

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009016158801**

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

RE: Global Strategic Investments LLC, Respondent
Member Firm
CRD No. 117028

Cesar G. Hernandez, Respondent
General Securities Principal
CRD No. 3249722

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Global Strategic Investments LLC, ("Global") and Cesar G. Hernandez ("Hernandez") submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

Global Strategic Investments LLC

Global is based in Miami, Florida and has been a FINRA member firm since June 2002. Global employs nineteen registered individuals and seven non-registered individuals. Global conducts a general securities business, clearing its transactions through another member firm.

Cesar G. Hernandez

Hernandez became registered with FINRA on June 29, 1999. Hernandez holds Series 6, 7 and 24 licenses. From May 2001 through the present, Hernandez has been associated with Global.

While associated with Global, Hernandez has served in various capacities, including at various times, the firm's Chief Executive Officer, Chief Compliance Officer and Anti-Money Laundering ("AML") Compliance Officer. Prior to his association with Global, Hernandez was associated with several other FINRA member firms at different times.

RELEVANT DISCIPLINARY HISTORY

Respondents have no prior relevant disciplinary history.

OVERVIEW

Global and Hernandez violated NASD Rules 3011(a) and (b) and 2110 and FINRA Rule 2010, by failing to adequately implement its AML compliance program. In several instances, Global, acting through Hernandez, failed to detect, analyze, and/or report highly suspicious transactions. Furthermore, Global, acting through Hernandez, failed to establish and implement an adequate customer identification program.

FACTS AND VIOLATIVE CONDUCT

In July 2002, the Department of Treasury issued regulations requiring suspicious transaction reporting for broker-dealers.¹ Consequently, since 2002, broker-dealers have been required by FINRA to, among other things,

(a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(b) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.²

A firm's AML procedures must address a number of areas including monitoring transactions to report suspicious activity where appropriate. For example, when potentially suspicious activity that warrants investigation is identified, a firm must initiate a review of that activity promptly and complete its review within a reasonable period of time.³ Firms are required to file a Form

¹ 31 C.F.R. §103.19(a)(1) (2002).

² NASD Rule 3011.

³ See The SAR Activity Review, Issue 10 (May 2006).

SAR-SF ("SAR-SF") with Treasury's Financial Crimes Enforcement Network reporting "any suspicious transaction relevant to a possible violation of law or regulation."⁴

It is not necessary for a broker-dealer to prove that a customer has engaged in illegal activity or to have actual knowledge of illicit or unlawful trading by a customer; rather, it is sufficient that the broker-dealer have reason to suspect that a transaction or series of transactions involve unlawful activity or lack an apparent lawful purpose. The Treasury also has advised broker-dealers to determine whether activity raises suspicions by monitoring for various "red flags." FINRA *Notice to Members* ("NtM") 02-21 and NtM 02-47 emphasize members' duties to detect "red flags" and, if detected, to perform additional due diligence before proceeding with a suspicious transaction.

Additionally, broker-dealers should tailor their AML program to fit their business. In developing an appropriate AML program, a broker-dealer should consider factors such as its size, location, business activities, the types of accounts it maintains, and the types of transactions in which its customers engage.⁵

From at least 2004 through April 2009, Global's 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 SAR-SF as appropriate. During this same time period, Global's written AML procedures identified a non-exhaustive list of AML "red flags," including, without limitation, the following:

- The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.
- The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose.
- For no apparent reason, funds or securities delivered from an account are consistently sent to foreign names and addresses.
- The customer's account shows a high level of account activity with very low levels of securities transactions.

⁴ 67 Fed. Reg. 44048 (July 1, 2002). See also, 31 C.F.R. §103.19(a)(1) (2002).

⁵ NtM 02-21, at 4.

Throughout much of the same time period, the firm's written AML program required Hernandez to monitor for potentially suspicious activity and AML "red flags," investigate potentially suspicious activity, and report suspicious activity by filing a SAR-SF as appropriate. However, Global and Hernandez failed to adequately implement or enforce the firm's AML program and to otherwise comply with their AML obligations, as they did not identify and analyze numerous transactions to determine if they were in fact suspicious and were required to be reported on a SAR-SF.

In this regard, from January 2007 through April 2009, Global processed in excess of \$1.4 billion in wire and/or journal transfers, through approximately 7,500 transactions, into and out of their customers' accounts. Most of this money movement occurred in the accounts of foreign institutional and retail customers domiciled in Columbia, Ecuador or Mexico. Many of these customers utilized multiple brokerage accounts to move money through first and third-party disbursements out of and between the accounts, while conducting limited to no securities activities in their accounts.

In multiple instances, Global and Hernandez permitted foreign customers to deposit funds into their accounts and within days and/or weeks disburse those funds from their accounts to first and third-parties, and in certain instances in amounts slightly below \$10,000. When Hernandez questioned one of these customers, PB, who maintained multiple accounts with the firm, why he was using the account as a bank account and why the deposits and withdrawals were just below \$10,000, the customer explained that he preferred to keep the transactions under \$10,000 to avoid questions from his bank. Despite this explanation, Global and Hernandez permitted the activity to continue and did not file a Form SAR-SF until approximately one year after the activity had occurred.

In another instance, Global and Hernandez permitted an Ecuadorian bank to open an account at the firm. Over the course of approximately one year, roughly \$12 million was deposited into the account and subsequently disbursed to first and third-parties through a series of 31 wire transfers. This Ecuadorian bank had previously been the subject of a money laundering investigation by Ecuadorian authorities. Additionally, the president of this Ecuadorian bank had an application to purchase a United States bank denied by the United States Comptroller of the Currency for failing to reveal in his application that the Ecuadorian bank was under investigation for money laundering.

Global and Hernandez conducted an insufficient AML review of the foregoing accounts and the activity therein and therefore failed to either detect or investigate the "red flags." If Global and Hernandez had detected the questionable backgrounds of these customers and the clear patterns of fund deposits and withdrawals from the accounts with minimal securities activities in those accounts, they could have investigated the activity to determine whether it warranted SAR-SF filings. Rather, Global and Hernandez permitted these suspicious activities to occur without conducting AML reviews and failed to file SAR-SFs as appropriate.

NASD Rule 3011(b) requires FINRA members to establish and implement procedures "reasonably designed to achieve compliance with the Bank Secrecy Act" and implementing regulations, including procedures concerning the identification and verification of account holders.⁶ The implementing regulations require member firms to establish risk based customer identification procedures, or CIP, for verifying a customer's identity.⁷ The CIP must be tailored to the firms' business, including the firms' customer base to ensure that firms have a reasonable basis for knowing their customers.⁸

Consistent with AML requirements requiring the implementation of a CIP, Global's written AML compliance procedures required that it verify the identity of natural persons who were opening accounts with the firm "through documentary evidence and/or non-documentary customer identification information."

Nevertheless, Global, acting through Hernandez, failed to implement this AML procedure in that, from approximately January 2007 through April 2009, it did not obtain and/or maintain documentation verifying the identity of 29 foreign accounts maintained with the firm.

As a result of the foregoing, Global and Hernandez violated NASD Rules 3011(a) and (b) and 2110 and FINRA Rule 2010.

OTHER FACTORS

Starting in 2008 and continuing through the end of the review period, Global, among other things, retained the services of a consulting firm to conduct an extensive AML "look-back" of transactions that occurred in accounts held by the firm to assist Global in determining whether the account warranted further investigation and, ultimately, whether a SAR-SF should have been filed. Based on this consultant's analysis, the firm conducted an extensive review of activity identified by the consultant as potentially suspicious and filed approximately 46 SAR-SFs. The sanctions contained herein reflect FINRA's consideration of the significant remedial efforts undertaken by the firm.

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

Global is censured and fined \$150,000.

Hernandez is suspended from association with any FINRA member firm in a principal capacity for three months and fined \$25,000.

⁶ See 15 U.S.C. § 5318(f) (Identification and Verification of Account Holders); 31 C.F.R. 103.122; FINRA Notice to Members ("NTM") 03-34 (June 2003).

⁷ 31 C.F.R. 103.122(b)(1).

⁸ 31 C.F.R. 103.122(b)(2).

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fine imposed.

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

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudgment 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.

Respondents 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

Respondents understand 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 Respondents; and
- C. If accepted:
 - 1. This AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary records;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondents 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. Respondents 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 Respondents' rights to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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.

Hernandez certifies that he has read and understands all of the provisions of this AWC and has

been given a full opportunity to ask questions about it; that he 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 him to submit it.

The undersigned, on behalf of Global, certifies that he is duly authorized to act on Global's 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 Global 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 Global to submit it.

Global Strategic Investments LLC

By: David N. Mahler
David N. Mahler, Chief Compliance Officer

9/28/10
Date

Cesar G. Hernandez

9/28/2010
Date

Reviewed by:

Mitchell E. Herr, Esq.
Counsel for Respondents
Holland & Knight
701 Brickell Avenue, Suite 3000
Miami, FL 33131

Accepted by FINRA:

10/19/2010
Date

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

David B. Klafter, Esq.
Deputy Regional Chief Counsel
FINRA Department of Enforcement
2500 N. Military Trail, Suite 302
Boca Raton, FL 33431-6324
Phone: (561) 443-8110
Fax: (561) 443-7998
david.klafter@finra.org

Holland & Knight

701 Brickell Avenue, Suite 3000 | Miami, FL 33131 | T 305.374.8500 | F 305.789.7799
Holland & Knight LLP | www.hklaw.com

Mitchell E. Herr
305 789 7636
mitchell.herr@hklaw.com

September 28, 2010

VIA FEDEX

David B. Klafter, Esquire
Deputy Regional Chief Counsel
FINRA Department of Enforcement
Crystal Corporate Center
2500 N. Military Trail, Suite 302
Boca Raton, FL 33431-6324

Re: Global Strategic Investments LLC (CRD No. 117028)

Dear Mr. Klafter:

This Statement of Corrective Action is submitted by the Respondent, Global Strategic Investments LLC (GSI). It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

Background

GSI ("GSI") has been a responsible member of FINRA (f/k/a the National Association of Securities Dealers or NASD) since June 2002. Upon being notified by FINRA of the inquiry into GSI's compliance with Conduct Rule 3011, GSI fully cooperated with and provided assistance to FINRA in its examination of the matter, including producing all requested documents and responding to questions by FINRA regarding the firm's policies, procedures and customer accounts. Certain of GSI's principals and former staff also submitted to oral examination by FINRA's investigators and counsel.

Statement of Corrective Action

GSI has taken the following correction actions to address the issues arising from FINRA's examination of the firm's compliance with Conduct Rule 3011.

Atlanta • Bethesda • Boston • Chicago • Fort Lauderdale • Jacksonville • Los Angeles
Miami • New York • Northern Virginia • Orlando • Portland • San Francisco
Tallahassee • Tampa • Washington, D.C. • West Palm Beach
Beijing • Caracas* • Mexico City • Tel Aviv* • *Representative Office

GSI's New Senior Management

As part of its efforts to ensure that it fully complies with Conduct Rule 3011 going forward, GSI has retained new senior management, including both a Chief Executive Officer and a Chief Compliance Officer. Both have long, distinguished and unblemished records in the securities industry and the requisite skills and experience to ensure that GSI fully complies with its AML responsibilities.

Chief Executive Officer Lionel Baugh

During 2009 the firm hired Lionel Baugh as CEO. Mr. Baugh, who has a Series 7, a 24, and a 9/10, brings depth of experience in the wealth management industry as well as in banking and capital markets. He was born in Argentina, and educated in Ireland, graduating from Trinity College Dublin with a BA in Economics. He started his career at Manufacturers Hanover Trust in 1975 on the Argentina desk. He has held positions in banking in New York, Lima, Philippines, Hong Kong, and Oslo. In capital markets, Mr. Baugh has experience in bond trading and origination. More recently, he was SVP in charge of Latin America and the Caribbean at Charles Schwab and Director for Sales and Marketing in Merrill Lynch's Latin America Division. In this position, he oversaw the sales process in some 12 offices with 430 senior Financial Advisors. Mr. Baugh has substantial experience growing and transforming businesses in the wealth management industry. Amongst other things, he started a broker-dealer (UltraLat Securities), on the Pershing platform, and he re-engineered and right-sized a New York-based private banking group for Bank of Nova Scotia. He is also a trained business coach, having practiced under Action Coach, the world's largest business coaching franchise. Mr. Baugh's record in the securities industry has not been blemished by any disciplinary matters.

Chief Compliance Officer David Mahler

GSI's new Chief Compliance Officer, who is responsible for the firm's AML compliance program, is an attorney with 30 years experience in the securities industry, including positions at several of the nation's largest securities firms. Mr. Mahler earned his Juris Doctor degree with honors from the Whittier Law School and his Master of Laws (LL.M.) degree in Corporate Law from the New York University Law School. Mr. Mahler holds the following securities licenses: Series 7, 3, 15, 55, 63, 65, 14, 9, 10, 24, 53, 4, 30 and 27. Additionally, Mr. Mahler is a Certified Anti-Money Laundering Specialist (CAMS) by the Association of Certified Anti-Money Laundering Specialists (ACAMS). Mr. Mahler's records in the securities industry and as an attorney have not been blemished by any disciplinary matters.

KPMG Assistance with AML Compliance

At a cost of over \$270,000, the international accounting firm of KPMG was engaged to perform two analyses designed to permit GSI to enhance its AML policies, procedures and processes to insure that, going forward, it will be in compliance with all rules and regulations as well as industry best practices to further strengthen its AML efforts.

Two Year Lookback

KPMG performed a voluntary two-year lookback of GSI's wire, check and journal activity to determine whether any unusual or potentially suspicious activity had not been previously identified by GSI. GSI voluntarily provided FINRA with KPMG's written report of its two year lookback.

BSA/AML Assessment

KPMG also provided GSI with a high level assessment of the effectiveness and completeness of its BSA/AML compliance programs in order to assist it with the implementation of certain BSA/AML internal controls and provide advice on leading industry practices on how to meet regulatory requirements, as well as regulatory expectations. GSI voluntarily provided FINRA with its written report summarizing its methodology, limitations, detailed procedures performed, as well as the results of its work.

As shown by the foregoing, GSI has been a conscientious member of FINRA since its inception in 2002. Once it learned of FINRA's concerns about potential violations of the applicable anti-money laundering laws and regulations, GSI not only fully cooperated during FINRA's examination of the conduct at issue, but it also took a number of corrective actions designed to prevent additional violations and ensure future compliance, including replacing senior management and having KPMG perform extensive reviews of its AML compliance.

Computerized Compliance Tools, Regulatory Consultants and Training

GSI has also implemented a number of computerized compliance tools to enhance its AML compliance, including Worldcompliance software for OFAC/PEP screening. GSI has also retained outside consultants to enhance and improve its AML compliance functions. Finally, GSI has devoted additional resources to ensure that its personnel receive continuing training regarding their AML responsibilities.

* * *

GSI appreciates FINRA's consideration of this Statement of Corrective Action and will be pleased to respond to any questions that it may have regarding these matters.