

State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Securities Division
1511 Pontiac Avenue, Building 68-2
Cranston, Rhode Island 02920

IN THE MATTER OF:

CHRISTOPHER F. VEALE

14-SC-001

RESPONDENT.

CONSENT ORDER

This Consent Order (“Order”) is entered into by the Rhode Island Department of Business Regulation Division of Securities (the “Department”) and Christopher F. Veale (“Respondent” or “Veale”) in connection with the Notice of Intent (“Complaint”), Docket No. 14-SC-001, filed by the Department on January 15, 2014 that is attached as Exhibit 1.

Veale admits the Statement of Facts set forth in Section III herein and admits the Violation of Securities Laws set forth in Section IV herein. Solely for the purposes of these proceedings, Veale consents to the entry of this Order by the Department, settling the claims brought in the Complaint with prejudice.

I. JURISDICTION AND AUTHORITY

1. The Securities Division is a Division within the Rhode Island Department of Business Regulation with jurisdiction over matters relating to securities as provided for by Rhode Island Uniform Securities Act of 1990, (the “RIUSA”, the “Act”), The Act authorizes the Division to regulate: 1) the offers and/or sales of securities; 2) those persons offering and/or selling

securities within the State; and 3) those persons transacting business as sales representatives within the State.

2. The Division brought this action pursuant to the authority conferred upon it in the R.I. Gen. Laws §§7-11-212, 7-11-602, 7-11-710 and 42-35-1 et seq. wherein the Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and all regulations and rules promulgated thereunder.

II. STATEMENT OF FACTS

3. Except as otherwise expressly stated, the conduct described herein occurred between August 2010 through June 2012.

4. Christopher F. Veale (“Veale”) was an individual with a last known address in Brooklyn, New York. Veale has a Financial Industry Regulatory Authority (“FINRA”) Central Registration Depository (“CRD”) number of 2536489. Veale has been licensed on and off in Rhode Island beginning in 1996. He was a licensed registered broker dealer representative with Brookville Capital Partners LLC from January 5, 2010 through June 28, 2012, which includes the relevant time period. He was then a licensed registered broker dealer representative with Legend Securities, Inc. from May 23, 2013 through December 31, 2014. In order to be licensed in 2010 by Rhode Island, Veale and Brookville were required to enter into a Restrictive Agreement, in which Veale would be subjected to heightened supervision and limited in his roles for 2 years.

5. Brookville Capital Partners LLC (“Brookville”) was a broker-dealer with a last known address of 25 Melville Park Rd, Melville, NY 11747. Brookville was formerly known as New Castle Financial Services, LLC and before that, Trade Wall Street, Inc. Brookville had a FINRA CRD number of 102380. Brookville was expelled from FINRA registration on June 8, 2015.

Brookville was registered with Massachusetts from September 29, 2000 through April 14, 2015.

Brookville was registered with Rhode Island from May 10, 2005 through April 14, 2015.

6. “Senior Investor” is a Rhode Island resident and owned a commercial masonry business in Massachusetts. Senior Investor was eighty-one (81) years old at the time he opened his investment account with Brookville.

7. Senior Investor worked full-time until December 2011, when he semi-retired.

8. Senior Investor testified that his previous investment experience consisted of a securities account held at another investment firm. This non-Brookville account held approximately \$95,000.00 of mutual funds and the stated objective was “income.”

9. Senior Investor also held some insurance and bank products, one of which was a \$500,000.00 variable annuity policy that he was forced to liquidate prior to maturity costing him \$11,000.00 in surrender charges.

10. In August 2010, a salesperson from Brookville cold-called Senior Investor to open a securities investment account.

11. At the time that Senior Investor was cold called, Brookville employed approximately thirty (30) people whose job was to cold call, develop leads and open new accounts for Brookville’s registered agents, who paid their salaries.

12. Any leads developed by the cold-caller, including Senior Investor, were opened as a joint account between Veale and another Brookville broker, Ali Mayar (“Mayar”).

13. During the relevant time frame, commissions were jointly shared between Veale, Mayar and Brookville on transactions in Senior Investor’s Brookville account. From August 2010 to approximately August, 2011, Mayar was the lead broker for the account and after August, 2011, Christopher Veale acted as the lead broker for the account.

14. From the beginning, Senior Investor provided Veale and Mayar with his home telephone number and his cellphone number. Senior Investor provided the cellphone number to the Brookville agents for calls during the day when he worked at commercial masonry jobs in both Massachusetts and Rhode Island. Senior Investor testified that he received and made calls from his work and home to both Brookville agents.

15. Prior to opening the Brookville account, Mayar called Senior Investor to introduce himself. After that, new account paperwork was sent to the Senior Investor. Senior Investor testified that this new account paperwork was “already filled out, I just signed it” and “I don’t think I read everything” because the “stuff they sent me had a lot of fine print.”

16. Mayar testified that the paper work was based on all the information provided to Mayar by Senior Investor and it was signed by Senior Investor.

17. When the account was opened in August of 2010, Senior Investor stated that “they [Mayar] talked about stocks, Verizon, Chesapeake Gas, Caterpillar, that’s how they got me started; they sounded good.”

18. When questioned about the stocks that later appeared in his portfolio, Senior Investor stated that he did not know what American depository receipts, exchange-traded funds, or exchange-traded notes were and that neither Mayar nor Veale explained to him what these securities were. Senior Investor testified that, “most of these stocks they were buying, I never heard of them.”

A. Margin¹

19. In May of 2011, Brookville sent Senior Investor paperwork to open a margin account. Senior Investor states that he could not remember receiving or signing the margin account opening documents.

20. Senior Investor testified that he “never knew anything about margin” and that he “thought you had to have the money to buy the stock.”

21. Senior Investor explained that he thought margin was “they buy it and then you can only hold onto the stock for so long and then you gotta sell it.”

22. In testimony provided to the Division, Mayar testified that he spoke to Senior Investor and believed he understood the purpose of a margin account. Further, Mayar testified to reviewing a document from an account Senior Investor had with Merrill Lynch that included a margin account.

23. Senior Investor testified that when he received a margin call,² it “came as a complete surprise.”

24. From June 2011 through June 2012, Senior Investor paid \$28,359.92 in margin interest in his Brookville account. During at least four (4) of these months, the average amount of purchases on margin was over one million dollars. Brookville charged 8% interest on margin loans.

¹ A margin account is a brokerage account in which the broker lends the customer cash to purchase securities. The loan in the margin account is collateralized by the securities and cash in the customer’s account. Interest is charged on these loans.

² A margin call is a broker’s demand that a customer deposit additional money or securities or sell assets in the account in order to bring the customer’s margin account up to the minimum maintenance margin. If the value of securities held as collateral in a customer’s margin account drops sufficiently, a “margin call” will be made and the account holder will be required to deposit more cash or sell a portion of securities.

B. Active Account/Short-Term Trading

25. Section 10.4.1 of Brookville's Written Supervisory Procedures ("WSP") stated that:

RRs [Registered Representatives] must have a reasonable basis for recommending securities transactions. Recommendations should be based on information known about the customer including new account information and updates to new account information. Information of particular importance includes the customer's other security holdings, financial situation and needs, and stated investment objectives.

26. Section 9.10.1 of Brookville's WSP specifically stated with regard to senior investors that:

When opening and handling accounts for senior investors, there are certain considerations in addition to usual account handling procedures. There is no benchmark for what constitutes a "senior" or "older" investor, but generally these are individuals who are approaching or have achieved retirement.

27. Section 9.10.2 of Brookville's WSP regarding "Recommendations to Senior Investors" stated that:

Suitability considerations are a concern for all types of accounts. While suitability requirements do not specifically refer to age or life stage, these factors should be considered when making recommendations to older investors. Considerations when dealing with senior investors include:

- Current and future prospects for employment
- Primary expenses including whether the customer still has a mortgage
- Sources of income and whether it is fixed or will be in the future
- Income needed to meet fixed or anticipated expenses
- Savings for retirement and how they are invested
- Liquidity needs
- Financial and investment goals (income needs, preservation of capital, accumulation of assets for heirs)
- Health care insurance and future needs to fund health costs

28. Section 9.4 of Brookville's WSP required its agents and supervisory personnel to "promptly update customer new account information whenever they are informed or become aware of changes."

29. From August 2010 through August 2011, Veale's co-broker Mayar placed numerous trades in Senior Investor's Brookville account. Thereafter, Veale himself was the lead agent making trades for the account.

30. Senior Investor signed Brookville's active account form letters, which were titled "Intent to Maintain an Active Account" on two occasions (May 24, 2011 and February 14, 2012). Senior Investor stated that he did not know the purpose of these letters, nor did he know what maintaining an "active account" meant. Senior Investor testified that he questioned Mayar about this letter, but he explained that the letter was needed for them to buy more stock for his account.

31. The active account letters also did not explain why Brookville was sending the letters to investors and were not sent with a cover letter. The body of the form letters did not identify the respective accounts as "actively traded" nor indicate that a certain number of trades or a certain amount of turnover had taken place. The active account letters simply stated that "certain clients may trade frequently causing a high turnover of their assets." In addition, the letter stated that client "attests that he is an active trader and may trade the market frequently giving the volatility of the market."

C. Churning³

32. Senior Investor testified that since the opening of the Brookville account, Mayar was "supposed to contact me too, when they were selling and buying, but they never did."

Furthermore, Senior Investor told Mayar during two face-to-face meetings that he wanted "to be informed on every stock they bought and sold, told them both when I met them."

³ Churning occurs when a securities broker buys and sells securities for a customer's account, without regard to the customer's investment interests, for the purpose of generating commissions.

33. Senior Investor testified that he spoke to Mayar and Veale frequently, but did not recall authorizing all of the transactions that took place in his Brookville account. In many instances, Senior Investor only learned about transactions after they had taken place.

34. At no time did Senior Investor provide discretionary authority to Veale or Mayar for his Brookville account.

35. The turnover ratio in Senior Investor's Brookville account indicates churning. The annualized turnover rate⁴ was approximately 207.35. This is well in excess of the six (6) times generally acceptable benchmark which has been used to demonstrate excessive trading activity.

36. The cost-to-equity ratio⁵ in Senior Investor's Brookville account also indicates churning. The annualized cost-to-equity ratio for the duration of the account was sixteen and one half (16 ½) percent. This represents the amount that Senior Investor's Brookville account would have had to earn to pay for the commissions generated by the brokers' excessive trading. This is well in excess of the twelve (12) percent generally acceptable benchmark that has been used to conclusively demonstrate excessive trading activity.

37. From August 2010 through June 2012, Senior Investor paid \$319,818.50 in commissions, markups, costs and fees.

38. From August 2010 through June 2012, Senior Investor paid \$28,359.92 in margin interest.

⁴ The annual turnover rate is the number of times per year a customer's securities are replaced by new securities. It is derived by dividing the gross amount of securities purchased in a customer's account during a given period by the average value of the equity in the account during that same period and annualizing that number.

⁵ The cost-to-equity ratio or breakeven percentage is the rate of return that an account would have had to earn on an annual basis in order to cover transaction costs, and thus to break even. It is derived by dividing the total amount of commissions, markups, markdowns, costs, and margin interest by the average equity in the account and annualizing that number.

39. On information and belief, the trading in Senior Investor's Brookville account was unsuitable and excessive in light of Senior Investor's age, financial resources, and lack of understanding about the type of trading and nature of securities in his Brookville account.
40. Section 10.41.2 of Brookville's WSP prohibits unauthorized trading by agents. Senior Investor testified that he frequently did not know about transactions until they were reported on his monthly statements or on trade confirmations.
41. Section 9.8 of Brookville's WSP specifically stated that in the normal course of business no agent of Brookville shall have discretionary authority to trade in a customer's account.
42. Senior Investor testified that he learned of transactions Mayar and/or Veale made only after receiving confirmations, monthly statements or calls to deposit more funds into his Brookville account.
43. In addition to failing to obtain the consent of Senior Investor prior to placing trades in his Brookville account, Veale and Mayar also failed to follow Senior Investor's specific requests regarding certain transactions and closing his Brookville account.
44. Brookville WSP 1.16.6 prohibits agents from settling complaints or errors directly with customers and stated "[e]rrors and complaints must be brought to the attention of the employee's designated supervisor."
45. In addition, Brookville WSP 5.7.3 required that:
- Oral complaints should be reported immediately to the designated supervisor for sales practice issues to Operations for operational issues. Examples of sales practice issues include complaints regarding losses, improper trades, and other complaints involving the quality of investment or wrongdoing by the RR or BROOKVILLE. . . RRs [Registered Representatives] should not make independent decisions regarding whether to report complaints; all oral complaints should be reported either to the designated supervisor or Operations.
46. On numerous occasions, Senior Investor verbally told Mayar and/or Veale his concerns about his account.

47. No records were provided to the Division regarding reports of Senior Investor's concerns to Brookville supervisors, compliance, or operations.

48. Veale and his co-broker Mayar effected transactions in Senior Investor's account without discretionary authority and against the specific instructions of Senior Investor in contravention of Brookville's stated policies and procedures.

D. Unsuitable Recommendations

49. When Senior Investor initially opened the Brookville account, he deposited approximately \$3,000.00 to "try out" the agents. However, after a few months, Senior Investor significantly increased the account based up on the advice of Veale.

50. From approximately August 2010 through June 2011, Mayar was "in control" of Senior Investor's Brookville account. During this time, Senior Investor deposited \$638,622.00 into his Brookville account. After June 2011, Veale was "in control" of Senior Investor's Brookville account.

51. During the middle of 2011, Senior Investor stated that he met with Mayar to go over his Brookville account and expressed his concerns over the commissions being charged.

52. From August 2010 through December 2012, Senior Investor deposited \$873,622.00 to pay for stock purchases and to meet margin calls.⁶

53. In order to meet his Brookville account obligations, Senior Investor cashed in certificates of deposit, liquidated a \$500,000.00 variable annuity policy and paid a surrender charge of \$11,000.00 and obtained a \$325,000.00 loan that charged 4% interest with his other securities account as collateral.

⁶ From August 2010 through June 2012, Senior Investor also withdrew \$150,000.00 from his Brookville account.

54. Senior Investor paid interest twice on the same funds: 4% interest on the \$325,000.00 loan and 8% interest on any investment purchases made on margin in his Brookville account from June 2011 through June 2012, the very time that Veale was “in charge” of Senior Investor’s account.

55. Both Veale and Mayar failed to update Senior Investor’s account information including his brokerage profile to reflect the change in Senior Investor’s financial circumstances. In addition, Veale made unsuitable recommendations and trades in Senior Investor’s account even after they learned of this changed financial circumstances.

56. Section 10.4.1 of Brookville’s WSP stated:

RRs must have a reasonable basis for recommending securities transactions. Recommendations should be based on information known about the customer including new account information and updates to new account information. Information of particular importance includes the customer’s other security holdings, financial situation and needs, and stated investment objectives.

57. Veale did not have a reasonable basis for recommending the transactions that took place, particularly in light of Senior Investor’s lack of understanding of the type and nature of trading, Senior Investor’s liquidation of his other investments, and the loan obtained for the purpose of meeting margin calls and making additional securities purchases in Senior Investor’s Brookville account.

58. At all times during the time that Senior Investor held an account at Brookville, Mayar and Veale were the joint brokers of record and shared commissions on all transactions effected in Senior Investor’s Brookville securities account.

59. As a result of Senior Investor’s complaints reflected in a letter dated January 17, 2012 and a letter dated February 27, 2012, Mayar and Veale signed an agreement on March 19, 2012 to pay Senior Investor \$71,500.00 in eighteen (18) monthly installments starting April 15, 2012 (the “March 2012 Settlement Agreement”). Brookville compliance and supervisory personnel

knew of the March 2012 Settlement Agreement and that Mayar and Veale were to each pay half of the settlement amount.

60. Senior Investor's Brookville account was finally closed in June of 2012.

61. By November of 2012, Mayar had paid \$35,750 of the money owed to Senior Investor under the March 2012 Settlement Agreement. Senior Investor informed Brookville by facsimile that Veale's November 2012 and December 2012 payments had not been received.

62. In or about September 2013, Senior Investor received a call from the President of Brookville, who offered to pay the \$15,000.00 with interest that Veale still owed to Senior Investor.

63. On September 13, 2013, Brookville and Mayar paid the remainder of the settlement money Veale owed to Senior Investor under the March 2012 Settlement Agreement.

IV. VIOLATIONS OF SECURITIES LAWS

Violation of R.I. GEN. LAWS Sections 7-11-212, 7-11-501 and Division Rule 212(a)-1

1. Section 7-11-212(a) of the Act states:

“(a) The director may by order:

(1) Deny, suspend, or revoke a license;

(2) Limit the securities activities that an applicant or licensed person may perform in this state;

(3) Bar a broker dealer or investment adviser from conducting any securities activities in this state;

(4) Bar an applicant or licensed person from association with a licensed broker dealer or investment adviser; or

(5) Bar from employment with a licensed broker dealer or investment adviser a person who is a partner, officer, director, or a person occupying a similar status or performing a similar function for an applicant or licensed person.”

2. Sections 7-11-212(b)(2)&(8) of the Act state:

“(b) These actions may be taken only if the director finds that the order is in the public interest and that the applicant or licensed person or, in the case of a broker dealer or investment adviser, a partner, officer, or director, a person occupying a similar status or performing similar functions, or a person directly or indirectly controlling the broker dealer or investment adviser who has done any of the following: ...

(2) Willfully violated or willfully failed to comply with this chapter, a predecessor act, or a rule or order under this chapter or a predecessor act; ...

(8) Has engaged in unethical or dishonest practices in the securities business;”

3. Section 7-11-501 of the Act states:

“In connection with the offer to sell, sale, offer to purchase, or purchase of a security, a person may not, directly or indirectly:

(1) Employ a device, scheme, or artifice to defraud;

(2) Make an untrue statement of a material fact or omit to state a material fact necessary in order to make the statement made, in the light of the circumstances under which they are made, not misleading; or

(3) Engage in an act, practice, or course of business that operates or would operate as a fraud or deceit on a person.”

4. Rule 212(a)-1. Unethical or Dishonest Practices states:

“A. The following are deemed to be unethical or dishonest practices by a broker-dealer: ...

2. Inducing trading in a customer’s account which is excessive in size and frequency in

view of the financial resources and character of the account.

3. Recommending to a customer, the purchase, sale or exchange of any security without reasonable grounds to believe that such transaction or recommendation is suitable for the customers based upon reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other relevant information known by the broker-dealer.

4. Executing a transaction on behalf of a customer without authorization to do so. ...

17. Violating any material rule of the U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), any national or regional securities exchange or national securities association of which it is a member with respect to any customer, transaction or business in this state;"

"B. The following are deemed unethical or dishonest practices by a sales representative:

9. Engaging in any of the practices specified in paragraphs A. 1. through 8, 15 through 18 or 20."

5. The conduct of Respondent Veale, as described above in Section III, constitutes a violation of R.I. Gen. Laws §§ 7-11-212 and 7-11-501 and of Securities Rule 212(a)-1.

V. ORDER

Based on the foregoing, the Director determines that the following sanctions are in the public interest, appropriate for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of RIUSA.


Accordingly, it is HEREBY ORDERED that:

- A. Respondent Veale shall permanently cease and desist from further conduct in violation of the RIUSA and Regulations in the State;
- B. Respondent Veale is censured by the Division;
- C. Veale agrees to be permanently barred from the Securities industry within Rhode Island. Veale's bar shall be from receiving a license as a broker dealer representative or as an investment adviser representative.
- D. Nothing herein is intended to or shall be construed to replace, supersede or override, with respect to Respondent, federal securities laws, rules and regulations of the rules of any self-regulatory organization; and
- E. Upon issuance of this Order, if Respondent Veale fails to comply with any of the terms set forth above, the Division may institute an action to have this agreed upon Order declared null and void. Upon issuance of an appropriate order, after a hearing, the Division may re-institute the actions and investigations that it had brought against the Respondent.

VI. RECOMMENDATION

CONSENTED TO AS TO FORM AND SUBSTANCE BY:

Respondent Veale, pro se:

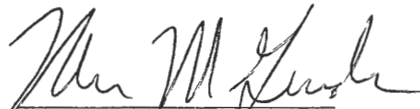


Date: 5/8/17

For the Department:



Deputy Director Maria D'Alessandro, Esq.

Date: 5/17/17


Legal Counsel Matthew Gendron, Esq.

Date: 5/10/2017

RECOMMENDED BY:


Catherine Warren, Esq., Hearing Officer

Date: 5/19/17

ORDER

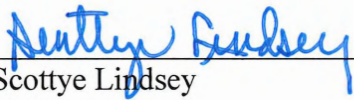
I have read the Consent Order as agreed to by and between the parties in the above captioned matter and I hereby take the following action:

Approve

Modify

Reject

Dated: 5/22/17



Scottye Lindsey
Director

THIS CONSENT ORDER CONSTITUTES A FINAL ORDER OF THE DEPARTMENT OF BUSINESS REGULATION PURSUANT TO RHODE ISLAND GENERAL LAWS TITLE 42, CHAPTER 35. AS SUCH, THIS ORDER MAY BE APPEALED TO THE SUPERIOR COURT SITTING IN THE COUNTY OF PROVIDENCE WITHIN THIRTY (30) DAYS OF THE DATE OF THIS DECISION. SUCH APPEAL, IF TAKEN, MAY BE COMPLETED BY FILING A PETITION FOR REVIEW OF SAID COURT. HOWEVER, RESPONDENT UNDERSTANDS THAT BY WAIVING ITS RIGHTS TO A COMPLETE HEARING AND AGREEING TO THIS CONSENT ORDER, THE ABOVE RIGHTS ARE WAIVED AND IF ANY TERMS OF THIS CONSENT ORDER ARE VIOLATED, RESPONDENT'S LICENSE SHALL BE SUBJECT TO SUSPENSION OR REVOCATION.