

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019062305901**

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

RE: Manish Shah (Respondent)
Former Investment Company and Variable Contracts Products Representative
CRD No. 4652835

Pursuant to FINRA Rule 9216, Respondent Manish Shah 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 hereby accepts and consents, 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

Shah became registered as an Investment Company Products and Variable Contracts Products Representative in 2003 through his association with Northwestern Mutual Investment Services, LLC. Northwestern terminated Shah's registration by Form U5 filed on April 12, 2019, while he was under internal review for borrowing money from a client and other potential misconduct. On July 18, 2019, Northwestern filed a Form U5 amendment disclosing a separate customer complaint, also relating to a loan.

Although Shah is no longer associated with a FINRA member, FINRA retains jurisdiction over him pursuant to Article V, Section 4 of the FINRA By-laws.

Respondent does not have any relevant disciplinary history

OVERVIEW

In July 2016, Shah borrowed \$75,000 from a brokerage customer in violation of FINRA Rules 3240 and 2010. In addition, during the period September 2018 to March 2019, Shah acted unethically and violated FINRA Rule 2010 by circumventing the firm's policies, providing false information to a client's representative, and misleading

Northwestern during its internal investigation in connection with borrowing \$200,000 from an insurance customer.

FACTS AND VIOLATIVE CONDUCT

FINRA began an investigation into this matter after receiving the Form U5 filed by Northwestern in April 2019.

A. Shah Borrowed Money From His Brokerage Customer.

FINRA Rule 3240 prohibits a registered person from borrowing money from his customer unless: (1) the registered person's employing member firm has written procedures permitting borrowing from customers; (2) the borrowing arrangement meets one of five circumstances specified in the rule; and (3) the registered representative has provided notice and obtained written approval for the arrangement. A violation of FINRA Rule 3240 also violates FINRA Rule 2010, which requires associated persons "to observe high standards of commercial honor and just and equitable principles of trade."

Northwestern's written policies prohibited borrowing money from or lending money to firm clients, except in circumstances not relevant here.

In July 2016, Shah borrowed \$75,000 from one of his brokerage customers. Shah documented the terms of the loan in a loan agreement and repayment schedule. Shah failed to repay the loan in accordance with the repayment schedule. Although Shah told the customer that he would use the money to buy another registered representative's book of business, he did not do so but used it mostly for personal expenses. Nor did Shah provide notice to the firm or obtain its approval for the arrangement. In 2019, following Shah's termination from the Firm and the complaint by the brokerage customer to the firm regarding the loan, Shah repaid the customer.

In addition, in September 2016 and December 2017, Shah completed two firm compliance questionnaires in which he falsely represented that he had not "borrowed money or securities from or lent money or securities to a client."

Therefore, Respondent violated FINRA Rules 3240 and 2010.

B. Shah Circumvented the Firm's Policies, Falsified Documents, and Attempted to Conceal His Misconduct.

FINRA Rule 2010 requires members and associated persons in the conduct of their business to "observe high standards of commercial honor and just and equitable principles of trade." Circumventing firm procedures designed to protect customers, falsifying documents, and making false statements is conduct inconsistent with high standards of commercial honor and just and equitable principles of trades.

Northwestern's written policy prohibiting borrowing money from or lending money to a client, except in limited circumstances not applicable here, applied to both brokerage and insurance customers.

In September 2018, Shah borrowed \$200,000 from an insurance customer. Shah documented the terms of the loan in a loan agreement and repayment schedule. Although Shah told the insurance customer, as he had his brokerage customer, that he would use the proceeds to buy another registered representative's book of business, he did not do so but used the proceeds mostly to retire other debt and for personal expenses. Shah did not disclose to or obtain approval from the firm for the arrangement.

In October 2018, the insurance customer, through her accountant, asked Shah to provide documents showing that the loan was "properly collateralized." In an email response, on December 14, 2018, Shah sent an altered document that listed the insurance customer as a beneficiary on Shah's personal life insurance policy. However, that policy had lapsed, and the insurance customer had never been listed as a beneficiary. In addition, Shah sent an inaccurate balance sheet to the customer's accountant. That balance sheet included bank account balances that were inflated and also understated his liabilities.

After the insurance customer complained to the firm, it began an internal review. Although Shah admitted he borrowed from the insurance customer, he told the firm in March 2019 that he had not borrowed money from any other clients, which was not true. In addition, in response to the firm's request for documents and communications, Shah forwarded the firm three emails between him and the accountant, but he failed to provide the December 14, 2018 email to the accountant and the accompanying falsified documents. He further stated, inaccurately, that no other responsive documents existed.

Ultimately, Shah repaid the insurance customer \$70,277 and the firm entered into a settlement agreement for the outstanding loan balance plus interest and attorney's fees.

Therefore, Respondent violated FINRA Rule 2010.

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

- a 20-month suspension from associating with any FINRA member in any capacity; and
- a \$15,000 fine

The fine shall be due and payable either immediately upon reassociation with a member firm or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

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 if he is barred or suspended from associating with any FINRA member, he becomes 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, he 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.

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 him;
- 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 testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- 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 he 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.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent understands and acknowledges that FINRA does not represent or advise him and Respondent cannot rely on FINRA for legal advice. Respondent has agreed to the AWC's provisions voluntarily; and 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 him to submit this AWC.

January 26, 2021

Date



Manish Shah
Respondent

Accepted by FINRA:

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

January 29, 2021

Date



Julie A. Lenaghan
Principal Counsel
FINRA
Department of Enforcement
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