

**BrokerCheck Report**

**GLENDALE SECURITIES, INC.**

CRD# 123649

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## About BrokerCheck®



BrokerCheck offers information on all current, and many former, registered securities brokers, and all current and former registered securities firms. FINRA strongly encourages investors to use BrokerCheck to check the background of securities brokers and brokerage firms before deciding to conduct, or continue to conduct, business with them.

- **What is included in a BrokerCheck report?**

- BrokerCheck reports for individual brokers include information such as employment history, professional qualifications, disciplinary actions, criminal convictions, civil judgments and arbitration awards. BrokerCheck reports for brokerage firms include information on a firm's profile, history, and operations, as well as many of the same disclosure events mentioned above.

- Please note that the information contained in a BrokerCheck report may include pending actions or allegations that may be contested, unresolved or unproven. In the end, these actions or allegations may be resolved in favor of the broker or brokerage firm, or concluded through a negotiated settlement with no admission or finding of wrongdoing.

- **Where did this information come from?**

- The information contained in BrokerCheck comes from FINRA's Central Registration Depository, or CRD® and is a combination of:

- o information FINRA and/or the Securities and Exchange Commission (SEC) require brokers and brokerage firms to submit as part of the registration and licensing process, and
- o information that regulators report regarding disciplinary actions or allegations against firms or brokers.

- **How current is this information?**

- Generally, active brokerage firms and brokers are required to update their professional and disciplinary information in CRD within 30 days. Under most circumstances, information reported by brokerage firms, brokers and regulators is available in BrokerCheck the next business day.

- **What if I want to check the background of an investment adviser firm or investment adviser representative?**

- To check the background of an investment adviser firm or representative, you can search for the firm or individual in BrokerCheck. If your search is successful, click on the link provided to view the available licensing and registration information in the SEC's Investment Adviser Public Disclosure (IAPD) website at <https://www.adviserinfo.sec.gov>. In the alternative, you may search the IAPD website directly or contact your state securities regulator at <http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/P455414>.

- **Are there other resources I can use to check the background of investment professionals?**

- FINRA recommends that you learn as much as possible about an investment professional before deciding to work with them. Your state securities regulator can help you research brokers and investment adviser representatives doing business in your state.

**Thank you for using FINRA BrokerCheck.**



Using this site/information means that you accept the FINRA BrokerCheck Terms and Conditions. A complete list of Terms and Conditions can be found at

[brokercheck.finra.org](http://brokercheck.finra.org)



For additional information about the contents of this report, please refer to the User Guidance or [www.finra.org/brokercheck](http://www.finra.org/brokercheck). It provides a glossary of terms and a list of frequently asked questions, as well as additional resources.

[For more information about FINRA, visit www.finra.org.](http://www.finra.org)



## GLENDALE SECURITIES, INC.

CRD# 123649

SEC# 8-65604

### Main Office Location

15233 VENTURA BLVD., SUITE 712  
SHERMAN OAKS, CA 91403  
Regulated by FINRA Los Angeles Office

### Mailing Address

15233 VENTURA BLVD., SUITE 712  
SHERMAN OAKS, CA 91403

### Business Telephone Number

818-907-1505

## Report Summary for this Firm

This report summary provides an overview of the brokerage firm. Additional information for this firm can be found in the detailed report.

### Firm Profile

This firm is classified as a corporation.

This firm was formed in California on 08/19/2002.

Its fiscal year ends in December.

### Firm History

Information relating to the brokerage firm's history such as other business names and successions (e.g., mergers, acquisitions) can be found in the detailed report.

### Firm Operations

**This firm is registered with:**

- the SEC
- 3 Self-Regulatory Organizations
- 47 U.S. states and territories

Is this brokerage firm currently suspended with any regulator? **No**

This firm conducts 9 types of businesses.

This firm is not affiliated with any financial or investment institutions.

This firm has referral or financial arrangements with other brokers or dealers.

### Disclosure Events

Brokerage firms are required to disclose certain criminal matters, regulatory actions, civil judicial proceedings and financial matters in which the firm or one of its control affiliates has been involved.

Are there events disclosed about this firm? **Yes**

**The following types of disclosures have been reported:**

Type	Count
Regulatory Event	4



## **Firm Profile**

This firm is classified as a corporation.

This firm was formed in California on 08/19/2002.

Its fiscal year ends in December.

## **Firm Names and Locations**

This section provides the brokerage firm's full legal name, "Doing Business As" name, business and mailing addresses, telephone number, and any alternate name by which the firm conducts business and where such name is used.

### **GLENDALE SECURITIES, INC.**

**Doing business as GLENDALE SECURITIES, INC.**

**CRD#** 123649

**SEC#** 8-65604

### **Main Office Location**

15233 VENTURA BLVD., SUITE 712  
SHERMAN OAKS, CA 91403

**Regulated by FINRA Los Angeles Office**

### **Mailing Address**

15233 VENTURA BLVD., SUITE 712  
SHERMAN OAKS, CA 91403

### **Business Telephone Number**

818-907-1505



## Firm Profile

This section provides information relating to all direct owners and executive officers of the brokerage firm.

### Direct Owners and Executive Officers

**Legal Name & CRD# (if any):** BARBER, RICHARD WRIGHT  
1298800

**Is this a domestic or foreign entity or an individual?** Individual

**Position** SHAREHOLDER

**Position Start Date** 01/2006

**Percentage of Ownership** 25% but less than 50%

**Does this owner direct the management or policies of the firm?** Yes

**Is this a public reporting company?** No

**Legal Name & CRD# (if any):** CASTILLO, GEORGE ALBERTO  
1936486

**Is this a domestic or foreign entity or an individual?** Individual

**Position** PRESIDENT, PRINCIPAL

**Position Start Date** 11/2005

**Percentage of Ownership** 10% but less than 25%

**Does this owner direct the management or policies of the firm?** Yes

**Is this a public reporting company?** No

**Legal Name & CRD# (if any):** FLESCHE, PAUL ERIC  
3277904

**Is this a domestic or foreign entity or an individual?** Individual

**Position** FINOP, CCO, PRINCIPAL, ROSFP, CFO, POO, PFO

## Firm Profile



### Direct Owners and Executive Officers (continued)

<b>Position Start Date</b>	11/2005
<b>Percentage of Ownership</b>	10% but less than 25%
<b>Does this owner direct the management or policies of the firm?</b>	Yes
<b>Is this a public reporting company?</b>	No

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**Legal Name & CRD# (if any):** ABADIN, JOSE MIGUEL  
1273345

<b>Is this a domestic or foreign entity or an individual?</b>	Individual
<b>Position</b>	SHAREHOLDER
<b>Position Start Date</b>	04/2011
<b>Percentage of Ownership</b>	5% but less than 10%
<b>Does this owner direct the management or policies of the firm?</b>	No
<b>Is this a public reporting company?</b>	No

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**Legal Name & CRD# (if any):** SHEN, QIUFANG  
3158926

<b>Is this a domestic or foreign entity or an individual?</b>	Individual
<b>Position</b>	SHAREHOLDER
<b>Position Start Date</b>	09/2003
<b>Percentage of Ownership</b>	Less than 5%
<b>Does this owner direct the management or policies of the firm?</b>	No
<b>Is this a public reporting company?</b>	No

## **Firm Profile**

This section provides information relating to any indirect owners of the brokerage firm.

## **Indirect Owners**

No information reported.



## Firm History

This section provides information relating to any successions (e.g., mergers, acquisitions) involving the firm.

No information reported.







## Firm Operations

### Registrations

This section provides information about the regulators (Securities and Exchange Commission (SEC), self-regulatory organizations (SROs), and U.S. states and territories) with which the brokerage firm is currently registered and licensed, the date the license became effective, and certain information about the firm's SEC registration.

**This firm is currently registered with the SEC, 3 SROs and 47 U.S. states and territories.**

Federal Regulator	Status	Date Effective
SEC	Approved	01/09/2003

### SEC Registration Questions

This firm is registered with the SEC as:

A broker-dealer: Yes

A broker-dealer and government securities broker or dealer: Yes

A government securities broker or dealer only: No

This firm has ceased activity as a government securities broker or dealer: No

Self-Regulatory Organization	Status	Date Effective
FINRA	Approved	01/09/2003
NYSE Arca, Inc.	Approved	12/02/2005
Nasdaq Stock Market	Approved	08/07/2006



## Firm Operations

### Registrations (continued)

U.S. States & Territories	Status	Date Effective
Alabama	Approved	08/08/2008
Alaska	Approved	07/07/2009
Arizona	Approved	03/29/2007
Arkansas	Approved	06/02/2008
California	Approved	01/17/2003
Colorado	Approved	10/30/2004
Connecticut	Approved	01/03/2004
Delaware	Approved	04/08/2015
Florida	Approved	11/04/2004
Georgia	Approved	04/07/2008
Hawaii	Approved	04/07/2014
Idaho	Approved	10/12/2018
Illinois	Approved	06/10/2003
Indiana	Approved	06/06/2008
Iowa	Approved	03/20/2007
Kansas	Approved	07/10/2008
Kentucky	Approved	03/10/2008
Louisiana	Approved	05/28/2008
Maine	Approved	05/24/2011
Maryland	Approved	03/18/2008
Massachusetts	Approved	09/23/2003
Michigan	Approved	05/12/2003
Minnesota	Approved	03/05/2008
Mississippi	Approved	05/22/2008
Missouri	Approved	04/02/2008
Montana	Approved	05/28/2008
Nevada	Approved	10/06/2003
New Hampshire	Approved	03/23/2012
New Jersey	Approved	04/26/2005
New Mexico	Approved	05/23/2008
New York	Approved	01/21/2003
North Carolina	Approved	07/19/2005
Ohio	Approved	04/08/2008

U.S. States & Territories	Status	Date Effective
Oklahoma	Approved	03/10/2008
Oregon	Approved	03/25/2008
Pennsylvania	Approved	11/05/2007
Puerto Rico	Approved	02/05/2015
Rhode Island	Approved	06/03/2008
South Carolina	Approved	03/06/2007
South Dakota	Approved	05/23/2008
Tennessee	Approved	08/24/2009
Texas	Approved	03/17/2006
Utah	Approved	03/04/2008
Virginia	Approved	03/10/2008
Washington	Approved	12/13/2006
Wisconsin	Approved	08/05/2008
Wyoming	Approved	03/12/2007

## Firm Operations



### Types of Business

This section provides the types of business, including non-securities business, the brokerage firm is engaged in or expects to be engaged in.

**This firm currently conducts 9 types of businesses.**

#### Types of Business

Broker or dealer making inter-dealer markets in corporation securities over-the-counter

Broker or dealer retailing corporate equity securities over-the-counter

Broker or dealer selling corporate debt securities

Mutual fund retailer

U S. government securities broker

Municipal securities broker

Put and call broker or dealer or option writer

Non-exchange member arranging for transactions in listed securities by exchange member

Trading securities for own account

## Firm Operations



### Clearing Arrangements

This firm does not hold or maintain funds or securities or provide clearing services for other broker-dealer(s).

### Introducing Arrangements

This firm does refer or introduce customers to other brokers and dealers.

<b>Name:</b>	WILSON-DAVIS & CO., INC.
<b>CRD #:</b>	3777
<b>Business Address:</b>	236 SOUTH MAIN STREET SALT LAKE CITY, UT 84101-2104
<b>Effective Date:</b>	01/29/2018
<b>Description:</b>	GLENDAL SECURITIES, INC. HAS ENTERED INTO A FULLY DISCLOSED CLEARING ARRANGEMENT WITH WILSON-DAVIS & CO., INC.

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## Firm Operations

### Industry Arrangements



**This firm does have books or records maintained by a third party.**

**Name:** WILSON-DAVIS & CO., INC.  
**CRD #:** 3777  
**Business Address:** 236 SOUTH MAIN STREET  
SALT LAKE CITY, UT 84101-2104  
**Effective Date:** 01/29/2018  
**Description:** GLENDALE SECURITIES, INC. HAS ENTERED INTO A FULLY DISCLOSED CLEARING ARRANGEMENT WITH WILSON-DAVIS & CO., INC.

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**This firm does have accounts, funds, or securities maintained by a third party.**

**Name:** WILSON-DAVIS & CO., INC.  
**CRD #:** 3777  
**Business Address:** 236 SOUTH MAIN STREET  
SALT LAKE CITY, UT 84101-2104  
**Effective Date:** 01/29/2018  
**Description:** GLENDALE SECURITIES, INC. HAS ENTERED INTO A FULLY DISCLOSED CLEARING ARRANGEMENT WITH WILSON-DAVIS & CO., INC.

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**This firm does have customer accounts, funds, or securities maintained by a third party.**

**Name:** WILSON-DAVIS & CO., INC.  
**CRD #:** 3777  
**Business Address:** 236 SOUTH MAIN STREET  
SALT LAKE CITY, UT 84101-2104  
**Effective Date:** 01/29/2018  
**Description:** GLENDALE SECURITIES, INC. HAS ENTERED INTO A FULLY DISCLOSED CLEARING ARRANGEMENT WITH WILSON-DAVIS & CO., INC.

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### Control Persons/Financing

**This firm does not have individuals who control its management or policies through agreement.**

**This firm does not have individuals who wholly or partly finance the firm's business.**

## Firm Operations



### Organization Affiliates

This section provides information on control relationships the firm has with other firms in the securities, investment advisory, or banking business.

**This firm is not, directly or indirectly:**

- in control of
  - controlled by
  - or under common control with
- the following partnerships, corporations, or other organizations engaged in the securities or investment advisory business.**

**This firm is not directly or indirectly, controlled by the following:**

- bank holding company
- national bank
- state member bank of the Federal Reserve System
- state non-member bank
- savings bank or association
- credit union
- or foreign bank



## Disclosure Events

All firms registered to sell securities or provide investment advice are required to disclose regulatory actions, criminal or civil judicial proceedings, and certain financial matters in which the firm or one of its control affiliates has been involved. For your convenience, below is a matrix of the number and status of disclosure events involving this brokerage firm or one of its control affiliates. Further information regarding these events can be found in the subsequent pages of this report.

	<b>Pending</b>	<b>Final</b>	<b>On Appeal</b>
Regulatory Event	1	3	0



## Disclosure Event Details

### What you should know about reported disclosure events:

1. **BrokerCheck provides details for any disclosure event that was reported in CRD. It also includes summary information regarding FINRA arbitration awards in cases where the brokerage firm was named as a respondent.**
2. **Certain thresholds must be met before an event is reported to CRD, for example:**
  - o A law enforcement agency must file formal charges before a brokerage firm is required to disclose a particular criminal event.
3. **Disclosure events in BrokerCheck reports come from different sources:**
  - o Disclosure events for this brokerage firm were reported by the firm and/or regulators. When the firm and a regulator report information for the same event, both versions of the event will appear in the BrokerCheck report. The different versions will be separated by a solid line with the reporting source labeled.
4. **There are different statuses and dispositions for disclosure events:**
  - o A disclosure event may have a status of *pending*, *on appeal*, or *final*.
    - § A "pending" event involves allegations that have not been proven or formally adjudicated.
    - § An event that is "on appeal" involves allegations that have been adjudicated but are currently being appealed.
    - § A "final" event has been concluded and its resolution is not subject to change.
  - o A final event generally has a disposition of *adjudicated*, *settled* or *otherwise resolved*.
    - § An "adjudicated" matter includes a disposition by (1) a court of law in a criminal or civil matter, or (2) an administrative panel in an action brought by a regulator that is contested by the party charged with some alleged wrongdoing.
    - § A "settled" matter generally involves an agreement by the parties to resolve the matter. Please note that firms may choose to settle customer disputes or regulatory matters for business or other reasons.
    - § A "resolved" matter usually involves no payment to the customer and no finding of wrongdoing on the part of the individual broker. Such matters generally involve customer disputes.
5. **You may wish to contact the brokerage firm to obtain further information regarding any of the disclosure events contained in this BrokerCheck report.**

### Regulatory - Final

This type of disclosure event involves (1) a final, formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulator such as the U.S. Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations; or (2) a revocation or suspension of the authority of a brokerage firm or its control affiliate to act as an attorney, accountant or federal contractor.

#### Disclosure 1 of 3

**Reporting Source:** Firm  
**Current Status:** Final





**Allegations:** THE FIRM FAILED TO ESTABLISH AND MAINTAIN A SUPERVISORY SYSTEM REASONABLY DESIGNED TO ENSURE COMPLIANCE WITH THE RULES OF THE NYSE ARCA EQUITIES, INC. REGARDING REGISTRATION OF SECURITIES TRADERS, PRINCIPALS, AND FINANCIAL/OPERATIONS PRINCIPALS ("FINOP"). AS A RESULT OF ITS LACK OF SUCH A SYSTEM, THE FIRM FAILED TO REGISTER THREE EMPLOYEES WITH NYSE ARCA EQUITIES, INC. THE FIRM ALSO FAILED TO PROPERLY DESIGNATE A FOURTH EMPLOYEE AS A FINOP WITH NYSE ARCA EQUITIES, INC.

**Initiated By:** FINANCIAL INDUSTRY REGULATORY AUTHORITY

**Date Initiated:** 03/05/2018

**Docket/Case Number:** 20170547433

**Principal Product Type:** No Product

**Other Product Type(s):**

**Principal Sanction(s)/Relief Sought:** Other

**Other Sanction(s)/Relief Sought:**

**Resolution:** Consent

**Resolution Date:** 03/05/2018

**Sanctions Ordered:** Monetary/Fine \$4,500.00

**Other Sanctions Ordered:**

**Sanction Details:** NYSE ARCA EQUITIES RULE 2.21 - FINE \$1,000  
NYSE ARCA EQUITIES RULE 6.18 - FINE \$3,500

### Disclosure 2 of 3

**Reporting Source:** Regulator

**Current Status:** Final

**Allegations:** WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT ACCEPTED AND HELD CUSTOMER ORDERS, TRADED FOR ITS OWN ACCOUNT AT PRICES THAT WOULD HAVE SATISFIED THE CUSTOMER ORDERS, AND FAILED TO EXECUTE OR IMMEDIATELY EXECUTE THE CUSTOMER ORDERS IN OVER-THE-COUNTER (OTC) SECURITIES UP TO THE SIZE AND AT THE SAME PRICE AT WHICH IT TRADED FOR ITS OWN ACCOUNT OR AT A BETTER PRICE.



**Initiated By:** FINRA  
**Date Initiated:** 08/18/2015  
**Docket/Case Number:** [2014040421501](#)  
**Principal Product Type:** Equity - OTC  
**Other Product Type(s):**  
**Principal Sanction(s)/Relief Sought:**  
**Other Sanction(s)/Relief Sought:**  
**Resolution:** Acceptance, Waiver & Consent(AWC)  
**Resolution Date:** 08/18/2015  
**Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?** No  
**Sanctions Ordered:** Censure  
 Monetary/Fine \$12,500.00  
 Disgorgement/Restitution  
**Other Sanctions Ordered:** INTEREST  
**Sanction Details:** THE FIRM WAS CENSURED, FINED \$12,500 AND ORDERED TO PAY RESTITUTION IN THE AMOUNT OF \$947.10, PLUS INTEREST, TO CUSTOMERS. FINE PAID IN FULL ON SEPTEMBER 4, 2014.

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**Reporting Source:** Firm  
**Current Status:** Final  
**Allegations:** THE FIRM ACCEPTED AND HELD 12 CUSTOMER ORDERS, TRADED FOR ITS OWN ACCOUNT AT PRICES THAT WOULD HAVE SATISFIED THE CUSTOMER ORDERS, AND FAILED TO EXECUTE OR IMMEDIATELY EXECUTE THE CUSTOMER ORDERS IN OTC SECURITIES UP TO THE SIZE AND AT THE SAME PRICE AT WHICH IT TRADED FOR ITS OWN ACCOUNT OR AT A BETTER PRICE. THIS CONDUCT CONSTITUTES SEPARATE AND DISTINCT VIOLATIONS OF FINRA RULES 5320 AND 2010.  
**Initiated By:** FINANCIAL INDUSTRY REGULATORY AUTHORITY



**Date Initiated:** 08/18/2015

**Docket/Case Number:** 20140404215-01

**Principal Product Type:** Equity - OTC

**Other Product Type(s):**

**Principal Sanction(s)/Relief Sought:** Censure

**Other Sanction(s)/Relief Sought:** CENSURE, A FINE OF \$12,500, AND RESTITUTION TO CUSTOMERS IN THE AMOUNT OF \$947.10

**Resolution:** Acceptance, Waiver & Consent(AWC)

**Resolution Date:** 08/18/2015

**Sanctions Ordered:** Censure  
Monetary/Fine \$12,500.00  
Disgorgement/Restitution

**Other Sanctions Ordered:**

**Sanction Details:** A CENSURE, A FINE OF \$12,500, AND RESTITUTION TO THE CUSTOMER(S) IN THE AMOUNT OF \$947.10, PLUS INTEREST AT THE RATE SET FORTH IN SECTION 662L(A) OF THE INTERNAL REVENUE CODE, 26 U.S.C. 6621(A)(2), FROM THE DATE OF THE VIOLATIVE CONDUCT UNTIL THE DATE THIS A WC IS ACCEPTED BY THE NATIONAL ADJUDICATORY COUNCIL ("NAC").

### Disclosure 3 of 3

**Reporting Source:** Regulator

**Current Status:** Final

**Allegations:** FINRA RULE 2010, NASD RULES 2110, 3010(A), 3010(B), 3011(A), 3011(B): ALTHOUGH THE FIRM'S ANTI-MONEY LAUNDERING (AML) PROGRAM REQUIRED IT TO MONITOR FOR POTENTIALLY SUSPICIOUS ACTIVITY AND AML "RED FLAGS," INVESTIGATE POTENTIALLY SUSPICIOUS ACTIVITY, AND REPORT SUSPICIOUS ACTIVITY BY FILING A FORM SAR-SF WITH THE UNITED STATES DEPARTMENT OF TREASURY'S FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN) AS APPROPRIATE, THE FIRM FAILED TO ADEQUATELY IMPLEMENT OR ENFORCE ITS AML PROGRAM AND TO OTHERWISE COMPLY WITH ITS AML OBLIGATIONS, AS THE FIRM DID NOT IDENTIFY AND ANALYZE NUMEROUS TRANSACTIONS TO DETERMINE IF THEY WERE IN FACT SUSPICIOUS AND WERE REQUIRED TO BE REPORTED ON A FORM SAR-SF. IN THIS REGARD, THE FIRM PERMITTED APPROXIMATELY 51 FOREIGN CORPORATE ACCOUNTS, ALL OF WHICH



WERE CONTROLLED BY ONE INDIVIDUAL, TO DEPOSIT A TOTAL OF APPROXIMATELY 279 MILLION SHARES OF LOW-PRICED SECURITIES AND/OR PENNY STOCKS INTO THE ACCOUNTS. AFTER THE SECURITIES WERE DEPOSITED INTO THE ACCOUNTS, THEY WERE PROMPTLY SOLD AND ALL PROCEEDS FROM THE TRANSACTIONS WERE DISBURSED BY WIRES TO FIRST-PARTY BANK ACCOUNTS MAINTAINED WITH A BANK IN SCOTLAND. THE FIRM PERMITTED THESE SUSPICIOUS ACTIVITIES TO OCCUR WITHOUT CONDUCTING ADEQUATE AML REVIEWS AND FAILED TO FILE FORMS SAR-SF AS APPROPRIATE. IN ADDITION, THE FIRM HAD NO WRITTEN PROCEDURES TO DETECT AND PREVENT PARTICIPATION IN AN UNREGISTERED DISTRIBUTION OF SECURITIES. IN PARTICULAR, IT HAD NO WRITTEN PROCEDURES ADDRESSING THE ACCEPTANCE OF SECURITIES IN EITHER CERTIFICATE OR ELECTRONIC FORM AND THE CORRESPONDING SALES OF THOSE SECURITIES. IN PRACTICE, THE FIRM RELIED PRIMARILY ON TRANSFER AGENTS TO DETERMINE WHETHER THE SECURITIES WERE FREE TRADING. UPON RECEIPT OF A LARGE BLOCK OF A LOW PRICED STOCK (WHICH WAS IN CERTAIN INSTANCES, UNREGISTERED), THE FIRM'S DUE DILIGENCE WAS ESSENTIALLY LIMITED TO VERIFYING THAT THE SECURITY WAS ELECTRONICALLY QUOTED AND CONTACTING THE TRANSFER AGENT TO DETERMINE THE NUMBER OF OUTSTANDING SHARES AND WHETHER THE SHARES WERE FREE TRADING. AMONG OTHER THINGS, THE FIRM FAILED TO INQUIRE ABOUT (I) THE LENGTH OF TIME THE SECURITIES HAD BEEN HELD; (II) HOW, WHEN AND UNDER WHAT CIRCUMSTANCES THE SECURITIES HAD BEEN ACQUIRED; (III) THE RELATIONSHIP, IF ANY BETWEEN THE CUSTOMER AND THE ISSUER; AND/OR (IV) HOW MUCH STOCK WAS OWNED BY OR UNDER THE CUSTOMER'S CONTROL. RELIANCE ON TRANSFER AGENTS DOES NOT ADEQUATELY DISCHARGE A FIRM'S SUPERVISORY OBLIGATIONS. FIRMS THAT ACCEPT DELIVERY OF SHARES ELECTRONICALLY OR IN CERTIFICATE FORM, AND EFFECT SALES IN THOSE SECURITIES, MUST HAVE SYSTEMS AND PROCEDURES IN PLACE THAT ARE REASONABLY DESIGNED TO PREVENT PARTICIPATION IN DISTRIBUTIONS OF UNREGISTERED SECURITIES.

**Initiated By:** FINRA

**Date Initiated:** 11/23/2010

**Docket/Case Number:** [2009019747601](#)

**Principal Product Type:** Other

**Other Product Type(s):** UNREGISTERED SECURITIES

**Principal Sanction(s)/Relief Sought:** Other



**Other Sanction(s)/Relief Sought:** N/A

**Resolution:** Acceptance, Waiver & Consent(AWC)

**Resolution Date:** 11/23/2010

**Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?** No

**Sanctions Ordered:** Censure  
Monetary/Fine \$45,000.00

**Other Sanctions Ordered:**

**Sanction Details:** WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE IT IS CENSURED AND FINED \$45,000.

THIS MATTER WAS COMBINED WITH CASE #20060075263 FOR THE PURPOSES OF THE AWC.

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**Reporting Source:** Firm

**Current Status:** Final

**Allegations:** FINRA RULE 2010, NASD RULES 2110, 3010(A), 3010(B), 3011(A), 3011(B): ALTHOUGH THE FIRM'S ANTI-MONEY LAUNDERING (AML) PROGRAM REQUIRED IT TO MONITOR FOR POTENTIALLY SUSPICIOUS ACTIVITY AND AML "RED FLAGS," INVESTIGATE POTENTIALLY SUSPICIOUS ACTIVITY, AND REPORT SUSPICIOUS ACTIVITY BY FILING A FORM SAR-SF WITH THE UNITED STATES DEPARTMENT OF TREASURY'S FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN) AS APPROPRIATE, THE FIRM FAILED TO ADEQUATELY IMPLEMENT OR ENFORCE ITS AML PROGRAM AND TO OTHERWISE COMPLY WITH ITS AML OBLIGATIONS, AS THE FIRM DID NOT IDENTIFY AND ANALYZE NUMEROUS TRANSACTIONS TO DETERMINE IF THEY WERE IN FACT SUSPICIOUS AND WERE REQUIRED TO BE REPORTED ON A FORM SAR-SF. IN THIS REGARD, THE FIRM PERMITTED APPROXIMATELY 51 FOREIGN CORPORATE ACCOUNTS, ALL OF WHICH WERE CONTROLLED BY ONE INDIVIDUAL, TO DEPOSIT A TOTAL OF APPROXIMATELY 279 MILLION SHARES OF LOW-PRICED SECURITIES AND/OR PENNY STOCKS INTO THE ACCOUNTS. AFTER THE SECURITIES WERE DEPOSITED INTO THE ACCOUNTS, THEY WERE PROMPTLY SOLD AND ALL PROCEEDS FROM THE TRANSACTIONS WERE DISBURSED BY



WIRES TO FIRST-PARTY BANK ACCOUNTS MAINTAINED WITH A BANK IN SCOTLAND. THE FIRM PERMITTED THESE SUSPICIOUS ACTIVITIES TO OCCUR WITHOUT CONDUCTING ADEQUATE AML REVIEWS AND FAILED TO FILE FORMS SAR-SF AS APPROPRIATE. IN ADDITION, THE FIRM HAD NO WRITTEN PROCEDURES TO DETECT AND PREVENT PARTICIPATION IN AN UNREGISTERED DISTRIBUTION OF SECURITIES. IN PARTICULAR, IT HAD NO WRITTEN PROCEDURES ADDRESSING THE ACCEPTANCE OF SECURITIES IN EITHER CERTIFICATE OR ELECTRONIC FORM AND THE CORRESPONDING SALES OF THOSE SECURITIES. IN PRACTICE, THE FIRM RELIED PRIMARILY ON TRANSFER AGENTS TO DETERMINE WHETHER THE SECURITIES WERE FREE TRADING. UPON RECEIPT OF A LARGE BLOCK OF A LOW PRICED STOCK (WHICH WAS IN CERTAIN INSTANCES, UNREGISTERED), THE FIRM'S DUE DILIGENCE WAS ESSENTIALLY LIMITED TO VERIFYING THAT THE SECURITY WAS ELECTRONICALLY QUOTED AND CONTACTING THE TRANSFER AGENT TO DETERMINE THE NUMBER OF OUTSTANDING SHARES AND WHETHER THE SHARES WERE FREE TRADING. AMONG OTHER THINGS, THE FIRM FAILED TO INQUIRE ABOUT (I) THE LENGTH OF TIME THE SECURITIES HAD BEEN HELD; (II) HOW, WHEN AND UNDER WHAT CIRCUMSTANCES THE SECURITIES HAD BEEN ACQUIRED; (III) THE RELATIONSHIP, IF ANY BETWEEN THE CUSTOMER AND THE ISSUER; AND/OR (IV) HOW MUCH STOCK WAS OWNED BY OR UNDER THE CUSTOMER'S CONTROL. RELIANCE ON TRANSFER AGENTS DOES NOT ADEQUATELY DISCHARGE A FIRM'S SUPERVISORY OBLIGATIONS. FIRMS THAT ACCEPT DELIVERY OF SHARES ELECTRONICALLY OR IN CERTIFICATE FORM, AND EFFECT SALES IN THOSE SECURITIES, MUST HAVE SYSTEMS AND PROCEDURES IN PLACE THAT ARE REASONABLY DESIGNED TO PREVENT PARTICIPATION IN DISTRIBUTIONS OF UNREGISTERED SECURITIES.

**Initiated By:** FINRA

**Date Initiated:** 11/23/2010

**Docket/Case Number:** [2009019747601](#)

**Principal Product Type:** Equity - OTC

**Other Product Type(s):**

**Principal Sanction(s)/Relief Sought:** Censure

**Other Sanction(s)/Relief Sought:** \$45,000 FINE

**Resolution:** Acceptance, Waiver & Consent(AWC)

**Resolution Date:** 11/23/2010

**Sanctions Ordered:** Censure



Monetary/Fine \$45,000.00

**Other Sanctions Ordered:**

**Sanction Details:**

CENSURE AND \$45,000.00 FINE. PAID 12/13/2010. THIS MATTER WAS COMBINED WITH CASE NUMBER 20060075263 FOR THE PURPOSES OF AWC.

**Firm Statement**

THE FIRM ACCEPTS AND CONSENTS, WITHOUT ADMITTING OR DENYING THE FINDINGS, AND SOLELY FOR THE PURPOSES OF THIS PROCEEDING, PRIOR TO A HEARING AND WITHOUT AND ADJUDICATION OF ANY ISSUE OF LAW OR FACT, TO THE ENTRY OF FINDINGS BY FINRA.



## Regulatory - Pending

This type of disclosure event may include a pending formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulatory agency such as the Securities and Exchange Commission, foreign financial regulatory body) for alleged violations of investment-related rules or regulations.

### Disclosure 1 of 1

**Reporting Source:** Regulator

**Current Status:** Pending

**Allegations:** THE FIRM WAS NAMED A RESPONDENT IN A FINRA COMPLAINT ALLEGING THAT IT ENGAGED IN A SCHEME TO MANIPULATE A LOW-PRICED, THINLY-TRADED STOCK ISSUED BY A COMPANY. THE COMPLAINT ALLEGES THAT THE FIRM AND ITS PRESIDENT PLACED AN ORDER ON BEHALF OF A FIRM CUSTOMER TO MANIPULATE THE CLOSING PRICE OF THE STOCK. BY ARTIFICIALLY INFLATING THE STOCK'S PRICE, THE FIRM RELEASED CUSTOMERS FROM "LOCK-UP" AGREEMENTS THAT LIMITED THEIR ABILITY TO SELL SHARES OF THE STOCK UNLESS AND UNTIL THE STOCK'S MARKET CAPITALIZATION REACHED CERTAIN THRESHOLDS. ONCE THE CUSTOMERS' SHARES WERE FREE FROM THE LOCK-UP AGREEMENT AS A RESULT OF THE ARTIFICIAL PRICE INFLATION, THOSE CUSTOMERS LIQUIDATED OVER \$8 MILLION OF SHARES, AND THE FIRM EARNED OVER \$190,000 IN COMMISSIONS AND FEES FOR EFFECTING SUCH LIQUIDATIONS. AS A RESULT, THE FIRM WILLFULLY VIOLATED SECTION 10(B) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 10B-5 THEREUNDER, AND FINRA RULE 2020. THE COMPLAINT ALSO ALLEGES THAT THE FIRM FAILED TO ESTABLISH AND IMPLEMENT ANTI-MONEY LAUNDERING (AML) POLICIES AND PROCEDURES REASONABLY DESIGNED TO DETECT AND REPORT SUSPICIOUS ACTIVITY, INCLUDING RED FLAGS, SPECIFIC TO THE FIRM'S LINES OF BUSINESS. THE FIRM WAS AWARE OF THE IMPORTANCE OF IMPLEMENTING AN EFFECTIVE SYSTEM TO MONITOR FOR SUSPICIOUS ACTIVITY BECAUSE THE FIRM HAD RECENTLY BEEN SANCTIONED BY FINRA FOR FAILING TO HAVE AN ADEQUATE AML COMPLIANCE PROGRAM IN PLACE. THE FIRM RECEIVED EXCEPTION REPORTS FROM ITS CLEARING FIRM THAT WERE NOT DESIGNED TO IDENTIFY PATTERNS OF POTENTIALLY SUSPICIOUS ACTIVITY WITHIN THE FIRM'S PRIMARY BUSINESS LINE. ACCORDINGLY, THE FIRM RELIED ENTIRELY UPON MANUAL REVIEW OF TRADING DATA TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY, WHICH REVIEW FAILED ENTIRELY TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY WITHIN CUSTOMER ACCOUNTS THAT TRADED IN CERTAIN STOCKS. THE FIRM'S AML PROGRAM RELIED UPON INDIVIDUAL REGISTERED REPRESENTATIVES TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY WITHIN CUSTOMER ACCOUNTS NOT IDENTIFIED AS "HIGH RISK ACCOUNTS," WHICH, ONCE IDENTIFIED, WAS SUPPOSED TO BE REFERRED TO THE FIRM'S AML COMPLIANCE OFFICER (AMLCO) TO FURTHER INVESTIGATE. HOWEVER,





THE WRITTEN PROCEDURES FAILED TO SPECIFY HOW THIS PROCESS WAS TO BE ACCOMPLISHED, AND THE INFORMAL MANNER IN WHICH THE FIRM'S REGISTERED REPRESENTATIVES REFERRED POTENTIALLY SUSPICIOUS ACTIVITY TO THE AMLCO MEANT THAT INVESTIGATIONS THAT FAILED TO RESULT IN A SUSPICIOUS ACTIVITY REPORT (SAR) FILING WERE NEITHER FORMALLY DOCUMENTED NOR OTHERWISE MEMORIALIZED. THE FIRM FAILED TO CONDUCT ADEQUATE DUE DILIGENCE ON CORRESPONDENT ACCOUNTS IT OPENED FOR A FOREIGN FINANCIAL INSTITUTION AND FAILED TO ESTABLISH AND IMPLEMENT AML PROCEDURES DESIGNED TO MONITOR AND DETECT SUSPICIOUS ACTIVITY WITHIN THE FIRM'S FOREIGN-BASED ACCOUNTS. THE COMPLAINT FURTHER ALLEGES THAT THE FIRM FAILED TO ESTABLISH AND MAINTAIN A SUPERVISORY SYSTEM, INCLUDING WRITTEN SUPERVISORY PROCEDURES (WSPS), REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH THE REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT OF 1933 FOR SALES OF RESTRICTED SECURITIES. THE FIRM FAILED TO IDENTIFY THAT CUSTOMERS EACH RECEIVED SHARES DIRECTLY FROM AFFILIATES OF THE ISSUER, AND THUS SOME OF THE SHARES THAT THOSE CUSTOMERS DEPOSITED AT THE FIRM WERE NOT ELIGIBLE FOR IMMEDIATE RESALE. THE FIRM FAILED TO COMPLY WITH SECTION 5 BY ENGAGING IN THE UNLAWFUL RESALE OF APPROXIMATELY 482,377 SHARES OF RESTRICTED SECURITIES INTO THE PUBLIC MARKET, ABSENT A VALID EXEMPTION. THE FIRM ALSO FAILED TO CONDUCT A REASONABLE REVIEW OF A REPRESENTATIVE'S EMAIL WITH CUSTOMERS USING THE FIRM'S EMAIL SYSTEMS, WHICH CONTAINED RED FLAGS OF POTENTIALLY SUSPICIOUS ACTIVITY, AND FAILED TO MAKE REASONABLE INQUIRIES ABOUT HIS COMMUNICATIONS WITH CUSTOMERS. THE FIRM'S EMAIL REVIEW SYSTEM WAS UNREASONABLE BECAUSE THESE ENGLISH LANGUAGE-BASED WORD SEARCHES WOULD NOT YIELD RESULTS WHEN THE REPRESENTATIVE COMMUNICATED BY EMAIL WITH FIRM CUSTOMERS IN OTHER LANGUAGES, SUCH AS CHINESE.

**Initiated By:** FINRA  
**Date Initiated:** 10/05/2017  
**Docket/Case Number:** [2016049565901](#)  
**Principal Product Type:** Equity - OTC  
**Other Product Type(s):**  
**Principal Sanction(s)/Relief Sought:**  
**Other Sanction(s)/Relief Sought:**

**Regulator Statement** EXTENDED HEARING PANEL DECISION RENDERED APRIL 5, 2019, WHEREIN



THE FIRM WAS CENSURED, FINED A TOTAL OF \$155,000, OF WHICH \$30,000 IS TO BE PAID JOINTLY AND SEVERALLY, AND THE DECISION SHALL SERVE AS A LETTER OF CAUTION FOR FAILURE TO CONDUCT PROPER DUE DILIGENCE ON A BANK BASED IN BELIZE AND ITS CUSTOMER ACCOUNTS. THE FIRM WAS ORDERED TO PAY \$12,289.23 IN COSTS.

THE SANCTIONS WERE BASED ON FINDINGS THAT THE FIRM, ACTING THROUGH LAUBENSTEIN, ITS AML COMPLIANCE OFFICER (AMLCO), FAILED TO ESTABLISH AND IMPLEMENT REASONABLE ANTI-MONEY LAUNDERING (AML) POLICIES AND PROCEDURES TO DETECT, INVESTIGATE, AND REPORT, WHERE APPROPRIATE, SUSPICIOUS ACTIVITY. THE FINDINGS STATED THAT THE TRANSACTIONS RELATED TO THE LIQUIDATIONS BY FIRM CUSTOMERS OF THE SECURITIES OF THREE LOW-PRICED, SPECULATIVE PENNY STOCKS. THE FIRM'S PRIMARY LINE OF BUSINESS WAS LIQUIDATING SPECULATIVE, LOW-PRICED SECURITIES FOR ITS CUSTOMERS. THE DEPOSIT AND TRADING ACTIVITY INVOLVING THE THREE LOW-PRICED, SPECULATIVE PENNY STOCKS WAS SUSPICIOUS GIVEN THE ISSUERS' BACKGROUND, THE MANNER IN WHICH THE CUSTOMERS ACQUIRED THEIR SHARES, THE NUMBER OF SHARES ACQUIRED, AND THE PROCEEDS THEY EARNED FROM THE SALES. LAUBENSTEIN FAILED TO ENSURE THAT THE FIRM'S AML PROGRAM WAS ADEQUATELY TAILORED TO REDUCE THE RISKS POSED BY THE FIRM'S PENNY STOCK LIQUIDATION BUSINESS. THIS ENABLED THE SUSPICIOUS ACTIVITY TO CONTINUE WITHOUT AN ADEQUATE EVALUATION OF THE CUSTOMERS' TRADING IN THOSE STOCKS. THE FINDINGS ALSO STATED THAT THE FIRM, THROUGH LAUBENSTEIN, FAILED TO EMPLOY NON-DOCUMENTARY MEANS OF VERIFYING HUANG, A REGISTERED REPRESENTATIVE, CUSTOMERS' IDENTITIES FOR COMPLIANCE WITH THE FIRM'S CUSTOMER IDENTIFICATION PROGRAM (CIP). THE FIRM AND LAUBENSTEIN FAILED TO CONDUCT REASONABLE DUE DILIGENCE INTO THE NATURE OF A BELIZE BANK'S UNDISCLOSED CUSTOMERS' ACTIVITIES, AS REQUIRED BY THE BANK SECRECY ACT'S IMPLEMENTING REGULATIONS. THE FIRM AND LAUBENSTEIN ALSO FAILED TO RESPOND TO RED FLAGS ASSOCIATED WITH THE UNDISCLOSED CUSTOMERS AND THEIR ACCOUNTS. THE FIRM AND LAUBENSTEIN FAILED TO ESTABLISH AND MAINTAIN AN ADEQUATE DUE DILIGENCE PROGRAM FOR CUSTOMER CORRESPONDENT ACCOUNTS INTRODUCED TO THE FIRM BY THE BELIZE BANK. THE BELIZE BANK DID NOT DISCLOSE THE IDENTITIES OF APPROXIMATELY 18 CUSTOMERS WHO OPENED ACCOUNTS AT THE FIRM THROUGH THE BANK. FURTHERMORE, THE FIRM, ACTING THROUGH FLESCHE, ITS CHIEF COMPLIANCE OFFICER (CCO), AND LAUBENSTEIN, FAILED TO SUPERVISE HUANG'S COMMUNICATIONS WITH HIS CUSTOMERS IN ASIA. EVEN THOUGH FLESCHE KNEW THAT HUANG OPENED ACCOUNTS AND ENGAGED IN TRANSACTIONS WITH CUSTOMERS BASED IN ASIA, HE FAILED TO INQUIRE HOW HUANG COMMUNICATED WITH HIS CUSTOMERS GENERALLY OR ENSURE THAT CUSTOMERS



UNDERSTOOD THE SUBSTANCE OF HIS COMMUNICATIONS. THESE INCLUDED HUANG'S CHINESE LANGUAGE TRANSLATIONS OF PORTIONS OF THE FIRM'S NEW ACCOUNT DOCUMENTS AND ONE OF THE PENNY STOCKS CUSTOMERS' POWERS OF ATTORNEY. LAUBENSTEIN WAS RESPONSIBLE FOR REVIEWING HUANG'S EMAILS. LAUBENSTEIN'S REVIEW WAS ALSO UNREASONABLE BECAUSE HE TOOK NO STEPS TO ADOPT SEARCH TERMS FOR HUANG'S NON-ENGLISH WRITTEN COMMUNICATIONS EVEN THOUGH HE KNEW THAT HUANG SENT CUSTOMERS CHINESE-LANGUAGE TRANSLATIONS OF FIRM DOCUMENTS, GIVEN THE NUMBER OF HUANG'S CUSTOMERS, THE CUSTOMERS' RELATIONSHIP WITH A CUSTOMER AND HIS ASSISTANT, AND THE FACT THAT THE CUSTOMERS LIVED OVERSEAS. THE FINDINGS ALSO INCLUDED THAT THE HEARING PANEL DISMISSES CAUSES ONE AND TWO OF THE COMPLAINT BECAUSE ENFORCEMENT FAILED TO MEET ITS BURDEN OF PROOF. ENFORCEMENT FAILED TO PROVE BY A PREPONDERANCE OF THE EVIDENCE THAT THE FIRM VIOLATED SECTION 10(B) OF THE SECURITIES EXCHANGE ACT OF 1934, RULE 10B-5 THEREUNDER, AND FINRA RULES 2020 AND 2010 BY MANIPULATING THE PRICE OF A PENNY STOCK. THESE CHARGES ARE THEREFORE ALSO DISMISSED.

IF NO FURTHER ACTION IS TAKEN, THE DECISION WILL BECOME FINAL MAY 23, 2019.

**Reporting Source:**

Firm

**Current Status:**

Pending

**Allegations:**

THE FIRM WAS NAMED A RESPONDENT IN A FINRA COMPLAINT ALLEGING THAT IT ENGAGED IN A SCHEME TO MANIPULATE A LOW-PRICED, THINLY-TRADED STOCK ISSUED BY A COMPANY. THE COMPLAINT ALLEGES THAT THE FIRM AND ITS PRESIDENT PLACED AN ORDER ON BEHALF OF A FIRM CUSTOMER TO MANIPULATE THE CLOSING PRICE OF THE STOCK. BY ARTIFICIALLY INFLATING THE STOCK'S PRICE, THE FIRM RELEASED CUSTOMERS FROM "LOCK-UP" AGREEMENTS THAT LIMITED THEIR ABILITY TO SELL SHARES OF THE STOCK UNLESS AND UNTIL THE STOCK'S MARKET CAPITALIZATION REACHED CERTAIN THRESHOLDS. ONCE THE CUSTOMERS' SHARES WERE FREE FROM THE LOCK-UP AGREEMENT AS A RESULT OF THE ARTIFICIAL PRICE INFLATION, THOSE CUSTOMERS LIQUIDATED OVER \$8 MILLION OF SHARES, AND THE FIRM EARNED OVER \$190,000 IN COMMISSIONS AND FEES FOR EFFECTING SUCH LIQUIDATIONS. AS A RESULT, THE FIRM WILLFULLY VIOLATED SECTION 10(B) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 10B-5 THEREUNDER, AND FINRA RULE 2020. THE COMPLAINT ALSO ALLEGES THAT THE FIRM FAILED TO ESTABLISH AND IMPLEMENT ANTI-MONEY LAUNDERING (AML) POLICIES AND PROCEDURES REASONABLY DESIGNED



TO DETECT AND REPORT SUSPICIOUS ACTIVITY, INCLUDING RED FLAGS, SPECIFIC TO THE FIRM'S LINES OF BUSINESS. THE FIRM WAS AWARE OF THE IMPORTANCE OF IMPLEMENTING AN EFFECTIVE SYSTEM TO MONITOR FOR SUSPICIOUS ACTIVITY BECAUSE THE FIRM HAD RECENTLY BEEN SANCTIONED BY FINRA FOR FAILING TO HAVE AN ADEQUATE AML COMPLIANCE PROGRAM IN PLACE. THE FIRM RECEIVED EXCEPTION REPORTS FROM ITS CLEARING FIRM THAT WERE NOT DESIGNED TO IDENTIFY PATTERNS OF POTENTIALLY SUSPICIOUS ACTIVITY WITHIN THE FIRM'S PRIMARY BUSINESS LINE. ACCORDINGLY, THE FIRM RELIED ENTIRELY UPON MANUAL REVIEW OF TRADING DATA TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY, WHICH REVIEW FAILED ENTIRELY TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY WITHIN CUSTOMER ACCOUNTS THAT TRADED IN CERTAIN STOCKS. THE FIRM'S AML PROGRAM RELIED UPON INDIVIDUAL REGISTERED REPRESENTATIVES TO IDENTIFY POTENTIALLY SUSPICIOUS ACTIVITY WITHIN CUSTOMER ACCOUNTS NOT IDENTIFIED AS "HIGH RISK ACCOUNTS," WHICH, ONCE IDENTIFIED, WAS SUPPOSED TO BE REFERRED TO THE FIRM'S AML COMPLIANCE OFFICER (AMLCO) TO FURTHER INVESTIGATE. HOWEVER, THE WRITTEN PROCEDURES FAILED TO SPECIFY HOW THIS PROCESS WAS TO BE ACCOMPLISHED, AND THE INFORMAL MANNER IN WHICH THE FIRM'S REGISTERED REPRESENTATIVES REFERRED POTENTIALLY SUSPICIOUS ACTIVITY TO THE AMLCO MEANT THAT INVESTIGATIONS THAT FAILED TO RESULT IN A SUSPICIOUS ACTIVITY REPORT (SAR) FILING WERE NEITHER FORMALLY DOCUMENTED NOR OTHERWISE MEMORIALIZED. THE FIRM FAILED TO CONDUCT ADEQUATE DUE DILIGENCE ON CORRESPONDENT ACCOUNTS IT OPENED FOR A FOREIGN FINANCIAL INSTITUTION AND FAILED TO ESTABLISH AND IMPLEMENT AML PROCEDURES DESIGNED TO MONITOR AND DETECT SUSPICIOUS ACTIVITY WITHIN THE FIRM'S FOREIGN-BASED ACCOUNTS. THE COMPLAINT FURTHER ALLEGES THAT THE FIRM FAILED TO ESTABLISH AND MAINTAIN A SUPERVISORY SYSTEM, INCLUDING WRITTEN SUPERVISORY PROCEDURES (WSPS), REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH THE REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT OF 1933 FOR SALES OF RESTRICTED SECURITIES. THE FIRM FAILED TO IDENTIFY THAT CUSTOMERS EACH RECEIVED SHARES DIRECTLY FROM AFFILIATES OF THE ISSUER, AND THUS SOME OF THE SHARES THAT THOSE CUSTOMERS DEPOSITED AT THE FIRM WERE NOT ELIGIBLE FOR IMMEDIATE RESALE. THE FIRM FAILED TO COMPLY WITH SECTION 5 BY ENGAGING IN THE UNLAWFUL RESALE OF APPROXIMATELY 482,377 SHARES OF RESTRICTED SECURITIES INTO THE PUBLIC MARKET, ABSENT A VALID EXEMPTION. THE FIRM ALSO FAILED TO CONDUCT A REASONABLE REVIEW OF A REPRESENTATIVE'S EMAIL WITH CUSTOMERS USING THE FIRM'S EMAIL SYSTEMS, WHICH CONTAINED RED FLAGS OF POTENTIALLY SUSPICIOUS ACTIVITY, AND FAILED TO MAKE REASONABLE INQUIRIES ABOUT HIS COMMUNICATIONS WITH CUSTOMERS. THE FIRM'S



EMAIL REVIEW SYSTEM WAS UNREASONABLE BECAUSE THESE ENGLISH LANGUAGE-BASED WORD SEARCHES WOULD NOT YIELD RESULTS WHEN THE REPRESENTATIVE COMMUNICATED BY EMAIL WITH FIRM CUSTOMERS IN OTHER LANGUAGES, SUCH AS CHINESE.

**Initiated By:** FINANCIAL INDUSTRY REGULATORY AUTHORITY

**Date Initiated:** 10/05/2017

**Docket/Case Number:** [2016049565901](#)

**Principal Product Type:** Equity - OTC

**Other Product Type(s):**

**Principal Sanction(s)/Relief Sought:**

**Other Sanction(s)/Relief Sought:**

**Firm Statement** THE ACTION STATUS IS PENDING

## End of Report



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