

NOW, THEREFORE, Respondents and the Department stipulate and agree to the terms and conditions in this Stipulation and Consent Order.

FINDINGS OF FACT

1. The Department, through its Securities Division, is responsible for administering and enforcing the securities laws of the State of Vermont, including the Vermont Uniform Securities Act (9 V.S.A. §§ 5101-5616) and the Vermont Securities Regulations.
2. Respondent Thomas Connolly is a Vermont-registered investment adviser representative based in Dover, Vermont and is the principal of Connolly Financial Advisors, LLC.
3. Mr. Connolly was approved as a Vermont investment adviser representative on December 13, 2021.
4. Respondent Connolly Financial Advisors, LLC (“CFA”) is a Vermont-registered investment adviser firm. In March 2021, CFA applied to register as a Vermont Investment Adviser firm, in connection with its plan to move its main office from New York to Dover, Vermont. CFA’s Vermont registration was approved on December 10, 2021.
5. From their principal place of business in Dover, Vermont, Respondents provided portfolio management services to high-net-worth clients through their management of a private fund known as the Radar Fund LP (the “Fund”).¹ The Fund invested solely in cryptocurrency assets. CFA also provided services directly to high-net-worth clients through Separately Managed Accounts, or “SMAs.” These clients became known as “SMA” clients.

¹ The Radar Fund LP is a Delaware Limited Partnership; Radar Fund GP1, LLC, a Vermont limited liability company, is its general partner, and Thomas Connolly is the sole member of the LLC.

6. CFA's March 2021 Form ADV, Part 2 noted that because of the investments in cryptocurrency assets, CFA would have access to the public and private wallets of clients and would have custody of client assets in accounts for which CFA had authority to trade digital assets. CFA's March 2021 Form ADV, Part 1 also noted that CFA had custody of client assets.
7. When CFA applied to register in Vermont, the Division required the firm to submit written certification that the firm had established and would maintain written supervisory procedures. In a signed statement provided to the Division on or about March 31, 2021, Mr. Connolly certified that he, as the "appointed Designated Supervisor" of CFA, had "established and shall maintain and enforce written supervisory procedures pursuant to V.S.R. § 7-6(a)(2)." In a subsequent statement dated May 14, 2021, Mr. Connolly certified that he, as the "appointed Designated Supervisor" of CFA, had "established and shall maintain and enforce written policies and procedures pursuant to V.S.R. § 7-8."
8. After operating the Fund for less than one year, Mr. Connolly determined that the required audit would be prohibitively expensive. In late 2021, Mr. Connolly informed the Limited Partners of the Fund that he had decided to close it. In or around September 2022, redemption statements were sent to each of the Limited Partners of the Fund, and in January 2023, the Fund completed redemption payments to each of its Limited Partners.
9. When Mr. Connolly closed the Fund, many of its Limited Partners chose to become SMA clients. Mr. Connolly instructed those clients to purchase NanoX wallets, for which both CFA and the clients had log-in credentials. CFA continued to manage and maintain custody over those client assets.

10. The most recent Form ADV, Part 1 filed by CFA on July 2, 2022 stated the firm had approximately \$2.1 million in Assets Under Management and approximately 18 clients. This Form ADV also stated that CFA did not have custody of client assets and that the Fund's financial statements were subject to an annual audit.
11. On or about August 29, 2022, representatives of the Division conducted an on-site examination of Respondents. They reviewed Respondents' books and records and spoke at length with Mr. Connolly. That examination, and the ensuing investigation by the Division, confirmed the following additional facts of concern to the Division:
- A. Despite representations made to the Division in 2021, Respondents had never established or implemented written supervisory procedures reasonably designed to ensure compliance with applicable law.
 - B. Respondents had made misleading filings with the Division; namely, by certifying that they had established and would enforce written supervisory procedures and by stating on their Form ADV that Connolly did not have custody of client assets and that the Fund had engaged the services of a certified public accountant to perform audits.
 - C. There had never been an independent audit of either the Fund or CFA.
 - D. Respondents had failed both to keep client assets with qualified custodians and to provide appropriate notice to the Commissioner regarding CFA's custody of clients' assets.
 - E. Respondents had failed to maintain any insurance against the risk of a cybersecurity breach. A hack occurred in September 2021 for which there was no insurance coverage, and losses were incurred. Approximately \$400,000 was stolen from the Fund

CONCLUSIONS OF LAW AND DESCRIPTION OF VIOLATIONS

12. The Commissioner of Financial Regulation is responsible for administering and enforcing the securities laws of the State of Vermont and is authorized to investigate securities activities to determine compliance with Vermont law and issue orders imposing civil penalties and remedial actions pursuant to 8 V.S.A. §§ 10-13 and 9 V.S.A. §§ 5412 and 5601-14.
13. Pursuant to 9 V.S.A. § 5604(a) and (d), the Commissioner may impose a civil penalty of up to \$15,000 for each violation of the Vermont Uniform Securities Act (9 V.S.A. §§ 5101-5616) and the Vermont Securities Regulation (V.S.R.) and may require restitution and the disgorgement of any sums obtained in conjunction with such violations.
14. Pursuant to 9 V.S.A. §5412(d)(1), a person is subject to discipline if they have filed an application for registration in Vermont which contained a statement that, in light of the circumstances under which it was made, was false or misleading with respect to a material fact. Section 5502(a) also prohibits investment advisers from making untrue statements of material fact.
15. It is a violation of 9 V.S.A. §§5412(d)(1) and 5502(a) to make material misrepresentations to the Department. By signing two statements in connection with CFA's Vermont registration advising the Department that CFA had established and would maintain written supervisory procedures as required by V.S.R. §§ 7-6(a)(2) and 7-8, Respondents made material misrepresentations to the Department. By signing a Form ADV in July 2022 stating that (a) CFA did not have custody of client assets and (b) that the Fund would be subject to annual audit, Respondents made further misrepresentations.

16. It is a violation of V.S.R. § 7-6(a) to fail to establish and maintain written supervisory procedures reasonably designed to ensure compliance with applicable law. It is also a violation of V.S.R. § 7-6(a) for an investment Adviser to fail to conduct an annual review of its business and to make reasonable efforts to ensure that all supervisory personnel are qualified to carry out their assigned responsibilities. By failing to maintain any written supervisory procedures and by failing to conduct any annual reviews, Respondents violated V.S.R. § 7-6(a).
17. It is a violation of V.S.R. § 7-5 to fail to take proper steps to protect client funds. By failing to keep client funds with a qualified custodian, failing to conduct year-end audits, and failing to advise the Commissioner about the custody arrangements, Respondents violated V.S.R. § 7-5.
18. It is a violation of V.S.R. § 7-8(d) to fail to maintain adequate cybersecurity insurance. By failing to maintain any insurance for the risk of a security breach, Respondents violated V.S.R. § 7-8(d).

CONSENT ORDER

19. This Order concludes the investigation by the Department and except as provided below, precludes any other action the Commissioner could commence under applicable law as it relates to the subject matter herein.
20. This Order is entered into solely for the purpose of resolving the above-described investigation and is not intended to be used for any other purpose.
21. Within 30 calendar days of the entry of this Stipulation and Consent Order, Respondents shall pay to the Department a penalty in the amount of \$11,000.00.
22. The amount identified in Paragraph 21 shall be made by via wire or check made payable to the “Department of Financial Regulation” and mailed to:

Attn: Beth Sides
Department of Financial Regulation
Insurance Division
89 Main Street
Montpelier, VT 05620-3101


23. Within 30 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondents shall:
- A. Ensure that all securities registrations current or pending in the State of Vermont are terminated or withdrawn.
 - B. Terminate all customer accounts, relinquish control of all customer wallets, and advise all customers in writing to change applicable passwords and take such other security measures as are prudent.
 - C. Within 7 calendar days of the completion of the requirements of Paragraphs 23A and 23B, provide written confirmation to the Department that these tasks have been completed.
24. Respondents shall refrain from registration in Vermont as any type of securities professionals for a period of at least five years from the date of the entry of this Stipulation and Consent Order.
25. Respondents acknowledge and admit the jurisdiction of the Commissioner over the subject matter of this Stipulation and Consent Order.
26. With respect to the facts and violations identified herein, Respondents waive their right to a hearing before the Commissioner or the Commissioner's designee and waive their right to all other administrative or judicial review otherwise available under Vermont law, including the rules of the Vermont Department of Financial Regulation and the provisions of 3 V.S.A., Chapter 25.

27. This Stipulation and Consent Order is entered into solely for the purpose of resolving the violations identified herein, and it is not intended for any other purpose.
28. Respondents understand all terms and conditions in this Stipulation and Consent Order, consent to the entry of this Stipulation and Consent Order and acknowledge that their consent is given freely and voluntarily and that, except as set forth herein, no promise was made to induce Respondents' consent.
29. Noncompliance with any of the terms and conditions in this Stipulation and Consent Order shall be a violation of a lawful order of the Commissioner and a violation of the laws of the State of Vermont and may result in additional administrative action and the imposition of injunctive relief, sanctions, and additional penalties pursuant to applicable provisions of Title 8 and 9 of the Vermont Statutes Annotated.
30. Nothing herein shall be construed as limiting the Commissioner's ability to investigate Respondents for violations not resolved herein or to respond to and address any consumer complaints made with regard to Respondents.
31. Nothing herein shall be construed as having relieved, modified, or in any manner affected Respondents' ongoing obligation to comply with all federal, state, or local statutes, rules, and regulations applicable to Respondents.
32. Nothing herein should be construed as limiting any private right of action a person may have.
33. This Stipulation and Consent Order shall be governed by and construed under the laws of the State of Vermont.

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SIGNATURES

THOMAS CONNOLLY



CONNOLLY FINANCIAL ADVISORS, LLC

By:

Thomas J. Connolly

4-23-23
Date

Printed name:

TJ Connolly

Title:

Managing Member

The terms and conditions set forth in this Stipulation and Consent Order are hereby stipulated, agreed to, and ordered.

VERMONT DEPARTMENT OF FINANCIAL REGULATION

By:


Kevin J. Gaffney
Commissioner of Financial Regulation

04/24/2023
Date

Vermont Department of Financial Regulation