

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020065136101**

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

RE: Crown Capital Securities, L.P. (Respondent)
Member Firm
CRD No. 6312

Pursuant to FINRA Rule 9216, Respondent Crown Capital Securities, L.P., 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

Crown Capital Securities has been a FINRA member since 1972. The firm provides retail brokerage and wealth management services to individuals. The firm is headquartered in Orange, California and, during the relevant period, had approximately 150 branch offices and more than 300 registered representatives.¹

OVERVIEW

From January 2014 to December 2019, Crown Capital Securities failed to reasonably supervise transactions that the firm's registered representatives placed directly with product sponsors on behalf of firm customers (*i.e.*, direct business transactions). Crown Capital Securities did not take steps reasonably designed to ensure that direct business transactions appeared on the firm's daily trade blotter, causing the firm to fail to run approximately 9,000 transactions through exception reports used to identify potential sales practice violations.

As a result of the foregoing, Crown Capital Securities violated NASD Rule 3010 and FINRA Rules 3110 and 2010.²

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

² FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of Crown.

FINRA Rule 3110(a) and its predecessor, NASD Rule 3010(a), require each member firm 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. A violation of NASD Rule 3010 or FINRA Rule 3110 is also 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.

Prior to June 30, 2020, FINRA Rule 2111 required member firms and their associated persons to have a reasonable basis to believe that a recommended securities transaction or investment strategy is suitable for a customer, based on information obtained through the reasonable diligence of the firm or associated person to ascertain the customer's investment profile.³

Crown Capital Securities supervises mutual fund transactions, in part, by reviewing exception reports relevant to identifying potential sales practice violations, including potentially unsuitable transactions such as certain purchases of mutual fund shares. The firm used its daily trade blotter to generate such exception reports. However, from January 2014 to December 2019, Crown Capital Securities did not have a reasonable system to ensure that direct business transactions appeared on the firm's daily trade blotter.

Crown Capital Securities was on notice that certain of its representatives were engaging in direct business transactions when it received commission records from product sponsors. In fact, the firm required registered representatives to submit such transactions for approval to their office of supervisory jurisdiction manager and/or home office. Nonetheless, Crown Capital Securities did not have any system or procedures in place to ensure that those transactions appeared on the firm's daily trade blotter. As a result, approximately 9,000 direct business transactions did not appear on the firm's daily trade blotter and thus were not run through the exception reports that the firm used to, among other things, identify patterns and trends across multiple trades that together amounted to potentially unsuitable activity. As a result, Crown failed to reasonably supervise approximately 9,000 direct business transactions and therefore violated NASD Rule 3010(a), and FINRA Rules 3110(a) and 2010.

Crown began a retrospective review of its direct business transactions during the relevant period. Upon completion of that review, the firm identified approximately 9,000 direct business transactions that did not appear on the firm's trade blotter according to the parameters used by Crown Capital Securities' exception reports. That review identified

³ FINRA Rule 2111 is still in effect, but as of June 30, 2020, it no longer applies to recommendations to retail customers that are subject to Regulation BI under the Securities Exchange Act of 1934.

potentially unsuitable transactions which collectively caused 54 customers to pay \$116,390.58 in excessive sales charges.

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

- a censure;
- a \$50,000 fine; and
- restitution of \$116,390.58 plus interest as described below.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$116,390.58, 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 December 31, 2019, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each Eligible Customer) 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 Respondent. The email must identify Respondent 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.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

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 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.

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 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
- 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 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 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.

5/24/2024
Date


Crown Capital Securities, L.P.
Respondent

Print Name: Darol K. Paulsen

Title: CEO

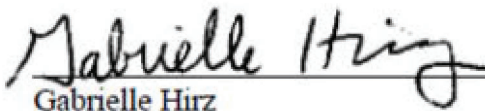
Reviewed by:


Benjamin J. Biard, Esq.
Counsel for Respondent
Winget, Spadafora & Schwartzberg, LLP
One Southeast Third Avenue, Suite 1950
Miami, Florida 33131

Accepted by FINRA:

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

6/4/2024
Date


Gabrielle Hirz
Senior Counsel
FINRA
Department of Enforcement
1700 K Street NW
Washington, DC 20006

Attachment A - Restitution Schedule

Customer	Restitution (exclusive of interest)
Customer 1	\$16,992.77
Customer 2	\$10,505.03
Customer 3	\$8,442.25
Customer 4	\$5,077.44
Customer 5	\$5,077.44
Customer 6	\$4,186.88
Customer 7	\$4,143.70
Customer 8	\$4,125.79
Customer 9	\$3,463.36
Customer 10	\$3,341.85
Customer 11	\$3,312.52
Customer 12	\$3,312.52
Customer 13	\$3,231.66
Customer 14	\$2,839.30
Customer 15	\$2,665.07
Customer 16	\$2,597.45
Customer 17	\$2,500.00
Customer 18	\$2,980.79
Customer 19	\$2,000.00
Customer 20	\$1,759.50
Customer 21	\$1,725.41
Customer 22	\$1,631.25
Customer 23	\$1,555.14
Customer 24	\$1,462.22
Customer 25	\$1,418.32
Customer 26	\$1,265.38
Customer 27	\$1,183.51

Customer	Restitution (exclusive of interest)
Customer 28	\$1,145.03
Customer 29	\$1,100.00
Customer 30	\$1,039.88
Customer 31	\$933.08
Customer 32	\$1,443.26
Customer 33	\$826.70
Customer 34	\$824.73
Customer 35	\$748.56
Customer 36	\$622.05
Customer 37	\$600.00
Customer 38	\$560.00
Customer 39	\$528.56
Customer 40	\$432.84
Customer 41	\$375.00
Customer 42	\$312.15
Customer 43	\$275.40
Customer 44	\$241.50
Customer 45	\$240.00
Customer 46	\$238.16
Customer 47	\$186.51
Customer 48	\$182.82
Customer 49	\$151.42
Customer 50	\$124.74
Customer 51	\$120.00
Customer 52	\$114.55
Customer 53	\$114.55
Customer 54	\$112.50