

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021069303201**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Signet Securities, LLC (Respondent)
Member Firm
CRD No. 154198

Pursuant to FINRA Rule 9216, Respondent Signet Securities, LLC submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Signet Securities, LLC has been a FINRA member since January 2011. It is a wholly-owned subsidiary of Signet Capital, an investment banking and structured finance services firm. Since 2020, the firm's business has primarily been the sale of private placement securities offerings to customers including retail investors. The firm is headquartered in Columbus, Ohio and has 18 registered representatives.¹

OVERVIEW

From June 30, 2020, through the present, Signet Securities failed to maintain, and enforce written policies and procedures, and failed to maintain a supervisory system reasonably designed to achieve compliance with the firm's obligation under Regulation Best Interest (Reg BI) to conduct reasonable due diligence of private placement offerings so as to ensure it had a reasonable basis to believe the recommendation could be in the best interest of at least some retail investors. As a result, the firm willfully violated Rule 15c-1(a)(1) of the Securities Exchange Act of 1934 and violated FINRA Rules 3110 and 2010.

From January 2020 through the present, the firm failed to maintain and enforce a supervisory system reasonably designed to achieve compliance with FINRA rules

¹ For more information about the firm, visit BrokerCheck® at www.finra.org/brokercheck.

governing outside business activities (OBAs). As a result, Signet Securities violated FINRA Rules 3110, 3270.01, and 2010.

From June 30, 2020, through April 14, 2022, the firm failed to deliver a customer relationship summary (Form CRS) to its customers. Between April 14, 2022, and the present, the firm delivered Form CRS to new customers but failed to deliver Form CRS to existing customers. By failing to deliver Form CRS to customers, Signet Securities willfully violated Section 17(a)(1) and Rule 17a-14 of the Exchange Act, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of Signet Securities.

Private Placement Due Diligence

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. Rule 15c-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer. Reg BI's Care Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, understand the potential risks, rewards, and costs associated with a recommendation. Reg BI's Adopting Release provides that what constitutes "reasonable diligence" depends on, among other things, the complexity of, and risks associated with, the recommended security.² The Care Obligation requires broker-dealers and their associated persons to have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail investors.

Additionally, Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(iv), requires broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI, including the Care Obligation. The Adopting Release provides that broker-dealers should consider the nature of that firm's operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.³

As it relates specifically to private placement securities offerings made under Regulation D, FINRA issued Regulatory Notice 10-22 (April 20, 2010) to remind firms of their obligation to conduct a reasonable investigation of the issuer and the securities they

² *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33376 (July 12, 2019)

³ Adopting Release at 33397.

recommend in connection with such offerings. Firms may not rely solely upon the issuer for information concerning the issuer and while firms are not expected to have the same knowledge as an issuer or its management, they are required to conduct a reasonable investigation that independently verifies an issuer's material representations and claims. To satisfy its obligations, a firm should, at minimum, conduct a reasonable investigation of the issuer and its management; the business prospects of the issuer; the assets held by or to be acquired by the issuer; the claims being made; and the intended use of the proceeds of the offering. Furthermore, to demonstrate that it has performed a reasonable investigation, a firm should retain records documenting both the process and results of its investigation. FINRA issued Regulatory Notice 23-08 (May 9, 2023) to reiterate and expand upon these principals in light of firms' obligations under Reg BI.

FINRA Rule 3110 requires member firms to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules.

Violations of Reg BI or FINRA Rule 3110 also are violations of FINRA Rule 2010, which requires member firms, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

From June 30, 2020, to the present, Signet Securities has recommended sales totaling \$140 million to investors in 13 Regulation D private placement offerings. Some of these sales were to accredited retail investors. At all times, the firm maintained written procedures requiring the firm, when engaging in Regulation D offerings, to conduct a reasonable investigation of the issuer and its management.

Despite these requirements, Signet Securities' due diligence for some of the private placement offerings that the firm recommended and sold between June 30, 2020, and the present was not reasonable. All 13 offerings were sold by affiliates of a commercial real estate investment company (Company A). The firm's diligence review for these offerings was limited to documents provided by Company A.

Therefore, Signet Securities willfully violated Exchange Act Rule 15c-1(a)(1), and violated FINRA Rules 3110 and 2010.

Outside Business Activity Supervision

FINRA Rule 3270 prohibits registered persons from engaging in an OBA unless they provide prior written notice to the member firm, in such form as specified by the member. Supplementary Material .01 to FINRA Rule 3270 (Rule 3270.01) defines the obligations of a member upon receiving such notice and establishes express requirements for firms to analyze the proposed OBA and document the analysis:

Upon receipt of a written notice under Rule 3270, a member shall consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to

the member and/or the member's customers or (2) be viewed by customers or the public as part of the member's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Based on the member's review of such factors, the member must evaluate the advisability of imposing specific conditions or limitations on a registered person's outside business activity, including where circumstances warrant, prohibiting the activity.

A violation of FINRA Rule 3270.01 is also a violation of FINRA Rule 2010.

In January 2020, four registered representatives who were also employed by an affiliate of Company A became registered with Signet Securities. The firm and its principals were aware at all relevant times that these four registered representatives were engaged in outside business activities, including outside activities with Company A. They also knew that these activities could create a potential conflict of interest because the firm recommended and sold securities offered by Company A to its customers. However, until September 2021, Signet Securities did not require these representatives to provide written notice of the OBA. Therefore, between January 2020 and September 2021, the firm failed to reasonably supervise the outside business activities of its registered representatives.

In August and September 2021, Signet Securities required all four registered representatives to provide written notice of the OBA, which was reviewed and signed by one of the firm's supervisory principals. A fifth registered representative employed by the Company A affiliate became registered with the firm in February 2022 and also provided written notice which was reviewed and approved by one of the firm's supervisory principals. For all five registered representatives, the firm did not adequately document that it reasonably considered the factors set forth in Rule 3270.01 during its review of these disclosures. Specifically, although the firm acknowledged that the outside activities might be viewed by customers or the public as part of the firm's business and that they may involve giving advice or directing investments in securities, they did not consider whether conditions or limitations should be imposed on those outside activities in order to mitigate any potential conflict of interest or customer confusion.

Therefore, Signet Securities violated FINRA Rules 3110, 3270.01 and 2010.

Form CRS

On June 5, 2019, the Securities and Exchange Commission (SEC) adopted Form CRS and rules creating new requirements—which include requirements to prepare and deliver the Form CRS—for SEC-registered broker-dealers offering services to a retail investor. The compliance date for Form CRS was June 30, 2020.

Form CRS provides customers with information about the types of services the firm offers; the fees, costs, conflicts of interest, and required standard of conduct associated with those services; whether the firm and its investment professionals have reportable legal or disciplinary history; and how to get more information about the firm.

Form CRS also includes required “conversation starters” to help begin a discussion with a broker-dealer about the relationship, including their services, fees, costs, conflicts, and disciplinary information.

Section 17(a)(1) of the Exchange Act requires registered broker-dealers to make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Commission deems “necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of” the Exchange Act. Exchange Act Rule 17a-14—titled “Form CRS, for preparation, filing and delivery of Form CRS”—requires broker-dealers offering services to a retail investor to prepare a Form CRS in accordance with the instructions in Form CRS, and to comply with requirements related to filing, amending, delivering, and posting the Form CRS to the firm’s public website.

A violation of Exchange Act Section 17(a)(1) and Rule 17a-14 is also a violation of FINRA Rule 2010.

As of June 30, 2020, Signet Securities implemented written supervisory procedures for delivering Form CRS to its customers. However, between June 30, 2020, and April 14, 2022, the firm failed to deliver Form CRS to any of the 282 retail customers who purchased securities through the firm during that time period. After April 14, 2022, the firm began delivering Form CRS to customers but failed to deliver Form CRS to any of the firm’s existing customers.

Therefore, Signet Securities willfully violated Exchange Act Section 17(a)(1) and Rule 17a-14 and FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure
- a \$100,000 fine
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent’s senior management who is a registered principal of the firm, shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Exchange Act Rule 15c-1(a)(1), and FINRA Rules 3110, 3270.01, regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent’s remediation and implementation. FINRA staff may request further evidence of Respondent’s remediation and implementation, and Respondent agrees to provide such evidence, if requested. Respondent shall submit the certification to Catherine L. Hoge, Counsel, FINRA Department of Enforcement, 200 Liberty Street, New York, NY 10281,

Catherine.Hoge@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

Respondent understands that this settlement includes a finding that it willfully violated Section 17(a)(1) and Rules 17a-14 and 15c-1(a)(1) of the Securities Exchange Act of 1934 and that under Article III, Section 4 of FINRA's By-Laws, this makes Respondent subject to a statutory disqualification with respect to membership.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against it;
- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions

regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

September 23, 2024

Date

David Fumi

Signet Securities, LLC
Respondent

Print Name: David Fumi

Title: President

Reviewed by:

Joseph S. Simms

Joseph S. Simms
Counsel for Respondent
Reminger Co., L.P.A.
200 Public Square
Suite 1200
Cleveland, OH 44114

Accepted by FINRA:

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

October 3, 2024

Date

Catherine Hoge

Catherine L. Hoge
Counsel
FINRA
Department of Enforcement
Brookfield Place
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New York, NY 10281