

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019061612602**

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

RE: FFEC Wealth Partners LLC (Respondent) (formerly, First Financial Equity Corporation)
Member Firm
CRD No. 16507

Jeffrey Scott Graves (Respondent)
General Securities Principal
CRD No. 1398578

Pursuant to FINRA Rule 9216, Respondents FFEC Wealth Partners LLC (FFEC) and Jeffrey Scott Graves (Graves) 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondents accept and consent to the following findings by FINRA without admitting or denying them:

BACKGROUND

Respondent FFEC has been a FINRA member since July 1985. The firm is headquartered in Scottsdale, Arizona and conducts a general securities business. As of September 2019, the end of the relevant period in this matter, FFEC employed 165 registered individuals operating out of 25 branches.¹

Respondent Graves first registered with FINRA in May 1986. Since February 2006, Graves has been registered with FFEC as a General Securities Representative. In May 2006, he became registered as a General Securities Principal through FFEC. Since April 2022, Graves has been dually registered through his association with FFEC and another FINRA member firm.²

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

² For more information about this respondent, visit BrokerCheck® at www.finra.org/brokercheck.

OVERVIEW

During the period June 2017 through September 2019, FFEC failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with the suitability requirements of FINRA Rule 2111 as they pertain to margin use. In addition, FFEC and Graves failed to reasonably supervise the use of margin in two customer accounts and failed to reasonably supervise mutual fund switches in two customer accounts. These failures caused the customers to pay more than \$112,000 in commissions, fees, and margin interest. By this conduct, FFEC and Graves violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3110(a) requires member firms to 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 each FINRA member to 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 the applicable securities laws and regulations, and with applicable FINRA Rules. To comply with its obligations, a firm and its designated supervisors must reasonably investigate red flags of potential misconduct and take appropriate action when misconduct has occurred. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires that member firms and associated persons “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

FINRA Rule 2111 requires that a member or an associated person have a reasonable basis to believe that a recommended transaction is suitable for the customer based on the customer’s investment profile. A customer’s investment profile includes, but is not limited to, the customer’s age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance and any other information the customer may disclose to the member or associated person in connection with a recommendation. FINRA Regulatory Notice 12-55 reminded members that their supervisory systems must be reasonably designed to achieve compliance with Rule 2111, and that they must “focus on the detection, investigation and follow-up of ‘red flags’ indicating that a registered representative may have recommended an unsuitable investment strategy” involving securities.

Supervision Charges Relating to Margin Use

A margin account is a type of brokerage account in which a broker-dealer lends an investor cash, using the account as collateral, to purchase securities. Margin increases an investor’s purchasing power, but also exposes investors to certain risks involved in trading securities on margin, including the potential to lose more money than they invested. Buying on margin also carries a cost, which is the interest charged on the amount borrowed until it is repaid. When investors buy securities on margin, they must

repay the amount borrowed plus interest, even if they lose money on the investments they purchased on margin. The margin balance is the amount of money a customer trading on margin owes to the broker-dealer.

FINRA has repeatedly cautioned that Rule 2111 imposes suitability requirements on “recommendations to customers to use margin strategy involving securities, irrespective of whether the recommendations mention *particular* securities.”³ This is especially applicable to elderly customers. As FINRA Regulatory Notice 07-43 notes, “depending on their particular circumstances, seniors and retirees may have less tolerance for certain types of risk than other investors.”

FFEC failed to establish and maintain a reasonable supervisory system and failed to establish, maintain, and enforce WSPs reasonably designed to supervise unsuitable trading on margin.

During the relevant period, FFEC’s WSPs required that, “[b]efore recommending margin transactions to a customer, the Registered Representative should be satisfied that margin transactions are suitable for that customer.” The WSPs, however, did not include any specific eligibility requirements for margin approval or any guidance regarding what factors should be considered before recommending margin use in customer accounts. Further, the firm did not have any other systems or procedures reasonably designed to supervise the use of margin, including, for example, any surveillance or exception reports designed to flag potentially unsuitable margin use in customer accounts.

FFEC and Graves failed to reasonably supervise margin use in two customer accounts.

During the relevant period, Graves was the branch office manager supervising a registered representative who recommended margin in certain customer accounts. The firm’s WSPs required that assigned supervisors or branch office managers, such as Graves, review customer transactions and accounts, including new account forms, investor profiles, order tickets, and transaction reports or blotters. The WSPs required these supervisors to conduct “daily reviews,” including “an assessment of the nature of the trades, in an effort to confirm suitability.” However, Graves did not take reasonable steps to determine whether margin use was suitable for specific customers.

Customer A is a 79-year-old retired widow who opened an account at FFEC in June 2017 for the purpose of paying for monthly living expenses during retirement. Customer A’s primary investment objective was “income,” and her risk tolerance was “moderate.” FFEC approved Customer A’s account for margin trading, and during the life of the account, almost all of the trading recommended by Customer A’s registered representative was done on margin. Customer A would write checks from her account to pay for monthly living expenses, which withdrew cash on margin, effectively borrowing against the value of the margined securities, further increasing Customer A’s margin balance and the margin interest

³ Regulatory Notice 12-55 (emphasis in original); *see also* Regulatory Notices 12-25 and 11-25.

charged. Customer A's month-end margin balance was over 50% of the account equity during the entire life of the account at FFEC.

Customer B is a 56-year-old married homemaker who opened an account at FFEC in July 2017. Customer B's primary investment objective was "growth," and her risk tolerance was "moderate." Almost all the trading Customer B's registered representative recommended in the account was done on margin. Customer B's month-end margin balance ranged between 21% to 216% of the equity in the account each month and was over 50% every month after the first six months the account was open at FFEC.

Despite the margin use in these accounts, Graves failed to take reasonable steps to assess whether the margin use was suitable. Graves did not track or review the amount of margin trading in the customers' accounts. He also failed to question the registered representative who recommended the margin trading and failed to contact Customer A or Customer B about the margin use in their respective accounts.

As a result of FFEC and Graves's failure to reasonably supervise for unsuitable margin use, Customer A paid \$58,696.05 in margin interest and commissions and fees charged on margin trades and Customer B paid \$41,413.32 in margin interest and commissions and fees charged on margin trades.

FFEC and Graves failed to reasonably supervise mutual fund switches in two customer accounts.

Mutual funds are composed of several classes of shares. Class A shares usually include an initial or "front-end" sales charge levied upon the purchase of shares, as well as annual, ongoing distribution and service fees. The majority of the front-end sales charge, which could range between two percent and five percent of the investment, is paid to the selling broker-dealer as a concession. Class A mutual fund shares are intended to be held long-term because there are significant upfront costs associated with the purchase of these products. A recommendation that an investor engage in short-term trading in Class A shares is potentially unsuitable because of these significant upfront costs. Mutual fund switching occurs when a customer sells mutual fund shares and reinvests the proceeds in another mutual fund company, often incurring additional charges and commissions.

During the relevant period, FFEC's WSPs required that designated supervisors review sufficient mutual fund sales documentation to ensure that the customer was charged correct sales charges and received appropriate discounts, and that sufficient information was gathered to evaluate this. Designated supervisors were responsible for daily reviews of mutual fund transactions. FFEC's WSPs also required that, prior to recommending a mutual fund switch in a customer's account, registered representatives obtain a switch letter signed by the customer informing the customer of the costs associated with the switch. The WSPs required that the designated principal "ensure switch letters are obtained for switch transactions and that switches are justified prior to approving any transactions involving switches and in his periodic review of customer accounts."

Graves was the designated supervisor responsible for reviewing and approving mutual fund switches in Customer A and Customer C's accounts.

In August 2017, three months after Customer A's account was opened at FFEC, the registered representative recommended that Customer A sell \$100,000 of Class A shares of two mutual funds in the same fund family and invest the proceeds in Class A shares of three mutual funds in different fund families. However, Customer A never signed a switch letter, and she was not informed of the costs she would incur due to the mutual fund switch prior to FFEC executing the transaction. Although Customer A's representative provided Graves a written explanation setting forth his rationale for recommending the switches to Graves, the explanation failed to reasonably address whether the representative could have purchased other suitable funds within the original fund family to avoid the fees associated with switching fund families. Nonetheless, Graves approved the switches. As a result, Customer A was charged fees totaling \$3,560.

Customer A's sister, Customer C, is an 82-year-old retired realtor who had a joint account with her husband, a retired welder. In July 2017, Customer C's registered representative recommended that Customer C sell over \$293,000 of Class A shares of two mutual funds in the same fund family and invest the proceeds in Class A shares of three mutual funds in different fund families. However, Customer C never signed a switch letter, and she was not informed of the costs she would incur due to the mutual fund switches prior to FFEC executing the transactions. Graves approved the transactions without the registered representative providing Graves with an explanation for why he recommended the switches. The account incurred \$9,003.50 in costs associated with the switches.

Therefore, FFEC and Graves violated FINRA Rules 3110 and 2010.

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

- a censure;
- a \$35,000 fine; and
- restitution of \$112,672.87 plus interest as described below.

Respondent Graves also consents to the imposition of the following sanctions:

- a \$5,000 fine;
- a 15-business day suspension from associating with any FINRA member in all principal capacities; and
- a requirement that within 90 days of the Notice of Acceptance of this AWC, Graves will undertake to attend and satisfactorily complete 20 hours of continuing education concerning supervisory responsibilities by a provider not unacceptable to FINRA. Graves will notify Kerry Land, 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, Graves will submit written proof that the continuing education

program has been satisfactorily completed to Kerry Land at Kerry.Land@finra.org. All correspondence must identify the respondent and matter number.

Respondents agree to pay the respective monetary sanctions imposed upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have each submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC in the total amount of \$112,672.87, 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 September 30, 2019, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of FFEC shall submit satisfactory proof of payment of restitution and prejudgment 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 FFEC. The email must identify Respondent FFEC 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 the date of the notice of acceptance of the AWC.

If for any reason FFEC cannot locate any customer identified in Attachment A after reasonable and documented efforts within 120 days after the date of the notice of acceptance of the AWC, or such additional period agreed to by FINRA in writing, FFEC 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. FFEC shall provide satisfactory proof of such action to FINRA 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 in this AWC, 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, 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.

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

Respondent Graves 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 or bar, 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

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 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 its acceptance or rejection.

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

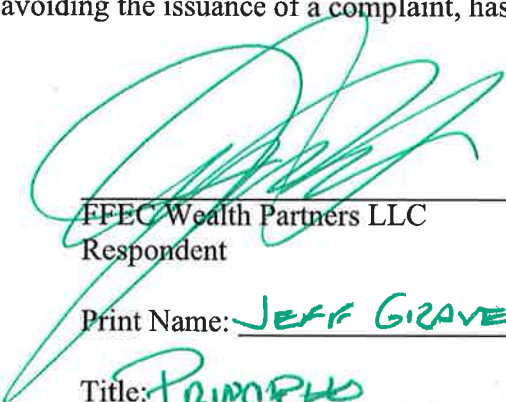
Respondents understand that:

- 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 its subject matter 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' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondents' testimonial obligations in any litigation or other legal proceedings.
- 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.

The undersigned, on behalf of Respondent FFEC, certifies that a person duly authorized to act on FFEC's 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 FFEC 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce FFEC to submit this AWC.

10.28.22

Date



FFEC Wealth Partners LLC
Respondent

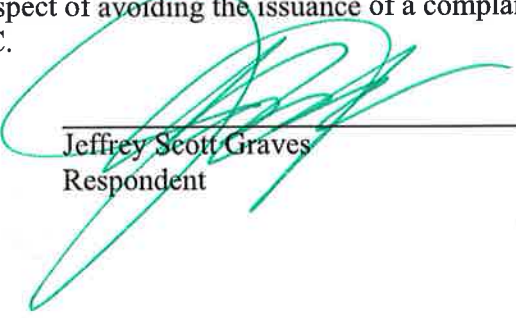
Print Name: JEFF GRAVES

Title: PRINCIPAL

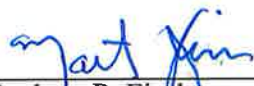
Respondent Graves certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Graves has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce him to submit this AWC.

10.28.22

Date


Jeffrey Scott Graves
Respondent

Reviewed by:


Matthew P. Fischer
Counsel for Respondents
Snell & Wilmer
One Arizona Center
400 East Van Buren Street
Suite 1900
Phoenix, AZ 85004-2202

Accepted by FINRA:

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

November 25, 2022

Date


Kerry J. Land
Senior Counsel
FINRA
Department of Enforcement
Brookfield Place, 200 Liberty Street
New York, NY 10281

ATTACHMENT A (public version)

Customer Name	Restitution Amount
Customer A	\$62,256.05 plus interest
Customer B	\$41,413.32, plus interest
Customer C	\$9,003.50, plus interest