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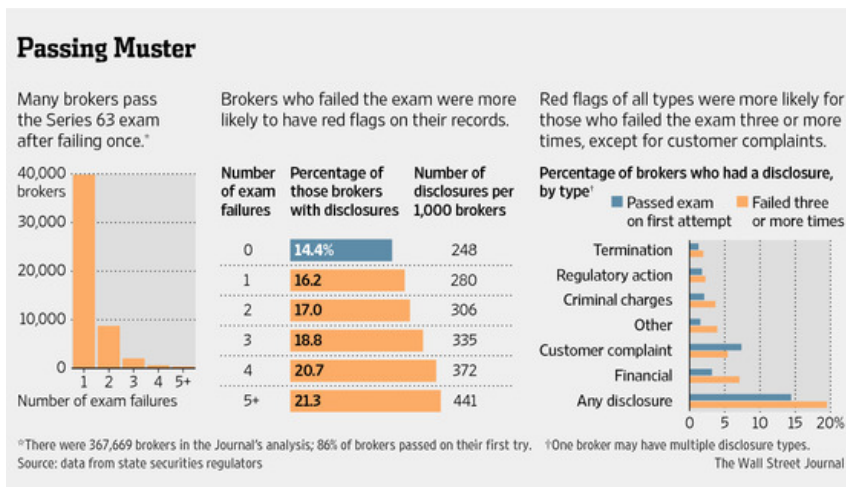
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MARKETS

Stockbrokers Who Fail Test Have Checkered Records

The More Times a Qualifying Exam Was Retaken, the Higher the Average Total of Black Marks



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More than 51,500 stockbrokers failed a basic exam needed to sell securities at least once, according to data that Wall Street regulators don't disclose to investors, and those who repeatedly failed have on average worse disciplinary records.

The more times a broker failed, the higher the average total of black marks was, such as criminal charges and firings, a Wall Street Journal analysis of the data found. Those who failed the test more than twice, for example, were 77% more likely to report a felony or

financial-related misdemeanor than brokers who passed the exam on the first try, and about 55% more likely to have been terminated.

Securities regulators, notified this month of the Journal analysis, said they would consider giving more information to investors. The disclosure of exam failures to investors "is a close question that we intend to review," said Richard Ketchum, chairman and chief executive of the Financial Industry Regulatory Authority.

These broker tests are the Wall Street equivalent of bar examinations for lawyers: They seek to determine whether securities salespeople dealing directly with investors are qualified to do their jobs.

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To sell securities to the public, a potential broker usually must pass an exam given by Finra called a Series 7, as well as a test set by state regulators. The Journal analyzed data from a state-set test, called a Series 63 exam. Finra declined to allow access to its database of results on the Series 7 exam.

COULD YOU QUALIFY TO BE A STOCKBROKER? »

These sample questions give a flavor of the subjects tested in the entry-level exams, such as the Series 63 and Series 65. Take the quiz.

- 3 Under the Uniform Securities Act, 'sales' include which of the following?
- I. Giving a security as a bonus for a securities purchase
 - II. Making a bona fide loan of stock
 - III. Entering into a contract to sell a security for value
- A. III only
- B. I and II only
- C. I and III only
- D. I, II, and III

- 4 Which of the following statements is true about required minimum distributions for traditional IRAs?
- A. They must begin when the individual retires.

The Wall Street self-regulatory body has said that like lawyers, the 633,155 brokers it regulates should be able to keep their exam scores private. A Finra website called BrokerCheck currently shows only when brokers passed exams. The regulator declined to say how the broker-exam passing rate compares with lawyers, where last year 68% of people who took the bar exam passed it, according to the National Conference of Bar

Examiners.

A spokesman for the Securities and Exchange Commission, which oversees Finra, declined to comment.

Through requests made to states, the Journal obtained records for more than 500,000 brokers working in the industry last year. These included Series 63 exam records for about 368,000 brokers, and the records showed that about 14% of brokers failed the test at least once.

The 3,024 brokers who failed the test at least three times, according to the Journal analysis, were about two-thirds more likely than brokers who passed the first time to have three or more red flags on their record—an industry measure that shows a broker may be troubled. The only major red flag that didn't increase with repeated exam failures was customer complaints.

The alleged misconduct by those who had three or more failures included unauthorized trading, churning, or excessive trading in customer accounts to generate commissions, sales of unsuitable products, high pressure sales tactics, impersonating another broker, misrepresentations and fraud.

Brokers with multiple exam failures and several red flags on their record include employees of some of the nation's largest brokerage firms.

Doron Kochavi, who failed a broker exam set by state regulators three times before passing in 1988, has five customer complaints and a termination recorded on his BrokerCheck report. The 65-year-old broker, who works in Century City, Calif., for UBS AG's brokerage unit, was fired in 2012 by J.P. Morgan Chase & Co. after he allegedly "exercised discretion" in certain client accounts without written authorization, his report states.

Three of the customer complaints involving Mr. Kochavi's activities resulted in payouts to investors by the broker or his employer at that time totaling \$185,000.

Mr. Kochavi and representatives of UBS and J.P. Morgan declined to comment. In written comments on his BrokerCheck responding to one of the complaints, Mr. Kochavi "vigorously" denied making unauthorized trades.

Finra sought public comment in 2012 on disclosing more information on BrokerCheck, including exam scores. Industry organizations strongly objected to the move, saying it

risked unfairly stigmatizing low-scoring brokers. "We've heard your concerns," Mr. Ketchum, Finra chief, told the regulator's annual conference in 2012. "That's not the type of information we're interested in disclosing."

Finra last month rebuffed calls by an organization of lawyers representing investors to include exam results in BrokerCheck, saying in a news release that the lawyers had offered "no evidence to support a correlation between test scores and broker competence."

Mr. Ketchum in an interview said Finra is considering expanding its BrokerCheck service. He has commissioned an analysis of whether broker performance is related to their test scores, paid-off tax liens, personal-bankruptcy filings filed more than a decade ago, and other types of information that investors can obtain now from state regulators but not Finra.

Regulators allow an unlimited number of attempts at the Series 7 and Series 63 exams, although trainees have to wait six months to retake the test after three failures in a row. Both exams are multiple-choice with a passing grade of 72%.

At least one big brokerage firm limits how often would-be brokers can fail. Morgan Stanley trainees have to pass the Series 7 exam on their first attempt and the Series 63 or its equivalent within two attempts or "face termination of their employment," a spokesman said.

Some other leading brokerages declined to say what their policy is. The Journal's analysis found numerous examples of brokers with multiple exam failures hired by big firms.

Karen L. Gallahar has amassed 23 customer disputes related to her sale of Morgan Keegan mutual funds, many of which suffered significant losses in the financial crisis, resulting to date in a total payout of more than \$775,000 to investors by her employer. Ms. Gallahar, 49, who failed her Series 63 exam four times, works in Montgomery, Ala., for Morgan Keegan's owner, Raymond James Financial Inc.

Ms. Gallahar and a Raymond James spokeswoman declined to comment.

Morgan Stanley's tough stance doesn't apply to already qualified brokers whom the firm recruits from its rivals. Michael B. Ralby, 54, who works for Morgan Stanley in Boca Raton, Fla., failed his Series 63 exam 11 times before passing it in 1993. He has five red flags on his record.

When initially contacted by the Journal, Mr. Ralby said he passed the exam the first time. In a later call, his lawyer said the exam was "so long ago that it's not newsworthy today." The lawyer added that Mr. Ralby has "been an active member in good standing for more than 21 years in the industry." Of the four customer complaints against Mr. Ralby, one was rejected, another two were filed in error by the customer and the fourth involved a battle over the estate of a former customer, according to his BrokerCheck report.

A Morgan Stanley spokesman said the firm does thorough checks when hiring veteran brokers, including looking at their record of client complaints. "Mr. Ralby received extensive due diligence prior to being hired" by Morgan Stanley last year, the spokesman added.

Some brokers said exam failures may simply reflect a reluctance to do the necessary test preparation, rather than a lack of competence or integrity.

"I just didn't study properly...I tried to wing it," said Kevin Fifield, 54, a broker in Byron Center, Mich., who failed the Series 63 seven times before passing in 1990 and has 11 red flags on his BrokerCheck. Two of the seven customer disputes have resulted in payments to investors, according to the report.

He added: "I was young and took it a bunch of times, stupidly."

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