

**STATE OF NORTH CAROLINA
DEPARTMENT OF THE SECRETARY OF STATE**

IN THE MATTER OF:)	
)	FINAL CONSENT ORDER
)	
DELOITTE CORPORATE FINANCE LLC)	15 SEC 017
(CRD # 111747))	
)	
Respondent.)	

THIS CAUSE coming before the Secretary of State of the State of North Carolina, as Administrator (the “Administrator”) of the North Carolina Securities Act, (N. C. Gen. Stat. Chapter 78A, the “Securities Act”), and it appearing to the Administrator that Deloitte Corporate Finance LLC (“DCF”) desires to resolve the matters described herein and the contentions of the Securities Division of the North Carolina Department of the Secretary of State (hereinafter “Securities Division”) without admitting or denying the Findings of Fact and Conclusions of Law as set forth below in order to avoid the time and expense of litigation and, thus, consents to the Administrator’s entry of this Order solely to resolve these matters and in lieu of the initiation of any proceeding in relation thereto.

FINDINGS OF FACT

1. DCF is a foreign limited liability company, organized and existing under and by virtue of the laws of the State of Delaware, with its principal office at 111 South Wacker Drive, Chicago, Illinois 60606-4302 and a registered mailing address in Wake County, North Carolina.
2. DCF is registered with the Administrator, pursuant to N.C. Gen. Stat. §78A-36 as a securities dealer. DCF is a “dealer” as that term is defined under North Carolina law.

3. DCF provides corporate financial advisory services to predominantly institutional clients throughout the United States including North Carolina, and is authorized to do business in North Carolina.

4. As a dealer transacting business in North Carolina, DCF is required to comply with North Carolina's laws, rules, and regulations and the rules of any national securities exchange or national securities association of which it is a member. 18 NC Admin Code 06A .1414(b)(14).

5. The Securities Division investigated DCF's Charlotte, North Carolina office in 2015 to evaluate whether DCF's Charlotte office was operating its business in compliance with North Carolina's laws and rules.¹ The Securities Division interviewed DCF employees and examined certain DCF documents related to its operations from mid-2013 through mid-2015.

6. The Securities Division found the following violations of North Carolina's laws and rules. DCF neither admits nor denies the factual allegations or conclusions of law contained in this Order and DCF does not intend for its consent to this Order to be used as an admission in any context or for any other purpose.

I. Failure to Amend or Timely Amend Its Salesmen's Form U4

7. To regulate the securities industry, FINRA² and state securities administrators (including North Carolina's) maintain the Central Registration Depository ("CRD"). Dealers and salesmen file and maintain their registrations, forms and other documents and records with the Administrator via CRD. N.C. Gen. Stat. §78A-36.

8. FINRA assigned DCF CRD# 111747.

¹ This Order addresses violations in DCF's Charlotte office only.

² FINRA, the Financial Industry Regulatory Authority, Inc., is a self-regulatory organization that tests, registers, and disciplines firms and persons in the securities industry.

9. Filings on CRD must be complete and accurate because the public relies on this information to help inform their investment decisions. Regulators also rely on the information filed with CRD.

10. North Carolina law charges dealers and salesmen with a continuing duty to amend or correct the registration forms as necessary, if any information on the form subsequently becomes false, or misleading. N.C. Gen. Stat. §78A-38(c).

11. North Carolina prohibits the filing of false or misleading documents. N.C. Gen. Stat. §78A-9.

12. Dealers register their salesmen, and update the registrations of their salesmen, by submitting Form U4s, Uniform Application for Securities Industry Registration. Their salesmen are required to provide accurate information necessary to create, update and maintain these registrations, and should notify dealers in a timely fashion so that the dealer can promptly update the Form U4. Salesmen themselves cannot submit Form U4s on CRD.

13. DCF required that its salesmen promptly notify the compliance department if they needed to amend the information in their Form U4. This requirement was implemented so that proper amendments can be timely filed to update or correct the required information.

14. During its investigation, the Securities Division reviewed, among other documents, the Form U4s of DCF's salesmen to evaluate whether DCF's salesmen in the Charlotte office were disclosing material information needed to amend their U4 to DCF, and whether DCF was filing the salesmen's Form U4s in compliance with North Carolina law.

15. Form U4 also requires the disclosure of certain business activities outside the scope of the salesman's employment with the dealer.³ Form U4's instructions state in relevant part: _____

³ These business activities will be referred to as "other business" or "OBAs" in this Order.

Other Business—Enter “yes” or “no” to indicate whether you currently are engaged in any other business, either as a proprietor, partner, officer, director, employee, trustee, agent, or otherwise. Exclude non-*investment-related* activity that is exclusively charitable, civic, religious or fraternal, and is recognized as tax exempt.

16. A salesman must disclose OBAs to, among other things, disclose outside activities that may give rise to potential conflicts of interest.

17. According to DCF’s written supervisory procedures (“WSPs”), DCF salesmen in Charlotte were instructed to disclose OBAs in writing along with DCF’s Outside Business Interest Questionnaire.

18. The Securities Division reviewed DCF’s Outside Business Interest Questionnaires to investigate whether OBAs were being properly reported and disclosed.

19. The Securities Division’s review confirmed that in general, DCF’s salesmen in Charlotte disclosed OBAs to DCF in writing and with DCF’s Outside Business Interest Questionnaire and DCF usually approved the OBAs. However, in some instances, DCF failed to file an amendment to its salesmen’s Form U4 disclosing these OBAs in accordance with North Carolina law.

20. The following are some of the delinquencies the Securities Division identified where salesmen in Charlotte disclosed their OBAs to DCF but DCF failed to file an amendment to the salesmen’s Form U4s disclosing the OBAs:

- a. One salesman notified DCF of three OBAs, which DCF approved in 2013 and 2014. DCF failed to file amended Form U4s to update this information in CRD until August 26, 2015.
- b. A salesman in Charlotte informed DCF of pre-existing involvement in a specific OBA in 2014, which was an investment vehicle involving several DCF salesmen. DCF approved the OBA, but failed to file an amendment to the salesmen’s Form U4s updating the information until 2016.

- c. Three other salesmen informed DCF of OBAs and DCF failed to file amended Form U4s to disclose this information.

21. DCF's failures to file accurate and complete Form U4s or file timely amendments to Form U4s as described above are violations of the Securities Act under N.C. Gen. Stat. §78A-9 and N.C. Gen. Stat. §78A-38(c). The failures described above are also a violation of N.C. Gen. Stat. §78A-39(a1)(2)(a) as a failure to reasonably supervise its salesmen.

II. Failure to Supervise Its Salesmen

22. As a dealer transacting business in North Carolina, DCF is required to reasonably supervise its salesmen's activities. As is also required, DCF created and implemented WSPs. These WSPs detail, in part, how DCF instructs its salesmen to comply with applicable rules and laws. Dealers must establish and enforce WSPs as a necessary part of reasonable supervision.

23. As part of its investigation, the Securities Division reviewed DCF's WSPs; the 2014 Annual Compliance Questionnaire ("ACQ")⁴ executed by salesmen in the Charlotte Office; and the personnel files of the salesmen in the Charlotte office. The Securities Division also reviewed information provided by DCF associated with various supervisory and compliance activities.

24. The review revealed that DCF failed to reasonably supervise its salesmen in the Charlotte office in some instances in accordance with its own WSPs and North Carolina law.

25. The Securities Division reviewed 17 ACQs which included more than 40 responses that described concerns under the WSPs and/or the applicable regulations. The following are some of the notable responses identified by the Securities Division:

⁴ DCF's ACQ is a document that each of DCF's salesmen completed annually and submitted to the compliance department to, among other purposes, disclose any changes of information required to be amended on the Form U4. The ACQ was designed to assist DCF in monitoring its salesmen with respect to their compliance with relevant laws and rules and its own WSPs.

- a. Several salesmen responded they were not aware of the types of civil litigation, arbitration or other events that needed to be reported on their Form U4;
- b. One salesman responded he was not aware of the states in which he was licensed to act as a General Securities Agent;
- c. A salesman responded that he had not made arrangements for all brokerage firms with which either he or family members in his household did business to send duplicate copies of trade confirmations and statements to DCF's Compliance Department.

26. These responses should have triggered an investigation or some clarification of the responses. There is no evidence in the personnel files themselves that DCF followed up with the individuals regarding these ACQ responses. DCF did provide evidence to the Securities Division which demonstrated proactive efforts on the above topics and DCF's efforts to periodically educate its salesmen regarding the above topics.

27. The Securities Division also searched the North Carolina Secretary of State's Corporations Division's website and discovered two LLCs that identified DCF salesmen as managers. Neither of these LLCs had been disclosed to DCF and no Form U4 was filed outlining the involvement of the salesmen in these LLCs. One LLC described the nature of its business as "investment management" indicating the potential for a conflict of interest. DCF had not identified these undisclosed outside business activities at the time of the commencement of this investigation in 2015; however, DCF subsequently became aware of some of them through its own processes and procedures and was addressing those matters of its own accord in 2016 when the Securities Division contacted DCF about entering into this Order.

28. The failures described in paragraph 25 and paragraph 27 constitute failures by DCF to reasonably supervise its salesmen pursuant to N.C. Gen. Stat. §78A-39(a1)(2)(a).

29. In addition to reviewing Form U4s, ACQs, WSPs, and personnel files, the Securities Division reviewed trading records of certain DCF salesmen in the Charlotte office, and subsequently interviewed one of its salesmen. The review of trading records and the interview revealed additional supervisory failures by DCF. The Securities Division discovered one salesman had participated in securities transactions outside the scope of his employment with DCF. DCF was not informed of these transactions by the salesman and thus, could not have approved these transactions before the salesman's participation. However, the transactions were referenced on brokerage account statements obtained by DCF. Further investigation into this salesman's account statements revealed that DCF could have discovered multiple violations of regulations and its WSPs. The following are some of the failures by DCF to supervise this salesman:

- a. DCF failed to sufficiently review this particular salesman's personal trading activity in compliance with the applicable regulation and its WSPs. A salesman for DCF provided his and/or his spouse's brokerage account statements to DCF. The account statements showed the salesman, from 2013 through 2015, participated in multiple securities transactions outside the scope of his employment with DCF. The statement showed wires sent to various private equity firms and venture capital firms for investment into their funds, and wires to a limited liability company in which he was a member. The salesman did not seek prior approval of these transactions and DCF was otherwise unaware of these transactions until 2016. Had DCF more thoroughly reviewed the account statements provided by the salesman and/or inquired about the wires to the private equity and venture capital firms by the salesman, DCF could have known of the transactions earlier. DCF failed to investigate or address this activity in 2013 through 2015.
- b. DCF failed to sufficiently monitor certain of its Charlotte salesman's activities. Emails in the salesman's work email account show his investment, beneficial ownership and involvement in various venture capital and private equity funds. These emails could have alerted DCF that it needed to perform further investigation.

30. During the time of the Securities Division's investigation, DCF undertook a series of steps on its own initiative that were designed to (i) identify and address some of the

issues which were separately identified by the Securities Division and (ii) improve its compliance and supervisory functions. These steps include:

- a. In January of 2016, DCF hired a new chief compliance officer who began evaluating DCF's policies and procedures, which resulted in, among other things, the creation of new forms and processes which helped lead to the identification of some issues which were separately identified by the Securities Division. In early 2017, DCF hired additional compliance personnel to assist the chief compliance officer.
- b. Throughout 2016, DCF conducted several training sessions covering OBAs and the responsibilities of salesmen, among other topics. As a result of these training sessions, DCF's annual policy recertification process, and a requirement for salesmen to review and update their Form U4s, DCF learned that certain salesmen in DCF's Charlotte office were engaged in OBAs that had not been previously disclosed on their respective Form U4s. As a result of this, DCF undertook a thorough inquiry and had identified certain of the issues referenced above and were taking steps to address them.
- c. DCF has taken a number of steps to proactively train personnel and supervisors on OBAs and the importance of maintaining a current and accurate Form U4, among other key topics. This training took place during DCF's Annual Compliance Meeting, during branch specific training sessions, during the 2016 Firm Element Training which focused on OBAs, among other things, and during supervisory training. Furthermore, all DCF personnel whose Form U4s required an amendment to add one or more additional OBAs were required to complete mandatory training via a computer-based course on OBAs. This training was rolled out to all DCF personnel in connection with the Firm Element Training requirement.

31. The Securities Division acknowledges that DCF cooperated fully and promptly with its personnel throughout the course of its investigation by responding timely to requests for information, actively communicating with the Securities Division, providing documentary evidence and other materials relating hereto, and addressing questions raised by the Securities Division.

32. Notwithstanding DCF's cooperation and its thorough efforts to identify certain of the issues noted above which were separately identified by the Securities Division and prevent

them from occurring in the future, DCF's failures to reasonably supervise its salesmen, as described above, violate N.C. Gen. Stat. §78A-39(a1)(2)(a).

CONCLUSIONS OF LAW

1. The Administrator has jurisdiction over DCF and the subject matter of this Order.
2. This Order is entered by the Administrator under the authority granted by the Securities Act and the administrative rules adopted thereunder.
3. DCF is a "dealer" as defined under North Carolina law, and as a registered dealer is also a "registrant."
4. N.C. Gen. Stat. §78A-39(a)(2)(b) grants the Administrator the authority to deny, suspend, or revoke any registration in whole or in part if she finds that a registrant has willfully violated or willfully failed to comply with any provision of the Securities Act.
5. N.C. Gen. Stat. §78A-9 makes it unlawful to file any document which is "false or misleading in any material respect."
6. N.C. Gen. Stat. §78A-38(c) imposes a duty on a registrant "to promptly file a correcting amendment" if "any document filed with the Administrator is or becomes inaccurate or incomplete in any material respect."
7. N.C. Gen. Stat. §78A-39(a1)(2)(a) grants the Administrator the authority to deny, suspend, or revoke any registration in whole or in part if she finds that the registrant failed "reasonably to supervise his salesmen if he is a dealer."
8. DCF failed to file accurate and complete Form U4s or file timely amendments to Form U4s with respect to certain of its salesmen in Charlotte as described in this Order and thereby violated N.C. Gen. Stat. §78A-9 and N.C. Gen. Stat. §78A-38(c) under the Securities Act.

9. DCF failed to reasonably supervise certain of its salesmen in Charlotte as described in this Order and thereby violated N.C. Gen. Stat. §78A-39(a1)(2)(a) under the Securities Act.

10. The entry of this Order is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Securities Act.

11. It is in the public interest of the citizens of North Carolina, for the protection of investors and consistent with the purposes of the Securities Act, that DCF be prohibited from violating the Securities Act and other statutes and rules regarding securities, that DCF pay a civil penalty, and that DCF reimburse investigative costs incurred in this matter.

JURISDICTION, CONSENT AND WAIVER

DCF, as evidenced by the authorized signature on the *Consent to Entry of Order*, below, affirmatively states and agrees that:

1. It admits the jurisdiction of the Administrator.
2. It voluntarily consents to the entry of this Order, and understands that this Order is a public record document. DCF does so solely for the purpose of resolving these matters and thereby avoiding the time and expense of litigation. DCF does not intend for its consent to this Order to be used for any other purpose.
3. It has agreed to resolve this matter through this Order.
4. It elects to expressly and permanently waive any and all rights under the Securities Act, the North Carolina Administrative Procedure Act (N.C. Gen. Stat. Chapter 150B), or any other law, to a *Notice of Hearing*, a hearing, the making of findings of fact and conclusions of law, and all proceedings before the Administrator or other entity to which it may

be entitled related to the subject of this Order, including any court of competent jurisdiction. DCF also expressly and permanently waives its rights to seek judicial review of this Order under N.C. Gen. Stat. Chapter 150B, to appeal this Order, or to otherwise challenge either the validity or entry of this Order in any court or administrative agency.

5. It has read the contents of this Order and has had the opportunity to consult with an attorney prior to the signing of this Order.

6. It freely signs this Order, and states and agrees that no threats, promises or offers of any kind, other than as stated in this document, have been made by the Administrator, Deputy Securities Administrator, any member of the staff of the Securities Division, or any agent or employee of the North Carolina Department of the Secretary of State in connection with the signing of this Order. This Order contains the entire agreement between the undersigned, and DCF understands its effect.

7. The execution, delivery and performance of this Order has been duly authorized and signed by a person who meets the statutory or other binding approval to sign on behalf of DCF as named in this Order.

8. The presentation of this Order to the Administrator and any subsequent discussion of the Order prior to its entry without DCF or its counsel being present shall not constitute an improper *ex parte* communication between the Administrator and the Securities Division or counsel for the Securities Division.

9. The Order shall become final upon entry.

NOW, THEREFORE, the Administrator, pursuant to and under all authority granted by the North Carolina Securities Act, based upon the forgoing Findings of Fact; Conclusions of Law; and Jurisdiction, Consent and Waiver, and with DCF's express written consent to the entry

of this Order (but without DCF admitting or denying any of the factual allegations or conclusions of law expressed herein), enters the following:

ORDER

1. DCF shall permanently cease and desist from violating and will fully comply with N.C. Gen. Stat. §78A-39(a1)(2)(a).
2. DCF shall permanently cease and desist from violating and will fully comply with N.C. Gen. Stat. §78A-9 and N.C. Gen. Stat. §78A-38(c).
3. DCF shall permanently cease and desist from violating and will fully comply with any other provisions of the North Carolina Securities Act or any administrative rules promulgated thereunder.
4. DCF shall pay a civil penalty in the amount of \$7,500.00 to the Securities Division within ten (10) business days of the date of entry of this Order.
5. DCF shall pay the Securities Division the sum of \$52,500.00 as reimbursement for investigative costs associated with this matter within ten (10) business days of the date of entry of this Order.
6. DCF shall not take any action, or make, or permit to be made, any public statement, denying, directly or indirectly, any finding in this Order or creating the impression that this Order is without factual basis.
7. This Order shall become final upon entry and shall be binding upon DCF and its successors and assigns with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

WITNESS MY HAND AND THE OFFICIAL SEAL of the North Carolina
Department of the Secretary of State, this the 10th day of JULY 2017.

Time of entry: 10:04 A..M.



ELAINE F. MARSHALL
SECRETARY OF STATE OF NORTH CAROLINA
and SECURITIES ADMINISTRATOR, by



KEVIN M. HARRINGTON
DEPUTY SECURITIES ADMINISTRATOR