

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Frank V. Sapareto
(CRD No. 2274877),

Respondent.

DISCIPLINARY PROCEEDING
No. 2018060379701

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Between April 2018 and June 2018, while registered through Advisory Group Equity Services Ltd. (AGES), Respondent Frank V. Sapareto engaged in an outside business activity without providing prior written notice to AGES. Specifically, Sapareto created Standard Video LLC, a New Hampshire corporate entity of which he was a “Member,” for the purpose of producing and marketing a film. Sapareto paid over \$8,000 for camera equipment, fees for actors, and to rent a cabin in which to film the movie. Filming occurred in June 2018.

2. In violation of FINRA Rules 3270 and 2010, Sapareto failed to provide prior written notice of his outside business activity to AGES. AGES learned about the outside business activity when Sapareto was sued in connection with his activities with Standard Video, and it promptly terminated Sapareto.

3. FINRA Staff then commenced an investigation. Throughout that investigation, Sapareto repeatedly provided false or misleading information to FINRA Staff to conceal his

involvement in his outside business activity. Sapareto provided false or misleading information in response to a written request for information and false or misleading sworn testimony to FINRA Staff during an on-the-record interview, both pursuant to FINRA Rule 8210. Among other things, Sapareto falsely told FINRA Staff that Standard Video was formed without his knowledge or consent, that he was not involved in producing a movie, that he had not exchanged emails with a third party about producing the movie, and that he had not spent money in furtherance of Standard Video's activities.

4. As a result of the foregoing, Sapareto (1) violated FINRA Rules 3270 and 2010, for engaging in an outside business activity without providing prior written notice to AGES and (2) violated FINRA Rules 8210 and 2010 for providing false or misleading written responses and testimony to FINRA Staff in response to requests for information and testimony issued pursuant to FINRA Rule 8210.

RESPONDENT AND JURISDICTION

5. Sapareto first became registered with FINRA in September 1992. From February 2017 through October 2018, Sapareto was registered as an Investment Company and Variable Contracts Products Representative through an association with AGES (CRD No. 15427).

6. On October 31, 2018, AGES filed a Uniform Termination Notice for Securities Industry Registration (Form U5) terminating Sapareto's registration and stating that the firm had discharged him "due to a violation of the Firm's Written Supervisory Procedures and FINRA Rule 3270 Outside Business Activities."

7. Sapareto was subsequently registered in the same capacity through an association with another FINRA member from January 2, 2019 to January 15, 2019.

8. Sapareto was associated with another FINRA member starting on March 4, 2019, and he was registered as an Investment Company and Variable Contracts Products Representative through that firm from April 15, 2019 to May 5, 2020.

9. Although Sapareto is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after May 5, 2020, which was the effective date of termination of Sapareto's registration with his last FINRA member, and (2) the Complaint charges Sapareto with misconduct committed while he was registered or associated with a FINRA member.

FACTS

A. Sapareto Engaged in an Outside Business Activity.

10. Beginning in April 2018, Sapareto engaged in an undisclosed outside business activity to produce a film that Sapareto intended to market and sell. Sapareto was to appear in the movie, which was to be filmed in California.

11. Prior to the filming of the movie, between April 2018 and June 2018, Sapareto paid or authorized the payment of over \$3,000 in expenses for the production of the movie.

12. In that same period, Sapareto sent over 100 emails from his personal email account to JC, whom Sapareto recruited to direct the film. The emails concerned topics such as finding and paying actors, purchasing a camcorder and other filming equipment, paying for advertising, and finding and paying for a location to film the movie. For example:

a) On or about April 10, 2018, Sapareto issued a check for \$40 to JC to pay for advertising relating to the movie. On April 14, 2018, Sapareto emailed JC and wrote, "I sent you \$40 to advertise."

b) On or about April 28, 2018, Sapareto used his personal credit card to pay \$548.44 to rent a cabin in California to film the movie, and on or about June 7, 2018, Sapareto again used his personal credit card to make another payment of \$508.50 for the cabin rental. On June 5, 2018, Sapareto emailed JC and wrote, "I'm just paying final deposit on place."

c) On or about May 26, 2018, Sapareto authorized JC to use his personal credit card to pay \$725 to a marketing professional to create a website and online advertising for the movie. On May 24, 2018, Sapareto sent an email to JC stating, "Put the \$725 for [name of the marketing professional] on the credit card I gave you."

d) On or about June 12, 2018, Sapareto used his personal credit card to pay \$848 to purchase a camcorder. That same day, Sapareto sent an email to JC and wrote, "Just authorized camcorder purchase directly on [name of company]."

e) On or about June 18, 2020, Sapareto used his personal credit card to pay \$246.32 for five memory cards. That same day, Sapareto wrote an email to JC stating, "Could only get 5."

13. In June 2018, Sapareto also formed Standard Video, a limited liability company in the State of New Hampshire. Sapareto used a business formation service company to prepare and file a Certificate of Formation for Standard Video with the State of New Hampshire that listed Sapareto as a "Member" of the company and contained Sapareto's electronic signature.

14. Between May 18, 2018 and June 4, 2018, Sapareto authorized JC to use Sapareto's personal credit card to make four payments to the business formation service company totaling \$696.

15. On or about June 25, 2018, Sapareto traveled to California to film the movie with JC. That day, Sapareto withdrew \$5,100 in cash from his personal bank account to pay for additional expenses for the movie's production, including the daily fees for the actors.

16. On or about June 29, 2018, Sapareto and JC filmed the movie at the cabin that Sapareto rented.

B. Sapareto Failed to Provide Prior Written Notice of His Outside Business Activity to AGES.

17. At all relevant times, AGES's written supervisory procedures (WSPs) stated that "[n]o registered person of the Company may be an employee, independent contractor, sole proprietor, officer, director or partner of an enterprise/business other than the Company, or be compensated, or have the reasonable expectation of compensation as a result of such activity, unless he or she has provided PRIOR written notice to the Company. Registered persons should provide the required notice as far in advance as possible, however, no later than two weeks prior to the planned commencement of the activity."

18. In October 2017, Sapareto acknowledged that he had reviewed and understood AGES' WSPs in an annual compliance form.

19. Sapareto did not provide AGES with prior notice of his creation and operation of Standard Video or his activities to produce and market a video.

C. AGES Learned of Standard Video and Terminated Sapareto, Prompting FINRA's Investigation.

20. In October 2018, a civil lawsuit was filed against Sapareto in the Superior Court of California, Ventura County, in connection with his activities with JC.

21. Shortly thereafter, AGES learned of the lawsuit and terminated Sapareto for having engaged in an unapproved outside business activity in violation of FINRA Rule 3270 and the firm's WSPs.

22. After AGES filed a Form U5 disclosing Sapareto's termination, FINRA Staff started its investigation of this matter to determine whether Sapareto had engaged in undisclosed outside business activities.

D. Sapareto Provided False or Misleading Information in Written Responses to FINRA.

23. On March 6, 2019, FINRA Staff requested, pursuant to FINRA Rule 8210, that Sapareto provide, among other items, the following information and documents:

a) "Please state whether you provided notice or received approval from [AGES] prior to incorporating Standard Video LLC."

b) "Please state whether you provided notice or received approval from [AGES] prior to engaging in any activities related to Standard Video LLC."

24. On or about March 11, 2019, Sapareto responded to FINRA Staff's Rule 8210 request. Sapareto denied forming any company or filing any paperwork to do any business with JC, or having any intention of entering into business with JC. Sapareto stated, "I never formed any company, signed any agreements, nor filed any paperwork to do ANY business with him."

25. On March 6, 2019, FINRA Staff requested, pursuant to FINRA Rule 8210, that Sapareto "provide copies of all written and electronic correspondence sent between you and [JC] related to Standard Video LLC or its business activities."

26. On or about March 11, 2019, Sapareto responded to FINRA Staff's Rule 8210 request. Sapareto denied having any written correspondence with JC relating to Standard Video or its business activities. Sapareto stated, "There was no written or texted correspondence with [JC] with the exception of my landing in LA about where to meet him."

27. Sapareto's responses to FINRA were false or misleading.

E. Sapareto Provided False or Misleading Sworn Testimony to FINRA.

28. On October 22, 2019, in connection with its investigation into whether Sapareto had engaged in an undisclosed outside business activity, FINRA Staff sent Sapareto a request pursuant to FINRA Rule 8210 to provide on-the-record (OTR) testimony. Pursuant to that request, Sapareto appeared and provided sworn testimony on November 22, 2019 (the November 22 OTR).

29. During the November 22 OTR, Sapareto made the following false or misleading statements to FINRA Staff:

a) Sapareto falsely denied having any involvement in forming Standard Video. Sapareto testified that he did not file the Certificate of Formation for Standard Video or pay for its filing, and that the filing was done without his knowledge or authorization.

b) Sapareto falsely and repeatedly denied engaging in any business activities with JC or through Standard Video involving the production of a film.

c) Sapareto falsely denied sending emails from his personal email account to JC regarding the production of a film. When Staff presented Sapareto with an email from his personal email account to JC dated May 18, 2018, Sapareto falsely denied having sent it.

d) Sapareto falsely testified that he traveled to California in June 2018 for a personal vacation and that, while he was on vacation, he loaned his personal camcorder to JC so that JC could film landmarks for potential use in “video tourism” videos that JC might sell to promote tourism. In fact, Sapareto traveled to California to film a movie that he intended to market and sell through Standard Video.

e) Sapareto falsely testified that a \$5,100 cash withdrawal that he made in California was for personal expenses when, in fact, it was used to pay expenses for the film.

FIRST CAUSE OF ACTION

Failure to Disclose an Outside Business Activity *Violation of FINRA Rules 3270 and 2010*

30. Enforcement realleges and incorporates by reference all preceding paragraphs.

31. FINRA Rule 3270 provides, in relevant part, that “[n]o registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member.”

32. A violation of FINRA Rule 3270 also constitutes a violation of FINRA Rule 2010, which requires that associated persons “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

33. Between April 2018 and June 2018, Sapareto engaged in an outside business activity through the company that he created, Standard Video, involving the production for sale of a film. Sapareto formed and was a “Member” of Standard Video, a New Hampshire limited liability company.

34. Sapareto acted on behalf of Standard Video by, among other things, personally paying more than \$8,000 in expenses to produce the movie, including paying for advertising, camera equipment, fees for actors, and a filming location.

35. Sapareto had the reasonable expectation of compensation as a result of his outside business activities with Standard Video because he intended to produce and market the film that was shot in June 2018.

36. Sapareto's business activities through Standard Video were outside the scope of his relationship with AGES.

37. Sapareto failed to provide prior written notice to AGES of his outside business activity.

38. By reason of the foregoing, Sapareto violated FINRA Rules 3270 and 2010.

SECOND CAUSE OF ACTION

Providing False or Misleading Information to FINRA in Written Responses to FINRA Rule 8210 Requests *Violation of FINRA Rules 8210 and 2010*

39. Enforcement realleges and incorporates by reference all preceding paragraphs.

40. Providing false or misleading information to FINRA in response to a FINRA Rule 8210 request violates FINRA Rule 8210 and also constitutes conduct inconsistent with just and equitable principles of trade, in violation of FINRA Rule 2010.

41. On March 6, 2019, in connection with its investigation of possible undisclosed outside business activities, FINRA Staff sent Sapareto a letter pursuant to FINRA Rule 8210. In that letter, FINRA Staff requested that Sapareto state whether he provided notice or received approval from AGES before incorporating Standard Video and engaging in business activities through this entity; it also requested that Sapareto provide copies of any electronic and written correspondence with JC concerning Standard Video or its business activities.

42. On or about March 11, 2019, Sapareto responded to FINRA's Rule 8210 request. In that written response, Sapareto made the following false or misleading statements:

a) Sapareto denied forming any company or filing any paperwork to do business with JC, or having any intention of entering into business with JC.

b) Sapareto denied having any written correspondence with JC relating to Standard Video or its business activities.

43. By providing false or misleading information to FINRA in response to a Rule 8210 request, Sapareto violated FINRA Rules 8210 and 2010.

THIRD CAUSE OF ACTION

Providing False or Misleading Testimony to FINRA

Violation of FINRA Rules 8210 and 2010

44. Enforcement realleges and incorporates by reference all preceding paragraphs.

45. Providing false or misleading testimony to FINRA requested pursuant to FINRA Rule 8210 violates FINRA Rule 8210 and also constitutes conduct inconsistent with just and equitable principles of trade, in violation of FINRA Rule 2010.

46. On October 22, 2019, in connection with its investigation of a possible undisclosed business activity, FINRA Staff sent Sapareto a request pursuant to FINRA Rule 8210 to provide OTR testimony.

47. Pursuant to that request, Sapareto appeared and provided sworn testimony on November 22, 2019. At the November 22 OTR, Sapareto provided the following false or misleading testimony to FINRA:

a) Sapareto falsely testified that he did not file the Certificate of Formation for Standard Video or pay for the filing, and that the filing was done without his knowledge or authorization.

b) Sapareto falsely testified that he conducted no business activities with JC or through Standard Video involving the production of a film.

c) Sapareto falsely testified that he sent no emails to JC concerning the production of a film.

d) Sapareto falsely testified that he traveled to California in June 2018 for a personal vacation and that, while he was on vacation, he loaned his personal camcorder to JC so that JC could film landmarks for potential use in “video tourism” videos that JC might sell to promote tourism.

e) Sapareto falsely testified that the \$5,100 in cash that he withdrew while in California was for personal expenses.

48. By providing false or misleading testimony to FINRA taken pursuant to FINRA Rule 8210, Sapareto violated FINRA Rules 8210 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department of Enforcement respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and

- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: March 31, 2021

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