

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011025641001**

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

**RE: W.R. Hambrecht + Co., LLC, Respondent
Broker-Dealer
CRD No. 45040**

**RECEIVED
DEC 02 2013
FINRA
SAN FRANCISCO ENFORCEMENT OFFICE**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent W.R. Hambrecht + Co., LLC ("WRH" or "the Firm") 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. WRH 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

WRH has been a FINRA member since July 23, 1998. The Firm focuses on investment banking activities, conducts its business from two branch offices and employs approximately 12 registered representatives.

The Firm has no relevant disciplinary history.

OVERVIEW

WRH failed to (a) implement an adequate anti-money laundering compliance program; (b) maintain an adequate securities sent and received blotter; and (c) ensure that its co-Chief Executive Officer was appropriately registered.

FACTS AND VIOLATIVE CONDUCT

1. Due Diligence Programs for Correspondent Accounts for Foreign Financial Institutions

Between March 2010 and May 2011, WRH failed to establish an Anti-Money Laundering Compliance Program ("AMLCP") that included adequate procedures pertaining to due diligence of correspondent accounts for foreign financial institutions. Specifically, the due diligence program for correspondent accounts described in the Firm's AMLCP was inappropriately limited to foreign *banks*, when it should have encompassed accounts of all appropriate foreign financial institutions, including foreign broker-dealers.

Moreover, WRH failed to conduct adequate due diligence on a particular correspondent account opened in March 2010 for a foreign broker-dealer ("Account 1"). Specifically, the Firm failed to conduct an adequate assessment tailored to the money-laundering risks presented by Account 1 and failed to apply procedures reasonably designed to detect and report known or suspected money laundering activity in Account 1.

Consequently, WRH failed to establish and implement an AMLCP reasonably designed to achieve compliance with certain of the relevant portions of the Bank Secrecy Act and the implementing regulations thereunder, in violation of FINRA Rules 3310(b) and 2010.

2. Reports of Suspicious Transactions

Between March 2010 and May 2011, WRH failed to implement an AMLCP reasonably designed to detect and cause the reporting of suspicious transactions indicative of possible violations of applicable laws or regulations in Account 1. As noted above, Account 1 was an account established by a foreign broker-dealer. The foreign broker-dealer executed securities transactions on behalf of its foreign customers in Account 1. However, WRH's procedures were not tailored to the risks presented by this arrangement. All transactions in Account 1 appeared in WRH's books and records simply as transactions of the foreign broker-dealer. Consequently, WRH's AMLCP was not reasonably designed to detect potentially violative activities conducted by the foreign broker-dealer's customers. For example, on numerous occasions, Account 1 made purchases and sales of the same security on the same date. Without sufficient information about the underlying customers for whom the trades were made, it was impossible for the Firm to determine whether or not the security was being bought and sold between accounts of the same beneficial owner, which could indicate an attempt to manipulate the price of the security. Also on numerous occasions, Account 1 engaged in high-volume liquidations of low-priced securities. Without sufficient

information about the underlying customers for whom the trades were made, it was impossible for the Firm to determine whether or not these securities had a registration statement in effect or if an exemption from the requirements of Section 5 of the Securities Act of 1933 applied to the sales. By failing to implement an AMLCP reasonably designed to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) and the implementing regulations thereunder, WRH violated FINRA Rules 3310(a) and 2010.

3. *Independent Testing*

On May 25, 2010, WRH conducted its annual independent test for compliance pursuant to FINRA Rule 3310(c). The test was inadequate because its review of suspicious activity was inadequate. Specifically, the sample of accounts selected to test for suspicious activity was limited and, most notably, did not include Account 1, which was a high-risk account that represented approximately 62% of all securities transactions effected by the firm from the time of the account's opening to the time of the test.

By failing to conduct an adequate test of its AMLCP, WRH violated FINRA Rules 3310(c) and 2010.

4. *Books and Records*

Between March 2010 and April 2011, WRH created and maintained a blotter ostensibly designed to track the receipt and delivery of certificated securities at a branch office located in San Francisco, California. However, the blotter did not consistently record with accuracy the dates upon which securities were received. By failing to create and maintain an accurate blotter of all securities received and delivered, WRH violated Rule 17a-3(a)(1) of the Securities Exchange Act of 1934, NASD Rule 3110 and FINRA Rule 2010.

5. *Registration*

In April 2011, WRH permitted EH, one of its co-Chief Executive Officers, to engage in the active management of the Firm's securities business without appropriate registration. Specifically, EH provided signature approval on behalf of senior management for the Firm's Annual Certification of Compliance and Supervisory Processes and for the Firm's AMLCP. At the time EH provided these approvals, she was not registered with FINRA in any principal capacity. By failing to ensure that EH was appropriately registered before engaging in the active management of the Firm's securities business, WRH violated NASD Rule 1021 and FINRA Rule 2010.

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

1. Censure; and
2. A \$75,000.000 fine.

WRH agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

WRH 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

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, WRH 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.

WRH 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

WRH 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 the Firm;**
- C. If accepted:**
 - 1. this AWC will become part of the Firm's 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 the Firm'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. WRH 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. WRH 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 Firm'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; and**
- D. WRH may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

11/20/2013
Date (mm/dd/yyyy)

W.R. Hambrecht + Co., LLC

By: M. Zampardi
Michael A. Zampardi, CEO

Reviewed by:
[Signature]
Daniel A. Nathan, Esq.
Counsel for Respondent
Morrison & Foerster LLP
2000 Pennsylvania Avenue, NW
Washington, DC 20006-1888
(202) 887-1500

Accepted by FINRA:

12/10/2013
Date

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

[Signature]
John S. Han
Senior Regional Counsel
FINRA Department of Enforcement
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