

the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Fanning entered the securities industry in September 1986 when he became associated with a FINRA member firm. Through that firm, he registered with FINRA as a General Securities Representative in November 1986, as a General Securities Principal in September 1987, and as a Registered Options Principal in April 1988. Between August 1988 and May 2004, Fanning associated with six other FINRA member firms. During that time, Fanning became registered as a Financial and Operations Principal in February 1992, and, in August 1992, both as a Municipal Securities Principal and a Municipal Securities Representative. In May 2004, Fanning became registered with Liberty. At Liberty, he was registered as a General Securities Principal, a Municipal Securities Principal, and a General Securities Representative. While at Liberty, Fanning also became registered as an Introducing Broker-Dealer/Financial and Operations Principal in July 2004, and an Operations Professional in October 2011. From May 2004 through June 2015, Fanning owned 50% of Liberty. From June 2015 through April 2016 (when he sold his interest), Fanning was the majority owner of the firm. Liberty terminated Fanning's registrations on February 7, 2017.

Although Fanning is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because the Complaint was filed within two years after the effective date of termination of Fanning's registration with Liberty, namely, March 6, 2017.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

Between January 2014 and September 2015 (“the relevant period”) Respondent Jeffery Allen Fanning failed to reasonably supervise the equity trading of registered representatives at his firm, Liberty Partners Financial Services, LLC (“Liberty”), for potentially excessive trading, and, even where his reviews identified potentially excessive trading, Fanning failed to reasonably address that activity. Fanning also failed to ensure that Liberty’s written supervisory procedures (“WSPs”) described how the firm would identify or address potentially excessive equity trading, and he failed to ensure that the WSPs accurately reflected the methods Liberty employed to supervise for potentially excessive trading. Fanning’s failure to reasonably supervise Liberty for potentially excessive trading and failure to establish, maintain, and enforce a reasonably designed supervisory system, including written supervisory procedures (“WSPs”), in connection with reviewing customer accounts for excessive equity trading violated NASD Rule 3010(a) and (b) and FINRA Rules 3110(a) and (b) and 2010.

In August 2014, Fanning signed letters misrepresenting the nature of two registered representatives’ employment with Liberty to the United States Citizenship and Immigration Service (“USCIS”). By doing so, Fanning violated FINRA Rule 2010.

FACTS

FANNING’S DEFICIENT SUPERVISION OF POTENTIALLY EXCESSIVE TRADING

During the relevant period, Fanning was Liberty’s 50% owner and served as Liberty’s CEO, CFO and FINOP. He also was a registered principal with assigned supervisory obligations relating to certain aspects of Liberty’s business.

Fanning was the designated registered principle responsible for review of customer accounts, and he was responsible for all aspects of supervising for potentially excessive equity trading at Liberty.

A. Fanning Failed to Establish and Maintain an Adequate System, including WSPs, to Supervise Potentially Excessive Trading

Fanning developed the portion of Liberty's WSPs pertaining to potentially excessive trading.

Fanning, however, failed to ensure that Liberty's WSPs adequately described how potentially excessive trading would be identified or handled, and he also failed to ensure that the WSPs accurately reflected the practices Liberty actually employed to supervise potentially excessive trading by its representatives.

Liberty's WSPs stated generally that it should send active trading paperwork to customers if Fanning, the principal designated to review customer accounts, identified accounts that were engaged in potentially excessive trading, but the WSPs failed to state when or how often Fanning would review customer account activity for potentially excessive trading.

Fanning also failed to ensure that Liberty's WSPs specified how he would identify excessive trading during his customer account reviews.

Fanning also failed to ensure that the WSPs identified specific criteria for when Liberty would send active trading paperwork, how often Liberty would re-send active trading paperwork, what information the firm would provide to the customers in the paperwork, or any requirement that Fanning or anyone else at the firm evidence review of active trading paperwork signed and returned by customers.

Although Liberty's WSPs referenced the possibility of imposing restrictions on an account to only allow closing transactions (referred to as "buy-blocks") if the firm did not

receive signed active trading paperwork back from the customer indicating that the customer was aware of and comfortable with the level of trading in his or her account, Fanning did not ensure that the WSPs provided any criteria about when the firm would impose a buy-block, how long a buy-block would remain in place, or what would prompt the removal of a buy-block.

Similarly, although Fanning would on occasion restrict commissions earned on accounts engaged in potentially excessive trading, Fanning did not ensure that the WSPs identified any criteria for when or how the firm should do so, or when the restriction should be removed.

B. Fanning Failed to Adequately Supervise Potentially Excessive Trading

Fanning was the principal designated in Liberty's WSPs to review customer accounts and transactions.

Fanning failed to perform supervisory reviews of customer account activity with any regularity.

As a result, accounts with potentially excessive trading were at times not reviewed until months after the activity took place, if at all.

Even where Fanning's customer account activity reviews identified potentially excessive trading activity, he frequently failed to effectively follow up on that activity.

Specifically, after Fanning determined that a customer needed to receive active trading paperwork to confirm the customer desired the level of activity in the account, Fanning neither did anything to confirm that firm personnel actually sent active trading paperwork, nor did anything to confirm that Liberty received signed paperwork back.

Fanning never spoke with customers whose accounts appeared to be engaged in active trading—including those customers whose accounts had annualized cost-to-equity ratios ranging from 46% to 232% and annualized turnover ratios ranging from 24 to 104.

Although Fanning occasionally imposed buy-blocks on some accounts as result of his reviews, he did so sporadically and inconsistently, and, in at least one instance, removed a buy-block at the request of a representative (and not based on active trading paperwork or other feedback received from the customer).

When Fanning decided a commission restriction was appropriate, he simply informed the registered representative that the representative should restrict his or her commissions, and then did nothing to ensure the representative followed the commission restriction.

Fanning did not enforce commission restrictions in any other way.

FANNING'S MISREPRESENTATIONS TO USCIS

In August 2014, Fanning signed letters addressed to the USCIS relating to the H1-B visa applications for two Liberty registered representatives.

The registered representatives required H1-B visas to legally work for Liberty in the United States.

The letters Fanning signed falsely stated that each of the registered representatives was engaged in the "specialty occupation" of a Financial Analyst at Liberty.

In reality, the registered representatives were acting as ordinary, full-time registered representatives buying and selling securities for Liberty's customers.

Fanning knew at the time he signed the letters that the job descriptions in the letters did not accurately reflect the jobs the representatives were actually performing for Liberty.

FIRST CAUSE OF ACTION INADEQUATE SUPERVISION OF POTENTIALLY EXCESSIVE TRADING (NASD Rule 3010(a) and (b) and FINRA Rules 3110(a) and (b) and 2010)

FINRA Rule 3110(a) and its predecessor, NASD Rule 3010(a), require FINRA members to establish and maintain a system to supervise the activities of each registered representative,

registered principal, and other associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations. FINRA Rule 3110(b) and its predecessor, NASD Rule 3010(b), require each member to establish, maintain, and enforce written procedures to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations.¹ A violation of FINRA Rule 3010 or NASD Rule 3010 also is a violation of FINRA Rule 2010.

During the relevant period, Fanning failed to establish and maintain a system to supervise Liberty's associated persons reasonably designed to identify and respond to potentially excessive trading. Fanning developed Liberty's WSPs pertaining to reviews for potentially excessive trading, but failed to ensure they stated how he would identify excessive trading during those reviews, or how often he would conduct those reviews. In addition, Fanning failed to ensure that the WSPs reasonably outlined the steps Liberty should take if Fanning's reviews identified potentially excessive trading.

During the relevant period, Fanning failed to reasonably carry out his supervisory responsibilities relating to Liberty registered representatives' equity trading, including failing to perform supervisory reviews with any regularity, and, when his reviews did identify potentially excessive trading activity, Fanning failed to follow up on that activity effectively.

By reason of the foregoing, Fanning violated NASD Rule 3010(a) and (b) and FINRA Rules 3110(a) and (b) and 2010.

¹ NASD Rule 3010 was superseded by FINRA Rule 3110 as of December 1, 2014.

**SECOND CAUSE OF ACTION
MISREPRESENTATIONS TO USCIS
(FINRA Rule 2010)**

FINRA Rule 2010 requires members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

In August 2014, Fanning signed letters addressed to the USCIS that misrepresented the job duties of two Liberty registered representatives.

Fanning signed letters containing misrepresentations in connection with the registered representatives' employment at his firm, Liberty.

By reason of the foregoing, Fanning violated FINRA Rule 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

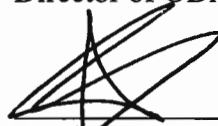
It is ordered that Respondent be (1) suspended from association with any FINRA member firm in any capacity for six months; (2) then immediately following, suspended from association with any FINRA member firm in a principal capacity for twelve months; and (3) required to pay a fine of \$20,000.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

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

A handwritten signature in black ink, appearing to be 'Meghan Bailey', written over a horizontal line.

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