

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021314101**

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

RE: First Kentucky Securities Corporation, Respondent
(CRD No. 7524)
and
Frederick J. Kramer
Financial and Operations Principal
(CRD No. 2299599)

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, First Kentucky Securities Corporation and Frederick J. Kramer (hereinafter referred to as "Respondents") 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 us alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

First Kentucky Securities Corporation ("First Kentucky" or "Firm") became registered with FINRA on January 3, 1978, and registered with the Securities and Exchange Commission ("SEC") on December 23, 1977. First Kentucky conducts a general securities business, which includes the sale of municipal bonds, on a fully disclosed basis. First Kentucky's registrations with FINRA and the SEC remain currently in effect.

On October 4, 2010, a Letter of Acceptance, Waiver and Consent from First Kentucky was accepted by FINRA, which contained findings that the Firm failed

to conduct and evidence an independent test of its anti-money laundering (“AML”) compliance program for calendar-year 2008, in violation of NASD Rules 2110 and 3011, FINRA Rule 2010 and Municipal Securities Rulemaking Board (“MSRB”) Rule G-41. The Firm was fined \$5,000.

Frederick J. Kramer (“Kramer”) entered the securities industry on December 7, 1992 as a General Securities Representative of a FINRA registered firm. On October 17, 1995, Kramer became registered in the same capacity with First Kentucky. On September 13, 1995, Kramer also became registered with First Kentucky as a Financial and Operations Principal. Since December 1995, Kramer has been the Chief Compliance Officer, Secretary, Chief Financial Officer, and Financial and Operations Principal of First Kentucky. Since January 15, 2003, Kramer has been designated the Primary AML contact person with First Kentucky, and has been responsible for implementing and monitoring the day-to-day operations and internal controls of the Firm’s AML compliance program. Kramer continues to be registered with First Kentucky in such capacities and continues to hold the above referenced positions with the Firm. He has no history of disciplinary action by FINRA.

OVERVIEW

First Kentucky, acting through Kramer, failed to conduct and evidence an adequate independent test of its AML compliance program for 2009, in violation of NASD Conduct Rule 3011, FINRA Rule 2010, and the Firm also violated MSRB Rule G-41.

FACTS AND VIOLATIVE CONDUCT

Failure to Conduct and Evidence an Adequate Independent Test of the AML Compliance Program in 2009 NASD Conduct Rule 3011, and FINRA Rule 2010

1. NASD Conduct Rule 3011, which became effective on April 24, 2002, required NASD members to develop and implement a written AML compliance 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. NASD Conduct Rule 3011(c) requires that member firms have independent testing for compliance with the AML Rules on an annual basis or every two years depending on the member firm’s business.¹
2. First Kentucky’s 2009 AML test was conducted on December 18, 2009, by the Firm’s Public Finance co-manager. The test was inadequate for a

¹ NASD issued Notice to Members 02-21 in April 2002 to notify NASD members of this requirement.

number of reasons. First, the AML test was limited to the review of just one of the Firm's branch offices, rather than sampling transactions at all branch office locations. Further, that test was limited to a review of deposit slips at the branch office which was reviewed. The test did not include a review of the Firm's AML procedures, nor did it include a review of the overall adequacy of the Firm's AML compliance program. For instance, the test did not include a sample of all of the Firm's business lines. Further, the test did not include a review of the Firm's AML training program, its Customer Identification Program ("CIP"), and whether its representatives were complying with its CIP. Finally, the test failed to review for the movement of funds that were previously deposited in accounts with First Kentucky.

3. Despite the requirement that First Kentucky monitor compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. §5311, *et seq.*, and the regulations promulgated thereunder, and despite the formal action that was brought against the Firm by FINRA as described above, First Kentucky, acting through Kramer, failed to conduct and evidence an adequate independent test of its AML compliance program for 2009.
4. Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rule 3011, and FINRA Rule 2010 by First Kentucky and Kramer.

**Failure to Conduct and Evidence an Adequate
Independent Test of the AML Compliance Program
MSRB Rule G-41.**

5. MSRB Rule G-41 contains similar requirements for broker/dealers engaged in municipal securities transactions. MSRB Rule G-41 requires that every broker, dealer or municipal securities dealer establish and implement an AML compliance program reasonably designed to achieve and monitor ongoing compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. 5311, *et seq.* and regulations thereunder.
6. As noted above, First Kentucky, failed to conduct and evidence an adequate independent test of its AML compliance program in 2009, despite repeated warnings that the independent testing was required.
7. Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G-41 by First Kentucky.

B. Respondents also consent to the imposition of the sanction of:

1. Censures against First Kentucky and Kramer;

2. A joint and several fine of \$15,000 (\$7,500 of which pertains to the violations of MSRB Rule G-41) against First Kentucky and Kramer; and
3. First Kentucky undertakes to provide FINRA's Chicago District Office the report of its 2010 and 2011 independent test of its AML compliance program. First Kentucky further undertakes to complete its 2012 independent test of its AML compliance program by December 31, 2012 and provide FINRA's Chicago District Office the report from this test by January 11, 2013.

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

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

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

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's

or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

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

III.

OTHER MATTERS

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 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. 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

