

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034106201**

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

RE: Douglas J. Dannhardt, Respondent
General Securities Representative
CRD No. 1277814

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, Douglas J. Dannhardt ("Dannhardt" or "Respondent"), submit 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, 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

Dannhardt first became associated with a FINRA member firm in 1984, and he received his Series 7 registration in June 1984. During his career in the securities industry, Dannhardt has been associated with three different FINRA member firms. From March 1995 through December 2013, Dannhardt was employed by Prospera Financial Services, Inc. ("Prospera" or the "Firm"). He was registered with FINRA as a General Securities Representative of Prospera from April 1995 until January 2014, when the Firm filed a Form U5 on Dannhardt's behalf as a result of his voluntary resignation from the Firm. Dannhardt was also associated with the Firm as an Operations Professional from November 16, 2011 until December 2013. During the course of his career in the securities industry, Dannhardt also obtained his Series 63 license. Dannhardt is not currently associated with a FINRA member firm. Although Dannhardt is not currently associated with a FINRA member firm or registered with FINRA, he is subject to the jurisdiction of FINRA, pursuant to Article V, Section 4 of FINRA's By-Laws, which provides for a two-year period of retained jurisdiction over formerly registered persons. Dannhardt has no prior disciplinary history.

asset value.¹ Typically, Dannhardt would liquidate or reduce three to five positions in the accounts at issue during any given month, and would generally purchase or sell these positions in a series of transactions executed over several days or even weeks.

The number of trades, the performance, and the annualized cost-to-equity ratio for these accounts was as follows during the relevant time period:

- **IRA #1:** Dannhardt caused the execution of 321 sales of closed-end funds that had been held for less than one year, 257 of which had been held for less than three months, in this account. These transactions resulted in realized losses of \$63,449 and an annualized cost-to-equity ratio of 23.00%.
- **IRA #2:** Dannhardt caused the execution of 199 sales of closed-end funds that had been held for less than one year, 139 of which had been held for less than three months, in this account. These transactions resulted in realized losses of \$39,348 and an annualized cost-to-equity ratio of 26.82%.
- **IRA #3:** Dannhardt caused the execution of 181 sales of closed-end funds that had been held for less than one year, 120 of which had been held for less than three months, in this account. These transactions resulted in realized losses of \$33,794 and an annualized cost-to-equity ratio of 26.14%.

Each of the foregoing accounts was designated as having a “conservative” to “moderate” risk tolerance. By requiring a minimum return of 23% just to break even, Dannhardt’s closed-end fund trading strategy was unsuitable for these accounts. Accordingly, Dannhardt engaged in excessive and unsuitable trading and violated NASD Conduct Rule 2310 and FINRA Rule 2010.

¹ The vast majority of the securities held in the accounts at issue were closed-end mutual funds. A closed-end mutual fund is an investment company that invests in a specialized portfolio of securities and trades on a stock exchange. The price of a closed-end fund can fluctuate not only based on the changing values of the securities in the fund’s portfolio, but also based on market forces of supply and demand. Closed-end funds can thus trade at a premium or discount to the net asset value of the fund’s portfolio.

Improper Exercise of Discretion

NASD Conduct Rule 2510(b) provides that “[n]o member or registered representative shall exercise any discretionary power in a customer's account unless such customer has given prior written authorization to a stated individual or individuals and the account has been accepted by the member, as evidenced in writing by the member or the partner, officer or manager, duly designated by the member, in accordance with Rule 3010.”

During his association with the Firm, Dannhardt was not approved to exercise discretion in any customer accounts. During the relevant time period, Dannhardt routinely obtained authorization to acquire and liquidate a particular position in RB's accounts, but then executed these transactions in the days or weeks after he had obtained authorization. In order for an exercise of time-and-price discretion to be valid under FINRA Rules and Prospera's Written Supervisory Procedures, however, a trade must be executed on the same day that authorization was received.

By executing trades outside of the same-day window required for the exercise of time-and-price discretion without first obtaining written authorization by the customer and written acceptance of this arrangement by the Firm, Dannhardt violated NASD Conduct Rule 2510(b) and FINRA Rule 2010.

Acceptance of Third-Party Discretion Without Written Authorization

As set forth above, NASD Rule 2510(b) requires, in pertinent part, that no registered representative shall exercise any discretionary power in a customer's account unless the customer has given prior written authorization to a stated individual and the account has been accepted as discretionary by the firm.

During the relevant time period, Dannhardt exercised discretionary authority in RB's accounts by accepting third-party authorization for the vast majority of the transactions effected in these accounts. Specifically, Dannhardt accepted orders for RB's accounts from RB's third party bookkeeper without written authorization. Although RB had verbally authorized Dannhardt to accept third-party authorization from his bookkeeper, applicable FINRA Rules and Prospera's Written Supervisory Procedures required this authorization to be in writing.

By accepting authorization for trades from a third party without first obtaining written authorization by the customer and written acceptance of this arrangement by the Firm, Dannhardt violated NASD Conduct Rule 2510(b) and FINRA 2010.

B. I also consent to the imposition of the following sanctions:

A fine of \$25,000, and a nine-month suspension in all capacities from association with any FINRA member firm.

The fine shall be due and payable either immediately upon reassociation with a member firm following the nine-month suspension noted above, 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.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

I understand that if I am barred or suspended from associating with any FINRA member, I become 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, I 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 herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- 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, I specifically and voluntarily waive any right to claim bias or prejudice 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 acceptance or rejection of this AWC.

I further specifically and voluntarily waive 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.

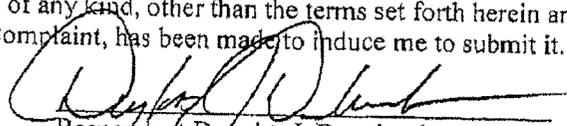
OTHER MATTERS

I understand that:

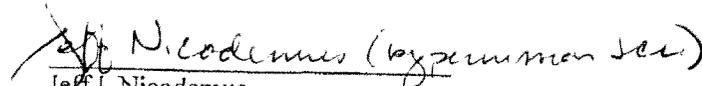
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. I 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. I 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 my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I 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 or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

3/6/15
Date


Respondent Douglas J. Dannhardt

Reviewed by:


Jeff I. Nicodemus (by permission sec)
Jeff I. Nicodemus
Counsel for Respondent
Cobb Martinez Woodward PLLC
1700 Pacific Avenue, Suite 3100
Dallas, TX 75201

Accepted by FINRA:

4/2/2015
Date

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


Michael P. Manly
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