FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019064705001

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

RE: Paulson Investment Company LLC (Respondent)
Member Firm
CRD No. 5670

Pursuant to FINRA Rule 9216, Respondent Paulson Investment Company LLC 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 accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Paulson Investment Company LLC has been a FINRA member since 1971. Headquartered in Portland, Oregon, the firm has approximately 70 registered representatives across 13 branch offices. Paulson primarily engages in capital raising activities for private companies and also executes trades for retail and institutional customers.[1]

OVERVIEW

From August 2018 through December 2023, Paulson effected at least 15,000 short sale transactions totaling approximately 64.5 billion shares to facilitate the execution of long sale orders from its broker-dealer clients without obtaining locates, in violation of Rule 203(b)(1) of Regulation SHO and FINRA Rule 2010.

In addition, from August 2018 through April 2024, Paulson failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with the locate requirement of Rule 203(b)(1) of Regulation SHO, in violation FINRA Rules 3110 and 2010.

---

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

[redacted]

For these violations, Paulson is censured and fined $135,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's cycle examination of Paulson.

Paulson failed to comply with the locate requirement of Rule 203(b)(1) of Regulation SHO.

Rule 203(b)(1) of Regulation SHO, known as the "Locate Requirement," provides that a broker-dealer may not accept a short sale in an equity security from another person, or effect a short sale in an equity security for its own account, unless it has (i) borrowed the security or entered into a bona-fide arrangement to borrow the security, or (ii) reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due, and (iii) documented compliance with subsection (b)(1). A broker-dealer must, therefore, locate securities available for delivery before effecting short sales for its own account. A violation of Rule 203(b) also constitutes a violation of FINRA Rule 2010, which requires member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

From August 2018 through December 2023, Paulson facilitated the execution of long sale orders in microcap over-the-counter (OTC) securities for certain of its institutional broker-dealer clients. Clients provided Paulson with "not-held" long sale orders for the OTC securities, granting the firm with time and price discretion to execute the orders. The firm executed these orders through a series of proprietary short sales to the market throughout the day, later purchasing the security as principal at a different price to cover its short position and satisfy the original client orders—a practice known as trading on a "net trade" basis.

During this period, Paulson effected at least 15,000 short sale transactions representing approximately 64.5 billion shares for its own account without first borrowing the securities, entering into a bona fide arrangement to borrow the securities, or having reasonable grounds to believe the securities could be borrowed and delivered on the settlement date.

Therefore, Paulson violated Rule 203(b)(1) of Regulation SHO and FINRA Rule 2010.

Paulson failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Rule 203(b)(1) of Regulation SHO.

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) further requires member firms 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

[redacted]

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

From August 2018 through April 2024,[2] Paulson's supervisory system and WSPs were not reasonably designed to achieve compliance with Rule 203(b)(1) of Regulation SHO. Specifically, the firm had no processes or procedures addressing the firm's short selling activity, requiring traders to obtain locates in connection with that activity, or identifying the circumstances under which exemptions to the Locate Requirement may apply. The firm also had no supervisory system, surveillance, or other review to monitor the firm's compliance with the Locate Requirement for proprietary short sales.

Therefore, Paulson violated FINRA Rules 3110 and 2010.

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

- a censure; and
- a $135,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. FINRA's Finance Department will contact Respondent regarding payment. Respondent has submitted an 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 after the execution of this AWC, the monetary sanction imposed in this matter.

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

II.

<u>WAIVER OF PROCEDURAL RIGHTS</u>

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

[2] In April 2024, the firm amended its WSPs with respect to Regulation SHO's Locate Requirement.

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:

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

[redacted]

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 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 Respondent's testimonial obligations in any litigation or other legal proceedings.

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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent'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 Respondent understands and acknowledges that it is permitted to retain an attorney at its expense to review and provide legal advice regarding the AWC before agreeing to the language and signing the AWC; that FINRA does not represent or advise it and Respondent cannot rely on FINRA for legal advice; that Respondent 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 Respondent to submit this AWC.

05/21/2026
____
Date

____
Paulson Investment Company LLC
Respondent

Print Name: Amal S. Amin

Title: General Counsel

[redacted]

Accepted by FINRA:

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

06/03/2026

Date

Joseph E. Strauss

Joseph E. Strauss
Senior Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, New York 10281-1003

[redacted]