STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: RICHARD F. FARRELL	)	FILE NO. 0800095

NOTICE OF HEARING

TO THE RESPONDENT: Richard F. Farrell
(CRD#:2314096)
3106 26th Avenue Court
Moline, Illinois 61265

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 25th day of June, 2008 at the hour of 10:00 a.m. or as soon as possible thereafter, before James L. Kopecky, Esq., or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking Richard F. Farrell's (the "Respondent") registration as a salesperson and investment adviser representative in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson and investment adviser representative in the State of Illinois pursuant to Section 8 of the Act until April 10, 2007

2. That on October 11, 2007, the NEW YORK STOCK EXCHANGE LLC issued NYSE HEARING BOARD DECISION (Decision) regarding FILE NO. 07-154 which sanctioned the Respondent as follows:

   a. censure ; and

b. five-year bar from membership, allied membership, approved person status, and from employment or association in any capacity with any member or member organization.

3. That the Decision found:

Background and Jurisdiction

a. The Respondent was born in January 1947. He first became employed in the securities industry in or about January 1993 as a representative trainee with the Moline, Illinois branch office of Baird. He became a registered representative at the Firm in or about March 1993. In or about September 1996, he then became the Branch Office Manager ("BOM") at the Firm's Moline, Illinois branch office. In or about February, 2005, he relocated to the Firm branch office at Phoenix, Arizona, where he was employed as BOM until his employment termination from the Firm on July 20, 2005. He then was employed as a registered representative at member firm A from July 2005 to April 2007.

b. On or about August 3, 2006, pursuant to NYSE Rule 476, Enforcement initiated a disciplinary action and issued a Charge Memorandum against Respondent.

Procedural History

c. The Charge Memorandum alleged numerous violations of NYSE rules in connection with Respondent's receipt of $150,000 from an elderly couple, who were both friends of the Respondent and customers of Respondent's member firm employer, and the use of such $150,000 by Respondent to discharge his obligations under a mortgage foreclosure on commercial real property that Respondent owned personally. Enforcement charged Respondent with the following:

Engaging in conduct inconsistent with just and equitable principles of trade in violation of NYSE Rule 476(a)(6) by obtaining funds from customers of his member firm employer for an investment and/or loan without disclosing material facts and/or without providing any written memorialization reflecting its terms.

II. Engaging in conduct inconsistent with just and equitable principles of trade in violation of NYSE Rule 476(a)(6) by obtaining funds from customers of his member firm employer without disclosing the investment and/or loan to, and without receiving the prior approval of, his member firm employer.

III. Engaging in conduct inconsistent with just and equitable principles of trade in violation of NYSE Rule 476(a)(6) by soliciting and obtaining funds from customers of his member firm employer to pay a mortgage on a commercial property that he owned.

d Respondent submitted an Answer on or about August 28, 2006 by which he admitted some of the allegations in the Charge Memorandum, denied others, and denied the charges.

e. On or about November 21, 2006, Enforcement filed a Motion for Summary Judgment seeking judgment as a matter of law against Respondent on all three charges contained in Enforcement's Charge Memorandum.

f. On or about December 8, 2006, Respondent submitted a response in opposition to Enforcement's Motion for Summary Judgment.

g. On or about February 5, 2007, the Hearing Board issued an Order granting Enforcement's Motion for Summary Judgment on all charges contained in the Charge Memorandum. The Hearing Board determined that there were no genuine issues of material fact and that Enforcement was entitled to judgment as a matter of law on all three charges. A copy of the Hearing Board's Order is attached and made part of this Stipulation and Consent as Exhibit A.

h. On or about April 30, 2007, the Hearing Board issued an Opinion supporting its earlier Order, dated February 5, 2007, finding summary judgment in favor of Enforcement. A copy of the Opinion is attached and made a part of this Stipulation and Consent as Exhibit B.

i. In its Opinion, the Hearing Officer took the following facts as true:

i) Respondent became a registered representative with Baird in 1993, and became Branch Office Manager of the Firm's Moline, Illinois branch office in 1996, a position he maintained throughout the period in question.

ii) Respondent was the registered representative assigned by the Firm to handle the accounts of customers, Mr. RW and Mrs. GW ("the Ws"), from September 21, 1995 until April 2005. Aside from his professional relationship with the Ws, Respondent shared with them a personal relationship for over twenty-five years at the time in question.

iii) In November of 2004, Mr. RW was 99 years old, while Mrs. GW was 90 years old.

iv) On or around September 21, 1995, the Ws had each opened their own trust account for the benefit of the other (the "Trust Accounts"). The Ws were conservative investors and therefore the Trust Accounts each had a sole investment objective of income with an emphasis on safety of principal.

v) In addition to working at Baird, Respondent, along with his wife, owned a 100% beneficial interest of a trust, which owned a commercial building in Moline, Illinois, doing business under the name ABC Company ("ABC Company"). Respondent held a mortgage loan for ABC Company, which included a balloon clause making payment due on or around October 1, 2004. Collateral for the mortgage was the commercial real property held by ABC Company.

vi) On November 10, 2004, Respondent's mortgage lender filed a complaint in the Court of the 14th Judicial Circuit, Rock Island County, Illinois (the "Court") indicating that the outstanding principal, some $209,698.54, had become due on October 1, 2004, and seeking foreclosure on the mortgage.

vii) As the Ws' registered representative, Respondent was aware that in August 2004, Mrs. GW redeemed an XYZ Demand Note valued at $66,405.71, and that Mr. RW also redeemed an XYZ Demand Note worth $60,766.13.

viii) Subsequently, on or around November 24, 2004, Respondent set up a meeting with the Ws to discuss how the newly available cash should be invested. At that meeting, Respondent discussed with the Ws various securities that they had historically invested in, including CD's, corporate bonds, and municipal bonds. After Mr. RW expressed dissatisfaction with the interest rates on such securities, Respondent began to present the Ws with alternative investments such as closed-end funds, which the Ws had also purchased in the past. Respondent additionally raised the subject of mortgage markets and mentioned that he was looking to refinance a mortgage on commercial property that he owned, at an interest rate of 7%.

The commercial property that Respondent was referring to was the same property held by ABC Company. At no point did Respondent discuss any of the risks associated with investing in such property, nor did he disclose to the Ws that he had defaulted on ABC Company mortgage, and that there was a foreclosure action pending on the property. Mr. RW expressed interest in a rate of 7%. The meeting then concluded with Respondent telling the Ws to consider the options discussed that day, and that they would meet again soon.

ix) Respondent next met with the Ws two days later, on or around November 26, 2004. At this meeting the Ws decided to pursue the interest rate of 7% on the refinanced mortgage on Respondent's commercial property. Mr. and Mrs. W each decided to issue a check for $75,000 - a total of $150,000. The two checks were bank checks, one from a bank account of a trust for Mr. RW, and the other from a bank account of a trust for Mrs. GW. Respondent filled out each check, making payment due to "ABC Company," and the Ws then signed their respective checks. Additionally, at the meeting on November 26, 2004, when Mrs. GW signed her check, she realized that she was unsure of the balance in the account from which she was drawing funds. Therefore, she later authorized Baird to issue a check from her Trust Account, in the amount of $75,000, payable to the account she used to issue Respondent her November 26, 2004 check in the same amount. While Respondent did not write the check out personally, as he did on the 26th, he did inform Baird to issue the check on Mrs. GW's behalf.

x) At a subsequent meeting on or about November 30, 2004, Respondent followed up with the Ws, making sure that they were comfortable with the arrangement and answering any questions they might have had. At no point did Respondent provide the Ws with any documentation or record of the transaction or its terms, including receipt of funds, interest rate, or repayment schedule. In fact, though specific terms of the transaction were agreed upon, it seems that neither the Ws nor Respondent were ever clear on whether the transaction was a loan by the Ws to Respondent, or an investment by the Ws. The transaction was only described in vague terms as a "stream of revenue." Though Respondent viewed the transaction as a loan, it seems clear that the Ws saw it as an investment.

xi) On December 4, 2004, Respondent deposited the Ws' checks into the ABC Company bank account. Respondent then used the Ws' $150,000 to discharge his obligation on the foreclosed mortgage, and the mortgage lender in turn voluntarily dismissed his action. Though Respondent admits that he obtained the $150,000 from the Ws for the specific purpose of paying off his mortgage, he never disclosed to the Ws that the mortgage was in default or foreclosure.

xii) Though Respondent was aware of Baird's policy requiring disclosure and Firm approval of any business transactions between registered representatives and clients that are outside the scope of employment, Respondent never disclosed the transaction with the Ws to Baird.

However, Baird did discover the transaction when a letter from the Ws' attorney was sent to Respondent at Baird, demanding repayment of the $150,000. Upon receipt of the complaint, Baird began an investigation, and eventually refunded the Ws their $150,000 plus 7% interest, and made Respondent responsible for reimbursing Baird. Additionally, on April 19, 2005, Respondent was disciplined by Baird, removed from his position as Branch Office Manager, suspended for two weeks, and fined $10,000.

j. The Hearing Board concluded its Opinion by finding Respondent guilty of Charges I, II and III contained in Enforcement's Charge Memorandum and set forth in Paragraph c above.

4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson or investment adviser representative may be revoked if the Secretary of State finds that such salesperson or investment adviser representative has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.

5. That NYSE is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.

6. That Section 8.E(3) of the Act provides, inter alia, withdrawal of an application for registration or withdrawal from registration as a salesperson or investment adviser representative, becomes effective 30 days after receipt of an application to withdraw or within such shorter period of time as the Secretary of State may determine. If no proceeding is pending or instituted and withdrawal automatically becomes effective, the Secretary of State may nevertheless institute a revocation or suspension proceeding within 2 years after withdrawal became effective and enter a revocation or suspension order as of the last date on which registration was effective.

7. That by virtue of the foregoing, the Respondent's registration as a Salesperson and investment adviser representative in the State of Illinois is subject to revocation pursuant to Sections 8.E(1)(j) and 8.E(3) of the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 ILL. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, can be found at http://www.cyberdriveillinois.com/departments/securities/lawrules.html or available upon request.

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

Dated: This 8th day of May 2008.

Jesse White

JESSE WHITE
Secretary of State
State of Illinois

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