

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008011649201**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: A&F Financial Securities, Inc.
BD No. 44791

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, A&F Financial Securities, Inc. ("A&F" or "Respondent") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

A&F has been registered as a broker dealer with FINRA since May 1998. At all relevant times, A&F has conducted securities transactions for retail customers. A&F's main office is in Syosset, New York. A&F currently has two branch offices and approximately 37 registered persons. A&F has no disciplinary history.

OVERVIEW

A&F failed to (i) report multiple complaints to the 3070 system and maintain records concerning those complaints; (ii) update a registered person's Uniform Application for Securities Industry Registration or Transfer (Form U4); and (iii) implement its own heightened supervisory procedures with respect to three brokers on heightened supervision. This conduct contravened Section 17(a) of the Securities Exchange Act of 1934 ("Exchange Act"), Exchange Act Rule 17a-3,

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NASD Conduct Rules 3010, 3070, 3110 and 2110, and Article V, Section 2(c) of FINRA's By-Laws.

FACTS AND VIOLATIVE CONDUCT

Customer Complaints

During the period July 15, 2007 through November 26, 2008, A&F failed to create and maintain adequate records of customer complaints for 12 (85%) of a total of 14 complaints received, failed to report timely statistical and summary information concerning those 12 customer complaints, and failed to report timely the settlement of one of the complaints. By reason of the foregoing, A&F violated NASD Rules 3070, 3110 and 2110 and Section 17(a) of the Exchange Act and, Exchange Act Rule 17a-3.

Form Filings

During the period June 1, 2008 through September 30, 2008, A&F failed to timely update the Form U4 of a registered person upon learning of the facts and circumstances giving rise to the amendments. On or about May 1, 2008, A&F received a complaint from a customer alleging unauthorized and unsuitable trades a registered person. A&F reported the complaint on the registered person's Form U4 on September 30, 2008 – 120 days after the complaint should have been disclosed – after FINRA instructed it to do so. By reason of the foregoing, A&F violated FINRA By-Laws Article V, Section 2(c) and NASD Conduct Rule 2110.

Heightened Supervision

During the period July 15, 2007 through November 26, 2008, A&F failed to implement its own heightened supervisory procedures with respect to the three registered representatives on heightened supervision – K.C., R.C. and M.R. A&F's primary supervisory procedures contain specific procedures for monitoring potential excessive trading and churning. Among other things the procedures state:

Purchase transactions that exceed two times the average equity annualized would exhibit high trading patterns that should be closely monitored. Purchase transactions that exceed four times the average equity annualized would exhibit excessive trading patterns and the Compliance Department should assess how closely the trades match the customer's objectives and determine the extent of control the registered representative has over the account. ... Purchase transactions that exceed six times the average equity

annualized would exhibit patterns that represent statutory fraud (SEC Rule 10b-5 violation).

A&F used a Monthly Surveillance Report to monitor the activities of brokers. The report includes analyses of turnover ratio, commission to equity ratio, and cost to equity ratios.

A&F's heightened supervisory procedures required the designated Special Supervisor to manually review all trades of registered representatives on heightened supervision for suitability and excessive trading. In addition, A&F's heightened supervisory procedures required the Special Supervisor to make weekly calls to the clients of brokers on heightened supervision. Those clients were to be chosen both "at random *and with cause* based on trading activity reviewed daily." (Emphasis added)

However, A&F failed to identify accounts "with cause" for review. When establishing its heightened supervision procedures, A&F *decided to exclude* brokers on heightened supervision from the Monthly Surveillance Report. Accordingly, the activities of K.C., R.C. and M.R. were not shown on the Monthly Surveillance Report. Instead, the Special Supervisor relied on his manual review when determining which accounts should be reviewed and contacted "for cause." This was inadequate, because the manual review failed to identify numerous accounts that had turnover ratios in excess of six times the average equity annualized.

By reason of the foregoing, A&F violated NASD Conduct Rules 3010 and 2110.

B. Respondent also consents to the imposition of the following sanctions:

- A censure; and
- A \$27,500 fine.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Respondent;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove

any of the allegations against Respondent; and

C. If accepted:

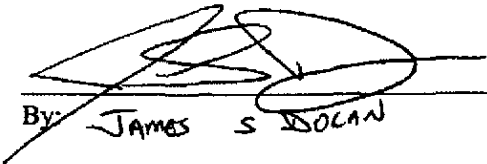
1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understand that Respondent may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.**

The undersigned, on behalf of A&F Financial Securities, Inc., certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent to submit it.

A&F FINANCIAL SECURITIES, INC.

Date (9/20/2010)

By: 
JAMES S. DOLAN

Reviewed by:

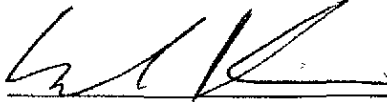
Liam O'Brien, Esq.
McCormick & O'Brien LLP
9 East 40th, Fourth Floor
New York, New York 10016
Tel: 1 (212) 286-4471 x 111
Fax: 1 (212) 504-9574

Accepted by FINRA:

October 1, 2010

Date

Signed on behalf of the
Director of ODA, by delegated authority



Samuel Barkin
Sr. Regional Counsel
FINRA Department of Enforcement
1 Liberty Plaza
New York, NY 10006
(212) 858-4074
(202) 721-6573 (direct fax)
samuel.barkin@finra.org