

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

FIRST FINANCIAL EQUITY
CORPORATION,
(CRD No. 16507),

and

MELISSA A. STROUSE,
(CRD No. 3200452).

Respondents.

DISCIPLINARY PROCEEDING
No. 2013034966701

HEARING OFFICER - DW

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: March 8, 2017

Disciplinary Proceeding No. 2013034966701 was filed on July 12, 2016, by the Department of Enforcement of the Financial Industry Authority (FINRA)(Complainant). Respondent Melissa A. Strouse (Strouse) submitted an Offer of Settlement to Complainant dated March 6, 2017. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Strouse has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer of Settlement), and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which

FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer of Settlement), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Strouse's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Strouse (CRD No. 3200452) has been associated with First Financial Equity Corporation (FFEC) since March 1999, where she currently is registered as a general securities representative, a general securities principal, an options principal, and an operations professional. At all relevant times, Strouse was FFEC's CCO. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over Strouse because: (a) she is currently associated with a FINRA member firm; and (b) the Complaint charges her with securities-related misconduct that took place while she was associated with FFEC.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:¹

SUMMARY

During the period January 1, 2010 through June 23, 2013, First Financial Equity Corporation (FFEC or Firm) had numerous supervisory deficiencies. As described below, these deficiencies included, but were not limited to, failing to establish written supervisory procedures (WSPs) to address portions of its business, failing to have adequate WSPs, and failing to enforce certain of the WSPs that it did have.

¹ The findings herein are pursuant to Respondent Strouse's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

At all relevant times, Strouse was the Firm's Chief Compliance Officer (CCO) and was responsible for ensuring that the Firm's compliance and supervision systems operated effectively. In addition to being responsible for FFEC's compliance functions, Strouse had primary supervisory responsibility for the Firm's main office in Scottsdale, Arizona (Scottsdale OSJ), where a significant number of the Firm's supervisory failures occurred.

FFEC had inadequate WSPs or, in fact, no WSPs for certain aspects of its business. FFEC had inadequate WSPs with respect to the reasonable basis suitability requirements under FINRA Rule 2111 and heightened supervision. The Firm had no WSPs pertaining to the supervision, approval and sale of ETFs. Strouse was responsible for ensuring that the Firm's WSPs were compliant with FINRA Rule 3010. By failing to have adequate WSPs relating to reasonable basis suitability and heightened supervision, and by not having any WSPs that addressed the Firm's ETF business, Strouse violated NASD Rule 3010(b) and FINRA Rule 2010.

Similarly, Strouse failed to enforce provisions of the Firm's WSPs at the Scottsdale OSJ in violation of NASD Rule 3010(b) and FINRA Rule 2010. WSPs that were not enforced included procedures pertaining to discretionary accounts, excessive trading/churning reviews, and the requirement that the Firm's WSPs detail its actual processes and procedures.

CAUSE OF ACTION
Inaccurate WSPs, Inadequate WSPs and Failure to Establish WSPs
(Violations of NASD Rule 3010(b) and FINRA Rule 2010)

Inaccurate WSPs

For the period January 2010 through June 2013, the Firm's WSPs designated Strouse as the person responsible for reviewing FFEC's WSPs to ensure that they covered all required

areas. Strouse was further charged with ensuring that the WSPs be amended when the Firm either changed or added to its supervisory procedures.

During the period of January 2010 through June 2013, the WSPs did not reflect the Firm's actual processes and procedures with respect to the review and/or supervision of customer accounts. Moreover, during this time period, the WSPs were not amended to reflect the Firm's actual procedures.

Inadequate WSPs

During the period of January 2010 through June 2013, FFEC's procedures for conducting heightened supervision of registered representatives were inadequate in that the procedures did not detail how surveillance reviews were to be conducted, the frequency of the reviews, and how the reviews were to be evidenced. As described above and in Complaint Paragraph 13, NASD Rule 3010(b) requires a member firm to establish, maintain and enforce written procedures to supervise its securities business.

Similarly, during the period of July 9, 2012 through June 2013, FFEC had inadequate procedures with respect to the reasonable basis suitability requirements under FINRA Rule 2111 in that, the Firm had inadequate processes and procedures to ensure that requisite customer information was obtained prior to Firm representatives recommending securities and/or investment strategies involving securities to Firm customers.

Failure to Establish WSPs

Finally, for the period of January 2010 through June 2013, although FFEC recommended and sold ETFs (including leveraged and inverse ETFs) to its customers, FFEC did not have any written procedures for the supervision, approval, and sale of ETFs. At all relevant times, the

Firm's business included the purchase and sale of ETFs, including, but not limited to inverse and leveraged ETFs.

At all relevant times, Strouse was responsible for FFEC's WSPs, including, but not limited to, ensuring the adequacy of the same and compliance with Rule 3010.

As a result of the foregoing conduct, Strouse violated NASD Rule 3010(b) and FINRA Rule 2010.

CAUSE OF ACTION
Failure to Enforce WSPs
(Violations of NASD Rule 3010(b) and FINRA Rule 2010)

Discretionary Trading

FFEC's WSPs required the designated supervisor to promptly approve, in writing, each order entered for discretionary accounts. The WSPs further required the designated supervisor to review discretionary accounts frequently to detect and prevent activity which may be excessive in size or frequency.

In addition, FFEC's WSPs required the designated supervisor to conduct monthly reviews of discretionary account statements to identify potential areas of concern such as possible churning, excessive trading, suitability issues, or other unusual trading patterns.

During the period January 2010 through April 2012, Strouse was the designated supervisor charged with performing the above two tasks, also identified in Complaint Paragraphs 35 and 36.

During this time period, however, the discretionary account procedures detailed in Complaint Paragraphs 35 and 36 were not enforced. Specifically, for the period January 2010 through April 2012, Strouse did not approve, in writing, each order entered for discretionary accounts and did not review discretionary account statements for the Scottsdale OSJ and,

therefore, failed to enforce FFEC's WSPs in this regard. As described above in Complaint Paragraph 13, NASD Rule 3010(b) requires a member firm to establish, maintain and enforce written procedures to supervise its securities business and municipal securities business, respectively.

Reviews for Churning/Excessive Commissions

During the period January 2010 through April 2012, Strouse was the designated supervisor for the Scottsdale OSJ responsible for reviewing for churning and excessive trading. The Firm's WSP's required the designated supervisor to review, on at least a monthly basis, the purchase and sales blotter, customer accounts, subscription documents and commission reports, for churning and excessive trading.

During the period of January 2010 through April 2012, however, Strouse did not conduct the churning/excessive trading review detailed in Complaint Paragraph 39 for the Scottsdale OSJ.

As a result of the foregoing conduct, Strouse violated NASD Rule 3010(b) and FINRA Rule 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Strouse from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Strouse be sanctioned as follows:

1. A ten calendar-day suspension from associating with any member firm in any principal capacity; and
2. A fine of \$10,000.

Strouse agrees to pay the monetary sanction upon notice that this Offer has been accepted and that such payments are due and payable. Strouse has submitted an Election of Payment form showing the method by which she proposes to pay the fine imposed.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

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



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