



**ST. JOHN'S
UNIVERSITY**
SCHOOL OF LAW



The
Hugh L. Carey Center
for Dispute Resolution

&



The Financial Industry
Regulatory Authority

present the

10th
ANNUAL

Securities
Dispute
Resolution

Triathlon

A Three Skill Lawyering Event
Consisting of Competitions in



**Saturday and Sunday
October 13–14, 2018**

Manhattan Campus
101 Astor Place,
New York, NY 10003

**ST. JOHN'S UNIVERSITY SCHOOL OF LAW and
THE FINANCIAL INDUSTRY REGULATORY AUTHORITY**

***The Tenth Annual*
SECURITIES DISPUTE RESOLUTION
TRIATHLON PROBLEM – 2018**

“It Ain’t Me Babe”

Ami Reynolds and
Innovate Brokerage Firm, LLP

Background:

Do customers and brokerage firms each have responsibilities to keep customer data safe from cyber security attacks? This year’s Triathlon problem compels us to reconsider how investors might collaborate with their brokerage firms to immunize customer accounts from digital attacks and safeguard the private data customers provide to their brokerage firms as a regular part of investing. Although this Triathlon problem focuses on cyber security in the securities industry, the problem has much broader implications in your personal life and your legal practice. How might the lessons learned from this Triathlon incentivize you to become more prudent and vigilant about protecting your and your client’s confidential data?

Meet Ami Reynolds. Ami is a 38-year-old graphic designer who chose to invest (his)(her) money with Dakota Davis, a broker with Innovate Brokerage Firm, LLP. In January 2011, Ami inherited \$125,000 from (his)(her) grandparent. Ami chose to invest this money with Innovate. Innovate, as the name implies, is a brokerage firm that uses such innovations as robo advisers to provide its customers with customized information tailored to meet each client’s individual financial needs. Innovate employs youthful brokers who can relate to

Innovate's targeted clients - young, risk tolerant investors attracted to Innovate's welcoming and comfortable investment approach.

In early 2010, Ami met Dakota at the local dog park. Ami and Dakota bonded over the fact that their dogs, Stella and Dita, were both Whippet mixes. Back then, Ami had fewer responsibilities and more time, and would regularly bring Stella to the park on weekend mornings to chase Dita. While their dogs played, Ami and Dakota would chat at length about their lives. After Ami inherited the \$125,000, (s)he decided it was time to invest. It was only natural to open an account with Innovate and use Dakota as a broker. Ami opened a brokerage account with Innovate in January 2011, and invested the entire \$125,000 inheritance.

For the first five years after Ami opened (his)(her) account with Innovate, (s)he made, on average, approximately eight percent a year on (his)(her) initial investment. At the time, that was considered a good return. Then the crypto currency fever hit, and Ami wanted a piece of the action. Although Ami was no longer able to spend much time at the dog park on the weekends, because work had gotten much busier, Ami still managed to briefly chat with Dakota through the fence of the dog park as Ami passed by on the weekends. In January 2016, during one of these brief conversations, Ami mentioned to Dakota that (s)he wanted to invest in crypto currencies. Dakota informed Ami that Innovate did not yet offer investments in crypto currencies. If Ami wanted to invest in crypto currencies, Dakota explained that Ami would have to do so on (his)(her) own.

Shortly thereafter, on January 26, 2016, Ami emailed Dakota and requested that \$100,000 of the \$175,000 in (his)(her) account be wired from Innovate to (his)(her) bank account so that (s)he might invest it in a crypto currency. Why not ride the crypto currency wave? Over the next six months, Ami's crypto currency investment tripled in value. On July 6, 2016, Ami prudently sold the crypto currency investment and wired the \$300,000 in proceeds to Ami's account with Innovate. After money was wired into Ami's account, Ami had \$380,000 in (his)(her) account.

Still, Ami wanted to invest a portion of (his)(her) money in investments that would yield a greater return than (his)(her) investments with Innovate. In June 2016, one of Ami's friends approached Ami about joining her LLP formed for buying and flipping houses. For each house venture, Ami would contribute \$25,000 towards the purchase of the house as well as (his)(her) design guidance to make the purchased houses more valuable. On July 10, 2016, during one of their brief conversations at the dog park, Ami told Dakota about (his)(her) real estate investment plan and that (s)he may need to wire money out periodically if (s)he decided to get involved in the projects.

The following week, on July 15, 2016, Ami sent an email to Dakota at Innovate requesting that \$25,000 be wired to the LLP's bank account. Dakota responded by confirming the wire transfer request, but (s)he also attached a link inviting Ami to opt-in to Innovate's new investor portal system. This system, Dakota explained, included an encrypted messenger program that required the user to log in prior to sending account-related messages to his or her broker. This would be a more secure way for Ami and Dakota to communicate electronically about Ami's monies going forward. Ami responded with another email, explaining that though (s)he appreciated Dakota's concern for account security, (s)he just did not have time in (his)(her) increasingly busy schedule to have to go through several extra steps to log in to the portal and send Dakota a message every time (s)he needed to reach (him)(her). Dakota accepted Ami's response and did not bring up the portal to Ami again.

On January 14, 2017, Ami mentioned to Dakota that (s)he was going to be investing in two additional projects. On January 19, 2017, Ami emailed Dakota requesting that \$50,000 be wired to the LLP's bank account. Dakota wired the money according to the instructions. On June 4, 2017, Ami briefly spoke with Dakota through the fence at the dog park. Ami mentioned that the flipping projects were going well, and it was likely (s)he would be investing in a few additional projects soon. On June 6, 2017, Ami emailed Dakota requesting that \$75,000 be transferred to the LLP's bank account. Dakota followed the instructions and wired the money.

Ami's investments in the flipping projects seemed to be going well. In January 2017, at about the time Ami invested in the next two projects, the first project was sold. Ami was able to wire \$41,000 back into (his)(her) Innovate account, a profit of \$16,000. In August 2017, the next project sold, and Ami wired \$37,000 back into (his)(her) Innovate account, a profit of \$12,000. The third project sold in September 2017, and in early October, Ami wired \$29,000 into (his)(her) Innovate account, a profit of \$4,000. At that point, three of the projects had sold, yielding a profit, and Ami was still invested in three other projects.

Ami routinely checked (his)(her) investment portfolio online and was pleased to see it increase at a steady pace. At the beginning of 2018, however, the stock market became volatile, and Ami began checking (his)(her) investment portfolio with greater regularity. What caused this volatility? Some point fingers at our labile domestic affairs while other shrug and write off this market roller coaster as the market's way of self-correcting. Ami didn't care about the reason for the market's ups and downs. Ami just cared about protecting (his)(her) investment portfolio.

On February 1, 2018, Ami was horrified to receive an automated email from Innovate confirming that \$175,000 had been wired out of (his)(her) Innovate account.¹ Ami immediately called Dakota and demanded to know what happened to (his)(her) \$175,000. Dakota explained that (s)he had received an email from Ami on January 29, 2018 requesting that the funds be wired. Dakota further explained that (s)he had assumed that Ami was using the money for a new, potentially larger investment (s)he had mentioned in passing at the dog park the Saturday before the transfer request. After Ami insisted that (s)he had not sent that email, Dakota stated that (s)he had just pulled it up on (his)(her) computer, told Ami when it was received, and commented that the email looked the same as Ami's previous emails requesting funds.

¹ FINRA Rules 3110 (c)(2)(A)(iv) and 3110 (c)(2)(B) require all firms to create and enforce supervisory control policies that are reasonably designed to review and monitor transmittal of funds from customer accounts to third-party accounts, including a "means or method of customer confirmation, notification, or follow-up that can be documented." See FINRA Regulatory Notice 12-05 for more information.

Ami had no idea what Dakota was talking about. (S)he abruptly hung up with Dakota and checked the “Sent Mail” folder in (his)(her) email app. (S)he intended to send a screenshot of the folder to Dakota to prove that the email Dakota mentioned did not exist. However, Ami was horrified to discover that there, at the top of (his)(her) “Sent” list, was the email Dakota referred to requesting the transfer. The email read as if Ami wrote it (him)(her)self, right down to the word “Cheers” in Ami’s signature, which (s)he only used in emails to Dakota because of an inside joke the two shared. Ami immediately grew furious and felt deeply violated, because (s)he had not sent this email.

Ami called Dakota back and reported the imposter’s email. (S)he demanded that Innovate reimburse (him)(her) for the \$175,000 it had wired improperly. After all, it was Innovate’s responsibility to safeguard Ami’s account. *It Ain’t Me Babe*. Ami believed that Innovate should have known that the email requesting the withdrawal of \$175,000 was a fraud. However, Innovate had taken steps to safeguard its customers’ accounts, but nothing is foolproof.² Moreover, Ami was also obligated to take precautions to safeguard (his)(her) account, and Ami failed to do so. Innovate has reported this incident to the relevant division of the FBI in an effort to assist Ami with recovering the funds (s)he lost. *It Ain’t Me Babe*.

On February 26, 2018, Ami filed an arbitration claim against Innovate claiming \$175,000 in damages. On March 23, 2018, Innovate filed its answer, denying all liability.

NEGOTIATION ROUND:

In this round, each team is to negotiate based on the background facts and the private facts of the client the team is representing. Dakota Davis will be the corporate representative for Innovate. Dakota and Ami, accompanied by their respective attorneys, will be the parties present at the negotiation.

MEDIATION ROUND:

² See FINRA Report on Cybersecurity Practices (Feb. 2015), available at http://www.finra.org/sites/default/files/p602363%20Report%20on%20Cybersecurity%20Practices_0.pdf. See also FINRA Key Topics, Cybersecurity, available at <https://www.finra.org/industry/cybersecurity>.

In this round, please assume that there was no agreement reached in the negotiation round because the two parties could not agree on the responsibility each side might bear. Each team is to proceed based on the background facts and the private facts of the client the team is representing. Please disregard any additional information that might have been revealed in the previous round as well as any agreements that might have been discussed. Dakota Davis will be the corporate representative for Innovate. Dakota and Ami, accompanied by their respective attorneys, will be the parties present at the mediation.

ARBITRATION ROUND:

In this round, please assume that there was no agreement reached in the mediation round because each side believed they had a winning case and was confident a panel of arbitrators would agree. In this round, each team is to proceed based on the background facts and the private facts of the client the team is representing. Please disregard any additional information learned in the previous two rounds as well as any agreements that might have been reached.

There will be one witness for each side: Ami Reynolds for the Claimant and Dakota Davis for the Respondent. Dakota is also appearing as Innovate's corporate representative. The Statement of Claim with exhibit is attached hereto as "Attachment 1." The Statement of Answer with exhibits is attached hereto as "Attachment 2." Ami's signed Submission Agreement is "Attachment 3," and Innovate's signed Submission Agreement is "Attachment 4." The Statement of Claim with exhibit, and the Statement of Answer with exhibits will be Arbitrator's Exhibit 1 and are therefore part of the arbitration record.

* This problem was collaboratively created by Ken Andrichik, Elayne E. Greenberg, Stefanie Herrera, Christine Lazaro, and Kristine Vo with editorial help from Francis J. Facciolo.

Private Facts for Ami. This information is also to be shared with Ami's attorneys:

You were surprised to receive the inheritance of \$125,000 when your grandparent passed away. You didn't need the money at the time; after all, you were a successful graphic designer. You were earning enough to pay your bills and live comfortably. You remembered the advice of your grandparent – save your pennies for a rainy day. You decided you would follow that advice and save the money. However, you didn't want to just put it in the bank, so you decided to invest with Dakota.

At the time you decided to invest, you had known Dakota for about a year. You met at the dog park down the road from your new apartment. You spoke a bit about what you each did and learned that Dakota was a broker at Innovate. You had heard about Innovate, and knew that it targeted younger investors. You thought that Innovate and you would be a natural fit.

So, in January 2011, after you received the inheritance, you decided to open an account with Dakota at Innovate. Dakota was a good broker. (S)he gave you good advice, and really seemed to know what (s)he was doing. And, you are both dog lovers. Over five years, your account steadily grew.

Then, everyone was talking about crypto currencies. While you didn't really understand the distributed ledger technology or the blockchains, you wanted to get in on the trend. You talked to Dakota about investing in crypto currencies briefly one weekend morning at the dog park. Dakota told you that Innovate didn't yet offer investments in crypto currencies. Dakota hadn't really studied crypto currencies closely, so (s)he couldn't make any recommendation.

You decided you still wanted to invest in crypto currencies and did your own research. It was all so simple. You just needed to wire the money from your Innovate account in order to purchase one of the crypto currencies. Later that week, you emailed Dakota and asked that (s)he wire the money according to your included instructions.

The crypto currency quickly increased in value. You were a little nervous that it was too good to be true. You remembered your grandparent's advice about saving money and decided not to push your luck. About six months after you purchased the crypto currency, you sold it and wired the money back to Innovate. The investment had tripled in value – from \$100,000 to \$300,000.

At about the same time, one of your friends from school contacted you about joining her LLP formed for buying and flipping houses. You would be able to participate by contributing \$25,000 towards each house the LLP purchased. Additionally, your friend was interested in your design guidance to make the purchased houses more valuable.

You started out small, and decided to invest \$25,000 in the LLP for its first project. You emailed Dakota and asked that the money be wired to the LLP's account. As the project was nearing completion, you decided to invest in two more projects. On January 19, 2017, you emailed Dakota and asked that \$50,000 be wired to the LLP's bank. Shortly thereafter, you wired a little over \$41,000 back into your account, which represented your share of the proceeds from the first project. It was a good idea, and you were having fun flipping houses! You agreed to invest in three more of the projects the LLP was considering, and on June 6, 2017, you emailed Dakota and asked that \$75,000 be wired to the LLP's bank. Within two months, you received another \$37,000 from your second project, and transferred it back to your Innovate account. In October 2017, the third house sold, and you transferred the \$29,000 from the sale proceeds back to your Innovate account.

At this point, you were still invested in the last three projects. Although you invested in the projects in June 2017, six months later, the projects were nowhere near completion. There were complications with the renovations on each of the three projects, and you were not sure when they would be sold. You were thinking about whether you would invest more in the LLP's projects, but you started to get nervous. The market was starting to get more volatile. You weren't really concerned about why there was so much uncertainty in the

market, so long as your investments were secure. You looked at your account online regularly. You spoke briefly with Dakota every weekend.

On February 1, 2018, you received an automated confirmation email from Innovate regarding a wire transfer of \$175,000 from your account to a bank account that you did not recognize. You usually don't love making phone calls, but this was urgent. You called Dakota immediately and asked what happened.

Dakota sounded shocked by your demands for an explanation. (S)he reported that (s)he had received an email from you requesting the wire. Dakota said (s)he assumed you were either investing in another crypto currency, or in more houses. (S)he said you had mentioned an upcoming investment the weekend prior at the dog park. However, you barely even remembered having that conversation with Dakota. That day you had forgotten your gloves, your hands were freezing, and you were in a rush to get back home. There's no way you could have told Dakota in detail about any of the investments you were considering. Even so, the fact remained that you absolutely did not request this transfer. You were shocked. How could Dakota think you would do that? You saw (him)(her) just about every weekend. If you were going to transfer that much money, wouldn't you have said something more explicit?

You decided not to waste another moment arguing about whether or not you sent the email. You hung up and immediately opened the email app on your phone. Dakota was obviously confused. You would send (him)(her) a screenshot of your email sent folder to prove (him)(her) wrong. Your heart was pounding in your ears as your sent emails loaded. You could not wait to set Dakota straight. What a shock! There was the email Dakota claimed you had sent.

You opened the email and read it quickly. The words sounded like yours, but the message was unrecognizable. Were you losing it? Did you send this request? No! You knew you were not suffering from memory loss. You did not send it. All of a sudden, you remembered the texts you had received a few weeks ago from friends about strange emails you had sent

them. You were a little embarrassed at first and then realized that someone must have hacked your email account. Immediately, you changed your password. However, you were too lazy to change anything but the “special character” at the end of the password. After all, the most you felt you could remember was having to type an “@” instead of a “!”. You also thought about the fraud alert you had received from your credit card company last month. The credit card company canceled your credit card “just to be safe.” What an inconvenience it was for you to be without a functioning credit card until the company sent you a replacement card. Of course, you felt vulnerable when your email account was hacked and your credit card canceled, but you erroneously believed at the time no real damage was done. Well, you were wrong! You never imagined that Innovate would just hand over \$175,000 of your money!

After you solved the mystery, you called Dakota back. You felt a little better as you explained that the email hacker sent that message to (him)(her). You told Dakota all about the emails to your friends and the issue with your credit card, and that you were sure the same imposter sent the email to Dakota. You figured Dakota would have your back and that Innovate would return the money. When your mom’s bank account was drained after someone stole her account information, her money was returned in a week. Understandably, you thought the mistake could easily be corrected like that.

You thought wrong. Dakota explained that Innovate would not be replacing the money you lost. Now Innovate is telling you that it is your fault that the \$175,000 was wired out. You must have compromised the security of your information for someone to be able to send an email request that matched your manner of writing. After all, Dakota had told you to use their portal, and you refused. Innovate said it was your responsibility to notify them of any potential identity theft if they were to protect your account. Are they serious? How could they transfer such a large amount out of your account without your permission? Dakota should have known that it wasn’t you who requested the transfer. Innovate should have known that the email was a fake.

Private Facts for Innovate & Dakota, as Innovate's corporate representative. This information is also to be shared with Innovate's attorneys:

Innovate has been in business since 2002. It started small and established a niche market for Generation Xers and Millennials. Over time, Innovate has expanded and has invested in technology. It was one of the first firms to integrate robo advice into its services. You joined Innovate in 2005, shortly after graduating college. You knew it was a good fit because you had focused on finance and technology in college. Plus, Innovate was one of the leading brokerage firms when it came to integrating technology into its business.

You met Ami one morning at the local dog park. You liked to talk to the young professionals who spent time there. You recognized that they were potential clients, and you certainly had things in common. You clicked with Ami immediately, and your dogs liked each other. About a year into your friendship, Ami approached you about investing. (S)he just received an inheritance from (his)(her) grandparent and thought it would be prudent to invest it. You set up a meeting and opened an account for Ami with Innovate in January 2011.

Under your guidance, Ami's investment grew. Then, about five years later, during one of your weekend dog park conversations, Ami asked you about crypto currencies. Ami seemed to be really interested in this new currency but didn't seem to know much about it. Ami asked if you could invest in one of the crypto currencies for (him)(her). You explained that they were not offered through Innovate.

Within a couple of days of that conversation, you received an email from Ami asking that you wire \$100,000 out of the account so that (s)he could invest in a crypto currency. You followed the instructions and wired the money, but you were uncomfortable with the fact that Ami had sent (his)(her) request by email. Innovate had just introduced a secure online portal to its clients, and you had spent countless hours attending training meetings about the importance of account security. The portal was in its pilot stage so it was optional for investors to join. Still, you were instructed to strongly encourage your clients to use it. You responded to Ami's request and told (him)(her) to create a portal account and use its

secure messaging feature to request wire transfers in the future. Ami responded with another email stating (s)he didn't have time for that, and seemed almost offended that you, who knew (him)(her) well, would even suggest it. You did not want your relationship with Ami to suffer so you dropped the subject. You assumed the portal would eventually be mandatory for customers to use in the future, so you would just revisit the conversation with Ami when that happened.

Ami's investment in crypto currency did well. About six months later, in July 2016, Ami wired \$300,000 back into the account – Ami had tripled (his)(her) investment. At about the same time, Ami started talking to you about investing in real estate. Ami had a friend who was starting to flip houses and wanted Ami to invest. Ami let you know that (s)he would be sending wire instructions if (s)he decided to invest in (his)(her) friend's real estate project.

The following week, you did receive an email from Ami requesting that \$25,000 be wired out of (his)(her) account. About six months later, in January 2017, you received another email, this time asking that \$50,000 be wired. Shortly thereafter, Ami wired funds back into the account and told you the house flipping was going well. In June 2017, you received another email, this time asking that \$75,000 be wired out of Ami's account. You didn't discuss the individual wires with Ami, but you did talk about how the house flipping was going when you happened to see Ami at the dog park.

One morning in late January 2018, you spoke to Ami through the fence at the dog park. Although Ami was in a rush, in your brief conversation (s)he mentioned that (s)he was considering new LLP investments. Ami said (s)he'd be in touch. A few days later, you received another email from Ami, asking that \$175,000 be wired out of (his)(her) account. At least, you thought the email was from Ami. Other than the amount, it pretty much looked just like the other emails Ami had sent requesting wires. You were shocked when Ami called you frantically days later and denied requesting the transfer.

You know that you could have verified the wire with Ami, but didn't think it was necessary given your past dealings. After all, why would you think Ami's email had been hacked? Ami

admitted that (s)he knew (his)(her) email had been hacked before the transfer request was sent, but (s)he hadn't mentioned anything about it until after the transfer. Why didn't (s)he just say something before?

Innovate understands that cyber security is important, especially since it now caters to Millennials who are much more comfortable interacting electronically. Innovate has reviewed FINRA's materials on cyber security, and has taken security of its own networks seriously. Innovate is in the process of implementing the client portal, which will add another level of protection, and help combat cyber security issues originating with the customers. After all, that was the weak link in this situation. Innovate is confident that the mandatory use of the portal will significantly help prevent attacks like this from occurring in the future.

You've been told that Innovate wants to resolve this because it is in the company's best interest to be proactive about preventing future instances of improper wires. How Innovate resolves this case may impact Innovate's obligations to its customers moving forward. Innovate does not want to be seen as an insurer for its clients' funds in the event the client suffers from identity theft or has her account otherwise compromised.

FINRA OFFICE OF DISPUTE RESOLUTION

-----X
 In the Matter of the Arbitration Between: :
 :
 AMI REYNOLDS, :
 Claimant, : FINRA Case No. 18-010876
 :
 vs. : Statement of Claim
 :
 INNOVATE BROKERAGE FIRM, LLP, :
 Respondent. :
 -----X

This Statement of Claim is filed on behalf of Claimant, Ami Reynolds (“Reynolds”), a customer, against Respondent, Innovate Brokerage Firm, LLP (“Innovate”), a member firm. This claim is filed pursuant to Rule 12200 of the FINRA Code of Arbitration Procedure as a controversy between a customer and a member firm. Reynolds seeks to recover \$175,000 in damages.

On January 29, 2018, Innovate improperly wired \$175,000 out of Reynold’s brokerage account. The email requesting the wire was fraudulent, and Innovate improperly relied on the email. On February 1, 2018, Reynolds received an email from Innovate regarding the wire. A copy of the email is attached as Exhibit A. Reynolds immediately called Dakota Davis, (his)(her) broker at Innovate. Reynolds notified Davis that (s)he had not requested the wire. Davis informed Reynolds that (s)he had received an email with the wire instructions, which Reynolds denied sending.

Reynolds’ email had been hacked and an imposter had sent the email to Davis. Notwithstanding the identity theft, Davis and Innovate refused to reverse the wire.

Innovate violated FINRA Rule 3110(c)(2)(A)(iv) because it did not establish policies and procedures designed to supervise the “transmittals of funds (*e.g.*, wires or checks, etc.) or securities from customers to third party accounts; from customer accounts to outside entities (*e.g.*, banks, investment companies, etc.)” Innovate also failed to establish the customer confirmation, notification, or follow-up to determine the authenticity of the transmittal instructions.

RELIEF REQUESTED

Based upon the foregoing, Reynolds requests an award against Respondent for compensatory damages in the amount of \$175,000, and costs and attorneys' fees associated with the filing of this arbitration.

From: InnovateBrokerage@IB.com
Sent: February 1, 2018 9:15 am
To: amireynolds@email.com
Subject: Wire Transfer

Re: Account xxxx-3123

This will confirm that \$175,000 was wired from the above referenced account on January 29, 2018. Please contact your broker if you have any questions about the wire transfer.

Thank you for your business.

Innovate Brokerage Firm, LLP
Trust in innovation.

FINRA OFFICE OF DISPUTE RESOLUTION

-----X
 In the Matter of the Arbitration Between: :
 :
 AMI REYNOLDS, :
 Claimant, : FINRA Case No. 18-010876
 :
 vs. : Statement of Answer
 :
 INNOVATE BROKERAGE FIRM, LLP, :
 Respondent. :
 -----X

This Statement of Answer is filed on behalf of Respondent, Innovate Brokerage Firm, LLP (“Innovate”), in response to the Statement of Claim filed on behalf of Ami Reynolds (“Reynolds”).

On January 29, 2018, broker Dakota Davis received an email from Reynolds requesting that \$175,000 be wired from (his)(her) account. A copy of the email is attached as Exhibit 1. This was not the first such email that Davis received from Reynolds. Between January 2016 and June 2017, Reynolds had sent four emails requesting that money be wired from (his)(her) account. Copies of those emails are attached collectively as Exhibit 2.

After receiving the first email requesting that funds be wired, Davis invited Reynolds to use Innovate’s investor portal for any future requests as a way of enhancing the security of such communications. Reynolds refused to utilize the portal. Copies of Davis’ email and Reynolds’ response are attached collectively as Exhibit 3.

Each request to transfer funds was preceded by a conversation between Reynolds and Davis, including the wire transfer at issue. The request to transfer funds was facially similar to all other requests made by Reynolds. Innovate could not have detected that the wire transfer at issue was fraudulent.

At all times, Innovate had an adequate system of supervision in place. So long as a supervisory system is “reasonably designed to achieve compliance with applicable

securities laws and regulations, and with applicable FINRA rules,” there can be no violation of Rule 3110. Here, Innovate requested that Reynolds utilize the more secure investor portal to make any wire requests. Innovate cannot be held responsible for Reynolds refusal to utilize the system. Further, Innovate had no reason to believe the wire transfer was fraudulent as the email was similar to other valid wire transfer requests. Moreover, Reynolds communicated to Davis that (s)he was likely to be making a wire request soon, so it was not unreasonable that Davis did not engage in any further confirmation of the request.

Accordingly, Innovate should not be held responsible for damages that resulted when Reynolds’ email account was hacked. Further, Reynolds may not recover for any alleged negligence on Innovate’s behalf because Reynolds was contributorily negligent by failing to report to Innovate that (his)(her) email account had been hacked.

RELIEF REQUESTED

Based upon the foregoing, Innovate requests that the Statement of Claim be dismissed in its entirety, and requests that costs and attorneys’ fees associated with this arbitration be assessed against Claimant.

From: amireynolds@email.com
Sent: January 29, 2018 2:13 am
To: ddavis@IB.com
Subject: LLP Wire

Dakota,

Investing again.

Please wire \$175,000 to:

Money City Bank

ABA#: 062999062

Credit to: Flipp, LLC
Account Number 88956212

Cheers!
Ami

From: amireynolds@email.com
Sent: January 26, 2016 1:45 pm
To: ddavis@IB.com
Subject: Cryptos

Dakota,

As I mentioned on Saturday, I have been giving a lot of thought to crypto currency investments. I have decided to go ahead and give it a go.

Please wire \$100,000 to:

America Bank
Wilmington, Delaware
ABA#: 055000055

Credit to: Ami Reynolds
Account Number 551234567

Hope to speak soon.

Cheers!
Ami

From: amireynolds@email.com
Sent: July 15, 2016 2:15 pm
To: ddavis@IB.com
Subject: Flips

Dakota,

I have decided to go forward with the investments in the LLP.

Please wire \$25,000 to:

Money City Bank
Wilmington, Delaware
ABA#: 062999999

Credit to: Flip, LLP
Account Number 562116123

Hope to speak soon.

Cheers!
Ami

From: amireynolds@email.com
Sent: January 19, 2017 1:32 pm
To: ddavis@IB.com
Subject: Flips

Dakota,

As I mentioned, there are a few new projects.

Please wire \$50,000 to:

Money City Bank
Wilmington, Delaware
ABA#: 062999999

Credit to: Flip, LLP
Account Number 562116123

Hope to speak soon.

Cheers!
Ami

From: amireynolds@email.com
Sent: June 6, 2017 2:18 pm
To: ddavis@IB.com
Subject: Flip

Dakota,

Taking my chances with a few additional projects.

Please wire \$75,000 to:

Money City Bank
Wilmington, Delaware
ABA#: 062999999

Credit to: Flip, LLP
Account Number 562116123

Hope to speak soon.

Cheers!
Ami

From: ddavis@IB.com
Sent: January 26, 2016 2:15 pm
To: amireynolds@email.com
Subject: Re: Cryptos

Ami,

Thanks for the email. We are processing the wire transfer now.

I would like to invite you to sign up for Innovate's new investor portal system. This system has an encrypted messenger program. Because the system requires you to log in, it is a much more secure way to communicate. You may sign up here:
www.innovatebd.com/investorportal/signon.

If you have any questions, please feel free to email me and I will walk you through the instructions.

Cheers!
Dakota

Innovate Brokerage Firm, LLP
Trust in innovation.

From: amireynolds@email.com
Sent: January 26, 2016 2:36 pm
To: ddavis@IB.com
Subject: Re: Cryptos

Dakota,

I appreciate your concerns about my account security, but do you really think this is necessary? With my increasingly busy schedule, I just don't have time to go through the extra steps of logging into this portal every time I want to send you a message or retrieve a message you have sent me. I would prefer if we can just continue to communicate as we always have – I'll either talk to you when I see you, or I'll email, and I hope you will do the same.

Cheers!
Ami

FINRA ARBITRATION Submission Agreement

Claimant(s)

In the Matter of the Arbitration Between

Name(s) of Claimant(s)

Ami Reynolds

and

Name(s) of Respondent(s)

Innovate Brokerage Firm, LLP

1. The undersigned parties (“parties”) hereby submit the present matter in controversy, as set forth in the attached statement of claim, answers, and all related cross claims, counterclaims and/or third-party claims which may be asserted, to arbitration in accordance with the FINRA By-Laws, Rules, and Code of Arbitration Procedure.
2. The parties hereby state that they or their representative(s) have read the procedures and rules of FINRA relating to arbitration, and the parties agree to be bound by these procedures and rules.
3. The parties agree that in the event a hearing is necessary, such hearing shall be held at a time and place as may be designated by the Director of Dispute Resolution or the arbitrator(s). The parties further agree and understand that the arbitration will be conducted in accordance with the FINRA Code of Arbitration Procedure.
4. The parties agree to abide by and perform any award(s) rendered pursuant to this Submission Agreement. The parties further agree that a judgment and any interest due thereon, may be entered upon such award(s) and, for these purposes, the parties hereby voluntarily consent to submit to the jurisdiction of any court of competent jurisdiction which may properly enter such judgment.
5. The parties hereto have signed and acknowledged the foregoing Submission Agreement.

Ami Reynolds

Claimant Name (please print)

Ami Reynolds

Claimant’s Signature

February 26, 2018

Date

State capacity if other than individual (*e.g.*, executor, trustee or corporate officer)

FINRA ARBITRATION Submission Agreement

Respondent(s)

In the Matter of the Arbitration Between

Name(s) of Claimant(s)

Ami Reynolds

and

Name(s) of Respondent(s)

Innovate Brokerage Firm, LLP

1. The undersigned parties (“parties”) hereby submit the present matter in controversy, as set forth in the attached statement of claim, answers, and all related cross claims, counterclaims and/or third-party claims which may be asserted, to arbitration in accordance with the FINRA By-Laws, Rules, and Code of Arbitration Procedure.
2. The parties hereby state that they or their representative(s) have read the procedures and rules of FINRA relating to arbitration, and the parties agree to be bound by these procedures and rules.
3. The parties agree that in the event a hearing is necessary, such hearing shall be held at a time and place as may be designated by the Director of Dispute Resolution or the arbitrator(s). The parties further agree and understand that the arbitration will be conducted in accordance with the FINRA Code of Arbitration Procedure.
4. The parties agree to abide by and perform any award(s) rendered pursuant to this Submission Agreement. The parties further agree that a judgment and any interest due thereon, may be entered upon such award(s) and, for these purposes, the parties hereby voluntarily consent to submit to the jurisdiction of any court of competent jurisdiction which may properly enter such judgment.
5. The parties hereto have signed and acknowledged the foregoing Submission Agreement.

Innovate Brokerage Firm, LLP

Respondent Name (please print)

Dakota Davis, Corporate Officer

March 23, 2018

Respondent’s Signature

Date

State capacity if other than individual (*e.g.*, executor, trustee or corporate officer)