

FINRA

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**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110276467-01**

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

RE: B.B. Graham & Company, Inc., Respondent
Broker-Dealer
CRD No. 41533

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, B.B. Graham & Company, Inc. (the "firm" 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

The firm has been a member of FINRA since May 1, 1997. Its registration remains in effect. Between September 2009 and November 2010 (the "Enforcement review period"), the firm had 38 registered representatives, 5 non-registered persons, and 17 offices (8 offices of supervisory jurisdiction and 9 branch offices). Between January 1, 2011 and September 30, 2011 (the "Market Regulation review period"), the firm had 48 registered representatives, 6 non-registered persons, and 34 offices (12 offices of supervisory jurisdiction and 22 branch offices). During the Enforcement and Market Regulation review periods, the firm's business largely consisted of the sale of variable life insurance or annuities, corporate debt securities, corporate equity securities, and mutual funds. The firm has no relevant disciplinary history.

SUMMARY

In Matter No. 20110279104, FINRA's Department of Enforcement reviewed the firm's compliance with FINRA's fair pricing rules applicable to corporate bond transactions with customers during the Enforcement review period.

In Matter No. 20110276467, FINRA's Department of Market Regulation reviewed the firm's compliance with FINRA's fair pricing rules applicable to corporate bond transactions with customers during the Market Regulation review period.

During the Enforcement review period and the Market Regulation review period, the firm charged excessive mark-ups on corporate bond transactions and failed to adequately supervise the sale of corporate bond transactions to customers to ensure fair pricing.

FACTS AND VIOLATIVE CONDUCT

1. During the Enforcement review period, on 12 occasions, the firm sold corporate bonds to customers and failed to sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each bond at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups ranged from 4.58 percent to 10.433 percent, resulting in \$127,506 in unfair markups. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rules 2440, IM-2440-1, and IM-2440-2.
2. During the Market Regulation review period, on 28 occasions, the firm sold corporate bonds to customers and failed to sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each bond at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups ranged from 3.98 percent to 4.88 percent, resulting in \$132,278.33 in unfair markups. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rules 2440, IM-2440-1, and IM-2440-2.
3. Throughout the relevant time periods, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of FINRA, concerning fair pricing of corporate bond transactions with customers. Specifically, the firm did not have acts, practices or processes in place designed to monitor trades of corporate bonds to ensure fair pricing. At a minimum, adequate written supervisory procedures should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) a statement of the supervisory step(s) to be taken by the identified person(s) responsible for supervision; (2) a statement as to how often such person(s) should take such step(s); and (3) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

OTHER FACTORS

In determining the monetary sanctions imposed, the Department of Enforcement and the Department of Market Regulation considered that the firm voluntarily made restitution of \$259,784.33 to affected customers, as well as the firm's financial condition.

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

- 1) Censure;
- 2) A fine of \$190,000 (consisting of \$170,000 for corporate bond pricing violations and \$20,000 for supervision violations); and
- 3) An undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.3 above. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to **MarketRegulationComp@finra.org**, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.3; and, (3) the date the revised procedures were implemented.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It 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(s) 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 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 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 Chief Legal Officer, 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:

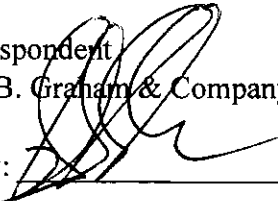
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the ODA, pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of the firm'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 accordance with FINRA Rule 8313;
 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 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.
- D. Respondent 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 it has agreed to the AWC's 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.

06 MAR 15
Date

Respondent
B.B. Graham & Company, Inc.

By: 

Name: BRUCE EDWARD GRAHAM

Title: PRESIDENT/CEO

Accepted by FINRA:

3/3/15
Date

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


David E. Rosenstein
Senior Vice President and Counsel
FINRA Department of Market Regulation