

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019060701001**

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

RE: David Daniel Lopez (Respondent)
Former General Securities Principal
CRD No. 2667397

Pursuant to FINRA Rule 9216, Respondent David Daniel Lopez 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

Lopez entered the securities industry in 1995 when he became associated with a FINRA member. In 2001, Lopez became registered with FINRA as, among other capacities, a General Securities Principal through his association with Spartan Securities Group, Ltd. (Spartan). On June 28, 2019, Spartan filed a Uniform Termination Notice for Securities Industry Registration (Form U5) for Lopez, terminating his registration with FINRA. Although Lopez is not currently associated with a FINRA member, FINRA retains jurisdiction over him pursuant to Article V, Section 4(a) of FINRA's By-Laws. Lopez does not have any relevant disciplinary history.

OVERVIEW

From January 1, 2018 through March 6, 2019 (the Relevant Period), Lopez failed to establish and maintain a supervisory system, and failed to establish, maintain and enforce written supervisory procedures (WSPs), reasonably designed to achieve compliance with Rule 15c3-5 under the Securities Exchange Act of 1934 (the Market Access Rule), in violation of FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a notice FINRA received on March 7, 2019, that Spartan had had ceased business operations due to net capital deficiencies that had been caused by a firm trader.

Pursuant to FINRA Rule 3110(a) and (b), members must establish and maintain a supervisory system, as well as establish, maintain, and enforce WSPs, reasonably designed to achieve compliance with applicable securities laws and regulations, and FINRA rules.

FINRA Rule 2010 requires an associated person to observe high standards of commercial honor and just and equitable principles of trade in the conduct of his or her business. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

The Market Access Rule

In 2010, the SEC adopted the Market Access Rule to require that broker-dealers with market access appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system. The Market Access Rule establishes specific requirements for broker-dealers providing market access, including that such firms establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, or other risks of its business. Pursuant to subsection (c)(1) of the Market Access Rule, the risk management controls and supervisory procedures “shall be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to (i) prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds.” In the Adopting Release for Rule 15c3-5, the SEC explained that “because the controls and procedures must be reasonably designed to prevent the entry of orders that exceed the applicable credit or capital thresholds by rejecting them, the broker-dealer’s controls must be applied on an automated, pre-trade basis, before orders are routed to the exchange.”¹

During the Relevant Period Lopez was Spartan’s designated principal responsible for supervising all firm traders, as well as trading and market making at the firm. These responsibilities included establishing, documenting, and maintaining a system of risk management controls and WSPs reasonably designed to achieve compliance with the Market Access Rule. During the same time period, the firm provided market access to the trader through the firm’s execution management system, which the trader regularly utilized to route quotes and orders to the market.

¹ See Securities Exchange Act Release No. 34-63241 (November 3, 2010) (“Rule 15c3-5 Adopting Release”), 75 FR 69791, at 69802 (Nov. 15, 2010).

*Lopez Failed to Establish Required Risk Management
Controls and WSPs to Comply With the Market Access Rule*

Lopez failed to establish, document, and maintain a system of risk management controls and WSPs related to the firm's capital thresholds that were applied on an automated, pre-trade basis before orders were routed to an exchange or alternative trading system (ATS), which are requirements of the Market Access Rule. Neither the firm's WSPs, nor the firm's Trading and Market Making Procedure Manual, contained any mention of the required controls or procedures related to Spartan's capital thresholds to be applied on an automated, pre-trade basis. Lopez's failure to establish, document, and maintain the risk management controls and WSPs related to the Market Access Rule jeopardized Spartan's financial condition, that of other market participants, and the integrity of trading on the securities markets as set forth below.

Lopez Failed to Supervise the Former Trader

Spartan's WSPs contained trading limits that applied to all traders at the firm. Lopez was the designated principal for supervising trading and ensuring compliance with the Market Access Rule, and he had the ability to modify or restrict the trader's market access in accordance with the WSPs. Although Lopez was aware that the trader previously exceeded the allowable trading limits through trading in the firm's proprietary account, Lopez never modified or restricted the trader's market access.

On March 6, 2019, the trader executed a series of transactions in Spartan's proprietary account that resulted in short positions in a biotechnology stock that exceeded the trading limits set forth in the firm's WSPs. Lopez became aware of the short positions in the biotechnology stock in the morning on March 6, 2019, but failed to modify or restrict the trader's market access until close to the end of the trading day. On March 7, 2019, by the time Spartan was able to cover the short positions into which the former trader had entered, the firm suffered a loss of approximately \$16.6 million.

Therefore, Lopez violated FINRA Rules 3110 and 2010.

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

- a 12-month suspension from associating with any FINRA member in all principal capacities.

Respondent has submitted a statement of financial condition and demonstrated an inability to pay. In light of Respondent's financial status, no monetary sanctions have been imposed.

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 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 in this AWC shall be effective on a date set by FINRA.

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:

- [REDACTED]
- 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 understands and acknowledges that FINRA does not represent or advise him and Respondent cannot rely on FINRA for legal advice. 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.

May 6, 2021

David Lopez

Date

David Daniel Lopez
Respondent

Accepted by FINRA:

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

May 19, 2021

Sean Firley

Date

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