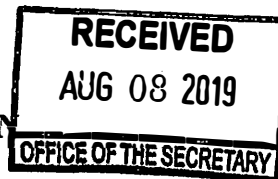


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**BEFORE THE
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC**



In the Matter of the Application of

Craig Scott Taddonio

For Review of Disciplinary Action Taken by

FINRA

File No. 3-19012

FINRA'S BRIEF IN OPPOSITION TO THE APPLICATION FOR REVIEW

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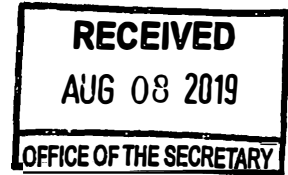
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FINRA'S BRIEF IN OPPOSITION TO THE APPLICATION FOR REVIEW

I. INTRODUCTION

This appeal involves Craig Scott Taddonio's egregious failures to supervise the brokers at the firm he founded and owned, Craig Scott Capital, LLC ("CSC"), and his subsequent false sworn testimony during FINRA's investigation. The record demonstrates that from just a few months after CSC opened its doors, the firm's chief compliance officers began bringing to Taddonio's attention numerous and glaring red flags that the firm's biggest producing brokers were, or might be, excessively trading and churning customer accounts. These red flags included monthly active accounts exception reports on which the same brokers and accounts appeared repeatedly, with large losses and outrageously high turnover rates and cost-to-equity ratios.

There is no question that Taddonio understood what was happening in these accounts. Month after month, he was given these and other reports by the firm's chief compliance officers that showed the losses in the accounts, the frequency and costs of the trading, and the turnover rates and cost-to-equity ratios. And both compliance officers testified that Taddonio carefully

reviewed the activity in CSC accounts and revenue being generated for his firm. Despite all of these warning signals, Taddonio did nothing to stop the trading in the accounts at issue, with the exception of lowering the maximum commission for a few accounts (on the recommendation of his chief compliance officer). To the contrary, Taddonio created a climate at CSC focused on continuous trading—particularly by using a strategy of speculative, short-term trading on earnings that Taddonio recommended and brokers utilized for many accounts.

Throughout these proceedings, Taddonio has pointed the finger at others to avoid taking responsibility for his egregious failures to supervise. He has consistently claimed that his more experienced chief compliance officers supervised the brokers and were responsible for everything. Both chief compliance officers, who worked for Taddonio at different times, flatly deny this claim, consistently testifying that Taddonio and his partner supervised the firm's sales force.

In short, Taddonio wanted to reap the benefits of owning his own firm, without assuming the responsibility of supervising the brokers working for him. In his brief, Taddonio says “I never considered myself a supervisor.” (Taddonio Br. at 11.)¹ But simply asserting this does not make it so. As the owner, CEO, and president of CSC, Taddonio was responsible for responding to the numerous red flags brought to him. Hiring a chief compliance officer and closing his eyes to his brokers' activities, while profiting from their excessive trading, is not sufficient. Neither is sending form activity letters to customers and allowing the excessive trading to continue unabated.

¹ “R. at ___” refers to the page number in the certified record. “Taddonio Br. ___” refers to Taddonio's brief in support of his application for review dated July 9, 2019.

Taddonio's failures to supervise resulted in substantial gains to himself, CSC, and its brokers, and in devastating losses to customers. Over the course of only two years, 37 accounts managed by CSC's four top producing brokers brought almost \$6 million to CSC's coffers, while the accounts suffered net losses of more than \$9 million. These losses were caused by the frequency of trading combined with high costs. The turnover rates and cost-to-equity ratios for these accounts assured that most of the accounts had no chance of breaking even, much less being profitable. The trading at CSC basically amounted to a simple transfer of account value to the firm, with no possible benefit to those customers.

Taddonio's supervisory violations are egregious and reflect a complete failure to understand the rules governing securities professionals and a crass indifference to the interests of the customers of his firm. Under the circumstances, the only appropriate sanction is a bar in all capacities.

When FINRA began investigating the trading at CSC, it learned that CSC brokers may have been recording calls with customers. Such recordings would have provided critical insight into brokers' trading practices and disclosures to customers, including whether brokers had disclosed to customers the substantial mark-ups and mark-downs they were paying. During sworn testimony, Taddonio claimed he had no knowledge of any such recordings. This claim is demonstrably false. The record contains evidence of recordings with customers emailed to Taddonio, the testimony of a CSC broker claiming that Taddonio encouraged the recording of calls and that he discussed one such recording with Taddonio, and records of a third-party vendor which contain a list of audio files created while CSC was in business and for which the file names include CSC customer names. Taddonio's sworn statements to FINRA were false,

thwarted FINRA's investigation, and this misconduct warrants the sanction of a bar in all capacities that was imposed.

II. FACTUAL BACKGROUND

A. Taddonio

Taddonio joined the securities industry in 2004, less than three years after graduating from high school. (R. at 2451-53, 5908, 5910.) Taddonio registered as a general securities representative with FINRA member GunnAllen Financial, Inc. in March 2004. (R. at 2452-53, 5908-09.) Taddonio left GunnAllen in December 2005 and joined Pointe Capital, LLC, which later became JHS Capital Advisors, Inc. (R. at 2454, 5907.) While at Pointe Capital, Taddonio first registered as a general securities principal in 2006. (*Id.*)

In May 2010, Taddonio joined Brookstone Securities, Inc., where he registered as a general securities representative and general securities principal. (R. at 5910.) Taddonio owned his own branch office, which employed approximately 10-15 brokers. (R. at 2457-58, 5906.) In or about 2011, Taddonio and Brent Morgan Porges, a broker with whom Taddonio had worked at Pointe Capital and Brookstone, decided to open their own broker-dealer, CSC. (R. at 2698, 2700-01.) Taddonio was CSC's majority owner and the firm was named after him. (Taddonio Br. at 1; R. at 2701-02.)

CSC was approved for FINRA membership in January 2012 and began operating in February 2012. (R. at 2699.) CSC operated out of the same offices from which Taddonio's Brookstone branch previously operated, and many of the Brookstone brokers in that branch—including those whose trading raised red flags in this case—joined CSC. (R. at 2465-66.)

Taddonio served as CSC's Chief Executive Officer ("CEO") and President.² (R. at 1941, 2461, 3859-60, 6212.)

B. CSC's Practices

CSC operated with a model of senior and junior brokers, although many of the so-called "senior" brokers had little experience. (R. at 1987, 2505-06, 3594, 4508.) Junior brokers worked with a senior broker and engaged primarily in prospecting by cold calling leads. (R. at 1974-75, 1987.) Junior brokers attempted to open accounts with an opening trade in a mainstream stock and charging a \$99 commission for the trade. (R. at 3484, 3488-89, 3557, 3586.) The account was then handed over to a senior broker, who contacted the new customer and handled the account going forward.

The brokers whose trading raised the red flags at issue in this case—Edward Beyn, David Cannata, Zachary Bader,³ and Michael Venturino—were all considered senior brokers at CSC, but all except Cannata had not been registered for long prior to joining CSC. Bader had been

² After CSC closed, Taddonio joined Windsor Street Capital, LP, where he was registered as a general securities representative from March 2016 through March 2017, when FINRA denied Windsor Street Capital's application to permit Taddonio's association with the firm despite his statutory disqualification. (R. at 2484, 5903-04.) See *In the Matter of the Continued Ass'n of Craig Taddonio*, No. SD-2117, slip op. (FINRA NAC Mar. 8, 2017), http://www.finra.org/sites/default/files/NAC_SD-2117_Taddonio-Meyers-Associates_030817.pdf. Windsor Street Capital was subsequently expelled by FINRA in May 2018. See *BrokerCheck* <https://brokercheck.finra.org/firm/summary/34171>. Brookstone, Taddonio's firm before he founded CSC, was also expelled by FINRA in October 2012. See *BrokerCheck* <https://brokercheck.finra.org/firm/summary/13366>.

³ Cannata was barred by FINRA in a default decision for excessive trading in three CSC customer accounts. (R. at 4464-65, 7559-71.) Bader agreed to a Letter of Acceptance, Waiver and Consent barring him from FINRA registration based on his excessive trading of CSC customer accounts. (R. at 4822-23, 7531-37.)

registered for less than a year and Venturino had been registered for just over one year.⁴ (R. at 6036-38.) Beyn was registered for just four years when he joined CSC.⁵ (R. at 3725-26, 3976-77.)

Many CSC brokers, including Beyn, Cannata, Bader, and Venturino, employed, and touted to their customers, what Taddonio referred to as the “earnings play” strategy. (R. at 2580-81, 3631, 3981.) This strategy involved purchasing a stock shortly before it was expected to release an earnings announcement in the hope that the announcement would cause an increase in the stock price and the stock could be sold at a gain. (R. at 4229.) Taddonio provided lists to the registered representatives of companies expected to make earnings announcements in the near future. (R. at 3493.) CSC brokers used the strategy to make numerous, frequent, short-term trades in customer accounts.

Most of CSC’s revenue was generated by commissions (including mark-ups and mark-downs) paid by customers. (R. at 2468.) CSC charged a flat \$99 fee for every trade, all of which was retained by the firm (the “Firm Commission”). (R. at 2027, 2752, 3480, 4570-72.) Additionally, CSC charged a commission on each trade, a portion of which was paid to the firm and a portion to the broker. (R. at 2016-19.) The individual broker was given discretion to decide the amount of this commission as long as it did not exceed the firm’s general limits or an individual limit that may have been placed on a particular account. (R. at 3649-50, 4898.)

CSC’s brokers also had the authority to decide whether a trade would be executed on a riskless principal basis, in which case the customer would be charged a mark-up or mark-down

⁴ See *BrokerCheck*, <https://brokercheck.finra.org/individual/summary/5872439>.

⁵ Cannata was first registered with FINRA as a general securities representative in 1993. (R. at 6082.)

instead of a commission.⁶ (R. at 3709.) Again, as long as the mark-up or mark-down did not exceed the general firm limits, or an individual limit placed on an account, the individual broker was authorized to set the amount of the mark-up or mark-down. (R. at 2016-19, 3649-50.) Most of the trading at CSC was executed on a riskless principal basis and, accordingly, customers were charged mark-ups and mark-downs in addition to the \$99 Firm Commission on each trade. (R. at 4894.)

CSC's clearing firm sent trade confirmations to customers. (R. at 10613-18.) Every confirmation included basic information about the trade, including the name of the stock, the trade date, the number of shares purchased or sold, and the price per share. (*Id.*) The confirmation also set out the "Principal" amount of the trade (the price per share multiplied by the number of shares purchased or sold), the \$99 "Firm Commission," and the "Net Amount" (calculated by adding the \$99 Firm Commission to the Principal amount). (*Id.*)

The trade confirmations also included a section entitled "[s]pecial remarks for this transaction." (*Id.*) This section was located on the bottom left of the trade confirmation and was in smaller type than the rest of the information. (*Id.*) When a trade was executed on a riskless principal basis, this section contained several pieces of information. First, this section would note that the trade was executed on a "Riskless Principal" basis. (*Id.*) Second, this section noted the "Reported Price" (i.e., the price per share *including* the mark-up or mark-down for the

⁶ A "riskless principal" transaction is one in which, after receiving an order to buy or sell from a customer, the broker-dealer buys or sells the security from or to another person in its principal capacity for or from its proprietary account to cover the customer's order. *See Dennis Todd Lloyd Gordon*, Exchange Act Release No. 57655, 2008 SEC LEXIS 819, at *39 n.47 (Apr. 11, 2008). For a buy transaction, the firm will charge the customer more than it paid to buy the stock for its proprietary account—a mark-up. For a sale, the firm pays the customer a lower price for the stock that it received from the sale from its proprietary account—a mark-down.

transaction). (*Id.*) Finally, this section would set out the “Commission Equivalent . . . per share” (i.e., the amount per share charged as a mark-up or mark-down). (*Id.*)

The total amount of commissions the customer paid, however, was not evident from the face of the confirmations. In order to calculate the total cost of a riskless principal trade, a customer would have to multiply the number of shares traded by the “Commission Equivalent” and then add the \$99 Firm Commission. CSC did not provide customers with a written explanation of mark-ups and mark-downs or how to calculate the costs of a trade from the confirmation, and the individual broker would have been the only source of this information. (R. at 3803, 3805.) The CSC customers who testified at the hearing all credibly testified that, while they received trade confirmations, they did not understand that they were paying mark-ups and mark-downs and thought they were only paying \$99 per trade.⁷

C. Taddonio Encourages A Culture of Active Trading at CSC

Taddonio encouraged brokers to open accounts and trade in several ways. First, he regularly gave brokers the names of stocks that were issuing earnings reports and for which short-term “earnings play” trades could be made. (R. at 4230.) Taddonio’s written communications to brokers concerning recommendations often included enthusiastic statements directing them to immediately buy a particular stock. For example:

- On November 5, 2012, Taddonio sent an email to CSC brokers telling them “We HAVE to treat the next 2 weeks like the last 2 weeks of the month and try to raise as much money as possible and open as many accounts as we can the next 2 weeks!! It is IMPERATIVE that you work harder the next 2 weeks than you ever have!! Remember this is your Christmas paycheck and I know everyone wants to have an amazing Christmas even better than we did last year!” [Emphasis in original.] Taddonio went on to caution brokers that they did not “want to be

⁷ (R. at 2183-84, 2196, 2221-22, 2225, 2287, 2297, 3026-27, 3041-42, 3095, 3098, 3213, 3230-31, 3240, 3250-51, 3257-63, 3308-10, 3331-32, 3345, 3347, 3397-98; 4288, 4310-11, 4343-44, 4350-51.)

embarrassed and have to apologize to [] families and friends” if the brokers “couldn’t get them what they wanted.” Taddonio told brokers that if they “pitch[ed] accounts the second you walk in [to the office] for 2 hours, open one account and then trade and raise money for the next two hours you will be shocked at how much you accomplish the next two weeks.” Taddonio instructed that after taking a short lunch, brokers should again “pitch new accounts for another hour and a half to two hours and finish the day trading and raising money.” Taddonio sent this email shortly after Hurricane Sandy and included in the email a sales pitch for Home Depot based on the damage caused by the hurricane, including language the brokers could use when calling customers and leads. Taddonio closed his email by promising a list of recommended stocks would follow and saying, “[l]et’s raise some \$\$\$\$!” (R. at 6626-28.)

- On November 6, 2012, Taddonio sent an email to CSC brokers telling them to “DEFINITELY BUY” two stocks, including one that had earnings coming out that day. (R. at 6622.) That same day, Taddonio recommended CBS, which was also about to release earnings, telling brokers “YOU SHOULD DEFINITELY ALL BUY CBS!” (R. at 6623.) [Emphasis in originals.]
- Taddonio provided brokers with write-ups about specific stocks, which included phrases like “THIS IS WHY YOU CANNOT AFFORD TO DELAY AND WHY YOU NEED TO STEP IN AND PICK UP SHARES RIGHT NOW BEFORE IT IS TOO LATE,” and included responses for brokers to use if the customer hesitated in following the broker’s recommendation. [Emphasis in original.] (R. at 6634-46.)
- CSC hired Porges’s father to recommend stocks CSC brokers could pitch to customers. (R. at 6665-6831.) For example, in July 2013, Taddonio was copied on an email to the firm’s sales assistant asking her to print and distribute to brokers one such recommendation for a solar company, which included the language “[s]o lets [sic] go ahead and pick up 3000 shares before it moves substantially higher.” (R. at 6833-35.)

Taddonio also rewarded CSC’s top producers with trophies and other items. Taddonio and his sales assistant ordered the trophies. (R. at 6848-49, 6858-69, 6873, 6874-76.) CSC also awarded cash bonus for opening new accounts. (R. at 6850-51, 6879.) The firm purchased electronics, Ferragamo belts, and other luxury items to give to brokers. (R. at 4112, 6881-82, 6889-98.)

The four brokers at issue in this matter were all given awards during the same time period that their accounts were appearing on active account exception reports repeatedly and raising

numerous red flags of possible excessive trading and churning. Venturino was given awards for “biggest producer” in March 2013 and “most money raised” in April 2013. (R. at 6862.) Beyn was given an award for “most money raised” for May 2012 and was awarded “top producing broker” for April 2013. (R. at 6863, 6871, 6907.) Cannata was given an award for “most money raised” on February 2013, “most new accounts” for June 2013, and was awarded “producer of the year” for 2013. (R. at 6866, 6878, 6911.) Bader was given an award for “top producing broker” for May 2012 and “most money raised” for June 2013. (R. at 6866, 6905.)

D. Taddonio Is Made Aware of Numerous Red Flags of Excessive Trading and Churning at CSC

The record contains evidence of red flags connected to the trading in 37 accounts (belonging to 30 customers) that were traded by Beyn, Bader, Cannata, and Venturino, including eight accounts of five Beyn customers, which the Hearing Panel found (and FINRA’s National Adjudicatory Council (“NAC”) affirmed) that Beyn excessively traded and churned.⁸ (R. at 6241.) Beyn, Bader, Cannata, and Venturino were the top producing brokers at the firm and these accounts were the firm’s most actively traded and most profitable accounts. (R. at 4224, 4227.)

During the periods these accounts were actively traded,⁹ there were more than 9,000 trades in the accounts, the accounts had total net losses of more than \$9 million, and CSC earned almost \$6 million from the accounts. (R. at 6241.) The majority of the trades were marked

⁸ The evidence relating to Taddonio’s failure to supervise excludes an account for one of Beyn’s customers, BM, because the account was opened and traded in 2015, after the time period during which Enforcement alleged Taddonio failed to exercise reasonable supervision (i.e., January 2012 to December 2014).

⁹ Enforcement presented data for the accounts for the specific period during which each account was actively traded.

solicited by the brokers.¹⁰ (R. at 2427.) The total costs charged to these customers, including margin interest, exceeded \$5.9 million. (R. at 6241.)

The annualized turnover rates for these accounts ranged from 6.6 to 212.25, with 13 accounts having annualized turnover rates over 100. (R. at 6241.) The annualized cost-to-equity ratios ranged from 18.1% to 824.6%, with 25 of the accounts having annualized cost-to-equity ratios over 100%.¹¹ (*Id.*) On appeal, Taddonio does not dispute these numbers or their significance.

1. Crockett Brings Red flags to Taddonio's Attention During CSC's First Year in Business

Taddonio hired Richard Crockett in January 2011 to assist with CSC's FINRA membership application. (R. at 1938-39, 3615, 6128.) During the period from January 2012 to January 2013, Crockett served as CSC's chief compliance officer ("CCO"). (R. at 1924, 6136.) Crockett testified that he reported to Taddonio and Porges and that Taddonio was the sales manager to whom the senior brokers reported.¹² (R. at 1941, 1943.)

¹⁰ A FINRA examiner conducted an analysis of the trading by Beyn, Bader, Cannata, and Venturino. (R. at 2427.) Of the 9,000 transactions, approximately 90% were marked solicited. (*Id.*) The percentage for each broker ranged from 85% to 95%. (*Id.*)

¹¹ An account's cost-to-equity ratio is the percentage the account would have to appreciate just to break even given the costs of trading and is calculated by dividing the total expenses by the average monthly equity in an account. *Ralph Calabro*, Exchange Act Release No. 75076, 2015 SEC LEXIS 2175, at * 31 (May 29, 2015). Turnover rate refers to the number of times the securities in the account were exchanged for a different portfolio of securities and is calculated by dividing the total purchases in the account by the average account equity and annualizing the number. *Id.* The Commission has held that "[w]hile there is no definitive turnover rate or cost-to-equity ratio that establishes excessive trading, . . . a turnover rate of 6 or a cost-to-equity ratio in excess [] of 20% generally indicates that excessive trading has occurred." *Id.* at *32.

¹² Crockett testified that the junior brokers reported to Porges. (R. at 1943.)

Crockett testified that Taddonio met with brokers as needed, usually in one-on-one meetings in his office. (R. at 1945, 1977-78.) Crockett also testified that most of the brokers relied on public research that Taddonio provided in making recommendations, particularly concerning companies with upcoming earnings for which brokers could employ the earnings play strategy. (R. at 3617-18.) Crockett testified that during his tenure, approximately 80% of the firm's portfolio consisted of brokers employing the earnings play strategy based on Taddonio's recommendations. (R. at 3631.)

Crockett testified that Taddonio was intimately involved with, and aware of, the trading practices of the firm's brokers. Indeed, Crockett testified that Taddonio reviewed the commissions (including mark-ups and mark-downs) and revenue generated by CSC's registered representatives on a daily, weekly, and monthly basis. (R. at 3625-26.) Crockett also testified that Taddonio reviewed account activity daily and discussed accounts with registered representatives regularly. (R. at 3703-4, 3788.)

Crockett testified that the firm had access to a number of exception reports provided by its clearing firm, which were available to Taddonio through the clearing firm's computer platform. (R. at 1991-92.) Additionally, Crockett said that he took steps to raise red flags of possible excessive trading to Taddonio. (R. at 3739.)

For example, Crockett developed what he called a "book review" and gave that analysis to Taddonio. (R. at 1994.) As part of the book review, Crockett identified active accounts and asked the registered representatives for these accounts to complete a document he had developed titled "active account worksheet." (R. at 1994.) The broker for each account was asked to provide information about realized and unrealized gains and losses and commissions and fees charged to the accounts. (R. at 2009-10, 6615-17.) The worksheet also asked the registered

representatives to estimate (on a percentage basis) the extent to which the customer relied on the broker for investment advice, the percentage of trades that were solicited or unsolicited, and to describe the investment strategy for the account. (R. at 6615-17.) The form also included an area where the broker could comment on his relationship with the customer and raise any concerns. (*Id.*) Neither Crockett nor anyone else at CSC contacted the customer to verify the brokers' responses on these forms.¹³ (R. at 2015.) Crockett provided copies of the active account worksheets to Taddonio, who would sign them on behalf of sales management. (R. at 1999, 2005, 2013-14, 2492, 6615-17.)

The first active account worksheets were completed in May or June 2012, just a few months after CSC commenced operations. (R. at 1996.) Crockett identified approximately 30 actively-traded and poorly performing accounts. (R. at 1996-97, 3628.) Crockett testified that he gave a list of these accounts to Taddonio, that Taddonio signed the reviews, and that he expected Taddonio to take corrective action. (R. at 1998.) Crockett recommended that Taddonio limit the brokers to charging only the \$99 firm commission for future trades in the accounts. (*Id.*) Taddonio, however, did not take any corrective action. (R. at 2000.)

Crockett repeated this "book review" in the fall of 2012. (R. at 1997.) The second review resulted in a list of actively-traded and poorly performing accounts that was almost twice as long as the first list—approximately 50-60 accounts. (R. at 1999, 3740.) As with the first review, Taddonio signed the second analysis on behalf of sales management, but took no steps to address the trading of these accounts. (R. at 1999-2001, 2005.) Crockett testified that while he

¹³ Crockett testified that he was not permitted to contact customers directly, and Taddonio insisted that all client contact be handled by either the broker or Taddonio himself. (R. at 1947, 2038-39, 2117-18, 2120, 2122, 3789-90.)

recommended reducing commissions for the accounts subject to the review, he did not have the authority to do so himself. (R. at 2016, 2155, 3540-41.) Crockett testified that only Taddonio and Porges had the authority to reduce the maximum commission that a broker could charge for trades in a particular account.¹⁴ (R. at 2017.) Crockett said that he went back to Taddonio and Porges a number of times to follow-up on his recommendation, but neither Taddonio nor Porges took any action. (R. at 2029, 3627.)

2.o Gentile Brings Numerous Red Flags to Taddonio's Attention

In February 2013, Taddonio hired Joseph Gentile to replace Crockett as CSC's CCO. (R. at 4497.) Gentile remained in that position until September 2015, shortly before the firm closed. (*Id.*) Like Crockett, Gentile testified that Taddonio and Porges supervised the sales force, and Gentile did not supervise the brokers. (R. at 4507-09.) Gentile testified that his interactions with the sales force were related to compliance matters only. (R. at 4508.)

Gentile testified that when he joined CSC, the firm was receiving a variety of daily and monthly reports from the clearing firm that he, Taddonio, and Porges could access, but that these did not include an active account report. (R. at 4510-11.) Accordingly, within a month of starting at CSC, Gentile arranged for CSC's clearing firm to begin providing a monthly active account exception report for the firm. (R. at 4512-13.) The report included accounts that met certain criteria, including: (1) monthly commissions (including mark-ups or mark-downs)

¹⁴ Crockett testified that his authority was limited to retroactively correcting the commission on a particular trade that exceeded the firm limits. Further, he testified that he was not authorized to limit the commissions a broker could charge prospectively as long as the commissions were within the general firm limits. (R. at 2017, 2155-57.) Initially, CSC had a policy of limiting commissions to 5% or less. (*Id.*) Later, on Crockett's recommendation, Taddonio approved a policy of charging no more than 2% on a buy and 2% on a sell, in order to limit the total to less than 5%. (R. at 2018, 2020-21, 3637.) Crockett testified that this limit did not include the \$99 Firm Commission, which was charged for every trade. (R. at 2019.)

totaling \$2,500 or more; (2) 10 or more trades per month in the account; (3) commission-to-equity ratios of 5% or more; or (4) a loss in the account of 20% or more of its value. (R. at 4524-26.) Accounts included in the report were organized by registered representative and showed: (1) the account value as of the end of the current month and previous month and the percentage of change; (2) the number of solicited and unsolicited trades for the month; (3) the total commissions and commission-to-equity ratio for the current month, the last three months, and the last 12 months; (4) the number of trades and commissions charged in each of the prior 12 months; and (5) the annualized turnover rate for the current month, the last three months, and the last 12 months. (R. at 7015-7382.)

Gentile, Taddonio, and Porges received an electronic copy of the active account exception report every month starting in February 2013. (R. at 4619-20.) Additionally, Gentile printed the report and provided a hard copy to Taddonio every month and had discussions with Taddonio explaining the report, including activity, losses, and commissions. (R. at 4519-21, 4555, 7015-7382.) Gentile testified that, after a few months, he saw a pattern of the same brokers and accounts appearing on the reports, including Beyn, Bader, Cannata, and Venturino. Gentile expressed his concerns to Taddonio. (R. at 4557-58, 4559.)

The record includes copies of the monthly active account exception reports for each month from February 2013, to April 2014. (R. at 7015-7382.) Beyn and Venturino had multiple accounts appear on the report every single month. (*Id.*) Bader had multiple accounts appear on the report every month until August 2013, when he left CSC. (*Id.*) Cannata had multiple accounts on the report every month except August 2013. (*Id.*) For each month, Beyn, Bader, Cannata and Venturino collectively had the following approximate number of accounts (for

which they were the broker or shared commissions with another broker) appear on the active account report:

- e February 2013 – 37 accounts (R. at 7015-39);e
- e March 2013 – 32 accounts (R. at 7041-62);e
- e April 2013 – 29 accounts (R. at 7063-83);e
- e May 2013 – 26 accounts (R. at 7085-7106);e
- e June 2013 – 19 accounts (R. at 7107-21);e
- e July 2013 – 25 accounts (R. at 7123-43);e
- e August 2013 – 23 accounts (R. at 7145-66);e
- e September 2013 – 30 accounts (R. at 7167-92);e
- e October 2013 – 33 accounts (R. at 7193-7220);e
- e November 2013 – 23 accounts (R. at 7221-44);e
- e December 2013 – 19 accounts (R. at 7245-66);e
- e January 2014 – 32 accounts (R. at 7267-94);e
- e February 2014 – 24 accounts (R. at 7295-7323);e
- e March 2014 – 26 accounts (R. at 7325-56); ande
- e April 2014 – 16 accounts (R. at 7359-82).e

In many cases, the same accounts appeared on the active account report month after month. For example, Beyn customer TP's IRA account appeared on the active account report for the months of February through May, 2013, and in July 2013. (R. at 7032-33, 7054, 7076, 7099-7100, 7126-27.) Another of TP's accounts appeared on the report every month from February through November 2013. (R. at 7033, 7055, 7076, 7100, 7114-15, 7135.) EH, another Beyn customer, had an IRA account that appeared on the active account report for every month from February 2013 through April 2014. (R. at 7032, 7053-54, 7075, 7099, 7114, 7134-35, 7155-56, 7178, 7205-06, 7229-30, 7255-56, 7281-82, 7309, 7339-40, 7369-70.)

Even when an account did not appear on the report month after month, other glaring red flags were present. For example, WR, another Beyn customer, had an account that appeared on the active account report in July 2013. (R. at 7126-27.) The report reflected a loss in WR's account during that month of 56%. (R. at 7126.) The report also showed that Beyn had executed 58 trades in WR's account, 54 of which he marked solicited. (*Id.*) The report showed an

annualized turnover rate for the account of more than 226 and annualized cost-to-equity ratio of more than 46%. (R. at 7127.) The record contains similarly large numbers for numerous other accounts for which Beyn, Bader, Cannata, and Venturino were the brokers.

3. Taddonio Was Aware of a Number of Customer Complaints

In addition to numerous red flags arising from the trading in the accounts, Taddonio was also aware of a number of complaints from customers concerning the trading and costs charged by Beyn, Cannata, Bader, and Venturino. These customer complaints were additional red flags ignored by Taddonio.

In fact, a number of customers filed statements of claim against CSC with FINRA Dispute Resolution during the relevant time period. Gentile testified that he informed Taddonio of every customer complaint. (R. at 4623-23.) Arbitrations filed by CSC customers during the relevant time period include:

- A July 2013 statement of claim filed by Cannata customers, JB and LB, alleging excessive trading and commissions. (R. at 11307-86.) Taddonio was named in this arbitration. (R. at 11307.)
- A November 2013 statement of claim filed by Beyn customer, EK, alleging excessive trading, churning, unsuitable recommendations, and undisclosed commissions in the form of mark-ups and mark-downs. (R. at 10899-930.) Taddonio was named in this arbitration. (R. at 10899.)
- A March 2014 statement of claim filed by Bader customer, BBI, alleging excessive trading and churning. (R. at 11435-60.)
- An August 2014 statement of claim filed by Beyn customer, WR, alleging churning and unsuitability. (R. at 19523-19600.)
- A December 2014 statement of claim filed by Bader customer, PG, alleging churning and unsuitability. (R. at 11217-34.) Taddonio was named in this arbitration. (R. at 11217.)

CSC also received other complaints from customers of Bader, Cannata, Venturino, and Beyn, which were reported to FINRA by Gentile pursuant to FINRA Rule 4530. These include:

- A March 2013 complaint by a Bader customer, complaining about Bader's use of margin in his account. (R. at 7007-08.)
- An April 2013 complaint by a Cannata customer, complaining about the activity and commissions generated in his account (this customer subsequently withdrew his complaint). (R. at 6995-96.)
- An April 2013 complaint by a Venturino customer, alleging that Venturino input false information on his account opening application. (R. at 6999-7000.)
- A May 2013 complaint by a Cannata customer, complaining about substantial losses in his account over a four-month period. (R. at 7013-14.)
- A September 2013 complaint by a Bader customer, alleging unauthorized trading. (R. at 7005-06.)
- A November 2013 complaint by a Cannata customer, alleging losses resulting from unauthorized trading. (R. at 7009-10.)
- A February 2014 complaint by Beyn customer, TP, complaining about poor performance. (R. at 7011-12.)¹⁵

The numerous complaints by customers of Beyn, Bader, Cannata, and Venturino over a two-year period were further red flags of possible misconduct that Taddonio ignored.

E. Taddonio Gives False Testimony to FINRA

On March 20, 2015, Taddonio appeared for an on-the-record interview ("OTR") pursuant to FINRA Rule 8210. (R. at 7573-78.) During that OTR, after being asked whether the firm recorded calls, Taddonio was asked whether anyone at CSC used any recording devices to record conversations. Specifically, Taddonio was asked "Did anyone at the firm ever use any devices and/or technology to record conversations with customers?" (R. at 7575.) Taddonio responded, "No." (*Id.*) He was also asked, "Did anyone at the firm ever use any devices and/or technology

¹⁵ In all of these Rule 4530 reports, Taddonio was listed as the supervisor for Beyn, Bader, Cannata and Venturino. FINRA Rule 4530 requires members to promptly report certain violations of securities laws, regulations, and rules, including FINRA rules.

to record conversations with prospective customers?” (*Id.*) Again, Taddonio responded, “No.” (*Id.*)

The record contains evidence, however, that at least some calls were recorded and that Taddonio was aware of this. A CSC junior broker, Nicholas Milano, credibly testified that CSC brokers recorded calls, and that Taddonio encouraged them to do so for training purposes. (R. at 3519-20.) Milano also credibly testified that he reviewed with Taddonio one call with a customer that Milano recorded. (R. at 3521.) In fact, the record contains a copy of a March 12, 2013 email that Milano sent to Taddonio attaching the recording. (R. at 6423.)

The record also contains an April 23, 2013 email from Porges to Taddonio attaching a wav. file. (R. at 6437-45.) In the subject matter line, Porges wrote “[Customer JA] conversation” and the attachment is a recording of a conversation between Porges and JA, a Cannata customer. (*Id.*)

The record contains receipts and emails showing that CSC purchased recording equipment (and related items). (R. at 4098, 6377-6422.) Taddonio was copied on certain of these emails. (*Id.*) The record also contains photographs of CSC’s office which show recording devices on brokers’ desks in plain sight. (R. at 4843-46, 6609-14.)

Moreover, a CSC vendor that provided computer backup services had a record of copying more than 5,000 “.wav” audio files from Taddonio’s computer. (R. at 5232-33, 6265-6375.) Some of these files were created while CSC was in business and the file names include the names of CSC customers whose accounts are at issue in this matter. (R. at 4843-46, 6609-14.) FINRA’s Department of Enforcement (“Enforcement”) was unable to obtain the actual files because they were deleted after CSC stopped paying its vendor. (R. at 5232-33.)

III. PROCEDURAL HISTORY

A. The Complaint

The investigation which resulted in this case arose out of a May 2014 FINRA examination of CSC. (R. at 4213-14, 4222, 4865-66.) On December 30, 2015, Enforcement filed a complaint against CSC, Taddonio, and Porges. (R. at 8-47.) On January 5, 2016, Enforcement filed a five-cause corrected complaint against CSC, Taddonio, and Porges (the “Corrected Complaint”). (R. at 225-64.) The Corrected Complaint alleged that Taddonio, along with CSC and Porges, “fostered a culture of aggressive, excessive trading of customer accounts” and “encourag[ed] the firm’s registered representatives to use upcoming earnings announcements as a catalyst for recommending hundreds, and in some cases thousands, of short-term trades in customer accounts,” which resulted in turnover rates as high as 200 and cost-to-equity ratios as high as 800%. (R. at 225-26.) Enforcement alleged that this trading resulted in losses to customers of more than \$9 million, while Taddonio, CSC, and its brokers’ earned more than \$5 million. (*Id.*) The Corrected Complaint further alleged that Taddonio did “little to nothing” to respond to numerous red flags indicating excessive trading and churning at CSC. (R. at 226.)

Cause one of the Corrected Complaint alleged that CSC violated NASD Rule 2310, NASD IM-2310-2, and FINRA Rules 2111 and 2010 by excessively trading several customer accounts through Beyn, Bader, and Cannata. (R. at 254-55.) Cause two alleged that CSC also violated Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), Exchange Act Rule 10b-5 and FINRA Rules 2020 and 2010 by churning the accounts through these same brokers. (R. at 256-57.) Cause three alleged that CSC, Taddonio, and Porges violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish, maintain, and enforce a reasonable supervisory system, including written supervisory procedures, to prevent excessive trading and

churning, and that Taddonio and Porges failed to properly address numerous red flags that were brought to their attention that indicated that excessive trading and churning might be occurring at the firm. (R. at 257-59.) Cause four alleged that CSC violated FINRA Rules 3230 and 2010 by failing to establish a reasonable system to prevent calls to persons on the national do-not-call list. (R. at 259-60.) Finally, cause five alleged that CSC, Taddonio, and Porges violated FINRA Rules 8210 and 2010 by making false statements to FINRA concerning the use of recording devices at CSC.

On June 1, 2016, the Hearing Officer granted Enforcement's motion to consolidate the disciplinary proceeding against CSC, Taddonio, and Porges with another case against Beyn.¹⁶ (R. at 1145-48.) On June 6, 2016, the Hearing Officer issued a scheduling order, scheduling hearing dates for January 24, 2017, through February 10, 2017, and setting various other prehearing deadlines, including deadlines for motions related to Enforcement's production of documents. (R. at 1149-1154.) Enforcement completed its required production to Taddonio's counsel on June 1, 2016, pursuant to FINRA Rule 9251, which requires Enforcement to produce all documents obtained in the course of its investigation, including in response to all FINRA

¹⁶ On March 16, 2016, Enforcement filed a three-cause complaint against Beyn. (R. at 431-50.) Enforcement alleged that, during the period from March 2012 through May 2015, Beyn exercised control over the accounts of six customers and excessively traded and churned those accounts. (R. at 431.) Enforcement alleged that, based on the frequency of trading and the commissions charged, "there was little to no possibility that the customers would profit from [the] trading" and Beyn "abused [his customers'] trust by excessively and fraudulently trading the accounts." (R. at 433.) Cause one alleged that Beyn churned the accounts of the six customers, in violation of the Securities Exchange Act of 1934 ("Exchange Act") Section 10(b), Exchange Act Rule 10b-5, and FINRA Rules 2020 and 2010. (R. at 445-46.) Cause two alleged that Beyn excessively traded the accounts, in violation of NASD Rule 2310 and FINRA Rules 2111 and 2010. (R. at 446-47.) Finally, cause three alleged that Beyn recommended investments in ETNs to a customer without reasonable grounds for believing that the investments were suitable for him, in violation of NASD Rule 2310 and FINRA Rules 2111 and 2010. (R. at 448.)

Rule 8210 requests issued in connection with the investigation. (R. at 1382.) On June 28, 2016, the Hearing officer granted Taddonio's and Porges's counsel's motion to withdraw and Taddonio and Porges proceeded pro se. (R. at 1165-67.) As described below, Taddonio did not raise any issues or concerns regarding Enforcement's June 2016 production of documents until December 2016, several weeks before the hearing was scheduled to commence and well after the July 1, 2016 deadline for raising objections to the production set by the Hearing Officer in the scheduling order. (R. at 1149-1154.) *See infra* Part IV.C.1.

B. The Hearing Panel Decision

A twelve-day hearing was held during January and February 2017, at which Taddonio, Porges, Beyn, and 13 other witnesses, including several CSC customers, testified. (R. at 1797-5900.) The Hearing Panel issued a decision on July 31, 2017. (R. at 15291-15345.) The Hearing Panel found that Taddonio failed to exercise reasonable supervision, in violation of NASD Rules 3010 and FINRA Rule 2010, in light of red flags that indicated CSC registered representatives at his firm were excessively trading customer accounts. (R. at 15292.) The Hearing Panel also found that Taddonio gave false testimony to FINRA in a sworn OTR interview, in violation of FINRA Rules 8210 and 2010. (*Id.*) For the supervisory violations, the Hearing Panel barred Taddonio from associating with any FINRA member firm in any principal or supervisory capacity. (*Id.*) For giving false testimony, the Hearing Panel barred Taddonio from associating with any FINRA member firm in any capacity.¹⁷ (*Id.*)

¹⁷ The Hearing Panel also found that Beyn: (1) churned customer accounts, in violation of Exchange Act Section 10(b), Exchange Act Rule 10b-5, and FINRA Rules 2020 and 2010; (2) excessively traded accounts, in violation of NASD Rule 2310 and FINRA Rules 2111 and 2010; and (3) recommended unsuitable securities, in violation of NASD Rule 2310 and FINRA Rules 2111 and 2010. (R. at 15291.) For his violations, Beyn was barred in all capacities. (*Id.*) The Hearing Panel also found that Porges violated NASD Rule 3010 and FINRA Rule 2010, and

[Footnote continued on next page]

C. The NAC Appeal

Taddonio filed an application for review by FINRA's NAC. (R. at 15411-12.) On January 29, 2019, the NAC issued a decision affirming the findings of violation by Taddonio, affirming a bar in all capacities for giving false testimony to FINRA, and modifying the sanction for his egregious supervisory violations from a bar in any principal or supervisory capacity to a bar in all capacities.¹⁸ (R. at 16027-64.) The NAC found that Taddonio was "aware of a plethora of red flags indicating that accounts were being excessively traded," but took no meaningful steps to investigate and address the red flags and prevent continued excessive trading. (R. at 16056-58.) To the contrary, the NAC found that Taddonio encouraged brokers to trade, providing lists of companies for which brokers could employ the earnings play strategy and rewarding top producing brokers. (R. at 16033-34.) The NAC further found that Taddonio knew that at least some calls to customers were recorded by CSC brokers, but falsely and repeatedly testified in a sworn FINRA OTR interview that he knew of no such recordings. (R. at 16059-60.)

The NAC found that the principal bar imposed by the Hearing Panel was insufficient given his egregious supervisory violations, and modified the sanction to a bar in all capacities. (R. at 16061-63.) The NAC based its determination on, among other things, the number of red flags Taddonio was aware of, the pattern and length of time red flags of excessive trading

[cont'd]

barred him in any principal and supervisory capacity. (R. at 15292.) The Hearing Panel further found that Porges gave false testimony to FINRA, in violation of FINRA Rules 8210 and 2010, and barred him in all capacities for this violation. (*Id.*) Porges appealed to the NAC, but subsequently withdrew his appeal. (R. at 15411-14, 15707-66.)

¹⁸ The NAC also affirmed the findings of violations by Beyn and the bar imposed on him. (R. at 16027-64.)

continued at the firm with no meaningful response, and Taddonio's role in creating a culture at the firm that allowed and encouraged excessive trading. (*Id.*) This appeal to the Commission followed.¹⁹

IV. ARGUMENT

On appeal, Taddonio argues that he had no compliance experience, was not a supervisor at CSC, and that he and CSC did take sufficient steps in response to red flags. Taddonio also denies that he gave false testimony to FINRA. Finally, Taddonio argues that the bar imposed for his supervisory violations is excessive, and he raises various procedural complaints. Taddonio's arguments have no merit, and the Commissions should affirm the NAC's findings and sanctions in their entirety.

A. Taddonio Failed to Exercise Reasonable Supervision in Light of Numerous Red Flags Indicating Excessive Trading and Churning at CSC

NASD Rule 3010(a) provided that members "shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations."²⁰ NASD Rule 3010(b) provided that members "shall establish, maintain, and enforce written procedures . . . to supervise the activities of registered representatives,

¹⁹ Beyn also appealed the NAC's decision to the Commission. Beyn's appeal is pending as Administrative Proceeding No. 3-19007.

²⁰ Effective December 1, 2014, FINRA Rule 3110 superseded NASD Rule 3010, without substantive change. *FINRA Regulatory Notice 14-10*, 2014 FINRA LEXIS 17 (Mar. 2014). NASD Rule 3010 applies to Taddonio's misconduct here because it occurred before the effective date of FINRA Rule 3110.

registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations.”

A member must implement and enforce its supervisory system and written procedures reasonably in light of the circumstances presented. *See Ronald Pellegrino*, Exchange Act Release No. 59125, 2008 SEC LEXIS 2843, at *33 (Dec. 19, 2008). Moreover, the supervisory duties imposed under NASD Rule 3010 include a responsibility to investigate and act upon “‘red flags’ that suggest that misconduct may be occurring and to act upon the results of such investigation” with an appropriate response. *Id.*; *see also Christopher J. Benz*, 52 S.E.C. 1280, 1283 n.13 (1997), *aff’d*, 168 F.3d 478 (3d Cir. 1998) (explaining that supervisors must respond to red flags and other indications of irregularities).

It is well established that “the president of a broker-dealer . . . is responsible for compliance with all of the requirements imposed on his firm unless and until he reasonably delegates particular functions to another person in that firm, and neither knows nor has reason to know that such person’s performance is deficient.” *Michael Ben Lavigne*, 51 S.E.C. 1068, 1071 (1994); *see also Richard F. Kresge*, Exchange Act Release No. 55988, 2007 SEC LEXIS 1407, *28-29 (June 29, 2007) (stating that the Commission has “frequently emphasized that the president of a brokerage firm is responsible for the firm’s compliance with all applicable requirements unless and until he or she reasonably delegates a particular function to another person in the firm, and neither knows nor has reason to know that such person is not properly performing his or her duties”).

Even where the president of a broker-dealer reasonably delegates supervisory responsibilities, however, he or she has a duty to follow up on that delegation. *See Midas Sec., LLC*, Exchange Act Release No. 66200, 2012 SEC LEXIS 199, at *55 (Jan. 20, 2012) (stating

that “it is not sufficient for the person with overarching supervisory responsibilities to delegate supervisory responsibilities to a subordinate . . . and then simply wash his hands of the matter until a problem is brought to his attention”).

Taddonio argues that he did not consider himself a supervisor and that he delegated all supervisory responsibilities to the firm’s CCOs. (Taddonio Br. 11.) Taddonio also argues that he relied on his CCOs because he lacked supervisory experience. (Taddonio Br. at 1, 11.) The record and applicable law do not support Taddonio’s self-serving claims.

Both Crockett and Gentile testified that Taddonio ran the firm, supervised CSC’s brokers, and that they reported to Taddonio and Porges. (R. at 1941, 4506, 4507-09.) Crockett testified that he had no responsibility for supervising brokers and he did not have the authority to hire, fire, or determine commissions and salaries. (R. at 1942-43.) Crockett testified that any policy changes had to be approved by Taddonio. (R. at 2021-22.) Taddonio insisted that all customer contact go through the brokers or himself, and prohibited Crockett from calling customers directly. (R. at 1947, 2038-39, 2117-18, 2120, 2122, 3789-90.) Gentile similarly testified that he did not supervise brokers. Gentile testified that he had no authority to fire brokers or set commissions or salaries. (R. at 4509, 4971-72.) Gentile testified unequivocally that Taddonio and Porges were the sales managers and supervised the brokers. (R. at 4506-09.) Both Crockett and Gentile testified that Taddonio carefully monitored the brokers’ sales activities and interacted with them on a daily basis. (R. at 4595-96, 5024-25.)

1. Taddonio Was Aware of Red Flags

Even if Taddonio had effectively delegated all responsibility for supervising brokers to the firm’s CCOs, he had an obligation to respond when he became aware of numerous, glaring red flags that CSC’s top brokers might be excessively trading accounts. Starting just a few

months after CSC opened its doors, CSC's CCOs started to bring these red flags to Taddonio.

In the spring of 2012, Crockett completed his first review of the activity in CSC accounts. (R. at 1996.) As a result, Crockett compiled a list of approximately 30 accounts that were actively-traded and performing poorly. (R. at 1996-97.) Crockett provided this list to Taddonio and recommended that Taddonio limit commissions for the accounts to the \$99 Firm commission only. (R. at 1998, 2000.) Crockett was not authorized to take this correction himself without Taddonio's approval. (R. at 1999-2001, 2005, 2016-18, 2155-57, 3540-41.) Taddonio, however, took no action. (R. at 2000.)

In the fall of 2012, Crockett repeated his review and the consequences of Taddonio's failure to act became apparent. (R. at 1997.) The resulting list of actively-traded and poorly performing had almost doubled, to 50-60 accounts. (R. at 1999, 3740.) As before, Crockett provided the list to Taddonio and recommended commission reductions. (R. at 1999-2001, 2005, 2016, 2155, 3540-41.) Despite Crockett's repeated attempts to follow up, Taddonio again did nothing. (R. at 2029, 3627.)

This pattern continued when Gentile took over as CCO. Gentile arranged for Taddonio to receive both an electronic version and hard copy of a monthly active account exception report from CSC's clearing firm. (R. at 4519-21, 4555, 4619-20, 7015-7382.) Gentile also discussed these reports with Taddonio. (R. at 4519-21, 4555.) The report contained everything Taddonio needed to see what was happening in the accounts, including losses, the frequency of trading, the commissions charged, and the turnover rates and cost-to-equity ratios. (R. at 7015-7382.) Moreover, month after month, the same brokers and accounts repeatedly appeared on the report. (Id.)

Finally, during the period at issue, Taddonio was aware of at least five arbitrations and seven other customer complaints involving Bader, Beyn, Cannata and Venturino—the same brokers who appeared on the active account reports month after month. These complaint were additional red flags. When he became aware of these red flags, Taddonio had a duty to take appropriate corrective action. *See John Busacca, III*, Exchange Act Release No. 63312, 2010 SEC LEXIS 3787, at *33-34 (Nov. 12, 2010), *aff'd*, 449 F. App'x 886 (11th Cir. 2011) (finding that firm president had obligation to act because he was aware of red flags of misconduct). He did not.

2. Taddonio's Claimed Supervisory Responses to Red Flags Were Insufficient

Taddonio argues that he and the firm took corrective actions in response to red flag and that these actions should have been considered “mitigating factor[s].” (Taddonio Br. at 2.) Taddonio cites: (1) his decision to terminate Crockett; (2) placing Beyn under heightened supervision; (3) CSC's reduction of maximum commissions to 3.2% during Gentile's tenure and further reductions made to specific accounts; and (4) the active account letters and affidavits of support sent to customers during Gentile's tenure. (R. at 2-4, 10.) None of these actions, however, were effective in decreasing the rate of trading at the firm and red flags of excessive trading continued after they were implemented.

While Taddonio claimed that he terminated Crockett because he didn't see him doing what he should be at the firm, the record indicates that Crockett was fired for other reasons. (R. at 2489-91.) Crockett testified that before he was terminated, no concerns were raised with him about his performance. (R. at 2046, 2049.) Moreover, Crockett further testified that the reason for the termination he was given was his previous request for a raise and indication that he would resign shortly before FINRA's cycle exam. (R. at 2050-51.) Whatever, the reasons for his

termination, Crockett's departure was not a sufficient corrective action as red flags of excessive trading continued long after he was replaced.

Taddonio also points to the firm's decision to put Beyn on heightened supervision. Gentile testified, however, that Beyn was not placed on heightened supervision until 2015, after almost three years of trading by Beyn that raised numerous red flags (and after the relevant time period). (R. at 4706.) This delayed response was untimely and did not prevent years of violative conduct by Beyn that caused his customers losses. Moreover, Gentile testified that Taddonio refused his recommendation to terminate two other brokers about whom Gentile had concerns. (R. at 4988.) Instead, these brokers were also belatedly put on heightened supervision in 2015. (*Id.*) In short, heightened supervision was an untimely and insufficient half measure, and does nothing to absolve Taddonio of his egregious supervisory failures.

The same is true of the reduction of maximum commissions and the activity letters and affidavits of support sent to certain customers. None of these addressed the underlying problem of active trading combined with high costs. The excessively high turnover rates and cost-to-equity ratios continued after the 3.2% policy was implemented in May 2013. (R. at 4574-75.) And while CSC lowered the commission limit even further for a few actively-traded accounts, this did not remediate the damage already done in those accounts, or prevent the brokers from continuing to actively trade other accounts. Finally, the form activity letters and affidavits of support sent to customers were meant to protect CSC—not its customers—and the testifying customers said that they signed the letters not understanding the trading in the account or were contacted and urged to sign them by their broker. (R. at 2211, 3276, 3426, 3428, 3055-57, 4364-67.) In short, none of the supposed corrective actions Taddonio cites did anything to stop the trading at the firm, and red flags indicating excessive trading continued throughout the relevant

time period.²¹

3. **Taddonio's Claimed Lack of Experience Does Not Excuse His Misconduct**

Taddonio argues that he relied on his CCOs to supervise because he lacked supervisory experience and suggests that this lack of experience somehow excuses or mitigates his supervisory failures. (Taddonio Br. at 1, 11.) A lack of experience, however, does not excuse or mitigate his misconduct. *See, e.g., Robert Marcus Lane*, Exchange Act Release No. 74269, 2015 SEC LEXIS 558, at *89 (February 13, 2005) (stating that “participants in the securities industry cannot be excused for lack of knowledge, understanding, or appreciation of [compliance] requirements”), *citing, Scott Epstein*, Exchange Act Release No. 59328, 2009 SEC LEXIS 217, at *73 (Jan. 30, 2009), *aff'd*, 416 F. App'x 142 (3d Cir. 2010) (rejecting applicant's argument that his youth and inexperience mitigated his misconduct). Regardless of his level of experience, Taddonio ignored the advice of the CCOs he claimed to rely upon.

B. Taddonio Gave False Testimony to FINRA

Providing false testimony to FINRA in an OTR interview is a violation of FINRA Rules 8210 and 2010. *See, e.g., Geoffrey Ortiz*, Exchange Act Release No. 58416, 2008 SEC LEXIS 2401, at *25-26 (Aug. 22, 2008) (finding that applicant violated Rules 8210 and 2110 where he

²¹ Taddonio argued that Enforcement unfairly limited the relevant time period, thereby preventing the Hearing Panel from considering supposedly corrective actions that the firm took shortly before it closed, which Taddonio claims would have solved all CSC's regulatory problems. (Taddonio Br. 4.) Taddonio's arguments are baseless. Taddonio was obligated to adequately supervise the firm during the time period defined by Enforcement, and actions he supposedly took long after he failed to do so do not excuse his failures. *See, e.g., Rooms v. SEC*, 444 F.3d 1208, 1214 (10th Cir. 2006) (explaining that a respondent was “required to comply with [FINRA's] high standards of conduct at all times”); *The Dratel Group*, Exchange Act Release No. 77396, 2016 SEC LEXIS 1035, at *69 (Mar. 17, 2016) (rejecting applicants' argument that instances where it did not violate the rules mitigated the instances where it did, and explaining that applicants must “comply with [FINRA's] high standards of conduct at all times”).

provided false information to FINRA during its investigation); *John Montelbano*, 56 S.E.C. 76, at 98 (2003) (finding that respondents violated Rule 8210 by giving false testimony during an OTR). The record shows that Taddonio testified falsely concerning the recording of conversations.

Taddonio goes to great pains to parse his OTR testimony to argue that it was technically not false because he was asked if the “firm” recorded calls. (Taddonio Br. at 22-37.) Taddonio’s semantic acrobatics, however, cannot help him. The transcript reflects that Taddonio was also asked, repeatedly, whether he knew if “anyone” at the firm had used a device or other technology to record calls with customers or prospective customers. (R. at 7575.) Taddonio was asked “Did anyone at the firm ever use any devices and/or technology to record conversations with customers?” (*Id.*) He was also asked, “Did anyone at the firm ever use any devices and/or technology to record conversations with prospective customers?” (*Id.*) Taddonio responded with a simple “no” both times. (*Id.*)

The testimonial and documentary evidence, however, contradict Taddonio’s testimony. Milano, a CSC broker, credibly testified that he recorded customer calls, was encouraged to do so by Taddonio, and emailed and discussed one of those calls with Taddonio. (R. at 3519-21, 6423.) The record contains a copy of the email Milano sent Taddonio attaching the recording. (R. at 6423.) The Hearing Panel credited Milano’s testimony that Taddonio encouraged registered representatives to record calls with customers and Milano’s testimony that he emailed a recorded call to Taddonio and subsequently discussed that call with Taddonio. (R. at 15339.) Moreover, the Hearing Panel specifically found Taddonio’s testimony that he was unaware that calls were recorded not credible. (*Id.*) See e.g., *Eliezer Gurfel*, 54 S.E.C. 56, 62 n.11 (1999) (explaining that “[c]redibility determinations by the fact finder are entitled to substantial

deference and can be overcome only where the record contains substantial evidence for doing so”), *aff’d*, 205 F.3d 400 (D.C. Cir. 2000). The record also includes an email from Porges to Taddonio also attaching a recording of a conversation between Porges and a CSC customer. (R. at 6437-45.)

In addition to the recordings of customer calls that were emailed to Taddonio, the record also includes receipts showing that CSC purchased recording devices (which were attached to emails on which Taddonio was copied), photographs showing recording devices in the office, and records reflecting the back-up of .wav audio files, which were created while CSC was in business and which were labeled with the names of CSC customers.²² (R. at 4098, 4843-46, 5232-33, 6265-6375, 6377-6422.) This evidence, taken together, along with the Hearing Panel’s credibility findings, establishes that Taddonio gave FINRA false testimony when he denied knowing of any recordings of customer calls. *See, e.g., Donald M. Bickerstaff*, 52 S.E.C. 232, 238, n.16 (1995) (finding circumstantial evidence persuasive and noting that the Supreme Court has held that “circumstantial evidence can be more than sufficient”).

C. Taddonio’s Procedural Arguments Are Baseless

Unable to refute the abundant evidence of his violations, Taddonio makes three main arguments attacking the proceedings below. Taddonio’s complaints, however, are baseless.

I. Taddonio Had Ample Opportunity to Review Discovery

Taddonio argues that he was denied a fair hearing because of Enforcement’s “irresponsible attempt at providing discovery.” (Taddonio Br. at 41.) Specifically, Taddonio

²² On appeal, Taddonio argues that the receipts actually reflect the purchase of fewer recording devices than found by the Hearing Panel and argues that only a few brokers were using recording devices. (Taddonio Br. at 24.) Taddonio’s arguments miss the point. Taddonio was asked if he knew of any recordings of calls with customers. The record demonstrates that he did and his testimony to the contrary was false.

complains about his ability to access the 5 million pages that Enforcement produced pursuant to FINRA Rule 9251, which *requires* Enforcement to produce all the documents obtained in the course of its investigation, including in response to FINRA Rule 8210 requests. Enforcement timely produced these documents to Taddonio's counsel on June 1, 2016. (R. at 1382.)

More than six months later, in December 2016 and approximately three weeks before the hearing was scheduled to begin, Taddonio raised verbally in a prehearing conference call his issues with accessing documents. Taddonio, however, did not file a motion requesting any relief related to discovery. In response to Taddonio's verbal complaints (and various motions filed by Beyn), the Hearing Officer accommodated Taddonio and Beyn and directed Enforcement to make itself available for an entire week to assist the respondents, in person, to access the June 2016 discovery. (R. at 15011-14, 15294.) The Hearing Officer also kept the record open for 30 days after the hearing was completed to give Taddonio an opportunity to introduce additional proposed exhibits from the June 2016 discovery production and to recall witnesses if necessary. (*Id.*)

Taddonio subsequently requested and was granted an extension of his time to introduce additional exhibits. (R. at 15015-18, 15025-28.) Taddonio ultimately submitted additional exhibits, which the Hearing Panel admitted into evidence. (R. at 15029-38, 15294.) Taddonio neither requested that the hearing be reconvened, nor requested additional time to review the production.

Taddonio now complains that this accommodation was insufficient.²³ He does not, however, identify a single document or category of documents that he needed for his defense,

²³ Taddonio cites *Brady v. Maryland*, 373 U.S. 83 (1963), but his reliance on this case is misplaced. First, *Brady* does not apply to FINRA disciplinary proceedings. *See Dep't of*

[Footnote continued on next page]

which was not available to him. The documents relevant to the claims against Taddonio—for failure to supervise and giving false statements during his OTR—were proposed as exhibits by Enforcement and were available to Taddonio during the hearing. These included account opening documents, account statements, active account exception reports, activity letters and affidavits of support sent to customers, the firm’s written supervisory procedures, and various communications between Taddonio and other CSC associated persons. Taddonio has not identified—and cannot identify—a single pertinent document or category of document which he required for his defense and which he did not have at the hearing.

Exchange Act Section 15A(h)(1) ensures fairness in FINRA disciplinary proceedings by requiring that the associated person charged is notified of the charges, is given an opportunity to defend himself, and that a record of the proceedings is kept. 15 U.S.C. § 78o-3(h)(1); *see also Sundra Escott-Russell*, 54 S.E.C. 867, 873-74 (2000) (finding that a disciplinary proceeding was fair where the respondent received notice of the charges, had a hearing, and a record was kept). Taddonio does not contend that he was denied any of these here. Nor can he. The Commission, accordingly, should reject his argument that the proceedings were unfair.

[cont’d]

Enforcement v. Scholander, Complaint No. 2009019108901, 2014 FINRA Discip. LEXIS 33, at *44 (FINRA NAC Dec. 29, 2014), *aff’d*, Exchange Act Release No. 77492, 2016 SEC LEXIS 1209 (Mar. 31, 2016) (explaining that *Brady* does not apply to FINRA disciplinary proceedings, which are instead governed by FINRA Rule 9251). Moreover, there is no evidence that Enforcement failed to turn over exculpatory evidence pursuant to FINRA’s rules, and Taddonio does not point to the existence of any such evidence.

2. The Hearing Officer Did Not Abuse His Discretion in Denying the Admission of CSC's Cycle Exam Results

Taddonio argues that the Hearing Officer erred in denying his request to admit as evidence CSC's FINRA cycle exam exit letters. (Taddonio Br. 4-5.) Taddonio effectively argues that he relied on the "spotless" exam letters and that they were therefore relevant to whether he failed to supervise. Taddonio's argument is baseless.

FINRA Rule 9263(a) provides that "a Hearing Officer shall receive relevant evidence, and may exclude all evidence that is irrelevant, immaterial, unduly repetitious, or unduly prejudicial. A hearing officer's evidentiary decisions are reviewed for abuse of discretion. *See Robert J. Prager*, 58 S.E.C. 1558, 664 (2005).

The Hearing Officer properly excluded the cycle exam exit letters because the letters are irrelevant. It is well-settled that "[a] regulatory authority's failure to take early action neither operates as an estoppel against later action nor cures a violation." *William H. Gerhauser, Sr.*, 53 S.E.C. 933, 940 (1998). Accordingly, the fact that FINRA did not discover the excessive trading in its cycle exams has no effect on its ability to bring this claim.

Moreover, it is well-established that Taddonio cannot shift his responsibility for supervising his firm and responding to red flags to FINRA. *See ACAP Fin., Inc.*, Exchange Act Release No. 70046, 2013 SEC LEXIS 2156, at *66 n.135 (July 25, 2013) (stating that "[w]e have repeatedly held that a broker-dealer cannot shift its responsibility for compliance with applicable requirements to regulatory authorities") (quoting *Apex Fin. Corp.*, 47 S.E.C. 265, 267 (1980)); *aff'd*, 783 F.3d 764 (10th Cir. 2015). Moreover, even if Taddonio relied upon the cycle exam letters to determine that all was well with the firm's supervision, the numerous red flags that he was presented with—and ignored—subsequent to these letters should have caused Taddonio to

act. They did not. The cycle exam letters, accordingly, were irrelevant to the proceedings and properly excluded by the hearing officer.

3. The NAC Subcommittee Properly Advised Taddonio That It Would Call the Supervision Violation for Review If He Withdrew His Appeal

Taddonio complains that FINRA failed to follow proper procedures when he attempted to withdraw his appeal of his supervision violation. (Taddonio Br. at 38-41.) Taddonio's claim has no merit.

In his notice of appeal, Taddonio appealed the findings of liability and sanction imposed for failure to supervise. (R. at 15412.) Taddonio also submitted a brief to the NAC. (R. at 15525-54.) Taddonio raised the withdrawal of his appeal to the supervision violation for the first time at oral argument before the NAC Subcommittee empaneled to hear his case. (R. at 15775-76.) Taddonio was subsequently informed that the NAC would still consider the supervision violation and, specifically, the sanction imposed for it. (R. at 15776-80.) Taddonio then decided not to withdraw his appeal and proceeded to make arguments with respect to supervision. (R. at 15780-15921.)

FINRA Rule 9312(d) provides that if a party withdraws his appeal, "a member of the National Adjudicatory Council . . . shall have the right to call for review a decision" for a period of 45 days after the withdrawal. The Subcommittee members in this case were both members of the NAC at the time of the oral argument. Accordingly, the Subcommittee effectively informed Taddonio that they would call the sanction imposed for the supervision violation for review and, and as a result, Taddonio decided to proceed with his appeal. Further, FINRA Rule 9348 provides that on appeal, the NAC may, among other things, increase sanctions. Taddonio was

informed of the NAC's powers on appeal.²⁴

Had Taddonio withdrawn his appeal and the Subcommittee members subsequently called the violation for review, nothing would have been accomplished but further delay and administrative waste caused by the need to reconvene for another oral argument. Taddonio has shown no harm from the Subcommittee's decision to inform him that it would review the sanction for failure to supervise notwithstanding his withdrawal. Nor can he. Taddonio filed a written brief and made oral arguments.²⁵ (R. at 15771, 15921.) The Commission, accordingly, should reject his argument.

D. Sanctions

The Commission should sustain the NAC's bars imposed upon Taddonio for his egregious supervisory failures and his false testimony. On appeal, Taddonio argues that the sanction imposed on him for his failure to supervise is excessive in light of sanctions imposed for failures to supervise in other cases. (Taddonio Br. first two unnumbered pages). Once again,

²⁴ After Taddonio filed his notice of appeal to the NAC, he was sent an acknowledgment letter which informed him that "[t]he NAC [] may increase, decrease, or sustain sanctions that were imposed by the Hearing Panel and impose additional sanctions." (R. at 15456.) Enclosed with the letter was a copy of FINRA Rule 9348, which sets out the NAC's powers on review. (R. at 15455-75.)

²⁵ Taddonio also claims that there was "improper use" by Enforcement of Celia Passaro, an attorney with FINRA's Office of General Counsel. (Taddonio Br. 39-40.) Taddonio's complaint appears to be based on the fact that Ms. Passaro left the room with the NAC Subcommittee when Taddonio indicated that he wished to withdraw a portion of his appeal. Ms. Passaro's role in the proceedings before the NAC was to act as counsel to the NAC and Subcommittee pursuant to FINRA Rule 9313, and it was in this capacity that she properly consulted privately with the NAC Subcommittee at oral argument. There is also nothing improper about Ms. Passaro now advocating for FINRA before the Commission. *See Asensio & Co., Inc.*, Exchange Act Release No. 68505, 2012 SEC LEXIS 3954, at *54-55 (Dec. 20, 2012) (rejecting an argument that the NAC was biased because it was advised by FINRA's Office of General Counsel, which also advised the FINRA Board on related rule-making).

Taddonio's arguments have no merit and the sanctions imposed are neither excessive nor oppressive. To the contrary, the sanctions imposed are appropriately remedial, consistent with FINRA's Sanction Guidelines (the "Guidelines"), and supported by the record.

1. A Bar Is the Appropriate Sanction for Taddonio's Egregious Failures to Supervise

Exchange Act Rule 19(e) provides that the Commission must affirm the sanctions imposed by FINRA unless the sanctions are excessive or oppressive or imposes any unnecessary burden on competition.²⁶ See *CMG Inst. Trading, LLC*, Exchange Act Release No. 59325, 2009 SEC LEXIS 215, at *30 (Jan. 30, 2009). In reviewing a disciplinary sanction imposed by FINRA, the Commission considers persuasive the principles articulated in the Guidelines and uses them as a benchmark in conducting its review. See *Robert D. Tucker*, Exchange Act Release No. 68210, 2012 SEC LEXIS 3496, at *61 (Nov. 9, 2012) (explaining that the Guidelines serve as a benchmark); *Richard A. Neaton*, Exchange Act Release No. 65598, 2011 SEC LEXIS 3719, at *39 (Oct. 20, 2011) (same). The Guidelines for a failure to supervise recommend suspending a responsible individual in any or all capacities for up two years or barring a responsible individual in egregious cases. (Guidelines at 105.) The principal considerations specific to a failure to supervise include whether the responsible individual ignored red flags, the nature and extent of the underlying misconduct, and the quality and degree of the supervisor's implementation of procedures and controls. (*Id.*) All of these factors are aggravating here and support imposing a bar for Taddonio's violations.

Over the course of two years, Taddonio was made aware of numerous red flags indicating excessive trading by CSC brokers. Yet, he took virtually no steps to stop that trading. The steps

²⁶ Taddonio does not claim, and the record does not show, that the bar imposes an undue burden on competition.

CSC did take—reducing commissions and sending out activity letters and affidavits of support—were ineffective.

Instead of addressing the glaring red flags of possible excessive trading, Taddonio encouraged an environment of active trading.²⁷ Taddonio touted and distributed recommendations based on the earnings play strategy—a strategy which by its nature involved frequent, speculative, short-term trades. Taddonio acknowledged at the hearing that the firm never determined whether the earnings play strategy was successful for any CSC customers. (R. at 2584.) His communications with brokers were focused on trading and conveyed a sense of urgency. In short, rather than responding to red flags of excessive trading—as he was required to do—Taddonio ran his firm in a manner that exacerbated these problems.

Several of the principal considerations that apply to all violations also apply to Taddonio and are aggravating. Taddonio has taken no responsibility for his misconduct and has taken no corrective action, including by offering customers restitution. (*Id.* at 7.) To this day Taddonio continues to blame his CCOs (and even FINRA) for his own violations. Taddonio failed to ensure that procedures and controls were put into place to prevent excessive trading by brokers. (*Id.*) Taddonio’s failure to supervise consisted of a pattern of conduct over an extended period of time that involved numerous acts. (*Id.*) Finally, Taddonio’s failure to supervise resulted in

²⁷ Taddonio seeks to downplay his communications to brokers in which he encourages them to actively trade their customers’ accounts, and argues that urging brokers to “raise some SSSS” is incompatible with fostering a culture that encourages excessive trading. Similarly, he argues that awards to top producers somehow served to *decrease* active trading. Taddonio’s arguments are nonsensical and are after-the-fact attempts to cast his firm in a different light that is divorced from reality. Moreover, they ignore that for years, Taddonio turned a blind eye to numerous red flags that showed the brokers at his firm engaged in excessive trading of customer accounts. Taddonio’s supervisory violations warrant a bar in all capacities.

significant injuries to customers and substantial gains to CSC and Taddonio, as the majority owner of the firm. (*Id.* at 7-8.)

Rather than address his own conduct and the numerous applicable aggravating factors, Taddonio argues that the sanction of a bar is excessive as compared to sanctions imposed in other cases. The Commission has held repeatedly, however, that a sanction should be determined based on the facts and circumstances on a particular case and cannot be determined by comparison to other cases. *See Dennis S. Kaminski*, Exchange Act Release No. 65347, 2011 SEC LEXIS 3225, at *32-34 (Sept. 16, 2011).

Moreover, the Commission has held that certain supervisory failures are so severe that they warrant a bar in all capacities. *See, e.g., William J. Murphy*, 2013 SEC LEXIS 1933, *112 (July 2, 2013) (stating that “in some circumstances supervisory failures are so serious that a bar in all capacities is an appropriate sanction to protect investors from individuals who have shown themselves unfit to remain in the industry”), *aff’d sub nom., Birkelbach v. SEC*, 751 F.3d 472 (7th Cir. 2014); *Michael T. Studer*, 57 S.E.C. 1011, 1020-23 (2004) (sustaining a bar in all capacities where a firm’s president failed to investigate or respond to red flags of churning). This is such a case. Based on the combination of the number of obvious red flags, the length of time these red flags continued, and Taddonio’s utter failure to respond with adequate corrective action, a bar in all capacities is the only appropriately remedial sanction. Taddonio has demonstrated callous disregard for the interests of the customers of his firm and has proven that he has no place in the securities industry. The Commission should therefore affirm the NAC’s bar.

2. A Bar Is the Appropriate Sanction for Taddonio's False Testimony

The Guidelines for an individual's complete failure to respond to a FINRA Rule 8210 request directs that a bar should be standard. (Guidelines at 33.) A failure to respond truthfully is treated as a complete failure to respond. *See, Ortiz*, 2008 SEC LEXIS 2401, at *30-32. The relevant principal consideration is the importance of the requested information from FINRA's perspective. (Guidelines at 33.)

Providing false information to FINRA is a serious violation, which is routinely sanctioned with the imposition of a bar in all capacities. *See, e.g., Ortiz*, 2008 SEC LEXIS 2401, at *32 (stating that "failure to provide truthful responses to requests for information renders the violator presumptively unfit for employment in the securities industry"); *Dep't of Enforcement v. Harari*, Complaint No. 2011025899601, 2015 FINRA Discip. LEXIS 2, at *34 (FINRA NAC Mar. 9, 2015) (imposing bars in all capacities for providing false documents and information to FINRA).

There is no question that Taddonio testified falsely when he denied that he knew of anyone recording calls with customers at CSC. This information was important to FINRA's investigation of excessive trading and churning at the firm, because these recordings could have provided key evidence about what brokers were telling customers, including corroborating customers' claims that CSC brokers did not disclose the costs of their trading. Taddonio's false testimony thwarted FINRA's ability to obtain these recordings. There are no mitigating factors here, only aggravating. The Guidelines and record supports imposing a bar in all capacities for this violation.

V. CONCLUSION

Crockett and Gentile both testified that their role did not include supervising brokers or their sales practices. For his part, Taddonio claims that all supervisory duties were delegated to Crockett and Gentile and that he did not “consider” himself a supervisor. What resulted at Taddonio’s firm was an environment where brokers were encouraged to trade with virtually no meaningful supervision of that trading. Nonetheless, volumes of glaring red flags were consistently brought to Taddonio’s attention with virtually no response from Taddonio. As CSC’s majority owner, president, and CEO, Taddonio was obligated to act, and he utterly failed to do so. Taddonio’s egregious supervisory failures resulted in millions of dollars of losses to CSC customers, while CSC earned millions in commissions (largely in the form mark-ups and mark-downs) and other fees. Taddonio’s egregious violations warrant nothing less than a bar in all capacities for his failures to supervise and a separate bar for his subsequent false testimony during FINRA’s investigation.

Respectfully submitted,



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August 8, 2019

CERTIFICATE OF COMPLIANCE

I, Celia L. Passaro, certify that this brief complies with the length limitation set forth in Commission Rule of Practice 450(c), and the Commission's July 18, 2019 order granting FINRA's motion to exceed word limits. I have relied on the word count feature of Microsoft Word in verifying that this brief contains 14,853 words, exclusive of the pages containing the table of contents, table of authorities, and any addendum that consists solely of copies of applicable cases, pertinent legislative provisions, or rules and exhibits.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I, Celia L. Passaro, certify that on this 8th day of August 2019, I caused a copy of the foregoing FINRA's Brief in Opposition to the Application for Review, In the Matter of Craig Scott Taddonio, Administrative Proceeding File No. 3-19012, to be served by messenger and facsimile on:

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Fax: (202) 772-9324

and via FedEx and electronic mail on:

Craig S. Taddonio,
[REDACTED]
Babylon, NY [REDACTED]
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Service was made on the Commission by messenger and on the Applicant by overnight delivery service due to the distance between FINRA's offices and the Applicant.



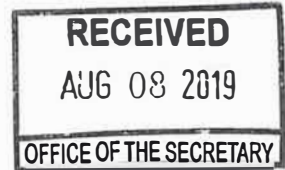
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August 8, 2019

VIA MESSENGER AND FACSIMILE

Vanessa A. Countryman, Secretary
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RE: In the Matter of the Application for Review of Craig Scott Taddonio
Administrative Proceeding No. 3-19012

Dear Ms. Countryman:

Enclosed please find the original and three (3) copies of FINRA's Brief in Opposition to the Application for Review in the above-captioned matter.

Please contact me at (202) 728-8985 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be "C. Passaro".

Celia L. Passaro

Enclosures

cc: Craig Scott Taddonio (via FedEx and Email)