

[Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—S.D. Fla.: Racetrack board chairman liable for fraudulently obtaining margin loans, \(Feb. 23, 2017\)](#)

Securities Regulation Daily Wrap Up

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By [Amanda Maine, J.D.](#)

The SEC announced that a former chairman and controlling shareholder of a Texas horse racetrack company has been found liable for securities fraud by a federal jury in Florida. The SEC's [complaint](#), filed in September 2015, alleged that Christopher J. Hall made misrepresentations to a brokerage firm in order to obtain millions of dollars in margin loans.

Misrepresentations to obtain loans. Hall and his racetrack company, Call Now, had brokerage accounts at Penson Financial Services, through which they borrowed millions of dollars in margin loans to fund the operating expenses of the racetrack. When the collateral in the accounts substantially diminished in value by 2009, Penson demanded that Hall and Call Now deposit additional collateral to satisfy outstanding margin calls.

To satisfy the margin calls, Hall offered to pledge Call Now stock to Penson, but he falsely represented that he needed millions of dollars to unencumber the shares because they had been pledged to other lenders. Penson then arranged for Hall to receive loans of more than \$5.5 million to pay these so-called lenders; however, Hall paid only a single lender less than \$1 million, and used the rest of the funds for his personal use, according to the complaint.

Hall also offered as collateral his interest in a real estate limited partnership, claiming that it was subject to an existing lien. While the partnership was in fact subject to a lien, Hall failed to reveal to Penson that he was the actual holder of the lien through an entity created to hide his assets. He sold his interest in the limited partnership for \$1.3 million without obtaining Penson's consent as agreed, and kept the money for himself instead of delivering the proceeds to Penson.

Verdict. The SEC charged Hall with securities fraud under both the Securities Act and the Exchange Act. The jury [found](#) Hall liable on both counts.

In a [press release](#) announcing the verdict, Acting Enforcement Director Stephanie Avakian warned, "Those who seek to borrow from brokerage firms must deal honestly, and we will continue to hold accountable those who do not."

The case is [No. 15-cv-23489](#).

Attorneys: Mark Oh for the SEC. Daniel Stuart Newman (Broad and Cassel LLP) for Christopher J. Hall.

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