

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009016220901**

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

RE: Carolina Capital Markets, Inc., Respondent
Member
BD No. 38156

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, 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 us alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. We 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

Carolina Capital Markets, Inc. ("Carolina Capital") has been a member of FINRA since June 1995. Carolina Capital operates from one main office in Chapel Hill, North Carolina and seven branch offices, employing 62 registered representatives and two non-registered persons. The firm conducts municipal securities business.

RELEVANT DISCIPLINARY HISTORY

Carolina Capital does not have a relevant disciplinary history.

OVERVIEW

Carolina Capital failed to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with Anti-Money Laundering ("AML") regulations. Specifically, Carolina Capital: (1) failed to conduct independent testing for its AML program during 2008; and (2) failed to document its review of 314(a) requests under the USA PATRIOT Act of 2001. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110, 3011(b), 3011(c), IM-3011-1, FINRA Rule 2010, and MSRB Rule G-41 by Carolina Capital.

FACTS AND VIOLATIVE CONDUCT

NASD Conduct Rule 3011(c) requires annual independent testing of a firm's AML compliance systems. IM-3011-1(c) provides that independent testing of a firm's

AML compliance systems may not be conducted by a person who performs the functions being tested or the designated anti-money laundering compliance person. Carolina Capital did not conduct any independent testing of its Anti-Money Laundering Compliance Program during 2008. Carolina Capital did contract with an unaffiliated third party to conduct AML testing in the spring of 2009; the time period covered was May 1, 2008 through April 30, 2009. Carolina Capital's earlier testing covered a period ending December 12, 2007. The time period of December 13, 2007 through April 30, 2008 was subsequently tested on November 23 and 24, 2009. In addition, for 2008, Carolina Capital's procedures stated that the AML testing would be conducted annually by P.F., who became the AML Compliance Officer in mid 2008. This procedure was inadequate, as P.F. could not be considered properly independent under Rule 3011(c) and IM-3011-1.

NASD Conduct Rule 3011(b) requires FINRA members to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and its implementing regulations. Section 314(a) of the USA PATRIOT Act of 2001 requires broker/dealers to search their records for specific persons or entities to ensure that they do not appear in current accounts, accounts closed within the past twelve months, or as parties to a transaction during the past six months. From September 2007 to May 2009, Carolina Capital received bi-monthly e-mails from the Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") regarding 314(a) requests. It was required to review client files in response to these e-mails and maintain evidence of the reviews. However, Carolina Capital had no written evidence that it reviewed the 314(a) requests against Carolina Capital's customer lists for potential matches.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110, 3011(b), 3011(c), IM-3011-1, FINRA Rule 2010, and MSRB Rule G-41 by Carolina Capital.

- B. We also consent to the imposition of the following sanctions: a censure and fine of \$15,000.

We agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. We have submitted an Election of Payment form showing the method by which we propose to pay the fine imposed.

We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

We specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against us;

- B. To be notified of the Formal 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, we 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.

We further specifically and voluntarily waive 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

We 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 us; and
- C. If accepted:
 - 1. This AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against us;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about our disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8310 and FINRA Rule 8313; and
 - 4. We 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. We 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 our right to take legal or factual

positions in litigation or other legal proceedings in which FINRA is not a party.

- D. We may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we 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.

We certify that we have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that we have 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 us to submit it.

Carolina Capital Markets, Inc.

7/1/10
Date

By: 
Thomas Shugrue, President

Reviewed by:


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Counsel for Respondent
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Accepted by FINRA:

July 14, 2010
Date

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

Rebecca L. Burnaugh (TAM)
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