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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING) Order No. S-13-1144-13-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE OF INTENT
Marty Edward Paul,) TO ENTER ORDER TO CEASE AND DESIST, REVOKE
Respondent.) REGISTRATION, DENY FUTURE REGISTRATION
) APPLICATIONS, IMPOSE A FINE, AND CHARGE COSTS
)

THE STATE OF WASHINGTON TO: Marty Edward Paul (CRD #2540039)

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondent, Marty Edward Paul, has violated the Securities Act of Washington. These violations justify the entry of an order to cease and desist from such violations pursuant to RCW 21.20.390, to revoke Marty Edward Paul's investment adviser representative registration pursuant to RCW 21.20.110(1), to deny future securities registration applications made by Marty Edward Paul pursuant to RCW 21.20.110(1), to impose a fine pursuant to RCW 21.20.110(1) and RCW 21.20.395, and to charge costs pursuant to RCW 21.20.110(7) and RCW 21.20.390. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondent

1. Marty Edward Paul, aka Martin Paul, (Paul) is an individual living in Gig Harbor, Washington. He has been registered with the Washington State Securities Division as an investment adviser representative at Northwest Asset Management since March 25, 2011. He was previously registered with the Division as a securities salesperson and investment adviser representative at RBC Capital Markets, LLC (RBC) from March 2, 1998 to March 7, 2011. From November 22, 1994 to March 2, 1998, Paul was registered with the Division as a securities salesperson at Dain Rauscher Inc., which merged with RBC in 1998. RBC is a member firm of the Financial Industry Regulatory Authority ("FINRA"), a self-regulatory organization, as was Dain Rauscher, Inc. Paul's Central Registration Depository ("CRD") number is 2540039.

Nature of the Conduct

2. While registered at RBC, Paul engaged in dishonest or unethical business practices by borrowing money from a client. In addition, Paul violated FINRA rules and RBC policy by providing false information to the firm about

1 some of the outside business activities he was involved in, and by failing to seek pre-approval for some of his outside
2 business activities. In March 2011, after becoming aware of Paul's loan from a client, RBC terminated Paul's
3 employment for violating RBC's code of conduct and policies. In April 2012, Paul settled allegations of rule
4 violations made by FINRA regarding the above conduct, and he consented to a fine and suspension from association
5 with any FINRA member firm for one year. In documents subsequently filed with the Securities Division, Paul
6 misrepresented this termination and regulatory history to the Division.

7 *Background*

8 3. In September 2009, Paul and one of his outside business activities borrowed \$6.5 million from a client. The
9 loan was used to fund a commercial real estate project, and it was secured by a piece of property that Paul had
10 purchased from a different client. In order to loan Paul the money the client set up a line of credit with Royal Bank of
11 Canada – Global Private Banking, which Paul facilitated.

12 4. Generally, a registered person is prohibited from borrowing money from a client. Special circumstances may
13 allow an exception to this prohibition, but a registered person must get written approval from the firm before any
14 borrowing can occur. Paul did not notify RBC or request approval from the firm before borrowing \$6.5 million from
15 his client. In March 2010, six months after he borrowed the money, Paul completed an annual RBC compliance
16 questionnaire in which he falsely stated that he had never borrowed money from a client. In August 2010, the firm
17 received an anonymous tip stating that Paul had taken a loan from a client. When the firm approached Paul about the
18 tip and the possible existence of a loan, Paul denied borrowing money from a client.

19 5. Paul borrowed \$6.5 million from his client personally and on behalf of his wholly owned entity, MP22, LLC.
20 Because MP22, LLC was an outside business activity, Paul's involvement in the business required pre-approval by
21 the firm. Paul did not seek approval from the firm before forming or acting on behalf of the entity. MP22, LLC was
22 formed in September 2009, and Paul did not inform the firm of the entity's existence until July 2010. Paul disclosed
23 MP22, LLC after the firm had expressly made disclosure of outside business activities and private securities
24 transactions by Paul a condition of his employment. The firm took this step after it determined that Paul had failed to
25 follow RBC policy and FINRA rules regarding private securities transactions: Paul failed to seek approval before
investing in an outside investment, he introduced clients to outside investments that he had invested in, and he gave
the firm false information about client involvement in an outside investment.

6. When Paul disclosed MP22, LLC to the firm, he did not reveal that he and the entity had borrowed money
from a client. Instead, he identified the client as a non-partner investor. When the firm asked for clarification of the
client's role within MP22, LLC, Paul stated that the client was an owner. When the firm questioned this ownership
because Paul owned 100% of MP22, LLC, Paul explained that he owned MP22, LLC, which owned the land, and the
client owned the improvements on the land. In November 2010, based upon the inaccurate information Paul provided
and unaware of the loan from a client, RBC approved Paul's involvement in MP22, LLC.

1 7. During his time at RBC, Paul engaged in several different outside business activities besides MP22, LLC. In
2 at least two instances, Paul did not seek approval for an outside business activity until years after he started the
3 activity. Further, Paul misrepresented his degree of involvement in at least three outside business activities, stating
4 that he was a passive owner when he was an active owner or reporting a lower percentage of ownership than what he
5 held.

6 8. In February 2011, the firm learned that Paul and MP22, LLC had borrowed \$6.5 million from a client. On
7 March 7, 2011, RBC discharged Paul for violating the firm's code of conduct and policies by borrowing money from
8 a client.

9 *Termination Disclosure*

10 9. In order to apply for a securities registration or file required updates with the Securities Division, a person
11 must complete and upload a Form U4 to CRD. If information reported on the Form U4 has changed, the registered
12 person must file an updated Form U4 within thirty days of the change.

13 10. On March 23, 2011, Paul filed a Form U4 to apply for registration with the Securities Division as an
14 investment adviser representative at Northwest Asset Management. When completing the form, Paul denied having
15 been terminated by a firm for violating firm policies and industry standards. Two days later, based upon the false
16 information Paul provided and unaware of Paul's termination by RBC, the Securities Division approved Paul's
17 registration.

18 11. On March 28, 2011, RBC filed a form with CRD reporting Paul's full termination from the firm. The firm
19 explained that Paul had been discharged on March 7, 2011 for violating the firm's code of conduct and policies by
20 borrowing \$6.5 million from a client.

21 12. On April 14, 2011, more than thirty days after he was discharged, Paul filed a Form U4 acknowledging his
22 termination by RBC for violating firm policy. On the form, he falsely stated that he had been terminated on March 28,
23 2011.

24 *FINRA Action*

25 13. Paul was registered with a FINRA member firm from November 22, 1994 to March 7, 2011. While Paul was
associated with a FINRA member firm, he was required to comply with FINRA rules. Beginning in 2011, FINRA
conducted an investigation related to Paul's conduct as described above. FINRA found that when Paul and MP22,
LLC borrowed \$6.5 million from a client, Paul violated NASD Conduct Rule 2370 (now FINRA Rule 3240) and
FINRA Rule 2010. FINRA also found that when Paul provided inaccurate information to the firm about the loan from
a client and MP22, LLC, he violated FINRA Rule 2010. Finally, FINRA found that when Paul engaged in outside
business activities without providing prompt written notice to the firm, and when he provided inaccurate information
to the firm upon disclosure of the outside business activity, Paul violated NASD Conduct Rule 3030 (now FINRA
Rule 3270) and FINRA Rule 2010.

14. On April 19, 2012, FINRA accepted Paul's Letter of Acceptance, Waiver and Consent ("AWC"), which settled the rule violations alleged by FINRA. Without admitting or denying the findings, Paul accepted and consented to FINRA's entry of findings of fact. In addition, Paul consented to the imposition of a \$20,000 fine and a one year suspension from association with any FINRA member firm in any capacity. The suspension began on May 7, 2012 and ended on May 6, 2013.

Regulatory Action Disclosure

15. After Paul settled the FINRA action, he did not file an updated Form U4 within thirty days of the settlement disclosing that FINRA had found him to be in violation of FINRA rules and had suspended him from association with any FINRA member firm for one year. Further, on March 12, 2013, Paul filed a Form U4 that denied any regulatory action disclosures. On the Form U4, Paul falsely stated that a self-regulatory organization had never found him to be involved in the violation of rules, and he falsely stated that a self-regulatory organization had never disciplined him by barring or suspending him from association with its members. As of the date of this Statement of Charges, Paul has not filed a Form U4 disclosing the regulatory action taken by FINRA.

Based upon the above Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

I.

Marty Edward Paul borrowed money from a client, which is dishonest or unethical business practice as defined by WAC 460-24A-220(6) and WAC 460-22B-090(1). Such conduct is grounds for revocation of Paul's investment adviser representative registration, denial of any future securities registration applications, imposition of a fine, and charging of costs pursuant to RCW 21.20.110(1)(g) and RCW 21.20.110(7).

II.

Marty Edward Paul made a materially false or misleading statement to the Division when he filed a Form U4 in which he falsely answered a question related to his termination from RBC. Such conduct is a violation of RCW 21.20.350, and it is grounds for revocation of Paul's investment adviser representative registration, denial of any future securities registration applications, imposition of a fine, and charging of costs pursuant to RCW 21.20.110(1)(a), RCW 21.20.110(1)(b), and RCW 21.20.110(7).

III.

Marty Edward Paul made a materially false or misleading statement to the Division when he filed a Form U4 in which he falsely answered questions related to his regulatory history. Such conduct is a violation of RCW 21.20.350, and it is grounds for revocation of Paul's investment adviser representative registration, denial of any

1 future securities registration applications, imposition of a fine, and charging of costs pursuant to RCW
2 21.20.110(1)(a), RCW 21.20.110(1)(b), and RCW 21.20.110(7).

3 **IV.**

4 Marty Edward Paul failed to meet his continuing obligation to promptly file updated Form U4s with the
5 Division when he did not disclose his termination within thirty days of being discharged by RBC. Such conduct
6 violates WAC 460-24A-205, and it is grounds for revocation of Paul's investment adviser representative registration,
7 denial of any future securities registration applications, imposition of a fine, and charging of costs pursuant to RCW
8 21.20.110(1)(b) and RCW 21.20.110(7).

9 **V.**

10 Marty Edward Paul failed to meet his continuing obligation to promptly file updated Form U4s when he did
11 not disclose FINRA's regulatory action within thirty days of entering into an AWC with FINRA. Such conduct
12 violates WAC 460-24A-205, and it is grounds for revocation of Paul's investment adviser representative registration,
13 denial of any future securities registration applications, imposition of a fine, and charging of costs pursuant to RCW
14 21.20.110(1)(b) and RCW 21.20.110(7).

15 **VI.**

16 Marty Edward Paul effected transactions in securities not recorded on the regular books or records of the
17 broker-dealer he represented when he introduced clients to investments away from RBC. Such conduct is dishonest or
18 unethical business practice as defined by WAC 460-22B-090(2), and it is grounds for revocation of Paul's investment
19 adviser representative registration, denial of any future securities registration applications, imposition of a fine, and
20 charging of costs pursuant to RCW 21.20.110(1)(g) and RCW 21.20.110(7).

21 **VII.**

22 Marty Edward Paul was found to have violated FINRA Rule 3270, FINRA Rule 3240, and FINRA Rule 2010
23 when he borrowed money from a client, engaged in outside business activities without pre-approval from his firm,
24 and provided inaccurate information to the firm regarding these activities. This failure to comply with FINRA rules is
25 dishonest or unethical behavior as defined by WAC 460-22B-090(19), and it is grounds for revocation of Paul's
investment adviser representative registration, denial of any future securities registration applications, imposition of a
fine, and charging of costs pursuant to RCW 21.20.110(g) and RCW 21.20.110(7).

VIII.

Marty Edward Paul is the subject of a settlement with FINRA suspending him from association with any
FINRA member firm for one year. This suspension by a self-regulatory organization is grounds for revocation of
Paul's investment adviser representative registration, denial of any future securities registration applications,
imposition of a fine, and charging of costs pursuant to RCW 21.20.110(1)(e)(iii) and RCW 21.20.110(7).

1 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

2 Pursuant to RCW 21.20.390(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
3 the Securities Administrator intends to order that Marty Edward Paul cease and desist from violations of RCW
4 21.20.350.

5 **NOTICE OF INTENT TO REVOKE REGISTRATION**

6 Pursuant to RCW 21.20.110(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
7 the Securities Administrator intends to order that the investment adviser representative registration of Marty Edward
8 Paul be revoked.

9 **NOTICE OF INTENT TO DENY FUTURE REGISTRATIONS**

10 Pursuant to RCW 21.20.110(1) and based upon the above Tentative Findings of Fact and Conclusions of Law,
11 the Securities Administrator intends to order that any broker-dealer, securities salesperson, investment adviser, or
12 investment adviser representative registration applications Marty Edward Paul may file in the future be denied.

13 **NOTICE OF INTENT TO IMPOSE A FINE**

14 Pursuant to RCW 21.20.110(1) and RCW 21.20.395 and based upon the above Tentative Findings of Fact and
15 Conclusions of Law, the Securities Administrator intends to order that Marty Edward Paul shall be liable for and shall
16 pay a fine of \$20,000.

17 **NOTICE OF INTENT TO CHARGE COSTS**

18 Pursuant to RCW 21.20.110(7) and RCW 21.20.390 and based upon the above Tentative Findings of Fact and
19 Conclusions of Law, the Securities Division intends to order that Marty Edward Paul shall be liable for and shall pay
20 investigative costs of not less than \$3,000.

21 **AUTHORITY AND PROCEDURE**

22 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the
23 provisions of Chapter 34.05 RCW. The respondent, Marty Edward Paul, may make a written request for a hearing as
24 set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying
25 this Order. If the respondent does not make a hearing request in the time allowed, the Securities Administrator
intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order

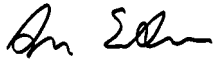
1 to cease and desist as to the respondent, to revoke the securities registration of the respondent, to deny future
2 securities registration applications by the respondent, to impose any fines sought against the respondent, and to charge
3 any costs sought against the respondent.

4 Signed and Entered this 13th day of January 2014.

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10 _____
11 William M. Beatty
12 Securities Administrator

13 Approved by:

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15 _____
16 Suzanne Sarason
17 Chief of Enforcement

18 Presented by:

19 

20 _____
21 Holly Mack-Kretzler
22 Financial Legal Examiner

23 Reviewed by:

24 

25 _____
26 Jack McClellan
27 Financial Legal Examiner Supervisor