions voluntarily; and 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 him to submit this AWC.

Chelsea Financial Services
Respondent

11/15/19
Date

By: gh fussen
Print Name: John Pisapia
Title: President

11/15/19
Date


Christopher Vetrano
Respondent

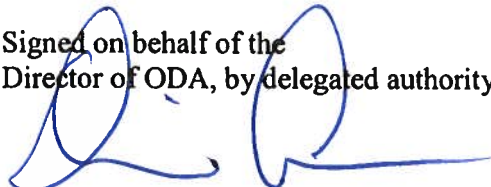
Reviewed by:


Michael Utilla, Esq.
Counsel for Respondents
Michael Utilla & Associates
26 Court St., Suite 2601
Brooklyn, NY 11242

Accepted by FINRA:

12/4/19
Date

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


David Camuzo
Senior Counsel
FINRA
Department of Enforcement
581 Main St., Suite 710
Woodbridge, NJ 07095

ATTACHMENT A
LETTER OF ACCEPTANCE WAIVER AND CONSENT
No. 2018059111001

<u>Customer</u>	<u>Restitution Amount</u>
A	\$11,155
B	\$15,541
C	\$42,203