

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022073322201**

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

RE: Chapin Davis (Respondent)
Member Firm
CRD No. 28116

Pursuant to FINRA Rule 9216, Respondent Chapin Davis 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

Chapin Davis has been a FINRA member since 1991. The firm, which is located in Baltimore, Maryland, has approximately 30 registered representatives in five branch offices and conducts a general securities business with retail customers.¹

OVERVIEW

On 17 days between August 2021 and May 2022, Chapin Davis conducted a securities business while failing to maintain the required minimum net capital and failed to notify the SEC or FINRA of those deficiencies. The firm's miscalculations also caused it to maintain inaccurate books and records and file 11 inaccurate Financial and Operational Combined Uniform Single (FOCUS) reports between April 2021 and December 2022. The firm also failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its net capital and recordkeeping obligations, as well as the Compliance Obligation of Regulation Best Interest (Reg BI) between June 30, 2020 and June 2023. As a result of this conduct, Chapin Davis violated Sections 15(c)(3) and 17(a) of the Securities Exchange Act of 1934, Exchange Act Rules 15c3-1, 15l-1(a)(1), 17a-3, 17a-5, and 17a-11, and FINRA Rules 4110(b)(1), 4511, 3110, and 2010.

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

For these violations, Chapin Davis is censured and fined \$45,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA firm examination of Chapin Davis.

A. Chapin Davis conducted a securities business while net capital deficient and failed to timely file notifications of such deficiencies.

Exchange Act § 15(c)(3), Exchange Act Rule 15c3-1, and FINRA Rule 4110 ensure that broker-dealers maintain sufficient liquid assets to promptly satisfy their liabilities to customers and other market participants, and provide a financial safeguard against market, credit, and other risks in the event of financial difficulties.

Exchange Act § 15(c)(3) and Exchange Act Rule 15c3-1 require broker-dealers to maintain certain minimum levels of net capital. An SEC Interpretation of Exchange Act Rule 15c3-1(c)(2)(iv) requires broker-dealers to use the accrual method of accounting, including when calculating net capital. A broker-dealer engages in firm commitment underwriting when it commits to purchase securities from an issuer regardless of whether it can distribute them. This creates a contractual commitment under Exchange Act Rule 15c3-1. When Chapin Davis participated in a firm commitment offering, the firm had to deduct from its net capital an open contractual commitment charge—a percentage of the securities' value as described in Exchange Act Rule 15c3-1(c)(2)(viii).

A firm that conducts business while net capital deficient places its customers and creditors at increased risk of monetary losses. FINRA Rule 4110(b)(1) requires member firms to suspend all business operations during any period in which they are not in compliance with applicable net capital requirements as set forth in Exchange Act Rule 15c3-1. Exchange Act § 17(a) and Exchange Act Rule 17a-11 require a broker-dealer whose net capital declines below its minimum net capital requirement to give same-day notice to FINRA and the SEC. Exchange Act Rule 17a-11(b)(3) requires a broker-dealer to provide notice promptly “within 24 hours” to FINRA and the SEC when its net capital is less than 120% of its required minimum net capital. These notification requirements are designed to protect a broker-dealer's customers and enhance regulators' ability to monitor and prevent unsound business practices.

Violations of Exchange Act §§ 15(c)(3) and 17(a), Exchange Act Rules 15c3-1 and 17a-11, and FINRA Rule 4110(b)(1), also constitute violations of FINRA Rule 2010, which requires firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

Chapin Davis conducted a securities business without maintaining the required minimum net capital during four periods totaling 17 days between August 2021 and May 2022. First, on one day between August 31, 2021, and September 1, 2021, the firm failed to accurately calculate its net capital using the accrual method as to certain legal expenses because it failed to timely provide records of those expenses to the firm's Financial and

Operations Principal. The inaccurate calculations resulted in net capital deficiencies. Second, on four days between January 27, 2022, and January 31, 2022, the firm was net capital deficient while co-managing a firm commitment underwriting because it failed to ensure sufficient net capital after taking its open contractual commitment charge. Third, the firm was net capital deficient on two days between April 15 and 20, 2022, because it failed to adjust its net capital to account for legal expenses and an expected loss. Fourth, the firm was deficient on ten days between April 30 and May 10, 2022, for the same reason.

In addition, Chapin Davis failed to timely file same-day notifications for the four net capital deficiencies that occurred between August 2021 and May 2022. Instead, the firm filed notifications between three and 46 days after discovering each deficiency. Further, on one day in December 2022, Chapin Davis failed to file a notification advising FINRA and the SEC that its net capital was less than 120% of its required minimum net capital.

Therefore, Chapin Davis violated Exchange Act §§ 15(c) and 17(a), Exchange Act Rules 15c3-1 and 17a-11, and FINRA Rules 4110(b)(1) and 2010.

B. Chapin Davis failed to make and preserve accurate books and records and filed inaccurate FOCUS reports.

FINRA Rule 4511(a) requires each FINRA member to make and preserve books and records as required under the FINRA rules, the Exchange Act, and the applicable Exchange Act rules. Exchange Act § 17(a) and Exchange Act Rule 17a-3(a)(11) require FINRA members to make and maintain a record of the proof of money balances of all ledger accounts in the form of trial balances and a record of the computation of aggregate indebtedness and net capital. Inherent in the obligation to make and preserve books and records is the requirement that they be accurate. Recordkeeping requirements are integral to investor protection and market stability because a firm's books and records are the primary means of monitoring its compliance with applicable securities laws.

Exchange Act § 17(a) and Exchange Act Rule 17a-5(a) require member firms to prepare and file monthly or quarterly FOCUS reports containing certain accounts and financial information, including the firm's minimum required net capital, net capital, and excess net capital. The FOCUS system serves as a primary tool for regulatory financial and operational surveillance of broker-dealers, enabling detection of potential compliance issues and financial weaknesses.

A violation of Exchange Act § 17(a), Exchange Act Rules 17a-3 and 17a-5, and FINRA Rule 4511 is also a violation of FINRA Rule 2010.

Between April 2021 and December 2022, Chapin Davis failed to use the accrual method of accounting when calculating its net capital and, as a result, it failed to timely accrue liabilities. Further, in December 2022, the firm improperly classified multiple accounts, causing it to misstate its allowable assets and net capital. These errors caused inaccurate books and records concerning the firm's net capital position. Additionally, between April 2021 and December 2022, Chapin Davis filed 11 inaccurate FOCUS reports that

misstated its net capital, excess net capital, and nonallowable assets. The firm's recordkeeping errors hindered regulatory monitoring of the firm's financial condition.

Therefore, Chapin Davis violated Exchange Act § 17(a), Exchange Act Rules 17a-3 and 17a-5, and FINRA Rules 4511(a) and 2010.

C. Chapin Davis failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with net capital requirements, recordkeeping rules, and the Compliance Obligation of Reg BI.

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 a member firm to establish, maintain, and enforce written supervisory procedures (WSPs) 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.

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Reg BI under the Securities Exchange Act of 1934. Rule 15l-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer. Reg BI's Care Obligation, set forth in Exchange Act Rule 15l-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, understand the potential risks, rewards, and costs associated with a recommendation. In addition, Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15l-1(a)(2)(iv), requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. Reg BI's Adopting Release provides that broker-dealers should consider the nature of that firm's operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.²

A violation of Reg BI or FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Between April 2021 and December 2022, Chapin Davis failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with net capital computation and recordkeeping requirements. Specifically, although the firm's business during this period included participation in firm commitment

² *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33397 (July 12, 2019).

underwritings, its supervisory system, including its WSPs, was unreasonable because it failed to specify how to compute net capital for such underwriting activities. Additionally, the firm's supervisory system was unreasonable because it lacked guidance or procedures addressing expense accounting under the accrual method, which is required when calculating net capital.

Separately, between June 30, 2020 and June 2023, Chapin Davis failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with Reg BI, generally. During this period, the firm's WSPs did not address Reg BI's obligations, or describe how to prevent, detect, or promptly correct Reg BI violations. As a result, the firm's representatives lacked guidance on how to comply with Reg BI.

Also during this later period, and more specifically, the firm failed to establish, maintain, and enforce written policies and procedures that were reasonably designed to achieve compliance with Reg BI's Care Obligation with respect to recommendations of structured products and mutual funds. For example, the firm's written policies and procedures relating to these products included only general suitability references. They provided no guidance for associated persons on how to exercise reasonable diligence, care, and skill in making recommendations involving these products, or for supervisors on how to identify and address such recommendations that potentially were not in customers' best interest. The firm also did not implement any supervisory tools, such as alerts or exception reports, to detect structured product and mutual fund recommendations that potentially were not in customers' best interests. As a result of these deficiencies, the firm failed to detect and review recommendations to purchase structured products that represented high concentrations of customers' total account holdings, to purchase mutual funds in share classes inconsistent with customers' investment profiles, and to switch mutual funds between fund families that potentially caused customers to pay unnecessary sales charges.

Therefore, Chapin Davis violated Exchange Act Rule 15c-1(a)(1) and violated FINRA Rule 3110 and FINRA Rule 2010.

The firm updated its WSPs to include substantive policies and procedures related to Reg BI in June 2023.

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

- a censure and
- a \$45,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. 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.

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

[REDACTED]

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 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.

March 31, 2026

Date

Talbot Jones Albert, IV

Chapin Davis

Respondent

Print Name: Talbot Jones Albert, IV

Title: Chief Executive Officer

Accepted by FINRA:

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

March 31, 2026

Date

Joseph Darrow

Joseph Darrow

Counsel

FINRA

Department of Enforcement

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