

Excerpts from FINRA Monthly Disciplinary Reports

FINRA® has taken disciplinary actions against the following firms and individuals for violations of FINRA rules; federal securities laws, rules and regulations; and the rules of the Municipal Securities Rulemaking Board (MSRB).

Reported for September 2010

Carolina Capital Markets, Inc. (CRD #38156, Chapel Hill, North Carolina) submitted a Letter of Acceptance, Waiver and Consent in which the firm was censured and fined **\$15,000**. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings that it failed to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with Anti-Money Laundering (AML) regulations. **The findings stated that the firm failed to conduct independent testing for its AML program for one year** and failed to document that it reviewed 314(a) requests against its customer lists for potential matches under the USA PATRIOT Act of 2001. **(FINRA Case #2009016220901)**

Reported for July 2010

Greg Scott Schaefer (CRD #1939626, Registered Principal, Bronx, New York) was fined **\$42,500** and suspended from association with any FINRA member in any capacity for one year. The fine is due and payable if and when Schaefer re-enters the securities industry. The sanctions were based on findings that, acting as his firm's Anti-Money Laundering Compliance Officer (AMLCO), Schaefer failed to ensure the implementation of independent tests of the firm's AML compliance programs. **The findings stated that Schaefer did not use an independent third party to conduct the firm's AML tests;** rather, he drafted reports and presented them to an unqualified administrative assistant, who signed off on the reports without conducting any AML testing. The findings also stated that Schaefer created and submitted inaccurate substitute compliance meeting attendance lists to FINRA staff during the course of FINRA's examination of Schaefer's firm and without telling FINRA staff that the sheets were recreations. The findings also included that Schaefer failed to timely submit the administrative assistant's fingerprints to CRD, even though the individual had access to the firm's books and records, maintained the firm's check book and possessed an ink stamp of Schaefer's signature, which he used to sign firm checks. FINRA found that Schaefer failed to ensure that his firm established, maintained and enforced written supervisory control policies and procedures, and failed to ensure that an employee's fingerprints were submitted to CRD, thereby causing his firm to violate Section 17(f)(2) of the Securities Exchange Act of 1934 and Rule 17f-2 thereunder. The suspension is in effect from May 17, 2010, through May 16, 2011. **(FINRA Case #2008012034701)**

The Dratel Group, Inc. (CRD #8049, Southold, New York) and William Marshall Dratel (CRD #843025, Registered Principal, Southold, New York) were named as respondents in a FINRA complaint alleging that they orchestrated a cherry-picking scheme in shortterm trades and failed to disclose material information to their discretionary customers regarding the scheme. The complaint alleges that, in connection with the cherrypicking scheme, the firm and Dratel falsified numerous order tickets to make it appear that they had allocated the cherry-picked trades at the time of the underlying purchases in the firm account, which was false. The complaint also alleges that Dratel, or his staff, at his instruction, regularly delayed placing the names of the customers to whom trades were allocated on order tickets until after the order was executed. The complaint further alleges that the firm's time stamp machines did not record seconds,



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which resulted in the firm failing to record the time in hours, minutes and seconds that orders were originated or received on all equity order tickets. In addition, the complaint alleges that the firm and Dratel failed to establish, maintain and enforce a supervisory system and written supervisory procedures that adequately addressed trade aggregation and trade allocation with respect to the firm's discretionary accounts and the manner in which client trades were to be executed; Dratel had sole responsibility for the adequacy of the firm's supervisory system and procedures. Moreover, the complaint alleges that the firm, acting through Dratel, failed to periodically update customer account information and failed to review new account documents on a quarterly basis and memorialize the review. **The complaint further alleges that the firm failed to conduct a test of its AML compliance program for two years** and failed to obtain photo identification for each of the new customer accounts opened during approximately 18 months. **(FINRA Case #2008012925001)**

Reported for June 2010

Linus Nkem Nwaigwe (CRD #2613032, Registered Principal, Valley Stream, New York) submitted an Offer of Settlement in which he was fined **\$20,000** and suspended from association with any FINRA member in any principal capacity for nine months. The fine must be paid either immediately upon Nwaigwe's reassociation with a FINRA member firm following his suspension, or prior to the filing of any application or request for relief from any statutory disqualification, whichever is earlier. Without admitting or denying the allegations, Nwaigwe consented to the described sanctions and to the entry of findings that, acting on his member firm's behalf, he failed to establish and enforce an adequate AML program, thereby failing to detect and investigate red flags of possible suspicious activity in firm accounts and failed to timely report such activity. The findings stated that Nwaigwe, acting on his firm's behalf, **failed to perform the required independent AML testing for two years and performed an inadequate test another year.** The findings also stated that Nwaigwe, acting on his firm's behalf, did not establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.

The suspension is in effect from April 19, 2010, through January 18, 2011. **(FINRA Case #2005001121401)**

Reported for April 2010

Moors & Cabot, Inc. (CRD #594, Boston, Massachusetts) submitted a Letter of Acceptance, Waiver and Consent in which the firm was censured and fined **\$165,000**. Without admitting or denying the findings, the firm consented to the described sanctions and to the entry of findings that it failed to provide Anti-Money Laundering (AML) training to its employees that were designated as being responsible for administering the firm's AML compliance program. The findings stated that the firm failed to establish policies and procedures that required that these individuals have sufficient knowledge and training to carry out their AML responsibilities. The findings also stated that the firm failed to establish and implement adequate policies and procedures that could reasonably be expected to detect and cause the reporting of suspicious transactions as required by 31 U.S.C. 5318(g), provide evidence that it reviewed its AML exception reports, and establish adequate internal controls to ensure that its AML policies and procedures regarding the detection and reporting of suspicious activity were properly implemented. **The findings also included that the firm failed to conduct independent testing of its AML program and permitted individuals to conduct independent testing of its AML program when there was no evidence that they had sufficient knowledge of or training relating to the applicable requirements under the Bank Secrecy Act and its implementing guidelines.**



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FINRA found that the firm failed to establish and maintain adequate supervisory procedures relating to the documentation of responses to law enforcement requests and ensuring that it fully complied with law enforcement requests for information. FINRA also found that the firm failed to have adequate policies and procedures to document locate information for short sale transactions and executed short sales transactions for which it failed to document locates. In addition, FINRA determined that the firm conducted its business while failing to maintain its net capital at or above its required minimum requirements, failed to accurately compute its net capital in its trial balance and net capital computations, and filed inaccurate Financial and Operational Combined Uniform Single (FOCUS™) reports. Moreover, FINRA found that the firm intentionally and improperly maintained registrations for individuals who were not acceptable for registration with the New York Stock Exchange (NYSE) because independent contractors (ICs) were not employed by or associated with the firm, and failed to reasonably supervise in that the firm did not establish, maintain or enforce its policies and procedures to ensure that it properly supervised short sale transactions, its AML compliance program, net capital computations, books and records, regulatory filings and registration procedures. **(FINRA Case #2007009459701)**

Sloan Securities Corporation (CRD #17930, Fort Lee, New Jersey) submitted an Offer of Settlement in which the firm was censured, fined **\$75,000** and required to certify in writing to FINRA that it has conducted a comprehensive review of its AML compliance program including, but not limited to, the detection, investigation and reporting of suspicious activity through a Suspicious Activity Report (SAR); implementation of a Customer Identification Program (CIP); risk-based procedures for foreign correspondent accounts; ensuring that written procedures are tailored to its business lines; annual independent testing of its AML program and procedures; and ensuring that its AML program is reasonably designed to achieve and monitor its compliance with the requirements of the Bank Secrecy Act and implementing regulations thereunder and FINRA Rule 3310. If the firm fails to provide the required certification to FINRA within five business days of issuance of this order, the firm shall be prohibited from selling low-priced securities, including penny stocks, for any customer accounts, on either a solicited or unsolicited basis.

Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that, in contravention of AML rules and its own procedures, it failed to detect and investigate suspicious circumstances and/or file a SAR notwithstanding multiple red flags in customer accounts. The findings stated that the firm failed to implement its CIP in that it opened new accounts for individual customers but failed to obtain photo identification from them or otherwise verify their identity, and opened new accounts for entities but failed to obtain the necessary documentation establishing and verifying each customer's status as a legal entity. The findings also stated that the firm failed to take corrective measures to enforce its CIP and failed to obtain required customer information including tax identification or social security number and the name(s) of individual(s) authorized to conduct business on the entity's behalf. The findings also included that the firm failed to establish and implement risk-based procedures for foreign correspondent accounts reasonably designed to enable it to detect and report known or suspected money laundering activity through enhanced due diligence, and failed to identify and perform enhanced risk-based due diligence in foreign correspondent accounts that the firm opened. FINRA found that the firm failed to develop and implement a reasonably designed AML program to address its business lines, foreign correspondent banks, policies and procedures that it would follow to investigate suspicious activity associated with its penny stock business and other red flags, and freezing accounts and prohibiting



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transactions by persons suspected of terrorist activities and the filing of any Report of Foreign Bank and Financial Accounts (FBAR) that might be required in connection with its own accounts. FINRA also found that the firm did not complete annual independent testing of its AML program and procedures. (FINRA Case #2007007217401)

