

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 61970 / April 23, 2010

INVESTMENT ADVISERS ACT OF 1940
Release No. 3019 / April 23, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13868

In the Matter of

BETH R. CHAPMAN,

Respondent.

ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS PURSUANT
TO SECTION 15(b) OF THE SECURITIES
EXCHANGE ACT OF 1934 AND SECTION 203(f)
OF THE INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against Beth R. Chapman (“Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over her and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Respondent

1. Chapman, age 55, is a resident of Corsicana, Texas. From at least 1990 until on or about January 6, 2009, Chapman was a registered representative associated with broker-dealers and investment advisers registered with the Commission. From 2005 until on or about January 6, 2009, Chapman was associated with a Massachusetts limited liability partnership (the "Firm") that was and is registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act and as an investment adviser pursuant to Section 203(a) of the Advisers Act. Shortly after Chapman became associated with the Firm, the Firm opened an Office of Supervisory Jurisdiction ("OSJ") in Corsicana, with Chapman as its branch office manager. Chapman holds Series 7, 24, 53, 63 and 65 securities licenses. She has no prior disciplinary history.

Other Relevant Person

2. Susan G. Slovak ("Slovak"), age 50, is a resident of Ennis, Texas. From 2005 until on or about January 6, 2009, Slovak was a registered representative associated with the Firm, working in the Corsicana OSJ under supervision by Chapman and the Firm.

3. On April 23, 2010, the Commission filed a civil injunctive action in the United States District Court for the Northern District of Texas against Slovak (the "Complaint") alleging, among other things, that Slovak defrauded three customers by misappropriating and misusing funds from their accounts. The Complaint further alleged that, in order to accomplish and then cover up the scheme, Slovak made material misstatements and omissions in her communications with affected customers and compliance personnel, in connection with sales and purchases of securities in the customers' accounts.

4. Simultaneously with the Commission's filing of the Complaint, without admitting or denying the allegations in the Complaint, Slovak consented to the entry of a final judgment permanently restraining and enjoining her from violating, directly or indirectly, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 206(1) and (2) of the Advisers Act.

Slovak's Misconduct

5. Starting in 2005, Slovak took more than \$330,000 from an 83-year-old customer, by liquidating securities in his brokerage account and transferring the proceeds to her personal bank accounts. Slovak used the proceeds to pay personal expenses. A large portion of the funds were misappropriated from the customer, while other funds were apparently taken from him with his permission.

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

6. In or about July 2008, Slovak misappropriated approximately \$144,000 from the accounts of two more customers, by making unauthorized sales of securities in their accounts and misusing the proceeds for her personal benefit. In or about August 2008, when her misappropriation from these two customers became known to Chapman, Slovak agreed to pay the funds back to the two customers, with interest. Through her material misstatements and omissions, however, Slovak misled Firm compliance staff and one of the two customers about the true nature of her misappropriation.

Respondent's Failure to Supervise

7. Under the Firm's written supervisory procedures and applicable law, as the branch manager of an OSJ, Chapman was responsible, along with others at the Firm, for exercising reasonable supervision over Slovak.

8. Chapman was unaware that Slovak was misappropriating funds from the 83-year-old customer. In or about August 2008, however, Chapman learned about Slovak's July 2008 misappropriations from the other two customers. At that time, Chapman insisted that Slovak pay the funds back to the two customers, with interest, through the repurchase of securities in the customers' accounts. In related communications with Firm compliance staff, however, Chapman intentionally failed to disclose the circumstances under which Slovak had sold securities and withdrawn funds from the customers' accounts, by indicating only that the funds had been withdrawn by "mistake," rather than disclosing that the withdrawals resulted from Slovak's intentional misconduct. Chapman also instructed Slovak to tell one of the customers that the funds had been withdrawn in error.

Conclusions

9. Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act, authorizes the Commission to sanction a person who is associated, or at the time of the alleged misconduct was associated, with a broker or dealer, for failing reasonably to supervise, with a view to preventing violations of the federal securities law, another person who commits such a violation, if that person is subject to the person's supervision. Similarly, Section 203(f) of the Advisers Act, incorporating by reference Section 203(e)(6) of the Advisers Act, authorizes the Commission to sanction a person who is associated, or at the time of the alleged misconduct was associated, with an investment adviser, for failing reasonably to supervise, with a view to preventing violations of the federal securities law, another person who commits such a violation, if that person is subject to the person's supervision. Along with others at the Firm, Chapman was responsible for supervising Slovak.

10. Supervisors must respond reasonably when confronted with red flags suggesting that a registered representative may be engaging in improper activities. *See George J. Kolar*, Exchange Act Rel. No. 46127, 2002 SEC LEXIS 1647 (June 26, 2002) (Commission opinion); *Consolidated Investment Services, Inc.*, Exchange Act Rel. No. 36687, 52 SEC 582 (January 5, 1996) (Commission opinion); *Patricia A. Johnson*, Exchange Act Rel. No. 35698, 52 SEC 253 (May 10, 1995), vacated on other grounds, *Patricia A. Johnson v. SEC*, 87 F.3d 484 (D.C. Cir. 1996).

11. When Chapman was put on notice of Slovak's misconduct in August 2008, she failed reasonably to address these red flags. First, she took it upon herself to address the misconduct, rather than report it to the Firm, as required by Firm compliance procedures. Moreover, she misled Firm compliance officials about the circumstances under which funds were transferred from the customers' accounts.

12. As a result of Chapman's misleading statements to compliance, and inaction, no one at the Firm, including Chapman, reasonably followed up to determine if Slovak had misappropriated, or was continuing to misappropriate, funds from other customers, including the 83-year-old customer. Moreover, no one determined whether the victims of Slovak's misappropriations were accurately and fully informed of the circumstances surrounding the withdrawals from, and deposits to, their accounts, so, among other things, the customers could make informed decisions about whether to continue doing business with the Firm, Chapman and Slovak. As a result, Chapman's supervisory response to Slovak's misconduct was not reasonable.

13. As a result of the conduct described above, Chapman failed reasonably to supervise Slovak within the meaning of Sections 15(b)(4)(E) and 15(b)(6)(A) of the Exchange Act and Sections 203(f) and 203(e)(6) of the Advisers Act, with a view to preventing and detecting Slovak's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and of Sections 206(1) and (2) of the Advisers Act.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Chapman's Offer.

Accordingly, it is hereby ORDERED:

A. Pursuant to Section 15(b)(6) of the Exchange Act and Section 203(f) of the Advisers Act, that Respondent Chapman be, and hereby is barred from association in a supervisory capacity with any broker, dealer, or investment adviser.

Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

B. That, within ten days of the entry of this Order, Respondent Chapman shall pay a civil money penalty in the amount of \$25,000 to the Commission. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money

order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Chapman as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Rose Romero, Regional Director, Securities and Exchange Commission, 801 Cherry Street, Unit 18, Fort Worth, TX 76102.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), on the Respondent and her legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
Securities and Exchange Commission
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