

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021065701**

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

RE: Chapin Davis, Inc., Respondent
Member Firm
BD No. 28116

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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

Chapin Davis, Inc. ("CD"), located in Baltimore, has been a member of FINRA since 1991. It currently employs 55 registered representatives. The firm conducts a general retail securities business and is approved to conduct a municipal securities business as well.

RELEVANT DISCIPLINARY HISTORY

On June 29, 2010, CD was censured and fined \$20,000 by FINRA for failing to transmit all of its Reportable Order Events to the Order Audit Trail System (OATS) on numerous occasions and failing to establish and maintain a supervisory system that was reasonably designed to achieve compliance with OATS reporting requirements.

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On January 21, 2009, the state of Connecticut Department of Banking fined CD \$9,500 for employing representatives who were not registered in the state, and effecting securities transactions for Connecticut residents while the firm was not registered in the state.

On January 2, 2008, the Alabama Securities Commission fined CD and one of its registered representatives \$2,438.60 for effecting securities transactions for Alabama residents while CD and the registered representative were not registered in the state.

On October 25, 2006, the state of Illinois Securities Department fined CD \$10,584 for failing to comply with state registration rules.

OVERVIEW

From May 15, 2006 through March 21, 2010 (the "relevant period"), CD failed to develop and implement a reasonably designed written anti-money laundering compliance program ("AMLCP"), and failed to adequately test its AMLCP. CD also failed to establish, maintain and/or enforce a supervisory system and written procedures that were reasonably designed to record and supervise private securities transactions. Furthermore, CD failed to maintain required information on 43 new account forms. This conduct violated NASD Conduct Rules 3010, 3011, 3040, 3110 and 2110, Rule 17a-3 of the Securities Exchange Act of 1934 ("Exchange Act"), FINRA Rules 3310 and 2010, and MSRB Rule G-41.

FACTS AND VIOLATIVE CONDUCT

A. ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM

FINRA Conduct Rule 3310, formerly NASD Conduct Rule 3011, which became effective on April 24, 2002, requires FINRA members to develop and implement a written AML program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder. Section (a) of this Rule directs member firms to establish and implement procedures reasonably designed to detect and cause the reporting of certain suspicious transactions. Section (b) requires firms to establish and implement procedures reasonably designed to achieve compliance with the Bank Secrecy Act. Section (c) requires firms to provide for annual independent testing for compliance to be conducted by member personnel or by a qualified outside party. The independent testing should review and assess the adequacy and level of compliance with the firm's AML compliance program.

FINRA issued numerous communications to its members regarding the requirement to have an AML program, notifying them that the requirement

applied to all member firms. Among other things, FINRA communicated the requirement in Notice to Members ("NtM") 02-21 (April 2002) and reiterated this requirement in subsequent NtMs 02-47 (August 2002), 02-50 (August 2002), 02-78 (November 2002), 02-80 (December 2002), 03-34 (June 2003) and 06-07 (February 2006).

During the relevant period, CD failed to develop and implement a reasonably designed AMLCP. The firm's AMLCP was deficient in two respects. First, the firm's written procedures, which contained information primarily relating to customer identification procedures, offered little or no guidance on how to comply with most requirements of the Bank Secrecy Act. In particular, the written procedures contained no provisions on conducting customer due diligence and enhanced due diligence, and insufficient guidance on responding to, and properly documenting responses to, information requests issued by FinCEN pursuant to Section 314(a) of the U.S.A. PATRIOT Act. In addition, the written procedures did not address how to monitor for and report suspicious activity. Second, CD failed to conduct an adequate independent test of its AMLCP. The testing, performed by an independent auditor, was deficient by failing to test the firm's implementation of a SAR surveillance program, AML training program, and Bank Secrecy Act requirements, including customer identification procedures.

By failing to develop and implement, and properly test, a reasonably designed AMLCP, CD violated NASD Conduct Rules 3011(a), (b) and (c) (for conduct before January 1, 2010) and 2110 (for conduct before December 15, 2008), FINRA Rules 3310(a), (b) and (c) (for conduct after December 31, 2009) and 2010 (for conduct after December 14, 2008), and MSRB Rule G-41.

B. SUPERVISION OF PRIVATE SECURITIES TRANSACTIONS

NASD Conduct Rule 3040(c)(2) requires a member that has approved an associated person's participation in a private securities transaction to record such transaction on its books and records and supervise the person's participation in the transaction as if the transaction were executed on behalf of the member. Between approximately April 16, 2008 and March 21, 2010, one CD employee provided notice to the firm that he was involved in private securities transactions. The employee was dually registered as a General Securities Representative with CD and as an Investment Adviser with an unaffiliated entity. Certain of the employee's investment advisory activities (e.g., managing client investments and placing securities trades on behalf of clients) qualified as private securities transactions as defined in NASD Conduct Rule 3040. CD granted permission in writing for the representative to engage in investment advisory activities, but failed to take any steps to record and supervise the private securities transactions.

By failing to establish, maintain and/or enforce a supervisory system and written procedures that were reasonably designed to record and supervise private securities transactions, and for failing to record such transactions, CD violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 3010, 3040(c) and 3110(a), and FINRA Rule 2010 (for conduct after December 14, 2008).

C. RECORDKEEPING

Exchange Act Rule 17a-3(17) requires each broker dealer to make and keep current a record for each account with a natural owner that includes, among other things, the customer's tax status, annual income, net worth, date of birth and investment objectives for the account.

NASD Conduct Rule 3110(a) requires members to maintain records in accordance with Rule 17a-3. NASD Conduct Rule 3110(c) requires members to maintain for each account the customer's name and residence, the name and address of the customer's employer, the signature of the registered representative introducing the account, and the signature of the principal who accepts the account on behalf of the firm.

During the relevant period, CD failed to make and keep current all such account forms in compliance with Exchange Act Rule 17a-3(17), and NASD Conduct Rules 3110(a) and (c). For example, 43 of 45 (96%) customer accounts sampled did not contain all of the required information.

By failing to maintain required information on customer new account forms, CD violated Exchange Act Rule 17a-3, NASD Conduct Rules 2110 (for conduct before December 15, 2008), 3110(a) and (c), and FINRA Rule 2010 (for conduct after December 14, 2008).

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

- a censure; and
- a \$50,000 fine (\$12,500 of which pertains to the violation of MSRB Rule G-41).

Respondent agrees to pay the monetary sanction upon notice that this AWC 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.

Respondent specifically and voluntarily waives any right to claim that it is 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

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

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

Further, Respondent specifically and voluntarily waives any right to claim bias or 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.

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

III.

OTHER MATTERS

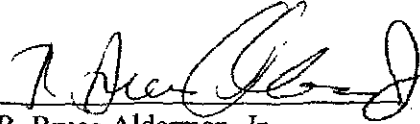
Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent;
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the firm 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 the firm to submit it.

Chapin Davis, Inc.

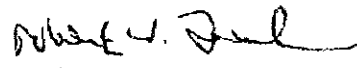
12/06/2010
Date (mm/dd/yyyy)

By: 
R. Bruce Alderman, Jr.
President

Accepted by FINRA:

12/30/10
Date

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


Robert W. Turk
Senior Counsel
FINRA Department of Enforcement
1801 K Street, N.W., Suite 800
Washington, D.C. 20006-1500
(202) 974-2865 (telephone)
(202) 721-8330 (facsimile)

December 6, 2010

Corrective Action Statement

This corrective action statement is submitted by R. Bruce Alderman, Jr., Chapin Davis, Inc. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

A. Anti-money laundering compliance program

We have added the written supervisory procedures for FINRA conduct Rule 3310. The small-firms template was added while the examiners were on-site and reviewed. We have added the additional steps needed for the adequacy of the independent test.

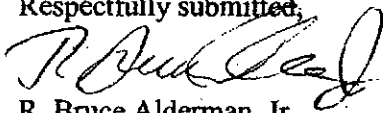
B Supervision of private securities transactions

We have taken steps to record and supervise the private securities transactions of the person in question. . In addition, this person will be solely registered as an investment adviser under our auspice, starting on April 1, 2011.

C. Recordkeeping

We have taken steps necessary to update the information on accounts currently held and measures to ensure all new accounts opened are in compliance under Rule 17a-3.

Respectfully submitted,


R. Bruce Alderman, Jr.
President, Chapin Davis, Inc.