

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023220503**

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

RE: Burt M. Arnold (CRD 2306999), Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Burt M. Arnold ("Arnold" 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

Arnold is the President and owner of BMA Securities ("BMA" or "the Firm") and has been registered with the Firm since July 2001. He has been registered with four different firms since 1992. Arnold was BMA's Chief Compliance Officer and Anti-Money Laundering ("AML") Compliance Officer ("AMLCO") prior to and from August 2007 to January 2009. He has Series 7, 24, 55, and 63 licenses.

OVERVIEW

Between August 2007 and January 2009, Arnold 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 of 1933 (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).

During the period from August 2007 through January 2009, Arnold also failed to establish and implement an adequate AML program. Arnold 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).

FACTS AND VIOLATIVE CONDUCT

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.

Arnold did not establish, maintain and implement adequate supervisory systems and procedures reasonably designed to comply with Section 5 between August 2007 and January 2009. Arnold was BMA's Chief Compliance Officer prior to and from August 2007 until January 7, 2009. During that time, he was responsible for BMA's written supervisory procedures and ensuring that the Firm complied with applicable regulations and statutes, including compliance with Section 5.

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 January 2009, the written procedures addressing review of deposited share certificates were basic, not providing any detail on the due diligence to be done by the firm.

Arnold failed to implement the Firm's 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 meaningful 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 third parties for a determination of marketability or Rule 144 qualification without additional review.

For his supervisory deficiencies regarding sales of unregistered securities, Arnold 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).

Deficiencies Relating to the AML Program

NASD Rule 3011 required 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, but did not.

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.

Arnold was the designated AMLCO prior to January 2009. During his tenure, he had the responsibility to ensure compliance with the AML rules and regulations.

Arnold's inadequate implementation of the Firm's AML procedures violated NASD Conduct Rule 3011(a) 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).

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

1. A fine of \$20,000; and
2. A 30-day suspension from associating with any FINRA member in all principal capacities.

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. Arnold has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Arnold understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, 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, Arnold may not be

associated with any FINRA member in a principal capacity during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because Arnold is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

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 him;
- 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 him;
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 he 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.

Respondent Arnold 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.

Date: 10/30/14


Burt M. Arnold

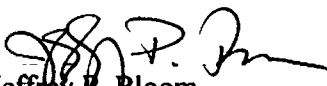
Reviewed by:


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Counsel for Respondent Arnold

Accepted by FINRA:

11/11/14
Date

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


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