

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023220502**

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

RE: BMA Securities (a/k/a Burt Martin Arnold Securities, Inc.) (BD No. 108219),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, BMA Securities (the "Firm," "BMA" or "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

BMA has been a FINRA member firm since 2001. Its principal place of business is in the Los Angeles, California area. It currently has four branches in California, New York and Arizona and employs approximately 40 registered representatives. The majority of the Firm's business comes from making markets and trading in the Firm's proprietary accounts. The Firm's business also includes the deposit and sale of low priced securities.

OVERVIEW

Between May 2009 and May 2010, BMA, on behalf of certain clients, sold certain shares of an issuer (hereinafter, "the Issuer"), whose securities were not registered and were not subject to an applicable exemption from registration, in contravention of Section 5 of the Securities Act of 1933 (the "Securities Act") and FINRA Rule 2010.

Between August 2007 and December 2013, the Firm failed to establish, maintain and implement a reasonable supervisory system and written supervisory procedures designed to achieve compliance with Section 5 of the Securities Act, in violation of NASD Rules 3010(a) and (b),

and NASD Rule 2110 (for conduct that occurred prior to December 15, 2008) and FINRA Rule 2010 (for conduct occurring on and after December 15, 2008).

Between February 2009 and February 2011, the Firm failed to establish, maintain and implement a reasonable supervisory system designed to detect and prevent manipulative or fraudulent trading activity, in violation of NASD Rules 3010(a) and FINRA Rule 2010.

During the period from August 2007 through December 2013, the Firm also failed to establish and implement an adequate anti-money laundering ("AML") program. BMA's policies, procedures, and internal controls were not reasonably designed to monitor for, detect, and cause the reporting of suspicious transactions, and the Firm failed to investigate various red flags that suggested suspicious activity that may have required the filing of a suspicious activity report, as required by NASD Rule 3011(a) (for conduct before January 1, 2010) and FINRA Rule 3310(a) (for conduct beginning January 1, 2010). The Firm failed to establish an adequate Customer Identification Program in violation of NASD Conduct Rule 3011(b) for the period from August 2007 through December 31, 2010 and FINRA Rule 3310(b) for the period from January 1, 2010 through June 2010. In addition, BMA failed to establish and implement a system reasonably designed to achieve compliance with 31 C.F.R. §1010.610, which requires the Firm to conduct due diligence and enhanced due diligence, where applicable, on correspondent accounts for foreign financial institutions in violation of FINRA Rule 3310(b) for the period from March 2012 through December 2013.

BMA failed to provide customers disclosures of the profits to the Firm and a former trader of the Firm in situations where the trader bought exchange traded securities positions from customers into his trading account and then sold them out to the market at a profit during the period from January 1, 2009 through February 2011, in violation of SEC Rule 10b-10 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Sales of Unregistered Shares

Between May 2009 and May 2010, fourteen BMA customers deposited and then sold over 71 million shares of a thinly traded security of a speculative issuer. Ten of the Firm's account holders who sold the shares were related via family relationships and/or maintained the same business address. The ten accounts as a group sold over 47 million of the shares. Other customers of the Firm, who also acted as a group, sold over 24 million shares.

The Form 10-Q for the Issuer showed that, as of August 17, 2009, the Issuer had slightly less than 73 million common shares outstanding, in addition to voting stock. BMA customers deposited and sold close to that same amount of shares. The two groups of customers collectively deposited 71.6 million shares out of approximately 119 million shares outstanding as of November 2009 or 60% of the outstanding shares.

Section 5 of the Securities Act of 1933 prohibits the offer or sale of any security unless there is a registration statement in effect as to that security or there is an exemption available for the transaction. Exemptions to the registration requirement of Section 5 are construed narrowly. A

broker who sells securities in violation of Section 5 violates FINRA Rule 2010. The shares of the Issuer that the customers deposited and sold were not issued pursuant to a registration statement, and were restricted from re-sale, absent an applicable exemption from registration.

The exemption under Section 4(4) of the Securities Act for "brokers' transactions" is inapplicable. In order to claim the brokers' exemption, brokers must undertake reasonable efforts to assure themselves that the transactions do not violate Section 5, particularly when confronted by red flags indicative of an unregistered distribution. Brokers cannot delegate this responsibility by relying on others to make the appropriate determination when the circumstances indicate the need for a thorough investigation.

The customers deposited and sold large blocks of the Issuer repeatedly. The customers completed deposited securities questionnaires, in which they indicated that they acquired the shares in private transactions from other members of the group. While the customers provided explanations, those explanations and the transactions were not adequately investigated to determine the basis for the repeated issuance of large blocks of stock. At one point, these accounts collectively owned approximately 11.2% of the issued and outstanding shares, according to the firm's own calculation. The internal document on which that was noted also noted multiple red flags with the firm's Operations Department indicating that "this group of people keep buying each others stock." (sic) Another internal document for a deposit from another customer in the group received ten days later showed the concentration was at 18%.

Despite the presence of these red flags, BMA approved the sale, concluding the customers were not acting in concert. That conclusion was not reviewed or revisited, even after six of the customers sold about four million shares six days later, all in one day. A registered representative of the Firm took and executed the sell orders in two groups; the first was completed within a minute and a half and, an hour later, the second was completed within one minute.

Notwithstanding the obvious coordination of efforts and possible control relationship, BMA continued to accept for deposit and then sell out the Issuer's shares for the group's accounts. No additional investigation was done. The bulk of the sales of the Issuer's shares were done out of the Firm's Irvine office.

The Firm failed to undertake sufficient efforts to ascertain whether the stock could be properly sold, and accordingly did not satisfy its duty to conduct a reasonable inquiry, which is a crucial part of the brokers' exemption. By reason of the foregoing, the Firm acted in contravention of Section 5 of the Securities Act of 1933 and, as a result, violated FINRA Rule 2010.

Insufficient Supervisory System and Written Procedures for Compliance with Section 5

NASD Rule 3010(a) requires member firms to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable NASD Rules." Rule 3010(b) requires that firms document the system in the firm's written supervisory procedures.

The Firm did not establish, maintain and implement adequate supervisory systems and procedures reasonably designed to comply with Section 5 between August 2007 and December 2013.

The Firm's written procedures for compliance with Section 5 generally addressed the sale of unregistered stock, but did not provide adequate guidance to ensure overall compliance with Section 5, particularly given the nature of the firm's business, which included liquidating large volumes of speculative, thinly traded stock on behalf of its customers. Prior to June 2010, the written procedures addressing review of deposited share certificates were basic, not providing enough detail on the due diligence to be done by the firm. Improvements were made in June 2010, but the written procedures continued to lack sufficient detail with regard to the review of deposited share certificates. During the period between August 2011 and December 2013, the written procedures also failed to address the review necessary when large volumes of speculative, thinly traded stock were sold through delivery versus payment ("DVP") accounts.

The Firm failed to implement its supervisory system and written supervisory procedures sufficiently to detect and prevent violations of Section 5. The firm used a "Securities Checklist" for shares deposited in certificate form, by DWAC or in some other fashion. Not all of the items on the checklist were mandatory, leading to necessary documents and information not being obtained. There was a lack of adequate investigation as to how the customers obtained the shares or whether any type of control relationship existed. The Firm relied too heavily on the statements of customers or connected third parties for a determination of marketability or Rule 144 qualification without additional review. In at least one situation, the Firm relied on a legal opinion, where a review of the basic factors in the opinion letter would have established or suggested that the attorney had a business affiliation with the customer and was not rendering an independent opinion.

As a result of its supervisory deficiencies regarding sales of unregistered securities, BMA violated NASD Rule 3010(a) and (b) and FINRA Rule 2010 (for the period occurring on and after December 15, 2008), and NASD Rule 2110 (for the period prior to December 15, 2008).

Supervisory Deficiencies Relating to Other Trading Activity

BMA also did not maintain and implement an adequate supervisory system with regard to certain other trading activity. On February 18, 2009, a registered representative formerly registered with the Firm entered a sale of 610,900 shares of an exchange traded security for a customer facing a margin call. He bought the shares into his proprietary account giving the customer a price below the then market price and sold the shares to the street at a higher average price on the same day. The Firm failed to adequately supervise the registered representative's handling of the sales of the customer's shares.

The customer then deposited shares of another stock as collateral for a margin debit. In selling out shares of the stock on September 16, 2009 to reduce the debit balance, the registered representative sold the shares into his proprietary account and then sold them to the market. He gave the customer a price that was well below the market high and low price for the day and kept

the profit for his proprietary account. The firm again failed to adequately supervise the registered representative's handling of the sales of the customer's shares.

Between August 12, 2009 and September 29, 2009, there were five cross trades in the Issuer's securities at the Firm by the two groups of customers. BMA had written procedures regarding cross trades, but a former principal of the Firm failed to review for cross trades as part of the daily transaction activity review and did not identify the trades at issue as cross trades.

As a result, BMA violated NASD Rule 3010(a) and FINRA Rule 2010.

Deficiencies Relating to the AML and CIP Program

FINRA Rule 3310 (known as NASD Rule 3011 until January 1, 2010) requires all member firms to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the firm's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. § 5311, *et seq.*), and the implementing regulations promulgated thereunder by the Department of the Treasury."

Title 31 U.S.C. § 5318(g) authorizes the Department of the Treasury to issue suspicious activity reporting requirements for broker-dealers. The Department of the Treasury issued the implementing regulation, 31 C.F.R., § 103.19(a)(1), on July 1, 2002. It provided that, with respect to any transaction after December 30, 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 of 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.

In April 2002, FINRA issued Notice to Members (NTM) 02-21, which reminded broker-dealers that they were required to establish and implement AML programs designed to achieve compliance with the Bank Secrecy Act and the regulations promulgated thereunder. The Notice further advised broker-dealers that their AML procedures must address a number of areas including monitoring of account activities, "including but not limited to, trading and the flow of money into and out of accounts." In August 2002, FINRA issued NTM 02-47, which set forth the suspicious activity reporting rule promulgated by the U.S. Department of the Treasury for the securities industry. This NTM further advised broker-dealers of their duty to file a SAR (Suspicious Activity Report) for any suspicious transactions occurring after December 30, 2002.

BMA's AML procedures identified red flags that signaled possible suspicious activity. One red flag was, "The customer or a person publicly associated with a customer has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations." Several customers of the Firm had criminal or disciplinary histories that should have led to closer scrutiny in response to or upon detection of the potentially suspicious trading in their accounts, but did not, including one who was barred from association with any broker-dealer resulting from his criminal conviction for conspiracy to commit securities fraud.

Another red flag in the procedures was, "The customer for no apparent reason or in conjunction with other red flags engages in transactions involving certain types of securities such as penny stocks, Regulation S stocks, bearer bonds, which although legitimate have been used in conjunction with fraudulent schemes and money laundering activity. Such transactions may warrant further due diligence to insure the legitimacy of the customer's activity." In light of the Firm's main business, this red flag was present in many transactions. Certain transactions of this nature, however, presented facts that should have led to "further due diligence," but did not.

The activity in the Issuer was such a situation. The repeated deposits of numbers of shares of a penny stock that constituted a large percentage of the shares issued and outstanding relative to the float alone should have raised red flags. That was then compounded with the evidence that indicated a control relationship. The Firm did not sufficiently investigate the activity to determine whether or not a suspicious activity report was warranted. Rather than investigate, the Firm's AML Compliance Officer wrote a memo stating that the customers were not acting in concert without any evidence to support that conclusion, followed shortly thereafter by a coordinated sale.

Another red flag in the procedures was, "The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose." A group of customers who deposited and sold the Issuer's securities, among other securities, worked through multiple accounts, all operating out of the same address, for no apparent reason. The Firm did not adequately investigate the circumstances involving the multiple accounts, and did not adequately question it after executing the sales described above.

BMA's written AML procedures failed to address the suspicious activity monitoring of DVP accounts and the implementation of its procedures was inadequate to capture potentially

suspicious activity conducted through DVP accounts. For example, the Firm did not detect and investigate the sharp increase in sales volume and the sudden appearance of millions of shares to be sold through a DVP account in 2011, during the same time that the company's stock was being promoted heavily through questionable press releases and Internet touting.

The Firm's inadequate implementation of its AML procedures violated NASD Conduct Rules 3011(a) (for the period prior to January 1, 2010) and 2110 (for the period prior to December 15, 2008) and FINRA Rules 3310(a) (for the period on and after January 1, 2010) and 2010 (for the period on and after December 15, 2008).

Between August 2007 and June 2010, BMA failed to have an adequate Customer Identification Program. The Firm failed in certain circumstances to gather appropriate documentation about the customers. It relied on personal information about individuals who were officers or beneficial owners of business entities, but did not always obtain and verify business and other documents for the entities, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument as enumerated in its written procedures. The Firm's lax checking of documentation led to customers being permitted to participate in suspicious activity without appropriate documents in the file.

The Firm's inadequate Customer Identification Program violated NASD Conduct Rules 3011(b) for the period from August 2007 through December 31, 2009 and 2110 (for the period prior to December 15, 2008) and FINRA Rules 3310(b) for the period from January 1, 2010 through June 2010 and 2010 (for the period from December 15, 2008 through June 2010).

FINRA Rule 3310(b) requires each member to "Establish and implement policies, procedures, and internal controls reasonably designed to achieve and monitor the Firm's compliance with the requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder".

Under Section 312 of the USA PATRIOT Act, which amended the Bank Secrecy Act, all financial institutions are required to exercise due diligence when accepting foreign-owned correspondent accounts. 31 U.S.C. § 5318(i). The due diligence must include "appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls that are reasonably designed to enable the covered financial institution to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account . . ." 31 C.F.R. 1010.610(a). The risk-based procedure for monitoring the correspondent account must include "a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account." 31 CFR 1010.610(a)(3).

During the time period of June 2012 through December 2013, the Firm maintained correspondent accounts for ten foreign financial institutions ("FFIs"). Eight of the ten FFIs were located in countries/jurisdictions (Bahamas, Cayman Islands and Switzerland) of primary money laundering concern, according to the U.S. Department of State, which heightened the risk of servicing these accounts. In almost all cases, the Firm failed to conduct the requisite due diligence and enhanced due diligence, where applicable, as required by the implementing

regulations and therefore could not evidence its risk-based assessments of these account relationships. The firm also did not conduct periodic reviews of these accounts or document the risk, type, purpose, anticipated activity at account on-boarding.

Two of the ten FFIs were foreign banks that required enhanced due diligence. The Firm failed to identify one of the FFIs as a foreign bank subject to enhanced due diligence, and failed to adequately perform enhanced due diligence on the other.

The Firm's inadequate due diligence, review and documentation of the FFI accounts violated FINRA Rules 3310(b) and 2010.

BMA Failed to Disclose Profits to Customers

SEC Rule 10b-10 requires a broker-dealer to give or send the customer written notification of any markup, markdown or similar remuneration it receives in principal transactions involving equity securities when not acting as a market maker. In offsetting transactions, the firm must disclose to the customer the difference between the price to the customer and the firm's contemporaneous purchase or sale price.

A former trader of the Firm periodically executed customer sale orders in exchange traded securities by buying the position in the trader's proprietary account at the market price, holding it and selling to the market shortly thereafter. For customer purchases, the trader purchased from the market at market price then sold to the customer from his proprietary accounts. Customers were charged or paid what the trader claimed to be the market price at the time the order was placed and were charged a commission. There was no disclosure to the customer of any profits made by the Firm and the trader in those transactions.

BMA's failure to disclose profits received in such transactions violated SEC Rule 10b-10 and FINRA Rule 2010.

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

1. A censure;
2. A fine of \$325,000; and
3. BMA shall:
 - a. Retain, within 30 days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to AML compliance and monitoring, including specifically but not limited to DVP/RVP accounts, deposit and sale of low priced securities and due diligence for correspondent accounts for foreign financial institutions, pursuant to 31 C.F.R. §1010.610;

- b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
- c. Cooperate with the Independent Consultant in all respects, including by providing staff support. BMA shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, BMA shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; BMA shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;
- d. At the conclusion of the review, which shall be no more than 120 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and FINRA staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures, and training relating to AML compliance and monitoring, including specifically but not limited to DVP/RVP accounts, deposit and sale of low priced securities and due diligence for correspondent accounts for foreign financial institutions, pursuant to 31 C.F.R. §1010.610, (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with BMA, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with BMA or any of its present or former affiliates, directors, officers, employees, or agents acting in their

capacity as such for the period of the engagement and for a period of two years after the engagement.

- f. Within 60 days after delivery of the Written Report, BMA shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall:
 - (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
- g. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), BMA shall provide FINRA staff with a written implementation report, certified by an officer of BMA, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
- h. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

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

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. BMA 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 sanctions imposed in this matter.

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 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 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 and

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 the Firm;
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 (i) testimonial obligations, or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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 BMA, who certifies that he is a person duly authorized to act on the Firm's 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 Respondent 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 Respondent to submit it.

BMA Securities

By: D. Arnold

Name: Dust Arnold

Title: Pres.

Date: 10/30/14

Reviewed by:

Mark T. Hiraide

Mark T. Hiraide, Esquire
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21515 Hawthorne Blvd.
Suite 1260
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Counsel for Respondent BMA

Accepted by FINRA:

11/11/14
Date

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

Jeffrey P. Bloom
Jeffrey P. Bloom
Senior Special Counsel
FINRA, Department of Enforcement
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Corrective Action Statement of
BMA Securities, AWC No. 201002322050

This Corrective Action Statement is submitted by the Respondent BMA Securities ("BMA" or "the Firm").

This Corrective Action Statement is submitted by BMA. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

BMA has initiated multiple enhancements to its supervisory system and compliance procedures covering the issues in the AWC.

BMA has added trained personnel to compliance and operations. A compliance officer was added with 18 years' experience, including compliance with a market-making/trading firm. Among other things, the new compliance officer assists in the collection and analysis of information compiled for the due diligence packages to determine tradeability of the security. Additionally, the firm's trader hired an assistant to assist him in the collection and analysis of due diligence information regarding tradeability.

Training and internal compliance testing is also an integral part of BMA's continuing compliance enhancements. For example, AML topics are covered with BMA personnel on a regular basis. The firm has meetings two to three times per month with its staff, conducts an annual compliance meeting covering AML and securities registration red flags (among other things), and provides each employee with two AML courses for the annual on-line continuing education. In addition, BMA hired a new consultant in 2011 to conduct the firm's annual independent test of its AML procedures. This consultant was formally an NASD (nka FINRA) examiner and was the chief compliance officer for a large market-making member firm.

With regard to the Firm's CIP (customer identification program), BMA works even closer with its clearing firms to ascertain information regarding the account holder's identity. BMA also utilizes the services of a third party vendor who is a contractor of BMA's clearing broker. BrokerCheck searches are also performed for any broker or former broker. Through BMA's clearing broker, BMA works with this third party to get further background information regarding customers or potential customers. BMA's clearing broker relationship also brings to the table a procedure utilized internally by the clearing broker which acts as a back-up for the information obtained by the third party. BMA has also enhanced and broadened its Google searches. Of course, OFAC searches, copies of driver's licenses with signed certifications, articles or incorporations, etc. continue to be staples of the Firm's CIP.

Additionally, BMA significantly expanded its client questionnaire/approval form ("Deposit Securities Request Questionnaire" or "DSRQ"), which is used as part of the Firm's client intake process. The DSRQ is five pages in length and includes, among other things, 38 questions designed to determine the tradeability of deposited shares and identify red flags with regard to AML and other regulatory issues. All potential clients who want to deposit securities must complete and sign the DSRQ. Additionally, all potential clients depositing securities must provide any additional information requested by BMA as part of the due diligence review.

BMA's new clearing arrangement also brings with it additional compliance safeguards. With regard to BMA's present clearing relationship (established in about January 2013), BMA undertook an extensive vetting process to determine that the clearing broker had a culture of compliance. BMA's present clearing broker has a five-page securities checklist which BMA must follow. BMA also discusses with clearing broker personnel due diligences packages and any potential areas of concern.

In 2013, significant enhancements were also implemented and developed specifically to address a range of compliance issues relating to DVP accounts. They include a rigorous client intake process as described below.

Account Opening Procedures (Client Intake): The client intake process is a critical component of BMA's present compliance procedures and provides a "gatekeeper" function by excluding at the outset DVP customers, and any other customers, that cannot demonstrate a culture of compliance. BMA accepts only DVP accounts associated with reputable banks which have procedures that ensure tradability of shares and compliance with anti-money laundering ("AML") rules. BMA ascertains this by, among other things, having candid discussions with representatives of the custodian regarding its account opening process and acceptance of orders. BMA also obtains sample compliance forms used by the custodian. BMA only opens an account if the custodian can demonstrate that it has adequate procedures for tradeability and AML. With regard to AML, BMA obtains from each Client its AML package for each customer underlying a given order (see discussion below). Additionally, BMA evaluates the clearing broker to ensure that it is a reputable institution that has sound AML procedures. BMA will also, among other things, conduct its own AML check with regard to each customer (see discussion below). BMA also evaluates the existing regulatory structure of the country in which the institution operates to ensure that the prospective customer is subject to similarly stringent regulations as those in place in the United States.

Each DVP account is reviewed and approved by the Firm's Chief Compliance Officer. The evaluation process of DVP customers is ongoing. For example, if red flags appear that cannot be reasonably explained, BMA will terminate the relationship.

Further Steps in the approval and account maintenance process for DVP business also include the following:

1. The firm confirms the following in a written communication to the DVP customer:

"Client agrees that by entering the Delivery Versus Payment Order described above through BMA Securities that Client represents and warrants that: All accounts, orders, transactions, instructions, margin and account debits established, entered, incurred or maintained have been duly and validly authorized and are enforceable according to their terms against Client; All securities delivered by Client are genuine, are in good deliverable form, free of liens and adverse claims, and have not been reported missing or stolen, are not forged counterfeited or altered; The securities are DTC eligible and are deliverable through the CNS

system; The securities delivered are freely transferable as defined in any applicable Securities Rule or Regulation; That the legal owner and/or seller of the securities delivered is not a control person as defined in any applicable Securities Rule or Regulation; That Client has performed all required Securities Rule or Regulation due diligence regarding salability of the securities delivered, including but not limited to conducting required Anti - Money Laundering reviews, ownership, foreign affiliations and SEC fraud regulations; DVP Client confirms that there is enough cash in the account to cover the cost of any purchase orders placed; Client agrees to indemnify, defend and hold harmless BMA for any losses or costs whatsoever arising directly or indirectly from or related to the transaction described above."

2. Reviews by BMA's compliance staff review include, among other things and, as appropriate, the following:
 - the line(s) of business of the company;
 - the current bid/ask price;
 - the number of shares outstanding, float, volume, and whether the stock trades on the bulletin board, pink or grey market, etc;
 - 30 and 90 day charts reflecting volume and pricing;
 - news releases;
 - pertinent disclosure information in the issuer's filings including detailed review of balance sheet and profit/loss information; and
 - whether any other customers of BMA are selling this symbol.
3. Completion of a new DVP Order Approval Form ("DOAF") review (even if a DOAF was previously prepared in connection with an initial order). Compliance must receive reliable due diligence documentation obtained by the financial institution from its customer(s). All of the information referenced in prior DOAFs is again reviewed in this new DOAF review. A qualitative analysis of each DOAF package is conducted to determine, among other things, tradeability and/or whether a SARs report should be submitted. Information received must correspond with the procedures followed by BMA in their Deposited Securities Checklist used for approving securities deposited directly with BMA's clearing firm.
4. The DOAF requires pre-approval by Compliance and is so noted on the daily DAL (described above). The foregoing reviews variously take into consideration the following factors:
 - The total shares outstanding and the float;
 - the size of the order, as well as related orders;
 - Whether the issuer is or ever has been a shell company;
 - Whether the issuer is an SEC reporting company;
 - The degree of any spikes in volume or price as reflected in charts and the presence or absence of a reasonable explanation for such spikes;
 - Whether the market is active or inactive;

- The nature and frequency of news releases (i.e., whether the releases appear to be part of a pump and dump campaign);
- The presence or absence of corroborating documentation.

8/21/2014 *Paul R. Smith*