

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2016048881501**

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

RE: Arthur Espinoza, Respondent  
Former General Securities Representative and General Securities Principal  
CRD No. 1344849

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I submit 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 me alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

Arthur Espinoza ("Espinoza") was associated as a General Securities Representative with Freedom Investors Corp. ("Freedom") from September 2005 until the firm terminated his registration on December 4, 2014. Espinoza is not currently associated with a FINRA member firm, but he remains subject to FINRA's jurisdiction pursuant to Article V, Section 4(a) of FINRA's By-Laws of the Corporation.

**OVERVIEW**

From approximately March 2009 to November 2014, Espinoza engaged in an outside business activity called Life Solutions, Inc. ("Life Solutions") without disclosing this activity to Freedom. Through this conduct, Espinoza violated FINRA Rules 3270 and 2010 and NASD Rule 3030 and FINRA Rule 2010. Espinoza also failed to disclose outside brokerage accounts he controlled at two third-party FINRA member firms, FBS and IB, in violation of NASD Rule 3050(c) and FINRA Rule 2010. Espinoza further willfully failed to disclose

reportable tax liens and a judgment on his Form U4. Through this conduct, Espinoza violated Article V, Section 2 of the FINRA By-Laws and FINRA Rules 1122 and 2010. Espinoza also made misrepresentations on account applications he submitted to FBS and IB, and in compliance forms he submitted to Freedom, in violation of FINRA Rule 2010. Finally, Espinoza failed to respond and failed to timely respond to requests for documents and information requested pursuant to FINRA Rule 8210, and provided false information in response to a request for information. Through this conduct, Espinoza violated FINRA Rules 8210 and 2010. Espinoza hereby agrees to a bar from associating with a FINRA member firm in any capacity.

### **FACTS AND VIOLATIVE CONDUCT**

#### **Life Solutions**

Espinoza incorporated Life Solutions, Inc. in or about March 2009. Espinoza operated Life Solutions by himself for the purpose of buying and selling precious metals and coins as well as trading in securities. Espinoza obtained at least 10 investors, all seniors, who collectively invested more than \$325,000 with Life Solutions. In return for their investments, which were undocumented, Espinoza orally agreed to pay the investors an annual or semi-annual payment equaling 5.25% of their invested principal.<sup>1</sup>

Espinoza is unable to account for substantial amounts of the funds he raised from the investors. Life Solutions' current assets consist of only a few hundred dollars in coins and currency, along with undocumented "loans" with no fixed terms that Espinoza purportedly took from the company. These purported "loans" were used by Espinoza to pay for his personal living expenses including, among other things, attorney's fees, the purchase of a car, and membership fees to a golf/yacht club. Espinoza is not currently able to pay the investors' principal back and has no credible plans for doing so.

In July 2009, Espinoza opened a brokerage account on behalf of Life Solutions at FBS, on which he was the authorized trader and agent. Between July 2009 and September 2015, Espinoza made 84 securities trades in this account totaling \$417,505. Between April 2010 and March 2015, he also deposited many of the funds raised from the senior investors into this account. Espinoza subsequently transferred most of the deposited funds to accounts at two unaffiliated banks, from which he took purported "loans" to fund personal expenses or otherwise spent the funds on Life Solutions' behalf.<sup>2</sup> The application paperwork that Espinoza completed for the Life Solutions account at FBS required the applicant to indicate whether the account's owner or agent was affiliated with a FINRA member firm. Though Espinoza was registered with Freedom, he did not identify

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<sup>1</sup> Though the terms of the investments are undocumented, Espinoza characterizes the money raised from investors as loans to Life Solutions rather than as a means to participate in the company's ostensible investment activity.

<sup>2</sup> Espinoza also deposited some of the funds raised from senior investors directly into the accounts at the two banks.

this affiliation on the FBS account application, thereby falsely representing through omission that he was not affiliated with a FINRA member firm.

In December 2013, Espinoza opened a master brokerage account for Life Solutions at IB. Between, January 2014 and November 2014, Espinoza also opened subaccounts under the Life Solutions master account for sixteen individual customers, many of whom were also his customers at Freedom. Espinoza had full trading authority in these subaccounts, and used that authority to perform more than 40 securities transactions totaling approximately \$1.5 million on behalf of the subaccount owners. Espinoza charged the customers a total of \$15,195 in commissions for performing those securities transactions. Espinoza conducted this securities business through IB instead of Freedom in part to circumvent a wage garnishment in place at Freedom related to a civil judgment obtained against him by a former business partner, described in more detail below. On the application paperwork Espinoza completed to open the Life Solutions master account with IB, he falsely indicated that he was not registered as an employee of a securities brokerage firm when, in fact, he was registered with Freedom.

Espinoza failed to disclose to Freedom any of the activity he was engaged in on behalf of Life Solutions. This included his failure to disclose that he had incorporated Life Solutions ostensibly to purchase and manage a portfolio of various assets, that he was raising money for Life Solutions from investors (including Freedom customers), that he had opened accounts for Life Solutions and several individual Freedom customers at FBS and IB, and that he was engaged in securities transactions in the accounts at FBS and IB.

#### **Espinoza's Undisclosed Liens and Judgment**

On or about March 3, 2005 and April 10, 2007, respectively, Espinoza was the subject of a federal tax lien of approximately \$380,000 and a Wisconsin state tax lien of approximately \$40,000, both of which remain unsatisfied. Furthermore, on or about January 24, 2013, a former business partner obtained a civil judgment against Espinoza for approximately \$160,000 in connection with a dispute over their joint insurance-marketing business.<sup>3</sup> Espinoza failed to disclose the tax liens and the civil judgment on his Form U4.

#### **Espinoza's Misrepresentations on Compliance Questionnaires**

In five compliance questionnaires Espinoza submitted to Freedom – in November 2010, January 2012, September 2012, November 2012, and March 2013 – he indicated and/or certified that he had disclosed to Freedom all of his outside business activities, outside securities accounts, or on certain questionnaires, liens and judgments against him. However, these compliance questionnaires, and

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<sup>3</sup> This civil judgment also remains unsatisfied and, as described above, ultimately resulted in the garnishment of Espinoza's wages at Freedom.

Espinoza's related certifications, were false because he had not disclosed Life Solutions, his involvement with the brokerage accounts at FBS and IB, or the liens and judgments against him.

### **Espinoza's Responses to FINRA's Requests**

From approximately February 2016 to April 2016, Espinoza failed to respond to several FINRA Rule 8210 requests for documents and information and failed to provide timely responses to certain other requests. He also provided false information in response to certain other requests.

More specifically, on February 12, 2016, FINRA sent Espinoza a request for certain information and documents with a due date of February 26, 2016. Espinoza did not produce the information and documents requested by February 26, 2016. On February 29, 2016, FINRA sent a letter notifying Espinoza that as a result of his failure to produce information and documents he was in violation of FINRA Rule 8210. On March 14, 2016 FINRA received a one-page response from Espinoza that failed to respond to several of the requests for information and failed to provide any of the requested documents. In his March 14, 2016 letter, Espinoza also provided a response to one of the requests in which he falsely stated that he did not hold trading authority for any persons or entities in accounts at FBS or IB when, as described above, he did have such authority in accounts at both firms. On April 13, 2016, FINRA received from Espinoza another belated, partial response to the February 12, 2016 request.

On March 23, 2016, FINRA sent Espinoza another request for information and documents with a due date of April 6, 2016. Espinoza provided none of the information or documents specified in that request.

### **Violations**

FINRA Rule 3270 provides that "[n]o registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member[.]" The predecessor to FINRA Rule 3270, NASD Rule 3030, also prohibited engaging in outside business activities without the required notice to the member firm.<sup>4</sup> While associated with Freedom, Espinoza participated in an outside business activity, Life Solutions, that he failed to disclose to the firm. By failing to disclose that outside business activity, Espinoza violated FINRA Rule 3270 (for conduct on or after December 15, 2010) and NASD Rule 3030 (for conduct before December 14, 2010). As a result of those violations, Espinoza also violated FINRA Rule 2010.

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<sup>4</sup> FINRA Rule 3270 replaced NASD Rule 3030 on December 15, 2010.

NASD Rule 3050(c) requires that an associated person, "prior to . . . placing an initial order for the purchase or sale of securities with another member, shall notify both the employer member and the executing member, in writing, of his or her association with the other member." While Rule 3050(c) applies to accounts held by a person associated with a member and maintained by another member, Rule 3050(e) extends the written notification requirement of Rule 3050(c) to accounts over which an associated person has either a financial interest or discretionary trading authority. By failing to provide written notice to Freedom of his Life Solutions accounts at FBS and IB, and of the subaccounts at IB in which he had trading authority, Espinoza violated NASD Rule 3050(c) and FINRA Rule 2010.

Article V, Section 2(c) of the FINRA By-Laws requires that registrations filed with FINRA be kept current at all times and that amendments must be filed with FINRA "not later than 30 days after learning of the facts or circumstances giving rise to the amendment." FINRA Rule 1122 prohibits filing with FINRA information regarding registration "which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or fail to correct such filing after notice thereof." By willfully failing to timely disclose the above-referenced tax liens and civil judgment on his Form U4, Espinoza violated Article V, Section 2 of FINRA's By-Laws and FINRA Rules 1122 and 2010 (for conduct on or after August 17, 2009).

FINRA Rule 2010 requires associated persons to observe high standards of commercial honor and just and equitable principles of trade. By providing misleading and false answers on five Freedom compliance questionnaires, Espinoza violated FINRA Rule 2010. Furthermore, by falsely representing in the applications for the Life Solutions accounts at FBS and IB that he was not affiliated or registered with another FINRA member firm, Espinoza committed separate and distinct violations of FINRA Rule 2010.

FINRA Rule 8210 "require[s] a member, or person associated with a member, or any other person subject to FINRA's jurisdiction to provide information orally, in writing, or electronically . . . with respect to any matter involved in the investigation, complaint, examination, or proceeding." By failing to timely respond to FINRA Rule 8210 requests for documents and information, failing to respond to certain such requests outright, and providing false information in response to one request, Espinoza violated FINRA Rule 8210. As a result of that violation, Espinoza also violated FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

A bar from association with any FINRA member in any capacity.

I understand that if I am barred or suspended from associating with any FINRA

member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

I understand that this settlement includes a finding that I willfully omitted to state material facts on a Form U4, and that under Section 3(a)(39)(F) of the Securities Exchange Act of 1934 and Article III, Section 4 of FINRA's By-Laws, these omissions make me subject to a statutory disqualification with respect to association with a member.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this AWC.

## II.

### WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- 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, I specifically and voluntarily waive 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 acceptance or rejection of this AWC.

I further specifically and voluntarily waive 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**

I understand 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 me; and
- C. If accepted:
  - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
  - 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 the subject matter thereof in accordance with FINRA Rule 8313; and
  - 4. I 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. I 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 my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

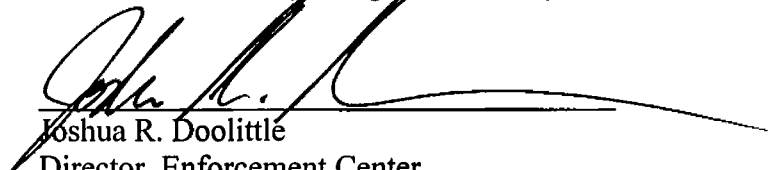
1, 4 / 2016  
Date (mm/dd/yyyy)

Arthur Espinoza  
Arthur Espinoza, Respondent

Accepted by FINRA:

6/17/2016  
Date

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

  
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Joshua R. Doolittle  
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FINRA Department of Enforcement  
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