

# FINRA Enforcement AML Case Studies

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# North Woodward Financial - OHO Decision

- North Woodward operates a small retail brokerage business.
- The Firm adopted FINRA's AML small firm template without modification.
- The Firm failed to conduct three years of independent testing of its AML program.
- The Panel found that North Woodward failed to adequately tailor their AML procedures to their business and failed to conduct independent testing.
- The Firm was fined \$25,000.

# Wells Fargo AWC - CIP Violation

- Between October 1, 2003 and October 19, 2012, the firms' Customer Identification Program ("CIP") was deficient, in that it did not subject certain new customers to identity verification in violation of NASD Rule 3011 (b) and FINRA Rule 3310 (b).
- The Firm's automated verification system failed to conduct client verification on new customers that were issued previously used account numbers. The system recognized the existing accounts as already verified and thus new customers issued those accounts were not reviewed.
- This resulted in the firms' failure to conduct customer-identity verification for nearly 220,000 accounts between 2003 and 2012.
- The Firm was fined \$1.5 million.

# Lek Securities Corporation - OHO Decision

- Between January 1, 2008 and October 31, 2010, LEK offered automated access to the securities markets to clients with engage in high-volume, high-frequency trading.
- During that time period, the Firm employed an ad-hoc manual system to review for potentially suspicious manipulative trades.
- The Panel found that LEK's system, which consisted of ad-hoc undocumented manual trade reviews, was inadequate to capture potential manipulative trading based on the frequency and volumes executed on a real time basis.
- The Panel also found that modifications made after regulatory notice, in the form of a Wash Sale Report, was also inadequate as their were no procedures for how the firm would utilize the report to monitor for suspicious activity.
- The Panel fined LEK \$100,000.

# Capital Path Securities - Order of Settlement

- Between June 2008 and February 2013, the firm through, Davis, its Principal and AMLCO, failed to establish and implement an adequate AML program to adequately identify, investigate and respond to red flags of potentially suspicious activity.
- They allowed multiple customers, some with ties to each other or to issuers of penny stocks to liquidate blocks of stock without properly monitoring the accounts for suspicious activity.
- The clients deposited and liquidated over 1.4 billion shares of penny stocks of 22 issuers for proceeds of over \$18 million.
- The Firm and Davis were fined \$175,000 jointly and severally.

# Case Study: Brown Brothers Harriman

The screenshot shows a web browser window with the address bar displaying "connect2.finra". The page content includes a navigation menu on the left with "FINRA" and "News Releases" highlighted. The main content area features the FINRA logo and the text "NEWS RELEASE". The release is dated "February 5, 2014" and lists contacts "Michelle Ong (202) 728-8464" and "Nancy Condon (202) 728-8379". The headline is "FINRA Fines Brown Brothers Harriman a Record \$8 Million for Substantial Anti-Money Laundering Compliance Failures". A sub-headline reads "Highest Fine Levied by FINRA for AML-Related Violations; Former AML Compliance Officer Also Fined and Suspended". The body text states: "WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has fined New York-based Brown Brothers Harriman & Co. (BBH) \$8 million for substantial anti-money laundering compliance failures including, among other related violations, its failure to have an adequate anti-money laundering program in place to monitor and detect suspicious penny stock transactions. BBH also failed to sufficiently investigate potentially suspicious penny stock activity brought to the firm's attention and did not fulfill its Suspicious Activity Report (SAR) filing requirements. In addition, BBH did not have an adequate supervisory system to prevent the distribution of unregistered securities. BBH's former Global AML Compliance Officer Harold Crawford was also fined \$25,000 and suspended for one month." A second paragraph begins: "Penny stock transactions pose heightened risks because low-priced securities may be manipulated by fraudsters. FINRA found that from Jan. 1, 2009, to June 30, 2013, BBH executed transactions or delivered securities involving at least six billion shares of penny stocks, many on behalf of undisclosed customers of foreign banks in known bank secrecy havens. BBH executed these transactions despite the fact that it was unable to obtain information essential to verify that the stocks were".

# Case Study: Brown Brothers Harriman

## ■ Key Allegations:

- Failure to have an adequate anti-money laundering program to monitor and detect suspicious penny stock transactions. BBH also did not have an adequate supervisory system to prevent the distribution of unregistered securities.

## ■ Facts:

- Omnibus Accounts opened for Foreign Financial Institutions (FFIs) located in bank-secrecy havens;
- FFIs deposited billions of shares of low-priced securities at BBH;
- BBH failed to conduct a searching inquiry to determine if the shares were registered or subject to an exemption;
- BBH facilitated billions of penny-stock liquidations resulting in almost \$1 billion in proceeds for the underlying clients of the FFI;

# Case Study: Brown Brothers Harriman

## ■ Facts:

- failed to investigate red flags associated with the liquidations including reviewing contemporaneous market events, promotional campaigns, issuer's history etc.
- monitoring deficiencies further exacerbated as the firm allowed for the FFIs to refuse to provide information about their underlying clients

## ■ Results:

- BBH fined \$8 million
- AMLCO fined \$25,000, suspended for one month

# Case Study: Wedbush

The screenshot shows a web browser window displaying the FINRA News Release page. The browser's address bar shows the URL 'connectz.finra'. The page header includes 'Newsroom > News Releases > 2014'. On the left, a navigation menu lists 'FINRA', 'News Releases', and a year selector for '2014'. The main content area features the FINRA logo and the text 'NEWS RELEASE'. Below the logo, the release date is 'August 18, 2014', and contacts are listed as Michelle Ong (202) 728-8464 and Nancy Condon (202) 728-8379. The title of the release is 'Wedbush Securities, Inc. Action' and 'FINRA Charges Wedbush Securities for Systemic Market Access Violations, Anti-Money Laundering and Supervisory Deficiencies'. The text of the release begins with 'WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has filed a complaint against Los Angeles-based Wedbush Securities Inc. for systemic supervisory and anti-money laundering (AML) violations in connection with providing direct market access and sponsored access to broker-dealers and non-registered market participants.' It further details that Wedbush was one of the largest market access providers and that the complaint alleges failures in risk management and supervision from 2008 to 2013.

Newsroom > News Releases > 2014

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**FINRA**  
Financial Industry Regulatory Authority

**NEWS RELEASE**

**For Release:** August 18, 2014  
**Contacts:** Michelle Ong (202) 728-8464  
Nancy Condon (202) 728-8379

**Wedbush Securities, Inc. Action**

**FINRA Charges Wedbush Securities for Systemic Market Access Violations, Anti-Money Laundering and Supervisory Deficiencies**

WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has filed a complaint against Los Angeles-based Wedbush Securities Inc. for systemic supervisory and anti-money laundering (AML) violations in connection with providing direct market access and sponsored access to broker-dealers and non-registered market participants.

During the period at issue, Wedbush was one of the securities industry's largest market access providers, which included overseas high-frequency, high-volume, algorithmic day-trading firms, and made millions of dollars from its market access business.

The complaint alleges that from January 2008 through August 2013, Wedbush failed to dedicate sufficient resources to ensure appropriate risk management controls and supervisory systems and procedures. This enabled its market access customers to flood U.S. exchanges with thousands of potentially manipulative wash trades and other potentially manipulative trades, including manipulative layering and spoofing. Despite its obligations to monitor, review, and detect suspicious and potentially manipulative trades, Wedbush largely relied on its market access customers to self-monitor and self-report such trading without sufficient oversight and controls to detect "red flags."

100%

# Case Study: Halcyon

## ■ Key Facts:

- Firm's procedures not tailored to its business
  - “At present, the Firm will not engage in penny stocks”
  - Liquidated 113 million shares of penny stocks in certificate form, and more in electronic form
- Firm's procedures inadequate:
  - “For business introduced to a clearing firm, the Firm will rely upon the clearing firm to make filings on its behalf and provide copies to the Firm”
  - Suspicious activity reporting cannot be outsourced

# Case Study: Halcyon

## ■ Key Facts:

- Firm's procedures not implemented
  - Trading review limited to monthly review of trade blotter
  - AMLCO unaware of exception reports and other methods described in firm's procedures

## ■ Results

- Firm expelled
- CEO and AMLCO/CCO barred

## Case Study: Aegis

### ■ Key Facts:

- In 2 years, 7 customers deposited and liquidated 3.9 billion shares of microcap shares
- Sales generated \$24.5 million in proceeds, \$1.1 million in commissions
- One individual (ML) referred all of the customers and controlled several of the accounts
- ML had a disciplinary history

## Case Study: Aegis

### ■ Key Facts:

- Shares acquired through convertible debt agreement
- Deposit, liquidation, wire
- Promotional activity
- Sales significant percentage of outstanding shares
- Firm's WSPs inadequate, relied on interested parties
- Firm failed to conduct reasonable inquiry

### ■ Results

- Firm fined \$950,000
- CCOs and CEO suspended and fined

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## Two NY broker-dealer execs plead guilty in Venezuelan bribery case

BY NATE RAYMOND  
NEW YORK | Wed Dec 17, 2014 1:56pm EST

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**ANALYSIS & OPINION**

- Insider trading prosecutions were hollow at the core - 2nd Circuit

(Reuters) - Two former executives of a defunct New York broker-dealer pleaded guilty on Wednesday to charges stemming from their involvement in a foreign bribery scheme involving their employer and a Venezuelan state economic development bank.

Benito Chinaea, the former chief executive of Direct Access Partners LLC, and Joseph Demeneses, a onetime managing director at the firm, each pleaded guilty to a conspiracy count in federal court in Manhattan.

Chinaea, 48, admitted that in 2011 discussed how to make a bribe payment to the head trader at state-owned Banco de Desarrollo Económico y Social de Venezuela, known as Bandedes.

"I knew it was improper and wrong and in violation of U.S. laws to make an agreement with others to make a bribe payment," he said.

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Linda Riefberg and Joseph Dever, *New York Law Journal*

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# Issue: Individual Liability

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### FinCEN Could Fine Former MoneyGram Compliance Officer \$5 Million for AML Compliance Lapses

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Jaclyn Jaeger | April 18, 2014

**T**he Treasury Department's Financial Crimes Enforcement Network recently identified a former chief compliance officer

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# Issue: Individual Liability

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### AwesomePennyStocks' Babikian to pay \$3.73M in settlement with SEC

by [Adam Steinhauer](#) | Published July 9, 2014 at 8:59 AM

John Babikian, who controlled stock promotion website AwesomePennyStocks.com, agreed to pay \$3.73 million to settle the Securities and Exchange Commission's charges that he defrauded investors in coal mining company America West Resources Inc.

Under the settlement, Babikian will pay a \$1.69 million civil penalty and disgorge \$1.92 million in profits plus \$128,073 in interest, the SEC said in a Tuesday, July 8, statement.

Babikian will also be banned from participating in penny stock offerings or from recommending any U.S.-traded stock without disclosing his plans to

sell the stock within 14 days of the recommendation.

He agreed to the settlement without admitting or denying the SEC's allegations.

Through his stock promotion websites AwesomePennyStocks.com and PennyStocksUniverse.com, Babikian sent e-mails to 700,000 people on Feb. 23, 2012, recommending America West shares.

The e-mails did not disclose that Babikian held more than 1.4 million America West shares that he had prepared to immediately sell through a Swiss bank, the SEC said in its lawsuit filed in March of this year. The lack of disclosure constituted a kind of securities fraud known as scalping, according to the commission.

The e-mail campaign, which started shortly after 2:30 p.m., caused America West shares to spike. Babikian unloaded his holdings in the stock over the next 90 minutes, generating gains of more than \$1.9 million, according

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## Issue: Individual Liability

# Risk & Compliance Journal.

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September 15, 2014, 2:21 PM ET

## Compliance Officer Probes Stir Alarm Among Their Peers

Article

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By **RACHEL LOUISE ENSIGN**

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## Case Example: Anil Chaturvedi

- **Facts:**

- 2002: client dies
- 2003: RR claims contacts with client
- 2002-2009: numerous susp. money transfers involving clients—many 3<sup>rd</sup> party wires and many journals between apparently unconnected clients.
- 2009: nephew informs RR that client had died and acct was created with his assets but in his aunt's name as a shield for tax liability.
- -

## Case Example: Anil Chaturvedi

### ■ Facts:

- Suspicious reasons for transfers, usually to buy a house or to repay a loan and often accompanied by cryptic emails from RR
- Falsified documents: pre-signed LOAs, LOAs where signatures cut and pasted into different documents, and account statements where the “Liabilities” section had been covered over with a blank paper.

### ■ Result:

- 18 month suspension, \$60,000 fine

# Case Example: Harold Criswell/Timothy Dixon

## ■ Facts:

- JR was a customer, Dixon was a registered representative, Criswell was Dixon's supervisor and Branch Manager.
- Red Flag: Frequent money movements (\$3.8 million deposited and 1,302 checks written).
- Red Flag: Subpoena from the Ohio Division of Securities indicating investigation by an Ohio Grand Jury
- Red Flag: civil complaint alleging conversion from uncle
- Red Flag: JR had deposited at least 66 third-party stock certificates to his account.

# Case Example: Harold Criswell/Timothy Dixon

## ■ Facts:

- Red Flag: JR repeatedly asked about the possibility of investing on behalf of others in his account
- Red Flag: JR informs Criswell that he used his account for others, had admitted he had committed fraud and expected to go to prison.
- Inquiry from AMLO re: large amounts of withdrawals
- Dixon responds: JR was “going to go in a different direction with the funds.”

# Case Example: Harold Criswell/Timothy Dixon

## ■ Result

- JR pleaded guilty to first degree felonies for selling unregistered securities, perjury, and forgery.
- JR sentenced to 20 years in prison and ordered to pay \$17.8 million in restitution.
- Dixon: 4 month suspension, \$15,000 fine
- Criswell: 30 day suspension, \$10,000 fine.

# Conclusion

**Questions?**

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**301-258-8505**