

1
2
3
4
5
6
7

**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:

Order No.: S-17-2276-18-CO01

CONSENT ORDER

William Derrington,

Respondent.

8
9
10
11
12
13
14
15

INTRODUCTION

On September 28, 2018, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, to Deny Future Registrations, to Impose a Fine, and to Charge Costs (“Statement of Charges”), Order S-17-2276-18-SC01, against Respondent William Derrington. Pursuant to the Securities Act of Washington, Chapter 21.20 RCW, the Securities Division and Respondent William Derrington hereby enter into this Consent Order in settlement of the matters alleged herein. Respondent William Derrington neither admits nor denies the Findings of Fact and Conclusions of Law stated below.

16
17

FINDINGS OF FACT

Respondent

18
19
20
21
22

1. William Derrington (“Derrington”) is a Washington resident. Since 1991, Derrington has been registered in the securities industry in Washington in various capacities, most recently as an investment adviser representative with Royal Fund Management LLC. During the time relevant to this action, Derrington was registered in Washington with KCD Financial, Inc., as an investment adviser representative and securities salesperson.

23 //

1 **Related Parties**

2 2. Royal Fund Management, LLC (CRD #144434) is a registered investment adviser. Derrington
3 has worked for RFM as a registered investment adviser representative since September 2015.

4 3. KCD Financial, Inc. (“KCD,” CRD #127473) is a registered investment adviser and broker-
5 dealer. Derrington worked for KCD as a securities salesperson and investment adviser representative from
6 December 2006 to December 2013.

7 **Nature of the Conduct**

8 4. In most jurisdictions, securities laws for financial professionals (specifically investment
9 adviser representatives and securities salespersons) contain specific prohibitions against borrowing money
10 from clients, due to the potential for conflicts of interest. For instance, the client who loaned the money might
11 expect more favorable treatment for their account to the detriment of the financial professional’s other clients,
12 and the financial professional who took the loan from the client could be inclined to treat that client more
13 favorably. Alternatively, if the financial professional was unable to repay the loan, they might ignore calls
14 from the client to avoid discussing the loan, to the detriment of the client and the client’s account.

15 5. In early 2009, Derrington solicited a loan from a client (“Client A”), purportedly on behalf of
16 his daughter, without disclosing the loan to KCD or obtaining KCD’s approval to do so. Client A, a
17 Washington resident, was a broker-dealer and securities salesperson customer of Derrington and KCD.
18 Derrington’s daughter was in graduate school at the time.

19 6. Client A did not personally know Derrington’s daughter and did not directly interact with her
20 about the loan, instead conducting the transaction through Derrington himself. Client A believed that she was
21 making the loan to Derrington himself and that Derrington, not his daughter, would be responsible for
22 repaying her the money.

1 7. Client A wrote three checks made out to Derrington’s daughter in February, March, and April
2 2009, with the checks totaling \$26,600. Derrington’s daughter represented to the Division that she used the
3 money for rent and credit card payments, but did not provide any records which would substantiate those
4 payments.

5 8. Over the next five years, neither Derrington nor his daughter made any effort to repay the loan
6 to Client A. In 2014, Client A filed a lawsuit against Derrington and his daughter for failing to repay the loan.
7 Derrington and his daughter failed to respond to the lawsuit, and Client A obtained a default judgment against
8 them for \$38,048.20 in January 2015. The judgment was satisfied in May 2017 by Derrington’s title insurance
9 company after he sold his house.

10 9. According to KCD’s current chief compliance officer, the firm would be very unlikely to
11 approve the loan transaction described above regardless of whether the loan was made to Derrington
12 personally or to his daughter, due to the potential for conflicts of interest. For instance, the borrower might
13 treat the client more favorably than their other clients in exchange for the loan, or might avoid the client’s
14 calls if they are unable to repay the loan. KCD’s chief compliance officer indicated that the concerns are
15 essentially identical whether the loan is made to the financial professional personally or to their immediate
16 family member, and that the firm would have expected its personnel to disclose the type of transaction
17 described above.

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

19 **CONCLUSIONS OF LAW**

20 1. Under RCW 21.20.110(1)(e)(iii), the Securities Administrator may deny, suspend, revoke,
21 restrict, condition, or limit any application or registration of any broker-dealer, salesperson, investment
22 adviser representative, or investment adviser, upon a finding that the applicant or registrant has engaged in
23 dishonest or unethical practices in the securities or commodities business.

1 2. By borrowing money from Client A, either on his own behalf or on behalf of his daughter,
2 Derrington engaged in dishonest and unethical practices as defined by RCW 21.20.110(g) and WAC 460-
3 22B-090(1).

4 3. By failing to disclose the loan to his firm, Derrington engaged in dishonest and unethical
5 practices as defined by RCW 21.20.110(g) and WAC 460-22B-090, specifically the prohibitions on
6 nondisclosure and manipulative or deceptive practices. Derrington also violated FINRA Rule 2010, thus
7 violating Washington law as provided in WAC 460-22B-090(19).

8 4. Based on these violations and pursuant to RCW 21.20.110(1)(g), the Securities Administrator
9 may by order revoke Derrington's registration and deny future registrations. The Securities Administrator
10 may also impose a fine and charge the costs of investigation, under RCW 21.20.110(1) and RCW 21.20.110(7)
11 respectively.

12 **CONSENT ORDER**

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

14 IT IS AGREED AND ORDERED that Respondent William Derrington's securities salesperson
15 registration is revoked.

16 IT IS FURTHER AGREED AND ORDERED that any broker-dealer, investment adviser, securities
17 salesperson or investment adviser representative registration applications that William Derrington may file
18 with the Securities Division in the future will be denied.

19 IT IS FURTHER AGREED AND ORDERED that Respondent William Derrington shall cease and
20 desist from engaging in dishonest and unethical practices as defined by RCW 21.20.110(g) and WAC 460-
21 22B-090.

22 IT IS FURTHER AGREED AND ORDERED that Respondent William Derrington shall pay a fine in
23 the amount of \$500 prior to the entry of this Consent Order.

1 IT IS FURTHER AGREED that in consideration of the foregoing, Respondent William Derrington
2 withdraws his request for a hearing and waives his right to a hearing in this matter pursuant to RCW 21.20.440
3 and Chapter 34.05 RCW.

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

5 IT IS FURTHER AGREED that Respondent William Derrington enters into this Consent Order freely
6 and voluntarily and with a full understanding of its terms and significance.

7

8 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

9

10 Signed this 29th day of March, 2019.

11

12

Signed by:

13

14 /s
William Derrington

15

16

Signed by:

17

18 /s
Matthew Lind, Attorney for William Derrington
19 WSBA #37179

20

21

22

23

1 SIGNED and ENTERED this 18th day of April, 2019.

2
3
4 

5
6 William M. Beatty
Securities Administrator

7
8 Approved by:

Presented by:

9
10 

11
12 

13 Suzanne Sarason
14 Chief of Enforcement

15 Adam N. Yeaton
16 Financial Legal Examiner

17
18 Reviewed by:

19
20 

21
22 Jack McClellan
23 Financial Legal Examiner Supervisor