

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Garden State Securities, Inc.,
CRD No. 10083,

Respondent.

Disciplinary Proceeding
No. 2009016230601

Hearing Officer- LOM

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: September 21, 2012

INTRODUCTION

Disciplinary Proceeding No. 2009016230601 was filed on December 21, 2011, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Garden State Securities, Inc. (GSS, Firm or Respondent) submitted an Offer of Settlement (Offer) to Complainant dated September 12, 2012. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, 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, to the entry of

findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

GSS has been a member of FINRA since August 1981. The Firm is based in Red Bank, New Jersey and conducts a general securities business. It is also registered with the Municipal Securities Rulemaking Board (MSRB). GSS employs about 108 registered persons and operates 16 registered branch offices.

Over the past five years, GSS has been subject to various disciplinary actions, including the following:

- On July 24, 2012, GSS entered into an AWC with FINRA in which it agreed to a censure and a \$50,000 fine for failing to provide a complete response to FINRA staff's information requests and for failing to establish, maintain and enforce a system of written supervisory control policies and procedures that were reasonably designed to review and monitor all transmittal of customer funds.
- On May 10, 2011, GSS entered into an AWC with FINRA in which it agreed to a censure and to pay \$300,000 in restitution, on a joint-and-several basis with one of its principals, to six Medical Capital Holdings, Inc. (MedCap) investors for supervisory violations. As a result of its supervisory deficiencies, GSS failed to conduct adequate due diligence on private placements by MedCap and U.S. Drillers, Inc. In addition, FINRA found that GSS had mischaracterized and/or negligently omitted certain material facts in selling MedCap promissory notes to

six customers. FINRA also found that the Firm had distributed sales literature regarding the U.S. Drillers offering that did not comply with the advertising rules.

- On April 22, 2010, GSS entered into an AWC with FINRA in which it agreed to a censure and a \$55,000 fine for offering and selling unregistered securities without an available exemption, making commission payments to an unregistered entity, failing to make proper use of the Federal Trade Commission's national do-not-call registry and for certain advertising violations.
- On February 22, 2010, GSS entered into an AWC with FINRA in which it agreed to a censure, a \$50,000 fine and the payment of \$3,984 in restitution for suitability, improper pricing and related supervisory violations involving corporate bond transactions.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

1. GSS, acting through Vincent M. Bruno (Bruno), the Firm's Chief Compliance Officer (CCO) and Anti-Money Laundering Compliance Officer (AMLCO), failed to develop and implement a written anti-money laundering (AML) program reasonably designed to ensure the Firm's compliance with the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*). Among other things, GSS and Bruno failed to monitor, detect, and investigate suspicious transactions and determine whether to file a Suspicious Activity Report (SAR) in the face of multiple "red flags" involving at least five customers and numerous accounts, which included the questionable backgrounds of the customers, the suspicious circumstances under which the accounts were opened and the account activity itself, including a pattern

of selling millions of shares of volatile, low-priced securities, and wiring over \$3.7 million of proceeds to banks in Gibraltar. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3011(a) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.

2. In addition, GSS, acting through Bruno, failed to implement its Customer Identification Program (CIP). In multiple instances, the Firm opened new accounts for individuals and entities such as partnerships but failed to obtain the necessary documentation establishing the customer's identity or status as a legal entity. Additionally, GSS, acting through Bruno, failed to verify the identity of certain customers by using required documentation. Further, GSS, acting through Bruno, failed to establish and implement risk-based procedures for foreign correspondent accounts and to perform enhanced due diligence of those accounts. The Firm, acting through Bruno, also failed to conduct an adequate annual independent test of its AML program in 2008 and completely failed to conduct a test in 2009. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 3011(b) and 3011(c) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.
3. As the Firm's CCO, Bruno was responsible for establishing, maintaining and enforcing a system of supervisory control policies and procedures for GSS. Despite these responsibilities, the Firm, acting through Bruno, failed to establish, maintain and enforce such a system and procedures for, among other things, the designation of supervisors for producing managers, reviewing and monitoring the transmittal of funds, and identifying and providing heightened supervision over qualifying producing managers. Additionally,

GSS, acting through Bruno, failed to complete an accurate annual certification of the Firm's compliance and supervisory processes for 2008, and GSS failed to complete an accurate certification for 2009. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3012 and FINRA Rules 2010 (for conduct after December 14, 2008) and 3130, and willfully violated MSRB Rule G-27.

4. Additionally, GSS failed to provide FINRA with statistical and summary information regarding customer complaints as required by FINRA Rule 3070(c). By this conduct, GSS violated NASD Conduct Rule 3070 and FINRA Rule 2010.
5. GSS, acting through Bruno, failed to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures (WSPs) reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws regarding customer complaint reporting, supervision of private securities transactions and other areas. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3010 and FINRA Rule 2010 (for conduct after December 14, 2008).
6. Further, in connection with the sales of 23 deferred variable annuities, GSS, acting through Bruno, failed to make reasonable efforts to obtain information necessary to make a suitability determination and develop training policies or programs for Firm personnel regarding transactions involving deferred variable annuities. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2821(b)(2), and 2821(e) and FINRA Rule 2010 (for conduct after December 14, 2008).

7. GSS also failed to supervise its telemarketing activities by allowing certain representatives to utilize an auto-dialing system to make pre-recorded telemarketing calls to prospective customers before 8:00 a.m. and after 9:00 p.m. The Firm also failed to provide appropriate training for its personnel engaged in telemarketing. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2212(a) and 2212(d) and FINRA Rule 2010 (for conduct after December 14, 2008).
8. In addition, GSS failed to maintain and preserve all of its business-related electronic communications for a three-year period and the Firm failed to capture and retain electronic text messages. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3110 and FINRA Rule 2010 (for conduct after December 14, 2008) and willfully violated Rule 17a-4 of the Securities Exchange Act of 1934 (Exchange Act). The Firm, acting through Bruno, also failed to make and keep current order memoranda that contained required information. By this conduct, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3110 and FINRA Rule 2010 (for conduct after December 14, 2008) and willfully violated Rule 17a-3 of the Exchange Act.

**GSS' RESPONSIBILITY TO MONITOR, INVESTIGATE SUSPICIOUS
TRANSACTIONS AND DETERMINE WHETHER TO FILE A SAR**

9. On July 2, 2002, the United States Department of the Treasury issued the implementing regulation, 31 C.F.R. § 103.19(a)(1), providing that, with respect to any transaction after December 31, 2002, "[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation." Section (a)(2) of that regulation specifically provides:

A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

- (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- (ii) Is designed, whether through structuring or other means, to evade any requirements of this part or any other regulations promulgated under the Bank Secrecy Act . . . ;
- (iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or
- (iv) Involves use of the broker-dealer to facilitate criminal activity.

10. FINRA Rule 3310(a) (previously NASD Conduct Rules 3011(a)) mandates that member firms establish and implement policies and procedures that can reasonably be expected to detect and cause the reporting of suspicious transactions. MSRB Rule G-41 also requires firms to establish and implement such policies and procedures. In addition, FINRA emphasized in NtM 02-47 each firm's duty to detect relevant red flags and, if it detects any, to perform additional due diligence to determine whether a SAR should be filed.
11. GSS' written AML procedures required the AMLCO to review potential suspicious activity. In this regard, the Firm's procedures identified a non-exclusive list of 25 possible red flags, including the following six:

- a. The customer (or person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil or regulatory violations;
- b. The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy;
- c. The customer exhibits a lack of concern regarding risks, commissions or other transaction costs;
- d. For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
- e. The customer's account has unexplained or sudden extensive wire activity, especially in the accounts that had little or no previous activity; and
- f. The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose.

As further detailed below, the Firm, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to these same six red flags, and others, relevant to various customer accounts.

12. The Firm's procedures mandated the filing of a SAR upon the detection of such activity as follows:

Broker-dealers are required to file Suspicious Activity Reports (SARs) for transactions that may be indicative of money laundering activity. [Respondent] and its clearing firm have developed

procedures for filing the required reports. A SAR is filed for a suspicious transaction involving \$5,000 or more in funds or other assets.

13. If a transaction was identified as potentially suspicious, Bruno, as GSS' AMLCO, was required to review potential suspicious activity and take corrective action when necessary, including determining whether a SAR should be filed.

**Failure to Monitor, Detect, and Investigate Suspicious Transactions and
Determine Whether to File a SAR
(NASD Conduct Rules 3011(a) and 2110, FINRA Rule 2010 and MSRB Rule G-41)**

Customer JS' Accounts

14. In November 2008, JS opened an individual account and seven additional accounts with GSS under the names of the following entities: WI, FIC, JI, SI, CI, GC, and CB (collectively, the JS accounts). Only one of the JS accounts reflected approval by a principal at GSS. All of the JS accounts identified JS' occupation as a "consultant."
15. From in or about November 2008 through in or about September 2009, GSS, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to multiple red flags relevant to the JS accounts, including certain red flags specifically cited in the Firm's own written AML procedures. Those multiple red flags included the following:
- a. Prior to JS opening an account at GSS, the SEC issued a cease-and-desist order and a \$10,000 fine against JS for actively soliciting issuers and investors in potential IPOs to participate in online auctions of securities at his firm's website without registering as a broker-dealer. JS had also been the subject of an arbitration award finding him liable for common law fraud and breach of fiduciary

duty, and ordering him to pay approximately \$157,000 in connection with the purchase of 10,000 shares in a corporation specializing in engineering, construction and environmental services. In and around at the time JS opened his accounts at the Firm, GSS and Bruno knew, or should have known, about the SEC action and arbitration award against him

- b. From the inception of his relationship with GSS in November 2008 through November 2009, JS sold millions of shares of unregistered, low-priced stocks. JS typically deposited large blocks of stocks in his account and then liquidated them shortly thereafter, wiring the proceeds to a personal bank account.
- c. On November 24, 2008, JS attempted to deposit physical stock certificates representing 3,189,000 shares of IMYN, a low-priced penny stock, into his individual account at GSS. The Firm, acting through Bruno, did not question this transaction. On December 2, 2008, however, the AML Department of Clearing Firm A, GSS' clearing firm, rejected and returned the certificates to JS based on information the clearing firm uncovered during its background investigation relating to the issuers' minimal cash holdings, history of lawsuits, and JS' questionable disciplinary history, as described above.
- d. On or about December 19, 2008 and following the actions of Clearing Firm A, JS opened an individual account at GSS for the purpose of effecting another securities transaction through a different clearing firm, Clearing Firm B. Specifically, JS was opening the individual account for the purpose of depositing certificates representing 50,000 shares of NWCI, a low-priced penny stock. In mid-January 2009, JS transferred his eight GSS accounts involving his affiliated

entities to Clearing Firm B. Shortly thereafter, however, Clearing Firm B began the process of closing the accounts due to AML concerns regarding JS' regulatory history.

- e. In mid-February 2009 and despite the regulatory AML concerns raised by both clearing firms concerning JS, Bruno requested that Clearing Firm A reconsider opening five of JS' accounts without the securities that the clearing firm had previously deemed unacceptable. In making this request, Bruno represented that GSS would impose account restrictions on JS' accounts concerning the acceptance and resale of low-priced securities. Clearing Firm A agreed to reestablish the requested accounts with these restrictions. On March 27, 2009, however, JS attempted to deposit into his individual account 1,500,000 shares of IMYN, the same stock that had been rejected in December 2008, for the purpose of selling those shares. Once again this transaction was rejected by Clearing Firm A. Furthermore, on or about July 23, 2009 and August 5, 2009, JS attempted to deposit a total of 515,836 shares of IRBS, a low-priced penny stock, into his individual account for the purpose of selling those shares. On August 7, 2009, half of those shares were rejected by Clearing Firm A and returned to JS.

Customer AB's Account

- 16. On August 25, 2008, AB opened an account with GSS (AB account). Prior to opening the account, AB was the owner and Chief Executive Officer (CEO) of CDE and FGH, both of which were limited liability companies (LLC). CDE was an international holding company that pooled investors' funds purportedly to acquire merchandise for sale to

wholesalers and retailers nationwide. FGH held investments in numerous companies and AB oversaw a diversified group of approximately 60 companies through which he invested their funds.

17. From in or about August 2008 through in or about March 2009, GSS, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to multiple red flags relevant to the AB account, including certain red flags specifically cited in the Firm's own written AML procedures. Those multiple red flags included the following:

- a. Prior to opening an account at GSS, AB had two felony convictions. In 1989, AB was charged in Colorado with forgery, larceny and fraud. AB was later convicted, and, in May 1990, he served a prison sentence on those charges. In 1990, a Minnesota state court charged AB with two counts of theft by check. AB pleaded guilty to one count and the other was dismissed.
- b. On or about September 24, 2008, the FBI and the criminal division of the IRS executed search warrants on the corporate headquarters of CDE and FGH, and the homes of AB and other company executives. According to an FBI affidavit made public at that time, it alleged that AB and some of his associates were involved in schemes since the mid-1990s that defrauded investors of as much as \$100 million. Further, the affidavit alleged AB and his associates had lured potential investors by creating false purchase orders, telling investors that CDE was purchasing merchandise from smaller vendors and then reselling the products to larger wholesale stores.

- c. On September 29, 2008, AB resigned his position as CEO of CDE and FGH. On October 3, 2008, AB was arrested by federal authorities. On October 6, 2008, a Federal District Court froze the assets of AB, CDE and FGH, which included AB's account at GSS. In December 2008, a federal grand jury indicted AB, CDE and FGH for mail fraud, wire fraud, money laundering, and conspiracy. In 2009, the SEC filed a complaint against AB. AB was subsequently found guilty after trial in federal court on 20 counts of conspiracy, wire and mail fraud for orchestrating a multi-billion dollar Ponzi scheme, and he was sentenced to 50 years in federal prison.
- d. On September 30, 2008, AB was named as a defendant in a civil complaint charging him and his affiliated entities, CDE and FGH, with fraud in connection with a scheme to induce investors to provide these entities with millions of dollars in connection with a resale business venture.
- e. In March 2009, despite the federal indictment and pending civil complaint against AB and his affiliated companies in the fall of 2008, GSS engaged in a private investment in public equity (PIPE) offering of XYZ. XYZ was a company that operated online Websites offering limited supply brand name merchandise to both consumers and businesses using auction style and fixed price formats. The private placement memorandum for XYZ indicated AB and FGH were major shareholders and that AB was the subject of a federal investigation. In September 2010, XYZ filed for Chapter 11 bankruptcy.

- f. GSS and Bruno knew, or should have known, of the criminal and civil actions against AB at the time he opened his account with the Firm and when AB sought to raise capital through the Firm in the PIPE deal offering involving XYZ.
- g. The Firm engaged in the PIPE offering of XYZ, in which AB and FGH were major shareholders.

Customer LIP's Account

- 18. On or about March 10, 2009, LIP, a private investment partnership, opened an account with GSS (LIP account).
- 19. From in or about March 2009 through in or about June 2009, GSS, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to multiple red flags relevant to the LIP account, including certain red flags specifically cited in the Firm's own written AML procedures. Those multiple red flags included the following:
 - a. On or about March 18, 2009, LIP deposited stock certificates representing 2.5 million shares of PSIC, a low-priced security, into its GSS account.
 - b. Shortly thereafter, the AML Department from Clearing Firm A rejected and returned the stock certificates because PSIC's SEC filings were not current. Furthermore, the Pink Sheets had assigned PSIC an icon classification of "stop sign," indicating that the issuer was unwilling or unable to provide current disclosures to the public markets.
 - c. Bruno, acting on behalf of GSS, asked Clearing Firm A to reconsider its position regarding the PSIC certificates. The Clearing Firm instructed Bruno to resubmit

the PSIC shares for a second review. GSS, acting through Bruno, however, decided not to resubmit the shares to Clearing Firm A but instead opened an account for LIP at Clearing Firm B on April 8, 2009.

- d. On or about April 13, 2009, the AML Department of Clearing Firm B sent an e-mail inquiry to Bruno expressing concern that the 2.5 million shares of PSIC owned by LIP represented 3% of the total outstanding shares of that stock, and that the issuer was listed on the Pink Sheets with a "limited information" rating.
- e. Bruno convinced Clearing Firm B to accept the shares, noting that exceptions may be made for Pink Sheet stocks with limited information.
- f. On or about April 15, 2009, Clearing Firm B asked GSS if the customer intended to sell the shares in the near future.
- g. On May 5, 2009, following Clearing Firm B's inquiry, Bruno forwarded an e-mail to Clearing Firm B and indicated that all shares of PSIC had been returned to the customer. On June 30, 2009, Clearing Firm B closed the account.

Customer IJ's Accounts

- 20. On or about August 10, 2006, corporation IJ opened an account at GSS (IJ account). IJ is owned by KL, MN and their family members. From on or about August 2006 through July 2007, affiliates of IJ and family members of KL and MN opened approximately eight accounts at GSS (collectively, the IJ-related accounts).
- 21. From in or about August 2006 through in or about September 2009, GSS, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to multiple red flags relevant to the IJ account and IJ-

related accounts, including certain red flags specifically cited in the Firm's own written AML procedures. From October through November 2009, GSS continued to fail in that regard. Those multiple red flags included the following:

- a. In December 2006, a few months after opening the IJ account at GSS, NASD suspended IJ owner KL for two years in all capacities and fined him \$10,000 fine for effecting unauthorized trading in customer accounts, failing to supervise an individual and take adequate steps to prevent unauthorized trading and settling a customer complaint without the knowledge or consent of his employer member firm.
- b. On or about June 2009, Clearing Firm A closed the IJ account following a review of transactions in the IJ and affiliated accounts at GSS. Clearing Firm A informed Bruno that IJ was a stock promoter that had been "identified as participating in a number of 'red flag' penny stock transactions that included excessive buying, selling, wiring out of funds and deposit of physical certificates of companies they had relationships with." Additionally, Clearing Firm A indicated to GSS and Bruno that IJ owner KL had been the subject of an NASD regulatory action.
- c. GSS and Bruno knew, or should have known, of KL's disciplinary history in and around the time he opened his account. Furthermore, on or about June 15, 2009, despite the fact that Clearing Firm A had closed IJ's account, GSS, acting through Bruno, opened a new account for KL at Clearing Firm A under the name AI. This new account was owned by KL and MN, the same individuals behind the IJ account.

- d. In July 2009, GSS, acting through Bruno, attempted to open a new account for KL and his wife through Clearing Firm B. Clearing Firm B cited KL's regulatory history as an item of concern, but deferred to GSS' decision to accept these accounts based on its own due diligence. GSS ultimately decided to open the accounts. By the end of 2009, IJ and its affiliates transferred at least six accounts to Clearing Firm B.

Customer JL's Accounts

22. JL is a British citizen residing in Gibraltar. From in or about March 2008 through December 2009, JL was associated with a number of entities that opened accounts at GSS, including: CGL, BLI, ALMSL and TNHL (collectively, the JL accounts). As further detailed below, from on or about March 2008 through November 2009, the JL accounts sold millions of shares of EGMI, a low-priced stock, and wired the proceeds to banks in Gibraltar.
23. Specifically, on or about June 22, 2006, JL opened an account at GSS in the name of CGL. CGL, which was incorporated by JL in Gibraltar, specialized in the formation of offshore companies, secretarial and nominee services, trusts, financial services, investment and banking. Further, CGL was licensed by the Financial Services Commission of Gibraltar to carry on financial services business as a "company manager" pursuant to Gibraltar's Financial Service Ordinance of 1989.
24. In February 2004, BLI opened an account at GSS. The owner of BLI, who incorporated the company in Gibraltar, was an associate of JL. Further, from on or about March 2008 through November 2009, while BLI held an account at GSS, JL's company CGL acted as

a company manager for BLI. The GSS new account form indicated BLI's address was the same address for JL and CGL in Gibraltar.

25. On or about June 2, 2009, ALMSL opened an account at GSS. ALMSL was a company incorporated by JL in Gibraltar and it shared the same address as CGL and BLI.

26. On or about July 2009, JL incorporated TNHL in Gibraltar and he was listed as the company's president.

27. From in or about March 2008 through in or about September 2009, GSS, acting through Bruno, failed to monitor, detect and investigate suspicious transactions and determine whether to file a SAR in response to multiple red flags relevant to the JL accounts, including certain red flags specifically cited in the Firm's own written AML procedures. From October through December 2009, GSS continued to fail in that regard. Those multiple red flags included the following:

- a. From on or about and May 9, 2008 through September 23, 2008, JL deposited approximately 2,956,228 shares of EGMI, a low-priced security, into CGL's account. From on or about June 2008 through February 2009, JL sold those shares and wired the funds to a bank in Gibraltar. At the time, CGL's account cleared through Clearing Firm A.
- b. On or about March 19, 2008, BLI deposited approximately 913,987 shares of EGMI into its account. From on or about March 26, 2008 through April 3, 2008, BLI liquidated the shares and wired the funds to a bank in Gibraltar. At the time, the BLI account cleared through Clearing Firm A.

- c. On or about March 11, 2009, CGL attempted to deposit 1,877,840 shares of EGMI into its account. On or about March 24, 2009, the AML Department of Clearing Firm A returned the shares to CGL after the clearing firm indicated the shares were issued to BLI and not CGL.
- d. On April 22, 2009, GSS, acting through Bruno and others, changed the clearing firm for BLI's account from Clearing Firm A to Clearing Firm B. On May 12, 2009, BLI deposited 1,877,840 shares of EGMI into its account at Clearing Firm B. From on or about May 20, 2009 through October 7, 2009, BLI liquidated the shares and wired the funds to a bank in Gibraltar.
- e. On or about June 3, 2009, ALMSL deposited approximately 400,000 shares of EGMI into its account. From on or about June 11, 2009 through June 16, 2009, ALMSL liquidated the shares and wired the funds to a bank in Gibraltar. There was no other activity in the account.
- f. On or about September 22, 2009, TNHL opened an account at GSS. On September 25, 2009, TNHL deposited 250,000 shares of EGMI. From on or about October 9, 2009 through October 15, 2009, TNHL liquidated the shares and wired the funds to a bank in Gibraltar.
- g. The wire activity by the JL accounts following the liquidation of EGMI was extensive and warranted follow-up action by the Firm. From on or about April 2008 through September 2009, the JL accounts directed approximately 24 wires from their accounts totaling approximately \$3.7 million.

28. By failing to monitor, detect and investigate suspicious transactions and determine whether to file a SAR with respect to multiple red flags relevant to the JS, AB, LIP, IJ, IJ-related and JL accounts, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3011(a) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.

**Failure to Implement CIP
(NASD Conduct Rules 3011(b) and 2110, FINRA Rule 2010 and MSRB Rule G-41)**

29. GSS' CIP mandated that Bruno, as AMLCO, obtain basic identifying information for all customers at the time of account opening and verify such information through either documentary or non-documentary methods. Customer accounts opened by entities could be verified through documents showing the existence of the entity, including certified articles of incorporation or partnership agreements.
30. From in or about August 2008 through in or about September 2009, GSS, acting through Bruno, failed to implement its CIP. From October through November 2009, GSS continued to fail in that regard. In at least 18 instances, the Firm opened new accounts for individuals and entities such as partnerships, but failed to obtain the necessary documentation establishing the customer's identity or status as a legal entity. Additionally, GSS, acting through Bruno, failed to verify the identity of certain customers by using required documentation.
31. By failing to implement the Firm's CIP, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3011(b) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.

Foreign Correspondent Accounts
(NASD Conduct Rules 3011(b) and 2110, FINRA Rule 2010 and MSRB Rule G-41)

32. From in or about June 2006 through in or about September 2009, GSS, acting through Bruno, failed to implement risk-based procedures for correspondent accounts of foreign financial institutions (foreign correspondent accounts) reasonably designed to detect and report through enhanced due diligence known or suspected money laundering activity involving the correspondent accounts, as required by the Bank Secrecy Act.
33. During this period, GSS, acting through Bruno, failed to identify and perform enhanced risk-based due diligence on the account of CGL, a broker-dealer, futures commissions merchant and/or a registered investment company based in Gibraltar. CGL has maintained an account with GSS since June 2006. As discussed earlier, from on or about March 2008 through September 2009, the JL accounts sold millions of shares of EGMI, a low-priced stock, and wired the proceeds to banks in Gibraltar.
34. By failing to implement the Firm's procedures and perform enhanced due diligence for foreign correspondent accounts, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3011(b) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.

Failure to Conduct Required Independent Testing
(NASD Conduct Rules 3011(c) and 2110, FINRA Rule 2010 and MSRB Rule G-41)

35. NASD Conduct Rule 3011(c) requires that firms such as GSS conduct independent testing of its AML program and procedures on an annual (calendar-year) basis.
36. GSS, acting through Bruno, failed to conduct an adequate independent test of its AML program for 2008. GSS' test for 2008 was, at best, cursory in nature. For example, the

Firm's testing did not review, from an AML perspective, its foreign accounts to determine whether any should be classified as foreign correspondent accounts requiring enhanced due diligence. Additionally, for the 2008 test, GSS and Bruno limited its review of new accounts only to those accounts opened in August 2008.

37. In addition, GSS failed to conduct an independent test of its AML program for 2009.

38. By failing to conduct an adequate independent test of the Firm's AML program for 2008 and 2009, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3011(c) and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-41.

**Failure to Establish, Maintain and Enforce a System of Supervisory Control
Policies and Procedures
(NASD Conduct Rules 3012 and 2110, FINRA Rule 2010 and MSRB Rule G-27)**

39. From at least August 2008 through September 2009, GSS, acting through Bruno, failed to establish, maintain and enforce a system of written supervisory control policies and procedures that were reasonably designed with respect to the following:

- a. the designation of supervisors for producing managers, including ensuring that such supervisors were senior to or otherwise independent of producing managers;
- b. the Limited Size and Resources Exception for branch manager supervision, including documenting the factors used in determining the applicability of the exception, and providing for electronic notification to FINRA of the Firm's reliance on this exception;

- c. reviewing and monitoring the transmittals of funds or securities from customers to third-party accounts;
- d. reviewing and monitoring customer changes of address and the validation of such changes; and
- e. heightened supervision over the activities of each producing manager responsible for generating 20% or more of the business units supervised by the producing manager, in that the Firm, acting through Bruno, failed to:
 - i. accurately and completely identify all of its producing managers;
 - ii. calculate, on a rolling twelve-month basis, which (if any) producing managers had exceeded the 20% threshold;
 - iii. review the new account forms for customer accounts serviced by producing managers; and
 - iv. enforce Section 4.7 from the Firm's own procedures regarding the daily supervision of producing managers' customer account activity.

40. From on or about August 2008 through September 2009, GSS, acting through its designated principal Bruno, failed to submit to the Firm's senior management no less than annually, reports that detailed the Firm's system of supervisory controls, summarized the results of the Firm's test of its supervisory procedures and significant identified exceptions, and described any additional or amended supervisory procedures created in response to the test results.

41. By failing to establish, maintain and enforce written supervisory control policies and procedures, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3012 and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated MSRB Rule G-27.

**Failure to Prepare an Accurate Annual Certification of Compliance
and Supervisory Processes
(FINRA Rules 3130 and 2010)**

42. FINRA Rule 3130 requires a firm's chief executive officer (or equivalent officer) to certify annually that the firm has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable rules, securities laws and regulations.
43. On or about March 2, 2009, GSS, acting through its designated principal Bruno, issued an annual certification report for 2008 that:
- a. provided an incomplete listing of the Firm's OSJ offices and producing managers;
 - b. falsely stated that the Firm had been relying on the Limited Size and Resource Exception since May 5, 2008; and
 - c. falsely stated that all required registered persons attended the Firm's 2008 Annual Compliance Meeting.
44. On or about March 5, 2010, GSS issued an annual certification report for 2009 that:
- a. provided an incomplete listing of the Firm's producing managers; and
 - b. falsely stated that MD and LB were senior to or otherwise independent of KD, an owner of the Firm.

45. By failing to complete an accurate annual certification for 2008 and/or 2009, GSS violated FINRA Rules 3130 and 2010.

**Failure to Report Customer Complaints
(NASD Conduct Rule 3070 and FINRA Rule 2010)**

47. From on or about February 9, 2009 through November 23, 2009, GSS failed to report statistical and summary information to FINRA regarding the following customer complaints:

- a. Complaint from customer DR regarding Firm representative JP (February 9, 2009);
- b. Complaint from customer PB regarding Firm representative GG (February 10, 2009);
- c. Complaint from customer MS regarding Firm representative SS (March 6, 2009);
- d. Complaint from customer RW regarding Firm representative LT (March 7, 2009);
- e. Complaint from customer JK regarding Firm representative FP (March 22, 2009);
- f. Complaint from customer SF regarding Firm representative TB (March 24, 2009);
- g. Complaint from customer CV regarding aggressive telemarketing by the Firm (March 26, 2009);
- h. Complaint from customer MP regarding Firm representatives CP and JK (March 31, 2009);
- i. Complaint from customer MW regarding Firm representative JG (April 2009);

- j. Complaint from customer MJ regarding Firm representatives JL and WG (June 11, 2009);
- k. Complaint from customer VK regarding Firm representative DW (July 15, 2009);
- l. Complaint from customer PH regarding Firm representative EP (August 25, 2009);
- m. Complaint from customer DZ regarding Firm representative KD (September 21, 2009);
- n. Complaint from customer RP regarding aggressive telemarketing by the Firm (September 24, 2009);
- o. Complaint from customer GG regarding Firm representative IF (September 28, 2009);
- p. Complaint from customer RK regarding Firm representative GJ (September 30, 2009);
- q. Complaint from customer CE regarding aggressive telemarketing by the Firm (October 22, 2009); and
- r. Complaint from customer BW regarding Firm representative TB (November 23, 2009).

48. By failing to report statistical and summary information to FINRA regarding customer complaints, GSS violated NASD Conduct Rule 3070 and FINRA Rule 2010.

**Supervisory Deficiencies
(NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010)**

49. From at least August 2008 through September 2009, GSS, acting through Bruno, failed to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws concerning the following areas:

- a. GSS failed to clearly delineate supervisory responsibilities between the owners of GSS, independent franchise branch owners, and other supervisory personnel;
- b. GSS failed to ensure proper handling of customer complaint reporting, in that it did not establish a mechanism for the identification and transmittal of customer complaints from branch locations to the Firm's Compliance Department for reporting;
- c. The Firm failed to identify several branch offices as Offices of Supervisory Jurisdiction, including offices in Hackensack, NJ, Chicago, IL, New York, NY and Tunkhannock, PA;
- d. With respect to a review sample of 39 non-third party wires sent during this time period, the Firm failed to evidence compliance review on 32 of the wires;
- e. With respect to a review of 57 options accounts reviewed, the Firm failed to maintain documentation pertaining to the change in investment objectives for 9 of the accounts;
- f. The Firm's WSPs did not address the use and retention of business-related electronic text messages sent or received by GSS personnel; and

g. The Firm's procedures did not address how it would approve and supervise private securities transactions pursuant to NASD Conduct Rule 3040. Moreover, the Firm, acting through Bruno, failed to enforce reasonable supervisory procedures with respect to private securities transactions. For example, on or about April 21, 2008, representative GJ provided written notice to GSS and Bruno that he had engaged in a private securities transaction. That notice also informed them that, going forward, GJ intended to refer potential investors to a limited liability company offering securities, and that he would receive a percentage of the funds they invested. On or about April 21, 2008, Bruno approved GJ's participation in the proposed transaction, but GSS and Bruno, however, otherwise failed to take reasonable steps to review and supervise this activity.

50. By failing to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with the requirements of FINRA rules and the federal securities laws, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3010 and FINRA Rule 2010 (for conduct after December 14, 2008).

**Failure to Meet Responsibilities Regarding Deferred Variable Annuity Transactions
(NASD Conduct Rules 2821 and 2110 and FINRA Rule 2010)**

51. In connection with the sales of 23 deferred variable annuities effected from on or about May 5, 2008 through on or about June 26, 2009, GSS, acting through Bruno, failed to make reasonable efforts to obtain one or more of the following items of customer information necessary to make a suitability determination: annual income, financial situation and needs, investment experience, investment objectives, intended use of the

deferred variable annuity, existing assets (including investment and life insurance holdings), liquidity needs, liquid net worth, risk tolerance and tax status.

52. From on or about May 5, 2008 through September 30, 2009, GSS, acting through Bruno, failed to develop and document specific training policies or programs reasonably designed to ensure that associated persons who effected and registered principals who reviewed transactions in deferred variable annuities complied with the requirements of NASD Conduct Rule 2821 and that they understand the material features of deferred variable annuities.

53. By failing to obtain necessary customer suitability information and perform required training in connection with sales of deferred variable annuities, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2821(b)(2), and 2821(e) and FINRA Rule 2010 (for conduct after December 14, 2008).

**Telemarketing Violations
(NASD Conduct Rules 2212 and 2110 and FINRA Rule 2010)**

54. From in or about August 2008 through in or about August 2009, certain GSS registered representatives utilized an auto-dialing system to make pre-recorded, telemarketing phone calls to prospective customers soliciting the purchase of securities or related services before the hour of 8:00 a.m. or after 9:00 p.m. (local time at the called party's location). With respect to each of those customers called, the Firm did not have an established business relationship with them, it had not received their prior express invitation or permission to be called, and they were not brokers or dealers.

55. Throughout that time period, the Firm failed to provide for training of its personnel engaged in telemarketing.

56. Furthermore, the pre-recorded calls, which left a message asking the listener to return the call to a specific registered representative and phone number provided in the message, did not appropriately identify the name of the Firm or the purpose of the call.
57. By failing to comply with telemarketing rules, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2212(a), and 2212(d) and FINRA Rule 2010 (for conduct after December 14, 2008).

**Failure to Retain Electronic Communications
(NASD Conduct Rules 3110 and 2110, FINRA Rule 2010 and
Exchange Act Rule 17a-4)**

58. From at least in or about August 2008 through September 2009, GSS failed to maintain and preserve all of its business-related electronic communications for a period of three years. The Firm utilized an outside vendor for the storage and retrieval of electronic communications; however, that vendor only maintained an electronic record of the Firm's e-mails for one year, after which it would purge those records from its archives.
59. In addition, during the same time period, the Firm failed to maintain and preserve electronic text messages involving Firm personnel and business-related e-mails sent and received by Firm personnel through personal e-mail accounts.
60. By failing to maintain and preserve all of its business-related electronic communications, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3110 and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated Exchange Act Rule 17a-4.

**Recordkeeping Violation
(NASD Conduct Rules 3110 and 2110, FINRA Rule 2010 and
Exchange Act Rule 17a-3)**

61. From at least August 2008 through September 2009, GSS, acting through Bruno, failed to make and keep current order memoranda for securities transactions effected through Clearing Firm A that contained the information required by Exchange Act Rule 17a-3. Specifically, the order memoranda failed to include the terms and conditions of the order or instructions and of any modification or cancellation thereof, the time the order was received, the time of entry, the time of execution or cancellation, and the identity of any other person (exclusive of the associated person responsible for the account) who entered or accepted the order on behalf of the customer and any modifications/cancellations.
62. By failing to make and keep current order memoranda containing required information, GSS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3110 and FINRA Rule 2010 (for conduct after December 14, 2008), and willfully violated Exchange Act Rule 17a-3.

Based on the foregoing, Respondent violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2212(a), 2212(d), 2821(b)(2), 2821(e), 3010, 3011(a), 3011(b), 3011(c), 3012, 3110 and 3070 and FINRA Rules 2010 (for conduct after December 14, 2008) and 3130, and willfully violated MSRB Rules G-27 and G-41 and Exchange Act Rules 17a-3 and 17a-4.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future

misconduct, and represent a proper discharge by FINRA of its regulatory responsibility under the Exchange Act.

SANCTIONS

It is ordered that Respondent be:

- censured; and
- fined \$265,000 fine (\$55,000 of which pertains to the violations of MSRB Rules G-27 and G-41).

In addition, each of Respondent's associated personnel must complete 16 hours of AML training by a provider not unacceptable to FINRA. Respondent's associated personnel must complete this training within six months of the issuance of the Order. Within 30 days following completion of each training session, Respondent must provide FINRA with written proof of the completion of such session.

Respondent shall also comply with the following undertaking within the time period specified (unless otherwise extended by FINRA staff following a written request by Respondent):

- Respondent shall undertake to review its supervisory system and written supervisory procedures for compliance with those laws, regulations, and rules concerning the preservation of electronic communications. Within 120 calendar days of the issuance of the Order, an officer of Respondent will certify to FINRA in writing that the Firm currently has in place systems and procedures reasonably designed to achieve compliance with those laws, regulations and rules. The certification, along with the current procedures, must be submitted to Department of Enforcement staff at

FINRA's New Jersey District Office. Although FINRA staff may review the Firm's procedures, said review shall in no way constitute an approval of those procedures. The failure of FINRA staff to alert Respondent to any deficiencies in the procedures shall not preclude FINRA from instituting a subsequent disciplinary action as a result of deficiencies in the procedures.

Respondent agrees to pay the monetary sanction upon notice that the Offer has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

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

SO ORDERED.

FINRA

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



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