

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

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

Capital Management Associates LLC;
James David Richardson;

Respondents

Order No.: S-20-3023-21-CO01

CONSENT ORDER

INTRODUCTION

Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department of Financial Institutions (“Securities Division”) and Respondents Capital Management Associates LLC and James David Richardson, do hereby enter into this Consent Order in settlement of the matters alleged herein. Respondents Capital Management Associates LLC and James David Richardson neither admit nor deny the Findings of Fact and Conclusions of Law as stated below.

FINDINGS OF FACT

Respondents

1. Capital Management Associates LLC (“CMA”) was a Washington limited liability company, originally formed on June 19, 2012, with its principal place of business in Snoqualmie, Washington. CMA operated as a registered investment adviser from June 2012 until its withdrawal from registration in August 2020.¹ CMA’s Central Registration Depository (“CRD”) number is 153337.

¹ Before the formation of the LLC, CMA was also operated as a sole proprietorship, from approximately March 2010 to March 2012. CMA also had an Oregon predecessor LLC, initially registered in November 2001 and administratively dissolved in January 2011.

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360-902-8760**

2. James David Richardson (“Richardson”) is a resident of Snoqualmie, Washington. Richardson was the owner and principal of CMA during its entire period of operation, and has been registered in the financial industry as a securities salesperson from 1990 to 2011, and as an investment adviser representative from 2010 to 2020. His CRD number is 2087351.

Related Party

3. Charles Schwab & Co., Inc. ("Charles Schwab") is a registered broker-dealer, which CMA used as its asset custodian for customer accounts. Its CRD number is 5393.

Nature of the Conduct

Overview

4. No later than early 2020, a fraudulent actor obtained access to Richardson's advisory firm email account and used documents obtained from that email account to illicitly effect, through Richardson, the transfer of funds from the accounts of two CMA clients. As a result of this deception, and their failure to adequately guard against such deception, Richardson and CMA conducted the sale of securities, and subsequent transfer of funds, which they did not have client authority to conduct.

Method of the Fraud

5. No later than March 2020, a fraudulent actor obtained access to Richardson's CMA email account, which Richardson has historically used to conduct business with some CMA clients who travel frequently overseas. Using this access, the fraudulent actor obtained copies of various client documents, including (a) copies of forms with the signatures of at least two CMA clients, B.M. and T.C., and (b) forms for Charles Schwab's MoneyLink program, which enables persons with Charles Schwab accounts to transfer money to and from accounts at other financial institutions. From March through June 2020, the fraudulent actor impersonated B.M. and T.C. in emails to Richardson, using email addresses which looked similar to

1 B.M. and T.C.'s email addresses, but included either an additional letter (in B.M.'s case) or an additional
2 number (in T.C.'s case) in the middle of the email address.

3 6. Initially, in March 2020, the fraudulent actor emailed Richardson, posing as B.M., and
4 instructed Richardson to establish a link from B.M.'s Charles Schwab account to a TD Bank account in B.M.'s
5 name. Using an email address which looked similar to B.M.'s actual email address, but included an additional
6 letter in the address, the fraudulent actor sent Richardson a completed MoneyLink form with B.M.'s falsified
7 signature obtained from Richardson's email account. The fraudulent actor subsequently instructed B.M. to set
8 up a link to a second TD Bank account in B.M.'s name. Between mid-April and late May, the fraudulent actor
9 sent a series of emails to Richardson instructing him to liquidate securities in B.M.'s Charles Schwab account
10 and transfer the proceeds to the TD Bank accounts, which Richardson did. The fraudulent actor ultimately
11 succeeded in transferring a total of \$70,000 from B.M.'s account to TD Bank. Richardson did not notice that
12 the email address differed from B.M.'s actual email address, and did not attempt to contact B.M. through any
13 method other than email to confirm the new linked accounts or the transfers.

14 7. In June 2020, the fraudulent actor began posing as T.C., and similarly instructed Richardson
15 to establish links from T.C.'s two IRA accounts at Charles Schwab to accounts at several different financial
16 institutions, including JPMorgan Chase Bank, Bank of America, and TD Bank. As with B.M., the fraudulent
17 actor falsified T.C.'s signature on copies of the relevant Charles Schwab forms, and emailed Richardson from
18 an email address which looked similar to T.C.'s actual address, but included an additional number. The
19 fraudulent actor then sent a series of requests to Richardson to liquidate securities in T.C.'s IRA accounts and
20 transfer funds to the newly linked accounts, ultimately succeeding in transferring a total of \$265,850 from
21 T.C.'s accounts.² Richardson also did not notice that the email address used by the fraudulent actor differed

23 2 Charles Schwab provided compensation to B.M. and T.C. for the stolen funds.

from T.C.'s actual email address, and did not attempt to contact T.C. by any method other than email to confirm the newly linked accounts or the transfers. According to Richardson, the fraudulent actor deleted evidence from his email account of his correspondence with both B.M. and T.C.

8. After discovering the fraud in early July 2020, Charles Schwab requested that Richardson have a professional security firm analyze his computer to determine the nature and extent of the compromise. Citing the cost of the analysis, Richardson refused to do so. Charles Schwab subsequently terminated CMA's affiliation with their platform; CMA and Richardson withdrew from registration as (respectively) an investment adviser and investment adviser representative in August 2020.

9. At several points in this chain of events, the risk of such illicit transfers would have been substantially reduced—if not eliminated—if CMA and Richardson had implemented and enforced stronger security policies. In particular, CMA and Richardson did not have procedures for verifying the client’s identity for large or unusual withdrawals, or policies for securing Richardson’s email account.

10. For large or unusual transfers out of a client account, firms should generally seek to verify the client's identity through at least one alternate contact method. In this case, Richardson accepted the purported client's instructions via email only, made no effort to reach the client by any means other than email, and failed even to confirm that the purported client's email address was actually the address associated with the account. Contacting the client through alternate methods, or double-checking the email address, would likely have resulted in the realization that the instructions were not coming from the actual client.

Cybersecurity Best Practices

11. CMA and Richardson conducted client business through, and stored sensitive information in, Richardson's CMA account, but did not implement several practices which would have substantially reduced

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1 the risk that Richardson's account would be compromised.³ Examples of these policies include regular
2 password changes, two-factor authentication, and encrypting emails with sensitive information.

3 12. First, Richardson and CMA had no policy requiring regular changes to Richardson's email
4 password. One major security risk, particularly in recent years, is leaks of large databases with account
5 usernames and passwords; this risk is further exacerbated by the fact that many people use the same password
6 across multiple accounts.⁴ Regularly changing account passwords substantially reduces the risk that a hacker
7 will be able to obtain illicit access to an account, or will be able to maintain access to the account once they
8 have obtained it.

9 13. Second, Richardson and CMA could have significantly reduced the risk of illicit access to
10 Richardson's CMA account by requiring two-factor authentication, a common practice in the financial
11 industry. In its most common form, two-factor authentication requires a person logging into their email
12 account from a new device to enter a four- to six-digit code, sent to their cell phone via text message, before
13 logging into their email account from that new device. This practice substantially reduces the risk of illicit
14 access to the user's email account, because it requires an attempted hacker to obtain both the password for the
15 email account and access to the account holder's personal devices.

16 14. Third, Richardson and CMA did not encrypt emails with sensitive client information. Email
17 encryption is a common security practice which reduces the risk that the email, and the information contained
18 therein, will be intercepted by persons who should not have access to the email. There are various forms of
19 email encryption, but one commonly-used method in the financial industry is web portal encryption, in which
20 users who receive an encrypted email must access the email through a login portal maintained by the sender.

21 ³ The Securities Division is not alleging, in this order, that failure to implement the policies described below is a *per se* failure to
22 comply with Washington regulations. However, firms should strongly consider implementing these policies to reduce the risk to
themselves and their clients.

23 ⁴ See Charlie Fripp, "Check this list: 3.2 billion leaked usernames and passwords," February 9, 2021, available at
<https://www.komando.com/security-privacy/3-billion-leaked-passwords/777661/>.

The receiver must generally create a username and password to access the portal (and therefore the email), and the email is generally deleted within the next several weeks. Many financial firms use this method to transmit data containing clients' personal information or other sensitive information whose improper release could result in harm to the client.

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

CONCLUSIONS OF LAW

1. During the period relevant to this order, Capital Management Associates LLC was an investment adviser as defined in RCW 21.20.005(8).

2. During the period relevant to this order, James David Richardson was an investment adviser representative as defined in RCW 21.20.005(9).

3. Capital Management Associates LLC and James David Richardson engaged in dishonest and unethical business practices, as defined in WAC 460-24A-220(4), by placing orders to sell securities in B.M. and T.C.'s accounts and transfer the proceeds to new accounts without authority to do so.

4. Capital Management Associates LLC and James David Richardson violated WAC 460-24A-220(17) and WAC 460-24A-200(1)(bb), by failing to establish written physical and cyber security policies and procedures that were reasonably designed to ensure the security and integrity of Capital Management Associates LLC's physical and electronic records, in particular by verifying client identities in response to unsolicited emails.

Based upon the foregoing and finding it in the public interest:

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IT IS AGREED AND ORDERED that any future applications for registration with the State of Washington as an investment adviser, investment adviser representative, broker-dealer, or securities

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1 salesperson, by Respondents Capital Management Associates LLC or James David Richardson, shall be
2 denied.

3 IT IS FURTHER AGREED AND ORDERED that Respondent James David Richardson shall pay a
4 fine of \$3,000 on or before entry of this Consent Order.

5 IT IS FURTHER AGREED AND ORDERED that Respondent James David Richardson shall pay
6 investigative costs of \$2,000 on or before entry of this Consent Order.

7 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

8 IT IS FURTHER AGREED that Respondents Capital Management Associates LLC and James David
9 Richardson enters into this Consent Order freely and voluntarily and with a full understanding of its terms
10 and significance.

11 IT IS FURTHER AGREED that in consideration of the foregoing, Respondents Capital Management
12 Associates LLC and James David Richardson waive their right to a hearing and to judicial review of this
13 matter pursuant to RCW 21.20.440 and Chapter 34.05 RCW.

14 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

16 Signed this 12th day of July, 2021.

18 Signed by:

19 Capital Management Associates LLC

21 /s
James David Richardson
22 Owner

23 Signed by:

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1
2 /s
3 James David Richardson, Individually
4

5 SIGNED and ENTERED this 21st day of July, 2021.
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9 William M. Beatty
10 Securities Administrator
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12 Approved by:
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15 Suzanne Sarason
16 Chief of Enforcement
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Presented by:
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21 Adam N. Yeaton
22 Financial Legal Examiner
23

Reviewed by:
24

25 
26

27 Jack McClellan
28 Financial Legal Examiner Supervisor
29

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