

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF: PRIMESOLUTIONS SECURITIES, INC.) File No. 1300447
(CRD NO. 46017))
_____)

NOTICE OF HEARING

TO THE RESPONDENT:

PrimeSolutions Securities, Inc.
c/o Karl E. May, Esq.
Kadish, Hinkel & Weibel
1360 E. Ninth St., Ste. 400
Cleveland, OH 44114

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953, [815 ILCS 5/1 *et seq.*] (the "Act") and 14 Ill. Adm. Code 130, Subpart K (the "Code"), a public hearing will be held at 421 E. Capital Ave., 2nd Fl., Springfield, Illinois, 62701, on the 20th day of April, 2016 at the hour of 10:00 a.m. or as soon thereafter as counsel may be heard, before Jon K. Ellis or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order should be entered against Respondent, PrimeSolutions Securities, Inc., granting such relief as may be authorized under the Act, including, but not limited to, imposition of an Order of Prohibition, pursuant to Section 11.F(1) of the Act.

The grounds for such proposed action are as follows:

1. PrimeSolutions Securities, Inc. ("PrimeSolutions") is a corporation with a principal place of business at 17601 West 130th Street, Suite 7, Cleveland, Ohio.
2. PrimeSolutions was registered as a dealer in Illinois from February 24, 2005 to November 12, 2015 and as an investment adviser in Illinois from April 11, 2013 to November 12, 2015.
3. PrimeSolutions was registered as a broker-dealer with the Financial Industry Regulatory Authority ("FINRA") from January 25, 1999 to December 9, 2015 and registered as a broker-dealer with the Securities and Exchange Commission ("SEC") from January 25, 1999 to January 11, 2016.

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4. As a dealer and investment adviser registered in the State of Illinois, PrimeSolutions had a duty under the Illinois Securities Act to deal fairly with customers, have ethical sales practices, and meet high standards of professional conduct. In particular, PrimeSolutions was required to make suitable investment strategy recommendations based upon reasonable beliefs and documented knowledge about customer investment profiles.
5. PrimeSolutions had a duty to supervise any employees, independent contractors, and registered representatives in order to ensure compliance with applicable Federal, State, and self-regulatory organization laws, rules, and regulations. Specifically, PrimeSolutions was required to create, maintain, and enforce reasonable written supervisory procedures and to create and test internal controls to ensure the efficacy of the written supervisory procedures:
6. PrimeSolutions also had a duty to conduct a reasonable investigation concerning its private placement offerings and the issuers' representations about those offerings. As part of that duty, PrimeSolutions could not solely rely on the information provided by the issuer and its counsel in lieu of conducting its own reasonable investigation. And, if PrimeSolutions was an affiliate of the issuer the duty to investigate would have been even greater, because the affiliation would have raised expectations by customers that the dealer had special expertise concerning the offering.
7. PrimeSolutions was required to maintain certain books and records evidencing its compliance with applicable securities laws, rules, and regulations.
8. PrimeSolutions' written supervisory policy, dated October 23, 2013, included the following provisions:
 - A. RRs [or Registered Representatives] must have a reasonable basis for believing that a recommended transaction or investment strategy involving a security is suitable for the customer. Recommendations should be based on information obtained through reasonable diligence to ascertain the customer's investment profile which is recorded in the account records, generally at the time the account is opened and updated when necessary.
 - B. It is important to document suitability, particularly where there may be differing investment profiles when a customer has multiple accounts and when recommending a complex product.
 - C. The designated supervisor is responsible...for reviewing the suitability of recommendations. The responsibility includes: reviewing customer orders for suitability (i.e., reviewing customer new account information); reviewing suitability documentation recorded by the registered representative and pertaining to a recommended investment or strategy; conferring with the registered

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representative regarding suitability questions; and training registered representatives regarding suitability obligations.

- D. Documentation provides support for the RR and [The Firm] [sic] in the event of a future question about suitability, either from a regulator or in a civil (court or arbitration) context.
 - E. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy and [The Firm]'s [sic] or RR's familiarity with the security or investment strategy. Reasonable diligence must provide an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.
 - F. Private placements and offerings [sic] are subject to strict requirements that are imposed on the issuer and those who sell the issue. The requirements for offering a specific private placement will be announced at the time the private placement becomes available for sale. It is important to understand and comply with the requirements for each offering.
 - G. Due diligence will be conducted for each private placement issue to be offered by [The Firm] [sic] and is documented in the file for the private placement. Outside counsel or another third party may be engaged to assist in due diligence and other aspects of the private placement offering.
 - H. RRs must not deviate from written private placement memorandum information or other pre-approved information when discussing private placements with potential investors. Written notes of conversations with offerees (and their purchaser representatives) should be made, dated and placed in the customer's file.
9. In addition, PrimeSolutions' procedures included the following:
- A. PrimeSolutions documented customer investment profiles on new account forms. The new account forms included financial and investment objective information to determine, among other things, what securities to recommend to customers, including whether to recommend alternative investments and the amount of any such recommendation.
 - B. Rationales for investment strategies and recommendations were documented on Agent Report forms prepared by registered representatives and reviewed by a designated securities principal who had a Series 24 license.

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- C. PrimeSolutions supervised its registered representatives through, among other things, email monitoring, outside business activity reporting forms, private securities transaction reporting/selling away forms, having registered representatives complete self-audit forms, completion of annual anti-money laundering forms, and an annual email and social media certification from its registered representatives. PrimeSolutions also conducted branch office audits on a schedule approved by FINRA.
10. On or about October 22, 2013, the Department conducted an on-site compliance audit of the Chicago branch office of PrimeSolutions.
11. Upon review of the documentation provided to the Department, a preliminary determination was made that certain documents were missing or did not exist.
12. In response to the Department's preliminary determination, PrimeSolutions provided additional information.
13. The Department reviewed all of the information provided and made the following final determinations:
- A. In the Chicago branch office, PrimeSolutions failed to have a reasonable basis for certain transactions which was based on account records. In eight transactions, the documentation available at the time of the investments and provided to the Department indicated that the issuers' stated suitability requirements were not met at the time the transactions were recommended.
 - B. In the Chicago branch office, PrimeSolutions failed to enforce written supervisory procedures which required suitability documentation and a review of that documentation. As a result, the above-mentioned eight transactions were approved. PrimeSolutions asserted that customers verbally provided additional information which indicated that five of the eight transactions were suitable. However, (i) PrimeSolutions could not provide contemporaneous documentation that they had such knowledge at the time the investments were made or (ii) PrimeSolutions provided additional documentation but it contradicted the contemporaneous documentation which was previously provided to the Department.
 - C. In the Chicago branch office, PrimeSolutions failed to update account records for certain customers and failed to enforce written supervisory procedures which required that the information be updated. For five customers invested in alternative investments, a representative and supervisor asserted that the customers had provided information at the time the investments were made indicating that their financial condition had significantly improved. However,

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PrimeSolutions did not obtain updated "Client Account and Profile" forms at the time the investments were recommended and approved. Additionally, for two customers, there were errors in the account records, but PrimeSolutions did not correct the errors.

- D. In the Chicago branch office, a representative and supervisor recommended and approved certain transactions prior to obtaining an adequate understanding of the investments. In five transactions, a registered representative asserted on documents signed by customers that the risk involved was not as high as stated in the prospectuses. Furthermore, for three alternative investments, a registered representative and supervisor misunderstood, or were confused by, the issuers' stated suitability requirements.
- E. In the Chicago branch office, PrimeSolutions performed minimal independent due diligence for private placements offered by two issuers, one of which was affiliated with PrimeSolutions. In 2013, five investors took part in an offering issued by a certain company which was in the business of recovering usable catalyst, a by-product of the oil refining process and otherwise a waste material. The investments were illiquid. The development stage company had substantial losses and debts and was engaged in a highly technical and specialized enterprise. That information was disclosed in the offering document. The extent of PrimeSolutions' independent investigation consisted of site visits, communication with management, and document review and preparation by PrimeSolutions' legal counsel. In 2012, two investors took part in an offering issued by a certain clinical stage pharmaceutical company focused on discovering, developing, and commercializing treatments for serious infectious diseases. The investments were illiquid. The development stage company had substantial losses and was engaged in a highly scientific and specialized enterprise. That information was disclosed in the offering document. The extent of PrimeSolutions' independent investigation consisted of communication with management, participating in a phone call with the company's management and an outside physician, review of industry articles, and document review by PrimeSolutions' legal counsel.
14. Rule 850 of the Rules and Regulations under the Illinois Securities Law of 1953, 14 Ill. Adm. Code 130, *et seq.*, provides, *inter alia*, that no dealer shall effect transactions for any customer's account which are unsuitable in view of the financial resources of the customer.
15. Section 8.E.1(e) provides, *inter alia*, that the registration of a dealer may be suspended or revoked if the Secretary of State finds that the dealer has failed to reasonably supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of the Act or has failed to maintain and

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enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonably designed to achieve compliance with applicable securities laws and regulations.

16. Section 8.E.1(f) provides, *inter alia*, that the registration of an investment adviser may be suspended or revoked if the Secretary of State finds that the investment adviser has failed to reasonably supervise the advisory activities of any of its investment adviser representatives or other employees and the failure has permitted or facilitated a violation of Section 12 of the Act.
17. Section 8.E.1(q) provides, *inter alia*, that the registration of a dealer or investment adviser may be suspended or revoked if the Secretary of State finds that the dealer or investment adviser has failed to maintain the books and records required under the Act or rules or regulations promulgated under the Act.
18. Section 12.A of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to offer or sell any security except in accordance with the provisions of the Act.
19. Section 11.F(1) of the Act provides, *inter alia*, that the Secretary of State may suspend or revoke the registration of a dealer, salesperson, investment adviser, or investment adviser representative, prohibit or suspend any person from offering or selling any securities in this State, prohibit or suspend a dealer or salesperson from engaging in the business of selling or offering for sale securities, prohibit or suspend a person from acting as an investment adviser or investment adviser representative, impose any fine for violation of the Act, or issue an order of public censure after an opportunity for hearing.
20. By virtue of the foregoing, Respondent is subject to sanctions pursuant to Sections 8.E.1(e), (f), and (q) of the Act and has violated Section 12.A of the Act and Rule 850 of the Rules and Regulations under the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Code to file an answer to the allegations outlined above or other responsive pleading within thirty (30) days of the receipt of this Notice. A failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a hearing.

You may be represented by legal counsel, present evidence, cross-examine witnesses and otherwise participate. However, a failure to appear shall constitute default.

Delivery of Notice to the designated representative of the Respondent constitutes service upon such Respondent.

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ENTERED: This 10th day of February, 2016.



Jesse White
Secretary of State
State of Illinois

Attorney for the Secretary of State:

Shannon Bond
Illinois Securities Department
421 E. Capitol Ave., 2nd Fl.
Springfield, Illinois 62701
Telephone: (217) 524-0648