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JUN 24 2011

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NOS. 20080126639 & 20090162643**

FINRA  
SAN FRANCISCO DISTRICT OFFICE

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

RE: Muhammad Akram Khan, Respondent  
General Securities Principal  
CRD No. 1400089

Bluechip Securities, Inc., Respondent  
Member  
CRD No. 45726

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Muhammad Akram Khan and Bluechip Securities, Inc. 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 Khan or Bluechip alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Khan and Bluechip 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**

Muhammad Akram Khan first entered the securities industry in April 1985, when he associated with a FINRA member firm. On October 27, 1998, Khan became associated with Bluechip Securities, Inc., and registered as a General Securities Representative (GS) and a General Securities Principal (GP) with the firm on November 20, 1998. He also became registered with Bluechip as an Operations Principal (OP) on March 14, 2000, an Introducing Broker/Dealer Financial and Operations Principal (FI) on May 13, 1999, and as a Municipal Securities Representative (MR) on January 4, 1999. Khan was the CEO, president,

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SROP, CROP, CCO, GP and FinOp of Bluechip until he terminated his registrations with the firm in April 2011.

Bluechip Securities, Inc. became a member of FINRA on October 22, 1998. The firm's lines of business include corporate debt, underwritings, private placements, mutual fund retailer, government securities broker, municipal securities broker, tax shelter broker, and put and call broker/dealer or option writer. The firm is currently organized as a corporation and its net capital requirement is \$5,000. Bluechip Holdings, Inc. is the firm's owner; Khan owns 100% of Bluechip Holdings. 98.5% of the firm's business is concentrated in the options business, with the remaining 1.5% in equities. The firm is not currently active due to a net capital deficiency.

### **OVERVIEW**

Between June 2008 and March 2010, Khan actively traded the accounts of two Bluechip customers. During that time period, Khan generated commissions of \$380,296.00 from the two accounts and the customers incurred losses of \$399,000.00. The annualized commission-to-equity ratios in those three accounts ranged from 675% to 22,131%.

From September 2008 through November 2008, and from April 2009 through February 2010, Khan executed approximately 68 options transactions in customer accounts at prices that were unfair, taking into account all relevant circumstances.

From June 2008 through March 2010, Khan recommended transactions to Bluechip customers without reasonable grounds to believe that the recommended transactions were suitable for the customers, in light of their financial circumstances and needs, investment objectives and other relevant information known to him at the time he made the recommendations to the Bluechip customers.

Khan actively traded four Bluechip customer accounts during the period of June 2008 through March 2010. During this period, Khan exercised discretion in entering or causing to be entered approximately 1,100 transactions. The customers did not provide Khan with written authorization to exercise discretion in their accounts and Bluechip did not accept the accounts as discretionary in writing.

Bluechip's Anti-Money Laundering (AML) Compliance Program test for 2007 was not independent and the 2008 test was not performed by an individual qualified to conduct the test.

On several occasions between October 2007 and July 2009, Bluechip failed to accurately compute its net capital, conducted a securities business while under its required minimum net capital, filed inaccurate FOCUS Reports, and failed to properly notify FINRA and the SEC when it was near or under its minimum net capital requirement.

From June 2008 through March 2010, Bluechip failed to capture, maintain and retain at least 388 items of electronic business-related communications between Khan and Bluechip customer FC.

### **FACTS AND VIOLATIVE CONDUCT**

#### **1. Excessive Trading**

From December 2008 through February 2010, Khan engaged in trading in the account of FC. Khan effected approximately 665 transactions during that time period and generated approximately \$234,765 in commission charges. Virtually all of the transactions were options trades. FC made an initial deposit of \$4,252 on December 2, 2008, followed by 32 deposits over 15 months for a total investment of \$326,000. These additional deposits were used to satisfy margin calls rather than to purchase securities. During the 15 months the account was actively trading, FC had positive equity in eight months and negative equity in seven months. The average monthly equity was approximately \$848. The account incurred a loss of approximately \$314,000. The annualized commission-equity ratio for the account was approximately 22,131%.

From July 2008 through February 2009, Khan engaged in trading in the accounts of JS. Khan effected 540 transactions during that time period and generated \$145,531 in commission charges. JS initially deposited \$10,000 on July 10, 2007. Over the next three months, JS made two additional deposits, a deposit of cash and a deposit of securities. The account incurred a loss of \$85,000. The average monthly equity in JS's account was approximately \$32,207. The commission-equity ratio for the eight months that JS's account was active was approximately 450%.

The foregoing conduct constitutes separate and distinct violations of NASD Conduct Rule 2310 and NASD Interpretive Material 2310 - 2(b)(2). With respect to the transactions occurring on or before December 14, 2008, the foregoing conduct constituted violations of NASD Conduct Rule 2110 by Respondent Khan. With respect to transactions occurring on or after December 15, 2008, the foregoing

conduct constituted violations of FINRA Rule 2010 by Respondent Khan.

2. Execution of Options Transactions at Unfair Prices

Between September 1, 2008, and November 30, 2008, and between April 1, 2009 and February 28, 2010, Khan executed or caused the execution of 68 options transactions at prices that were unfair, in that the commissions charged on such transactions were excessive in light of all factors relevant to the transactions. The trades involved opening and closing transactions in listed index options traded on an options exchange, for which immediate execution was obtained through Bluechip's clearing firm.

Each such transaction occurring on or before December 14, 2008, constituted a separate and distinct violation of NASD Conduct Rule 2110 by Respondent Khan. Each such transaction occurring on or after December 15, 2008, constituted separate and distinct violations of FINRA Rule 2010 by Respondent Khan.

3. Unsuitable Options Transactions

From June 2008 through March 2010, Khan recommended opening options transactions to Bluechip customers without reasonable grounds to believe that the recommended transactions were not unsuitable for the customers. Further, Khan did not have a reasonable basis for believing that the customers had such knowledge and experience in financial matters that they could reasonably be expected to be capable of evaluating the risks of the transactions and were financially able to bear the risks of the recommended positions in the options contracts.

With respect to recommendations made on or before December 14, 2008, the foregoing conduct constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2860(b)(19). With respect to recommendations made on or after December 15, 2008, but on or before May 10, 2009, the foregoing conduct constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 2860(b)(19) by Respondent Khan. With respect to recommendations made on or after May 11, 2009, the foregoing conduct constitutes separate and distinct violations of FINRA Rules 2010 and 2360(b)(19).

**4. Discretionary Options Transactions Without Written Authorization**

During the period from June 2008 through March 2010, Khan exercised discretion in executing approximately 1,100 options transactions in four customer accounts. None of the four customers provided Khan or Bluechip with written authorization to exercise discretion in their accounts. None of the accounts were accepted by Bluechip or a Registered Options Principal in writing as discretionary accounts.

With respect to transactions executed on or before December 14, 2008, the foregoing conduct constitutes separate and distinct violations of NASD Conduct Rules 2110, 2510(b) and 2860(b)(18)(A)(i) by Respondent Khan. With respect to transactions effected on or after December 15, 2008, but on or before May 10, 2009, the foregoing conduct constitutes separate and distinct violations of FINRA Rule 2010, and NASD Conduct Rules 2510(b) and 2860(b)(18)(A)(i) by Respondent Khan. With respect to transactions effected on or after May 11, 2009, the foregoing conduct constitutes separate and distinct violations of FINRA Rules 2010 and 2360(b)(18)(A)(i) and NASD Conduct Rule 2510(b) by Respondent Khan.

**5. Failure to Test AML Compliance Program**

Bluechip was required to conduct an independent test of the firm's Anti-Money Laundering (AML) Compliance Program in 2007 and 2008. Pursuant to IM-3011-1, an individual with a working knowledge of applicable requirements of the Bank Secrecy Act and implementing its regulations was required to conduct the test. The 2007 test was conducted by Khan, who is the firm's AML Compliance Officer, and is therefore not independent. The 2008 test was conducted by YS, who did not have a working knowledge of applicable requirements of the Bank Secrecy Act and implementing its regulations. Therefore, Khan failed to cause Bluechip to conduct an independent test of the firm's AML Compliance Program as required by Rule 3011 in 2007 and 2008.

The foregoing conduct constitutes separate and distinct violations of NASD Conduct Rules 2110 and 3011(c) by Respondent Khan during the period beginning on January 1, 2007, and ending on December 14, 2008. The foregoing conduct constitutes a violation of FINRA Rule 2010 and NASD Conduct Rule 3011(c) during the period beginning on December 15, 2008, and ending on December 31, 2008.

**6. Failure to Maintain Accurate Books and Records**

During the period from October 2007 through June 2009, Bluechip acting through Khan, failed to maintain accurate books and records, in that the firm failed to prepare and maintain accurate net capital computations as of October 31, 2007, November 30, 2007, December 31, 2007, January 31, 2008, February 29, 2008, March 31, 2008, April 30, 2008, May 31, 2008, June 30, 2008, July 31, 2008, August 30, 2008, and June 29, 2009.

The foregoing conduct constitutes separate and distinct violations of Exchange Act Rule 17a-3 by Bluechip. Further, the foregoing constituted separate and distinct violations of NASD Conduct Rule 2110 by Respondents Bluechip and Khan with respect to the inaccurate computations for October 31, 2007, November 30, 2007, December 31, 2007, January 31, 2008, February 29, 2008, March 31, 2008, April 30, 2008, May 31, 2008, June 30, 2008, July 31, 2008, and August 30, 2008 and FINRA Rule 2010 by Respondents Khan and Bluechip with respect to the computation for June 29, 2009.

**7. Conducting a Securities Business While Failing to Maintain Required Minimum Net Capital**

Bluechip, acting through Khan, conducted a securities business while failing to maintain the required minimum net capital on December 31, 2007, January 31, 2008, February 28, 2008, March 31, 2008, April 30, 2008, and June 29, 2009. The violations on December 31, 2007, and in 2008 were caused by the mischaracterization of certain items as allowable assets when such items were properly classified as non-allowable assets. The violation on June 29, 2009, was caused by the firm's failure to take into account certain liabilities in calculating its net capital. The net capital deficiencies ranged from approximately \$6,547 to approximately \$60,400.

The foregoing conduct constituted separate and distinct violations of Exchange Act Rule 15c3-1 by Respondent Bluechip. Further, the foregoing conduct constituted separate and distinct violations of NASD Conduct Rule 2110 by Respondents Khan and Bluechip with respect to the conduct of business on December 31, 2007, January 31, 2008, February 28, 2008, March 31, 2008 and April 30, 2008 and a violation of FINRA Rule 2010 by Respondents Khan and Bluechip with respect to the conduct of business on June 29, 2009.

**8. Failure to Maintain Business-Related Electronic Communications**

On at least 388 occasions during the period from June 2008 through March 2010, Khan sent to customer FC and received from customer FC electronic communications, in the form of text messages, related to Bluechip's business as such. These communications were not preserved by Bluechip in the manner required by Exchange Act Rule 17a-3. With respect to communications sent and received on or before December 14, 2008, the foregoing conduct constitutes separate and distinct violations of Exchange Act Rule 17a-4(b)(4) and NASD Conduct Rule 2110 by Respondent Bluechip and NASD Conduct Rule 2110 by Respondent Khan. With respect to communications sent and received on or after December 15, 2008, the foregoing constitutes separate and distinct violations of Exchange Act Rule 17a-4(b)(4) and FINRA Rule 2010 by Respondent Bluechip and FINRA Rule 2010 by Respondent Khan.

**9. Inaccurate FOCUS Reports**

The firm, acting through Khan, filed inaccurate quarterly FOCUS Reports for the quarters ending December 2007, March 2008, and June 2008. The FOCUS Reports were inaccurate because they included inaccurate computations of net capital.

The foregoing conduct constitutes separate and distinct violations of Exchange Act Rule 17a-5 and NASD Conduct Rule 2110 by Respondent Bluechip and NASD Conduct Rule 2110 by Respondent Khan.

**10. Failure to Provide Notice Pursuant to Rule 17a-11.**

During the period from October 31, 2007, until July 31, 2008, Respondent Bluechip did not maintain the minimum net capital required by Exchange Act Rule 15c3-1. The firm, acting through Respondent Khan, failed to provide notice of its net capital deficiency to FINRA and the SEC pursuant to Exchange Act Rule 17a-11.

The foregoing conduct constitutes separate and distinct violations of Exchange Act Rule 17a-11 and NASD Conduct Rule 2110 by Respondent Bluechip and NASD Rule 2110 by Respondent Khan.

**B. Respondents also consent to the imposition of the following sanctions:**

Khan consents to an 18-month suspension from association with any member of FINRA in any and all capacities and a deferred fine of

\$385,000.00. In assessing the fine, financial benefits obtained by Khan were considered.

Bluechip consents to a censure and a fine in the amount of \$15,000.00.

Khan's fine shall be due and payable either immediately upon re-association with a member firm following the 18-month suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. A payment plan that sets forth the timing and amounts of the fine payments to be made by Khan upon his re-association with a member firm following the 18-month suspension, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier, is attached as Exhibit A and incorporated herein.

Khan specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

Bluechip agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable.

Bluechip specifically and voluntarily waives any right to claim that it is unable to pay, nor or at any time hereafter, the monetary sanction(s) imposed in this matter.

Respondents have each submitted Election of Payment forms showing the method by which each Respondent proposes to pay the fine imposed.

Khan understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Khan may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondents specifically and voluntarily waive 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 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**

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 the Respondents; and

C. If accepted:

1. this AWC will become part of their 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 record;
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 the 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.

Respondents each certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they 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 them to each submit it.

06/22/2011  
Date (mm/dd/yyyy)

M. A. Khan  
Muhammad Akram Khan

06/22/2011  
Date (mm/dd/yyyy)

M. A. Khan  
Bluechip Securities, Inc.  
By: Muhammad A. Khan, its CEO & President

Reviewed by:

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Signature  
\_\_\_\_\_  
Print Attorney's Name  
\_\_\_\_\_  
Law Firm  
\_\_\_\_\_  
Address  
\_\_\_\_\_  
City, State & Zip

Counsel for Respondents

Accepted by FINRA:

06/24/2011  
Date

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

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