

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020068495402**

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

RE: NatAlliance Securities, LLC (Respondent)
Member Firm
CRD No. 39455

Jason Adams (Respondent)
General Securities Principal and General Securities Representative
CRD No. 2690575

Pursuant to FINRA Rule 9216, Respondents NatAlliance Securities, LLC and Jason Adams 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

NatAlliance Securities, LLC has been a FINRA member firm since 1997. It is a full-service broker-dealer, headquartered in Austin, Texas, that employs 66 registered representatives across thirteen branches.¹

Jason Adams entered the securities industry in 1996 and first registered with FINRA as a General Securities Representative in April 1996. In January 2019, Adams registered as a General Securities Representative and General Securities Principal through an association with NatAlliance. Adams remains associated with the firm.²

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

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

OVERVIEW

From January 2019 through the present, NatAlliance failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to review its traders' bond marks to ensure accurate books and records, in violation of FINRA Rules 3110 and 2010. From April 2020 through September 2020, Trader A, a former NatAlliance proprietary corporate bond trader, inaccurately marked the value of numerous bonds in his trading book.³ Due to Trader A's mismarking, NatAlliance failed to make and keep accurate books and records of the firm's net capital, thereby filing four inaccurate monthly FOCUS reports between April 2020 and July 2020, in violation of Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5, and FINRA Rules 4511 and 2010. From April 2020 through September 2020, Adams failed to reasonably supervise Trader A, in violation of FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of the Uniform Termination Notice for Securities Industry Registration (Form U5) filed by NatAlliance for Trader A.

The SEC's Net Capital Rule, Section 15(c) of the Exchange Act and Exchange Act Rule 15c3-1, requires broker-dealers to maintain net capital on a moment-to-moment basis. In calculating its net capital, a broker-dealer on a daily basis must estimate the fair value of—or “mark to market”—any bonds owned by the firm, thereby reflecting unrealized gains and losses of the bonds' value in the firm's books and records. Bond traders typically mark to market the positions in their book at the end of each trading day by referring, among other things, to the price of recent comparable transactions displayed on FINRA's Trade Reporting and Compliance Engine (TRACE), independent third-party pricing services, and quotes from other dealers. Firms, in turn, record the traders' marks in their books and records when calculating net capital and making other financial computations.

Section 17(a) of the Exchange Act requires firms to make, keep, and furnish records of their operations as the SEC, by rule, prescribes as necessary and appropriate in the public interest and for the protection of investors. Exchange Act Rule 17a-3 requires firms to make and keep accurate books and records reflecting all assets and liabilities and income and expenses, including net capital calculations. Exchange Act Rule 17a-5 requires firms to timely file accurate Financial and Operational Combined Uniform Single (FOCUS) reports. FINRA Rule 4511(a) requires members and associated persons to make and preserve accurate books and records as required under FINRA rules, the Exchange Act, and the applicable Exchange Act rules.

FINRA Rule 3110(a) requires a 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. FINRA Rule 3110(b) requires a member firm to establish, maintain, and enforce written procedures

³ In October 2022, Trader A entered into an AWC for violating FINRA Rules 4511 and 2010, for which he was suspended for four months in all capacities and fined \$5,000.

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 applicable securities laws and regulations, and with applicable FINRA rules. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

Violations of Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5 thereunder, and FINRA Rules 3110 and 4511 are also violations of FINRA Rule 2010, which requires member firms and associated persons to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

From January 2019 through the present, NatAlliance failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to review traders' end-of-day bond valuations.

In January 2019, Trader A and Adams joined NatAlliance after working together at a prior firm where Adams supervised Trader A. At that time, NatAlliance began requiring all traders to mark to market each bond in their trading book on a daily basis. NatAlliance did not have a reasonably designed system in place to supervise that process. The firm generally relied solely on its traders to determine the current fair market value of their bond inventory; it failed to conduct any systematic review of the accuracy of its traders' end-of-day valuations and had no supervisory reviews to identify instances in which marks had not been updated for extended periods.

In September 2020, the firm discovered that Trader A mismarked bonds and caused inaccuracies in the firm's books and records. Shortly thereafter, the firm enhanced its supervision of traders' marks, including implementing a price discrepancy report that flags when a trader's marks deviate from a pricing service quotation by certain thresholds. The firm's supervisory system, including written procedures, continues to not be reasonably designed, however, because firm procedures do not explicitly require traders to review marks daily, even though the marks are used for accounting and regulatory reporting purposes. The firm procedures also do not require supervisory reviews to be conducted at reasonable intervals, describe with any specificity the process for supervisory review, or describe how to document supervisory reviews.

Therefore, NatAlliance violated FINRA Rules 3110 and 2010.

Between April 2020 and September 2020, NatAlliance maintained inaccurate books and records as a result of Trader A's mismarking.

Between April 2020 and September 2020, Trader A, the firm's largest trader based on capital usage, recorded 8,847 inaccurate daily marks on 220 corporate bonds in his trading book, primarily by failing to update marks for weeks or even months at a time. Trader A thereby overstated the value of his portfolio ultimately by more than \$2.6 million.

By virtue of Trader A's mismarking, NatAlliance failed to make and keep accurate books and records of the firm's net capital and filed four inaccurate monthly FOCUS reports between April 2020 and July 2020. Although the firm did not fall below its required

minimum net capital, the firm's inaccurate monthly FOCUS Reports overstated its net capital in each of the four months.

Therefore, NatAlliance violated Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5, and FINRA Rules 4511 and 2010.

From April 2020 through September 2020, Adams failed to reasonably supervise Trader A by not responding reasonably to red flags.

Adams, Director of Trading at NatAlliance, was Trader A's direct supervisor and was responsible for reviewing Trader A's profit and loss. During Trader A's employment at NatAlliance, Adams verbally and in writing instructed Trader A to mark to market his bonds on a daily basis. From April 2020 through September 2020, Adams was aware of but did not respond reasonably to red flags that Trader A was mismarking bonds by not appropriately updating his marks. On several occasions, Adams identified discrepancies between Trader A's marks and market prices. Adams instructed Trader A to value his inventory positions accurately but did not follow-up to verify whether Trader A had updated his marks, did not escalate to anyone else in management that Trader A's marks appeared to be inaccurate, and did not promptly take any disciplinary action against Trader A.

Therefore, Adams violated FINRA Rules 3110 and 2010.

B. Respondents also consent to the imposition of the following sanctions:

NatAlliance Securities, LLC:

- a censure;
- a \$40,000 fine; and
- an undertaking that, within 90 days of the date of the notice of acceptance of this AWC, a member of NatAlliance's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5, and FINRA Rule 4511 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate NatAlliance's remediation and implementation. FINRA staff may request further evidence of NatAlliance's remediation and implementation, and NatAlliance agrees to provide such evidence. Respondent shall submit the certification to Sathish Dhandayutham, Counsel, FINRA Department of Enforcement, 15200 Omega Drive, Suite 300, Rockville, MD 20850, and by email to sathish.dhandayutham@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

Jason Adams:

- a two-month suspension from associating with any FINRA member in all principal capacities;
- a \$5,000 fine; and
- a requirement that within 90 days of the Notice of Acceptance of this AWC, Adams will attend and satisfactorily complete twenty hours of continuing education concerning supervisory responsibilities by a provider not unacceptable to FINRA. Adams will notify Sathish Dhandayutham, Counsel, of the name and contact information of the provider who is providing the continuing education at least ten days prior to attending the training. Within 30 days following the completion of the twenty hours of continuing education, Adams will submit written proof that the continuing education program has been satisfactorily completed to Sathish Dhandayutham, Counsel, FINRA Department of Enforcement, 15200 Omega Drive, Suite 300, Rockville, MD 20850, and by email to sathish.dhandayutham@finra.org, with a copy to EnforcementNotice@finra.org. All correspondence must identify Respondent Adams and Matter Number 2020068495402. Upon written request showing good cause, FINRA staff may extend the procedural dates related to this continuing-education requirement.

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

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 National Adjudicatory Council (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 NatAlliance Securities, LLC, certifies that a person duly authorized to act on NatAlliance'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 NatAlliance 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 NatAlliance to submit this AWC.

March 6, 2023

Date

Fred Bush

NatAlliance Securities, LLC
Respondent

Print Name: Fred Bush

Title: CFO

Respondent Adams 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; Adams 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.

March 6, 2023

Date

Jason Adams

Jason Adams
Respondent

Reviewed by:

Jeff Plotkin

Jeffrey Plotkin
Counsel for Respondents
Finn Dixon & Herling LLP
Six Landmark Square
Stamford, CT 06901

Accepted by FINRA:

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

March 27, 2023

Date

Sathish Dhandayutham

Sathish Dhandayutham
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