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-SC01

William Derrington;

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO REVOKE REGISTRATION, TO DENY FUTURE REGISTRATIONS, TO IMPOSE A FINE, AND TO

Respondent

CHARGE COSTS

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THE STATE OF WASHINGTON TO:

William Derrington (CRD #1325480)

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent William Derrington has violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order against the Respondent, pursuant to RCW 21.20.110, revoking registration, denying future securities registrations, charging costs, and imposing a fine. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondent

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.

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STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO REVOKE REGISTRATION, TO DENY FUTURE REGISTRATIONS, TO IMPOSE A FINE, AND TO CHARGE COSTS 1

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Related Parties

- 2. Royal Fund Management, LLC (CRD #144434) is a registered investment adviser. Derrington has worked for RFM as a registered investment adviser representative since September 2015.
- 3. KCD Financial, Inc. ("KCD," CRD #127473) is a registered investment adviser and broker-dealer. Derrington worked for KCD as a securities salesperson and investment adviser representative from December 2006 to December 2013.

Nature of the Conduct

- 4. In most jurisdictions, securities laws for financial professionals (specifically investment adviser representatives and securities salespersons) contain specific prohibitions against borrowing money from clients, due to the potential for conflicts of interest. For instance, the client who loaned the money might expect more favorable treatment for their account to the detriment of the financial professional's other clients, and the financial professional who took the loan from the client could be inclined to treat that client more favorably. Alternatively, if the financial professional was unable to repay the loan, they might ignore calls from the client to avoid discussing the loan, to the detriment of the client and the client's account.
- 5. In early 2009, Derrington solicited a loan from a client ("Client A"), purportedly on behalf of his daughter, without disclosing the loan to KCD or obtaining KCD's approval to do so. Client A, a Washington resident, was a broker-dealer and securities salesperson customer of Derrington and KCD. Derrington's daughter was in graduate school at the time.
- 6. Client A did not personally know Derrington's daughter and did not directly interact with her about the loan, instead conducting the transaction through Derrington himself. Client A believed that she was making the loan to Derrington himself and that Derrington, not his daughter, would be responsible for repaying her the money.

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- 7. Client A wrote three checks made out to Derrington's daughter in February, March, and April 2009, with the checks totaling \$26,600. Derrington's daughter represented to the Division that she used the money for rent and credit card payments, but did not provide any records which would substantiate those payments.
- 8. Over the next five years, neither Derrington nor his daughter made any effort to repay the loan to Client A. In 2014, Client A filed a lawsuit against Derrington and his daughter for failing to repay the loan. Derrington and his daughter failed to respond to the lawsuit, and Client A obtained a default judgment against them for \$38,048.20 in January 2015. The judgment was satisfied in May 2017 by Derrington's title insurance company after he sold his house.
- 9. According to KCD's current chief compliance officer, the firm would be very unlikely to approve the loan transaction described above regardless of whether the loan was made to Derrington personally or to his daughter, due to the potential for conflicts of interest. For instance, the borrower might treat the client more favorably than their other clients in exchange for the loan, or might avoid the client's calls if they are unable to repay the loan. KCD's chief compliance officer indicated that the concerns are essentially identical whether the loan is made to the financial professional personally or to their immediate family member, and that the firm would have expected its personnel to disclose the type of transaction described above.

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

CONCLUSIONS OF LAW

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

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- 2. By borrowing money from Client A, either on his own behalf or on behalf of his daughter, Derrington engaged in dishonest and unethical practices as defined by RCW 21.20.110(g) and WAC 460-22B-090(1).
- 3. By failing to disclose the loan to his firm, Derrington engaged in dishonest and unethical practices as defined by RCW 21.20.110(g) and WAC 460-22B-090, specifically the prohibitions on nondisclosure and manipulative or deceptive practices. Derrington also violated FINRA Rule 2010, thus violating Washington law as provided in WAC 460-22B-090(19).
- 4. Based on these violations and pursuant to RCW 21.20.110(1)(g), the Securities Administrator may by order revoke Derrington's registration and deny future registrations. The Securities Administrator may also impose a fine and charge the costs of investigation, under RCW 21.20.110(1) and RCW 21.20.110(7) respectively.

NOTICE OF INTENT TO REVOKE REGISTRATION

Pursuant to RCW 21.20.110(1)(g), and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to revoke the investment adviser representative registration of Respondent William Derrington.

NOTICE OF INTENT TO DENY FUTURE REGISTRATION

Pursuant to RCW 21.20.110(1)(e)(iii) and RCW 21.20.110(1)(g), and based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that any future application for broker-dealer, securities salesperson, investment adviser, or investment adviser representative registration of Respondent William Derrington shall be denied.

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO REVOKE REGISTRATION, TO DENY FUTURE REGISTRATIONS, TO IMPOSE A FINE, AND TO CHARGE COSTS

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.110(4), and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent William Derrington shall be liable for and shall pay a fine of \$5,320.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.110(7), and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondent William Derrington shall be liable for and shall pay the costs, fees, and other expenses incurred in the administrative investigation and hearing of this matter, in an amount not less than \$1,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. The Respondent, William Derrington, may make a written request for a hearing as set forth in the Notice of Opportunity to Defend and Opportunity for Hearing accompanying 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 to deny future registrations, impose any fines sought, and to charge any costs sought.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. Respondent William Derrington may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying 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

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6	Signed and Entered this <u>28th</u> day of <u>September</u>	<u>,</u> 2018.
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9		William M. Beatty Securities Administrator
0	Approved by:	Presented by:
11	An Ellen	Odom Yeoton
12	Suzanne Sarason	Adam N. Yeaton
13	Chief of Enforcement	Financial Legal Examiner
14	Reviewed by:	
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16	Jack McClellan	
17	Financial Legal Examiner Supervisor	
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