

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION



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In the Matter of )  
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DENNIS J. MALOUF, )  
 )  
Respondent. )  
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ADMINISTRATIVE PROCEEDING  
File No. 3-15918

**RESPONDENT DENNIS MALOUF'S  
ADDITIONAL PROPOSED FINDINGS OF FACT**

**PROPOSED FINDINGS OF FACT**

<b>No.</b>	<b>Proposed Finding of Fact</b>
158	<p>As CCO, Kopczynski was directly responsible for identifying and disclosing conflicts of interest.</p> <p>Q And can we agree that, to the extent Mr. Kopczynski was the CCO, he should have been aware of that and made sure that the disclosure was made?</p> <p>A That's kind of -- pardon me while I hesitate. That's kind of where I look at -- you know, as a chief compliance officer for a number of years, I was hired to do what I knew and what I could discover, not to be clairvoyant. If no one tells you anything, if they keep it hidden -- if checks were being passed from Mr. Lamonde to Mr. Malouf out of their personal checkbooks, he wouldn't know. I have been surprised by representatives much the same way. So, I can't really say he failed in his job. I can say that had he known, yes, he needed to do something about it.</p> <p style="text-align: center;"><i>Malouf Trial Transcript 11/18/14 at 455:22-456:13</i></p>
159	<p>Given his responsibility as CCO, Kopczynski admits that he should have asked Malouf about the terms of the agreement between him and LaMonde.</p> <p>Q Did it occur to you that the purchase by Mr. Lamonde from Mr. Malouf might have also been done with payments over time?</p> <p>A Quite possible.</p> <p>Q And you knew that in 2008?</p> <p>A I knew that it was possible, absolutely.</p> <p>Q Sure. But you chose not to ask any questions about that of Mr. Malouf; right?</p> <p>A That's correct.</p> <p>Q But you also understood in 2008 that if that was happening, if he was receiving payments from Raymond James while he was directing trades there, that would be a conflict of interest which could have a material impact on UASNM's customers; right?</p> <p>A Yes.</p> <p>Q So, why didn't you ask him?</p> <p>A I believe I should have asked him.</p> <p style="text-align: center;"><i>Malouf Trial Transcript 11/21/14 at 1332:1-17.</i></p>
160	<p>Ciambor admitted multiple failures in his conduct of the "mock SEC compliance audits" of UASNM.</p> <p>Q I asked you earlier if, during your hindsight analysis of this, you thought you did everything right. Do you consider that right?</p> <p>A That's incorrect.</p> <p style="text-align: center;"><i>Malouf Trial Transcript 11/19/14 at 802:16-19</i></p>

Q Were you aware in 2008 of what an actual SEC examiner would do when reviewing for best execution on bond trades?

A No.

*Malouf Trial Transcript 11/19/14 at 771:17-20*

Q Do you believe that an actual SEC examiner would ask for a copy of the purchase agreement upon learning of the sale of the branch?

A Yes.

Q Do you believe an actual SEC examiner would ask Mr. Malouf what the terms of the sale were?

A Yes.

Q And do you believe that an actual SEC examiner would have undertook to determine whether there was still ongoing payments coming from Raymond James to him?

A Yes.

*Malouf Trial Transcript 11/19/14 at 777:17-778:*

Q Now, at the time you had this conversation with Mr. Malouf about the sale of the branch, you didn't ask him for a copy of the purchase and sale agreement; right?

A Correct.

Q And you didn't ask him about the terms of the sale; correct?

A Correct.

Q And you didn't confirm that it was a one-time payment for the purchase of the branch; did you?

A I was under the impression, based on our discussion, that that in fact was the case.

*Malouf Trial Transcript 11/19/14 at 774:11-22*

Q Can we agree that you found no evidence at UASNM that they maintained a written summary of its review of the broker-dealers it was placing bond transactions through?

A A written summary? No.

Q Yes. And you understood at that point in time, that if the SEC had asked for that documentation and UASNM was not able to provide it, that UASNM would have a large problem?

A It would potentially be deemed a deficiency.

*Malouf Trial Transcript 11/19/14 at 787:8-17*

Q Can you describe what it is?

A Essentially it's a semi-annual review of best execution, primarily focusing on equity transactions.

Q All right. And you'll notice there, in the second paragraph, the review period is

the first half of 2010; right?

A Correct.

Q Okay. Now, something you just said interests me. You said "primarily related to equities"?

A Correct.

Q Where in the letter does it say that?

A I don't believe it does.

Q In an actual SEC examination, do you think they would limit themselves to a review of best execution on equities?

A No.

Q Do you think it would also include bond trades?

A Correct.

*Malouf Trial Transcript 11/19/14 at 793:5-23*

Q So, you've got your SEC examiner hat on right?

A Correct.

Q And you're trying to conduct the audit as if you were an SEC examiner; right?

A No, I'm a consultant. I am not an SEC examiner.

Q Well, you're conducting a mock employee SEC compliance audit; are you not?

A We're conducting a compliance program review on an annual basis.

Q Is that what you said in your engagement letter?

A No, that's not correct.

Q What did you say in the engagement letter?

A The engagement letter does say "mock SEC exam."

Q And why would Mr. Malouf think anything different then? He wouldn't, would he? Would he think any differently than --

A No.

*Malouf Trial Transcript 11/19/14 at 776:8-777:3*

Q Okay. At the time this document was drafted, then, did somebody just overlook that or was it not perceived to be a conflict of interest?

A Given the review period, I believe that we had not issued our findings yet that were included in the report issued in March of 2011. So, it would be an oversight, yes.

*Malouf Trial Transcript 11/19/14 at 797:25-798:6*

Q Okay. Now, during your reviews of UASNM in 2008, did you talk to Mr. Hudson about Mr. Malouf's sale of the branch?

A No. I don't recall.

Q Did you talk to anybody else in the firm about the sale of the branch?

A No.

Q Again, as an SEC actual examiner, do you think they would have asked others within the branch about their knowledge of the terms of that sale?

A Yes.

*Malouf Trial Transcript 11/19/14 at 800:9-19*

Q Okay. Very good. By the way, in 363, this "Periodic Review of Execution Quality," why wouldn't you alert Dennis Malouf, as the CEO of UASNM, that you were not conducting a periodic review of bond best execution?

A Essentially, the information provided, once again, by UAS did not allow us to do so. And I believe that the disclosure at the bottom of this page references that it does not include mutual funds. It should also mention that it does not include fixed income.

Q Where do you see that?

A The footnote, "The analysis in this section of this report does not include mutual funds."

Q I see. And you're saying that it should also say that it doesn't include bonds.

A Correct.

Q But it doesn't.

A It does not.

*Malouf Trial Transcript 11/19/14 at 801:22-802:15*

Q Did you think it was important that an investment adviser implement industry best practices in the written policies and procedures?

A Yes.

Q But you didn't advise them?

A I don't recall specifically recommending adding a particular policy of that nature.

Q At what point do you recall recommending that they add that particular policy and procedure?

A I don't know that we ever did specifically recommend that.

*Malouf Trial Transcript 11/19/14 at 805:19-806:4*

Q Now, in this e-mail you're advising Mr. Kopczynski that "For best execution on bond transactions, we typically recommend that the adviser get multiple bids from brokers to compare the markup on the bonds...." Right?

A Yes.

Q Okay. So why didn't you, prior to 2011, recommend that they reduce that to a written policy and procedure?

A I don't recall.

Q Is that something you think you should have done?

A Yes.

*Malouf Trial Transcript 11/19/14 at 806:20-807:7*

Q Okay. Well, let's give it a whirl. Look at Mr. Malouf. You see his education and then his business there?

A Yes.

Q You see where it says, "Raymond James Financial Services 2/99 to present"? You see that?

A Yes.

Q Now, in October 2009 you understood that Mr. Malouf had not been associated with Raymond James since about a year and a half prior; right?

A Correct.

Q And I'm assuming from your testimony that you did not bring that to the attention of anybody at UASNМ.

A I did not bring -- it does not appear that we brought this to the attention that this information was still in there after 2007.

*Malouf Trial Transcript 11/19/14 at 822:1-18*

Q So your testimony is, as you sit here today, you don't recall whether Raymond -- whether UASNМ was directing trades through Raymond James?

A Yes, they were directing trades through Raymond James.

Q And you see in item 12.B that Raymond James is not disclosed as a broker-dealer -- that is -- that UAS sends business through; right?

A Yes.

Q And you would agree with me that it should have been disclosed?

A Yes.

*Malouf Trial Transcript 11/19/14 at 825:17-826:3*

Q So, when you reviewed this particular ADV -- we'll get there in just a second. This one is dated March 18, 2010. And you can -- if you want to toggle to the next page and see that -- Mr. Lehrman is not listed in this particular ADV. Do you know why that is?

A No, I do not.

Q Should that have been disclosed?

A Yes.

Q And you would have reviewed this particular ADV; correct?

A Yes.

*Malouf Trial Transcript 11/19/14 at 826:16-827:2*

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Hudson's "estimates" regarding the particulars of bond trading are wildly inaccurate. He has admitted that the total volume of bond trading actually done by UASNМ was double what he estimated it to be.

Q I want to ask you, did you come to an understanding of just how much in dollar amount bond trading UASNМ was doing on an annual basis?

A Uh-hmm, you mean after --

Q 2008 to 2011.

A Originally -- you know, yeah. We were doing, from the tables I put together, you know, 30 to 40 million per year. Probably more closer to 40, on average.

	<p>Q What were assets under management at UASNM during that time period?</p> <p>A You know, about 250 million.</p> <p>Q So if you're trading 40 million a year in a 250 portfolio, that's a turnover of what, about a sixth of your portfolio in bonds a year?</p> <p>A Since half of our portfolio would be fixed income, about half of the fixed income portfolio per year.</p> <p>Q Was that more or less than you thought UASNM was investing, or trading, I guess is a better word, in bonds?</p> <p>A It's more. It's more. I knew we were doing a substantial amount of bond trading. But I would have guessed about 20 to 25 million, you know, before I, you know, pulled all those numbers together. And which would have been, you know, about a turnover every five years, would be similar to a five-year ladder portfolio. As it turned out it was almost twice what I thought.</p> <p style="text-align: center;"><i>Malouf Trial Transcript 11/17/14 at 149:10-150:13</i></p>
162	<p>The first time Hudson attempted to determine which trades Malouf directed was when he was suing Malouf to remove him from UASNM.</p> <p>Q And what do you base that testimony on? Your testimony that he was picked the broker 90 percent of the time?</p> <p>A Well, in this entire process from the litigation through the exams through the enforcement action, a number of times I've had to produce or look at that kind of data. And in evaluating that and looking at the individual bond trades, about 90 percent of them were the kinds of bond trades that Mr. Malouf did or would have done. And you know, when you also look at the bond binder and you back out the specific trades done by other people, that still leaves you in that 90-plus percentile.</p> <p style="text-align: center;"><i>Malouf Trial Transcript 11/17/14 at 100:15-101:2</i></p>
163	<p>If Malouf could get the same bond at the same price from either RJFS or another broker, he was not obligated to direct a trade to the other broker simply because he might benefit in some way if the trade went through RJFS. Whether Malouf would benefit was just one of several reasons Malouf chose to trade through RJFS.</p> <p>A That is correct. I mean at the end of the day, I looked at all the information they sent me, so I had the information of what they had available. They would send me the e-mails, and I'd see Griffin, Kubik would have whatever FLBs that I'd have. And I'd look at them, and I'd go out and look, and I'd find something better. So why buy this when I have that? You're going to say, well, because you got paid. Well, you're absolutely right. There's no doubt about it. I didn't need to pay Griffin, Kubik if I got the same bond at the same bid at the same price. There was no obligation to do that.</p> <p>Q So these e-mails that you were getting from Griffin, Kubik --</p> <p>A And various others.</p> <p>Q -- and various others had the exact bonds you were looking at?</p> <p>A I don't know that all the time. Sometimes, yes. But a federal home loan bank is a</p>

	<p>federal home loan bank. If it matures in 2010 and it matures in 2008 or '9, and I have an '8 or '9, it may be a different issue with the same coupon, but it actually is very close.</p> <p><i>Ex. 231, Malouf Investigative Testimony Transcript at 259:6-260:4</i></p>
164	<p>Malouf considered many of the qualitative factors set forth in the SEC's guidance on best execution in deciding to direct trades to RJFS.</p> <p>Q The next -- the next -- the next sentence says that, "A money manager should consider the full range and quality of a broker's services in placing brokerage." Do you feel like you did that?</p> <p>A Yes.</p> <p>Q Okay. Now, it says some specific things here that I want to ask you about; okay? It says, "Among other things, the value of research provided." Right?</p> <p>A Yes.</p> <p>Q What did you consider in terms of value of research provided when you decided to send trades to Raymond James?</p> <p>A I had -- the fixed-income BondDesk supplied me with, amongst many others from other firms, a concise fixed-income analysis of the markets, economy, et cetera. They had one of the top analysts in the United States at the time -- I think his name was Scott Brown -- who was very good at what he did. And as a matter of fact, I think he went to Griffin and Kubiak. But all of this resource pointed to where I did my trades.</p> <p>Q Do you recall the testimony of Dr. Gibbons?</p> <p>A Yes.</p> <p>Q When he was addressing the issue of research on government bonds and Treasury bonds?</p> <p>A Yes.</p> <p>Q And I'm going to paraphrase. If I get it wrong I'm sure Mr. McKenna will tell me. Something to the effect that he didn't think that research was particularly pertinent in those types of bonds. Do you agree with that?</p> <p>A Absolutely not.</p> <p>Q Why not?</p> <p>A Especially in the time that we were in, in 2008, with the mortgages, Federal Home Loan mortgages going upside down. It was very, very critical to have accurate research as to what was going on in the economy with reference to the U.S. Government. Foreign, local and municipal bonds were being affected. Everything needed to be evaluated. There was no such thing anymore of a government guarantee, although it panned out. At that time, nobody was certain that anything was going to be guaranteed; so, I thought that the heightened sense of research is extremely important, especially in bumpy water.</p> <p>Q Well, at that point in time, 2008-2009, you had been in the industry for over 25 years; right?</p> <p>A That is correct.</p> <p>Q Had you personally ever experienced a period of volatility like that?</p> <p>A '87, '92, 2001 -- they were all similar. But this was a -- the first time we had an actual affront on the U.S. liquidity. And China owning almost all of our debt, and the U.S.</p>

mortgage corporations, which real estate is historically -- in my time, always been the safest investment for our clients. So, now it's suspect. So, a flight to quality was -- we were moving out of some fixed-income mutual funds that had internal costs and set for time deposits because the mutual funds themselves were not guaranteed by the federal government.

Q How did you -- or, did you see any manifestation of that turmoil in the market for Treasury and agency bonds?

A For sure, in the agencies, in the sense that people were holding inventories and people were not buying into the size -- there was a flight to quality institutionally, but the average investor was a little suspicious about whether or not -- what to do with their money. Put it under their mattress at that point was what a few of my clients were asking to do.

Q And how did you feel about Raymond James's research capabilities during that period of time?

A They'd been pretty spot-on.

Q All right. The next part of that sentence reads, "as well as execution capability." Do you see that?

A Yes.

Q Is that a factor you considered in determining to place bond trades with Raymond James?

A Yes.

Q And what specifically did you consider with respect to execution capability at Raymond James?

A Size, speed, cost.

Q Let's break that down. Size of what?

A Well, if I'm looking for a \$3 million piece of paper and there's \$25,000 over at Smith Barney, and there -- Schwab doesn't have enough in inventory, that would tell me that probably they couldn't fill the order. So, I would gravitate towards one transaction instead of three transactions to fulfill -- if the prices were the same -- it was fairly elementary at that point which way I was going to go.

Q And had you actually observed that situation?

A Absolutely, yes.

Q Commission rate -- what can you tell -- what can you tell us about the commission rate at Raymond James that you considered in determining to send trades there?

A They were industry standards from the other custodians as Smith Barney and Morgan Stanley and various others were pretty standard.

Q Okay. When you say "industry standard," can you give a little more detail on that?

A Well, from the brokerage firms that I was -- that I set up the DVP accounts with and knew the people there, I knew where their spreads were. And you can -- when he -- he earlier testified about the spread, and the spread is an institutional difference between the bid and the ask. It has nothing to do with the execution of my bond. And he was on that 10 to 15 basis point window there, and it certainly didn't make such sense to me, because the markup is different than the best execution.

Q All right. And did you consider the financial responsibility of Raymond James

	<p>in determining to direct trades there?</p> <p>A Yes.</p> <p>Q What did you consider?</p> <p>A Tenure, electronic savviness, being able to offer services to us, a kind of X-ray on a market that was a little choppy, and to give us good advice and to give us good research and good execution and good price.</p> <p>Q Okay. I was talking specifically -- I think you maybe answered a little bit more broadly than I had asked.</p> <p>A I'm sorry.</p> <p>Q So, the factor that we're looking at right now is financial responsibility. Is that something that came into consideration in choosing Raymond James?</p> <p>A Yes.</p> <p>Q And in what way?</p> <p>A Well, you want to make sure the custodian is solvent, and we believed they were number four and number five in the country at the time. They were number one in small cap equity research in the nation. Wall Street Journal had articles on them. I had had a ten-year relationship with them, and I was very comfortable with them.</p> <p>Q Okay. I think you've partly answered the next one -- "responsiveness to the money manager." Is that something you considered in directing trades to Raymond James?</p> <p>A Yes.</p> <p>Q How did you consider it? What factors came into play?</p> <p>A Well, there were a few options to me, as trading fixed income is due. I think it's a couple thousand bucks a month to have Bloomberg's screen on your desk, or I could outsource that and use BondDesk, which I was very familiar with from Raymond James. It's an outside service that scours 80 -- I think, 800 maybe -- 800 broker-dealers for bid-asks. So, they had a proprietary, and they also had outside -- an outside company reviewing and providing information.</p> <p>Q Okay. And were they responsive to your needs?</p> <p>A Yes.</p> <p><i>Malouf Trial Transcript 11/20/14 at 1089:11- 1095:22</i></p>
165	<p>Ciambor knew that the compliance function at UASNM was delegated to Kopczynski.</p> <p>Q And you have a working familiarity with the Investment Advisers Act; do you not?</p> <p>A Yes.</p> <p>Q And are you aware that the SEC says that a CEO may delegate various compliance responsibilities to others in the firm?</p> <p>A Yes.</p> <p>Q And were you aware that during 2008 through 2011 Mr. Malouf had delegated the compliance responsibilities to Mr. Kopczynski?</p> <p>A Yes.</p> <p><i>Malouf Trial Transcript 11/19/14 at 781:9-19</i></p>

166	<p>Kopczynski admitted it was his obligation to review UASNM's marketing materials before they were disseminated.</p> <p>Q What sort of things would you do on a week-in-week-out basis as a chief compliance officer?</p> <p>A Part of the responsibility would be to take the outside activities reports, review them with the individual employees, have them sign off on those; have a certainty that all the clients -- excuse me -- all the employees had read the compliance manual and signed off on that. I was responsible for reviewing their personal trading that came through ACA reporting, review those with any of the employees that either didn't report on time, that there were questions perhaps about their trading. It would be my responsibility to review any of the marketing materials that were given out from UASNM. That would include -- sir, I can't think of the term right now. Whenever we were requested to participate in engaging in new business for corporates.</p> <p><i>Malouf Trial Transcript 11/21/14 at 1289:8-25</i></p> <p>Q Actually, my question wasn't that at all. My question previously was, did you actually review the website and the marketing materials after they'd been published to make sure that they were factually accurate?</p> <p>A I believe I did.</p> <p><i>Malouf Trial Transcript 11/21/14 at 1356:14-19</i></p>
167	<p>Kopczynski reviewed ACA's annual reports and saw recommendations to change the language regarding "void of conflicts of interest," but took no action.</p> <p>Q And underneath that, "ACA notes that it found the following potential issue regarding UASNM's website. 'UASNM is not owned by any product, company or compensated by commissions. This allows us to provide investment advice void of conflicts of interest.'" Now you would agree with me that's the same language that ACA identified two years prior?</p> <p>A Correct.</p> <p>Q And it appears to still remain on the website of ACA -- excuse me -- UASNM; right?</p> <p>A Correct.</p> <p>Q Now, when you carefully reviewed this annual report, sometime after December 4, 2009, did you notice that?</p> <p>A Of course.</p> <p>Q What did you do?</p> <p>A Well, I believed it to be accurate at the time.</p> <p>Q Do you see the recommendation of ACA to the right of that?</p> <p>A I do.</p> <p>Q Does it recommend that UASNM amend that language?</p> <p>A It does.</p> <p>Q And does it tell you that it's the opinion of the SEC's examination staff that</p>

	<p>each investment adviser faces a potential conflict of interest?</p> <p>A It does.</p> <p>Q And you thought UASNM was the exception to that?</p> <p>A I believed that since there supposedly was no longer affiliation with Raymond James, any commissionable activity, that it's possible that we would have been in the category of not having conflicts for those particular reasons.</p> <p>Q So, now having seen this in two different years, and knowing that – or, seeing that Mr. Hudson had been advised of this very same misleading statement –</p> <p>A Mm-hmm.</p> <p>Q – did you ask Mr. Hudson any questions about whether we in fact might have any potential conflicts of interest?</p> <p>A I don't believe so.</p> <p>Q Did you ask Mr. Malouf?</p> <p>A No.</p> <p><i>Malouf Trial Transcript 11/21/14 at 1362:23-1364:18</i></p>
168	<p>Unbeknownst to Malouf, Ciambor did not review UASNM's bond trades for best execution.</p> <p>Q You mentioned you looked at commissions for equity trades. Did you also look, in your best execution role, in 2003, as an analyst, at bond trades?</p> <p>A No, we did not.</p> <p><i>Malouf Trial Transcript 11/19/14 at 718:1-4</i></p> <p>Q Okay. And did you -- well, what was your understanding of the scope of ACA's engagement with respect to best execution?</p> <p>A They would ask for the global trade blotter and go through all the transactions to look for anomalies and to evaluate best execution on equities and fixed income.</p> <p>Q To your knowledge, did they do that every year?</p> <p>A Every year.</p> <p>Q Beginning in 2002?</p> <p>A Correct.</p> <p>Q All the way through 2010?</p> <p>A Yes.</p> <p><i>Malouf Trial Transcript 11/20/14 at 1127:21-1128:9</i></p>