

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077612101**

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

RE: Clayton K. Shum (Respondent)
General Securities Representative
CRD No. 4412927

Pursuant to FINRA Rule 9216, Respondent Clayton K. Shum 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

Shum first became registered with FINRA in May 2002 as an Investment Company and Variable Contracts Products Representative (IR) through an association with a FINRA member firm. In December 2020, Shum became registered with FINRA as a General Securities Representative (GS) through an association with former member firm Grove Point Investments, LLC (CRD No. 1763). On January 12, 2023, Grove Point filed a Uniform Termination Notice for Securities Industry Registration (Form U5) for Shum, stating that he had been discharged for, among other things, “violat[ing] multiple Firm policies including a prohibition on arranging personal financing for securities clients.”

Since February 13, 2023, Shum has been registered with FINRA as a GS through an association with Aegis Capital Corp (CRD No. 15007).¹

OVERVIEW

Between August 2021 and October 2022, while registered with FINRA through an association with Grove Point, Shum violated FINRA Rules 3270 and 2010 by engaging in undisclosed outside business activities with a reasonable expectation of compensation. In November 2022, Shum willfully violated Rule 15l-1(a) under the Securities Exchange

¹ For more information about the respondent, visit BrokerCheck® at www.finra.org/brokercheck.

Act of 1934 (Reg BI) and violated FINRA Rule 2010 by recommending the purchase of a variable annuity to a retail senior customer that was not in the customer's best interest in light of her investment profile. Additionally, Shum violated FINRA Rule 2010 in March 2023 by failing to safeguard the confidentiality of the nonpublic information of four customers.

For these violations, Shum is suspended for four months in all capacities and fined \$10,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of the Form U5 Grove Point filed.

A. Shum engaged in an undisclosed outside business activity.

FINRA Rule 3270 states, in pertinent part, that "[n]o registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member." A violation of FINRA Rule 3270 is also a violation of FINRA Rule 2010, which requires associated persons to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

From August 2021 to October 2022, while registered with FINRA through his association with Grove Point, Shum recommended reverse mortgages to four customers, advised one customer regarding specific loan terms to seek, and helped all four customers prepare their loan applications by gathering and relaying information on their behalf. Two of those customers were seniors. Before engaging in these activities, Shum did not disclose them to his firm. The firm had written policies and procedures that prohibited its registered representatives from arranging for any personal financing for a customer without the firm's prior approval. Although Shum entered into a financial planning services agreement with one of the four customers, which was approved by the firm, the firm specifically advised Shum when it approved the agreement that he could not recommend reverse mortgages to customers or arrange for any other form of personal financing. Shum recommended that the customers invest a portion of the reverse mortgage proceeds through accounts he serviced for them. Shum reasonably expected to receive additional compensation from these investments.

Therefore, Shum violated FINRA Rules 3270 and 2010.

B. Shum lacked a reasonable basis to recommend the purchase of a variable annuity to a senior customer.

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. Rule 15c-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or 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 at Exchange Act Rule 15c-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with a recommendation. Regulation BI defines a "retail customer investment profile" to include, but not be 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 such recommendation.

Reg BI's Adopting Release provides that what constitutes "reasonable diligence" depends on, among other things, the complexity of, and risks associated with, the recommended security.² The Adopting Release further provides that what is in the best interest of a retail customer depends on the facts and circumstances of the recommendation, including "matching" the recommended security to the retail customer's investment profile. Where the "match" between the retail customer profile and the recommendation appears less reasonable, it is more important for the associated person to establish that he or she had a reasonable belief that the recommendation was in the best interest of the retail customer.³

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

Some companies offer living benefit riders for variable annuities. These riders are optional annuity provisions that guarantee a defined payout while the annuitant is alive. These policies often allow the annuitant to draw from their death benefit (the sum of money paid to the annuitant's heirs upon their death) and are useful for customers who are concerned about running out of money while they are alive. Living benefit riders also have costs, including higher fees, depreciation of the death benefit (if drawn upon), and a new surrender schedule. Grove Point's standing practice was to deny living benefit riders for customers over the age of 70 because older customers are unlikely to live long enough to benefit from the rider given its costs.

² *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33376 (July 12, 2019).

³ Adopting Release at 33382.

In November 2022, while associated with Grove Point, Shum recommended that an 84-year-old senior customer invest an additional \$400,000 in an existing variable annuity and purchase a living benefit rider. Shum did not have a reasonable basis to believe that the features of the annuity were in the customer's best interest given her age. Further, the customer told Shum that she had low liquidity needs, and was therefore unlikely to benefit from the defined payout that the rider is designed to provide.

Therefore, Shum willfully violated Exchange Act Rule 15c-1(a)(1) and violated FINRA Rule 2010.

C. Shum failed to safeguard the confidentiality of customers' nonpublic information.

Associated persons have a duty to maintain the confidentiality of customers' nonpublic personal information. Breaching this duty is a violation of FINRA Rule 2010. A key obligation of FINRA member firms is to protect the confidentiality of their customers' nonpublic personal information, in part to ensure that such information is not exploited for identity theft, unauthorized account access, or financial fraud. Customers' nonpublic personal information, including birth dates and social security numbers, is protected under Regulation S-P.

After leaving Grove Point and associating with Aegis, Shum attempted to migrate certain Grove Point customers to Aegis. In order to open new accounts at Aegis, Shum needed to complete certain forms for these customers, which required him to share the customers' confidential, non-public information such as social security numbers and birth dates with Aegis.

In order to complete the Aegis onboarding forms, Shum emailed four confidential Grove Point forms that he retained after leaving Grove Point to a third-party business center. The Grove Point forms contained nonpublic personal information of four customers, including birth dates and social security numbers. The customers did not authorize Shum to disclose their confidential information to the third-party business center or Aegis, nor were they given notice that such disclosure would be made. After the Grove Point forms arrived on the systems of the business center, Shum printed them. Shum then used portions of the information from the Grove Point forms to complete new account forms at Aegis.

Therefore, Shum violated FINRA Rule 2010.

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

- a four-month suspension from associating with any FINRA member in all capacities, and
- a \$10,000 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 he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Respondent understands that if he is suspended from associating with any FINRA member, 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, he may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the suspension. *See* FINRA Rules 8310 and 8311.

Respondent understands that this settlement includes a finding that he willfully violated Rule 15c-1 of the Securities Exchange Act of 1934 and that under Article III, Section 4 of FINRA's By-Laws, this makes him subject to a statutory disqualification with respect to association with a member.

The sanctions imposed herein shall be effective on a date set by FINRA. The suspension shall become effective three weeks after the date of the notice of acceptance of this AWC.

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 him;
- 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;
 - 4. this AWC may be taken into consideration by employers and other regulatory or licensing entities or authorities in their hiring, retention, licensing, or other decisions. This AWC may also have other adverse collateral consequences outside of FINRA's control; and
 - 5. 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



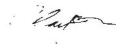
position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing 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 he 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.

Respondent 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; Respondent 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.

May 15, 2026

Date


Clayton K. Shum
Respondent

Reviewed by:

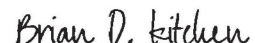

Cameron G. Stout
Counsel for Respondent
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Accepted by FINRA:

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

June 1, 2026

Date


Brian D. Kitchen
Counsel
FINRA
Department of Enforcement
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New York, New York 10281