

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2012030416501**

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

RE: Gilford Securities, Inc., Respondent  
BD No. 8076

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Gilford Securities, Inc., ("Gilford" 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 Gilford alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Gilford 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**

Gilford has been a FINRA member since January 3, 1980. The Firm has eight branch offices and 78 registered representatives. Its principal place of business is New York, New York.

**RELEVANT DISCIPLINARY HISTORY**

Gilford has no relevant disciplinary history with the Securities and Exchange Commission, FINRA, any other self-regulatory organization or any state securities regulator.

**OVERVIEW**

During the period April 2010 through March 2012, Gilford failed to: (i) make required disclosures in research reports; (ii) evidence approval of research reports; (iii) implement written supervisory procedures reasonably designed to ensure compliance with NASD Rule 2711; (iv) establish, maintain and enforce written supervisory control policies and procedures ("WSCPs") concerning the supervision of producing managers; and (v) implement a reasonably designed Anti-Money Laundering Compliance Program ("AMLCP"). As a result, Gilford

violated NASD Conduct Rules 2210 and 2711, and FINRA Rules 3310 and 2010.

### **FACTS AND VIOLATIVE CONDUCT**

#### **RESEARCH REPORT VIOLATIONS**

##### **Failure to Disclose Conflicts of Interest**

NASD Conduct Rule 2711(h)(1)(C) requires disclosure of any actual, material conflict of interest of the research analyst or member of which the research analyst knows or has a reason to know at the time of publication of the research report. During the period April 12, 2010 through March 19, 2012, Gilford published 503 research reports. Each of those reports failed to disclose that the research analyst received compensation consisting of commissions on transactions by the analyst's customers in the securities covered by the analyst. Based on the foregoing, Gilford violated NASD Conduct Rule 2711(h)(1)(C) and FINRA Rule 2010.

##### **Failure to Adequately Reference Required Disclosures**

NASD Conduct Rule 2711(h)(10) provides that "[t]he disclosures required by this paragraph (h) must be presented on the front page of research reports or the front page must refer to the page on which disclosures are found. Disclosures and references to disclosures must be clear, comprehensive and prominent." During the period April 12, 2010 through March 19, 2012, the front page of Gilford's research reports purported to refer to the page of the report on which the disclosures were found. However, the front page references to disclosures were deficient. In addition, during the period April 12, 2010 through March 19, 2012, Gilford authorized a research analyst to post research related information and recommendations from 12 Gilford research reports on his blog without including either disclosures required by NASD Conduct Rule 2711(h) or links to the research reports containing the disclosures. Based on the foregoing, Gilford violated NASD Conduct Rule 2711(h)(10) and FINRA Rule 2010.

##### **Failure to Implement Written Supervisory Procedures**

NASD Conduct Rule 2711(i) requires member firms to implement written supervisory procedures reasonably designed to ensure that the member and its employees comply with NASD Conduct Rule 2711(h). During the period April 12, 2010 through March 19, 2012, Gilford failed to adequately implement its supervisory procedures concerning the disclosure of actual, material conflicts of interest and the disclosure of or reference to disclosures required by NASD Conduct Rule 2711(h), resulting in the violations of NASD Conduct Rule 2711(h) described above. Based on the foregoing, Gilford violated NASD Conduct Rule 2711(i) and FINRA Rule 2010.

### **Failure to Evidence Approval of Research Reports**

NASD Conduct Rule 2210(a) requires that a registered principal date and approve by signature or initial "each advertisement, item of sales literature and independently prepared reprint" before its use. NASD Conduct Rule 2210(b) imposes certain record-keeping obligations, requiring members to maintain all advertisements, sales literature, and independently prepared reprints for a three-year period, including the name of the registered principal who approved the advertisement, item of sales literature, or independently prepared reprint and the date of that approval. During the period April 12, 2010 through March 19, 2012, the Firm published 503 research reports. The Firm was unable to evidence the approval of 62 of these reports, and unable to provide documentation that would evidence approval of the remaining 441 research reports prior to their dissemination. Based on the foregoing, Gilford violated NASD Conduct Rules 2210(b)(1) and (2) and FINRA Rule 2010.

### **SUPERVISORY CONTROL VIOLATIONS**

NASD Rule 3012(a)(1)(A)-(B) requires, in relevant part, that members establish, maintain, and enforce a system of supervisory control policies and procedures that test and verify that the member's supervisory procedures are reasonably designed with respect to the activities of the member to achieve compliance with applicable securities laws and regulations, and submit to the member's senior management no less than annually a report detailing each member's system of supervisory controls.

NASD Rules 3012(a)(2)(A) and (C) require, in relevant part, a member to ensure that its procedures are reasonably designed to review and supervise the customer account activity conducted by, among others, producing branch managers, and to ensure that its procedures are "reasonably designed to provide heightened supervision over the activities of each producing manager who is responsible for generating 20% or more of the revenue of the business units supervised by the producing manager's supervisor."

NASD Rule 3012(a)(2)(B)(i) requires, in relevant part, that members establish, maintain, and enforce procedures that are reasonably designed to review and monitor all transmittals of funds or securities from customers to (a) third party accounts; (b) outside entities; (c) locations other than a customer's primary residence; and (d) registered representatives.

During the period April 2010 through March 2012, Gilford failed to establish, maintain and enforce WSCPs that were reasonably designed to provide heightened supervision over the activities of five producing managers who were responsible for generating 20% or more of the revenue of the business units supervised by the producing managers' supervisors. In addition, during the period April 2010 through March 2012, Gilford failed to notify FINRA of its

reliance upon the "Limited Size and Resources" Exception under NASD Rule 3012(a)(2)(A)(ii) and failed to establish, maintain and enforce WSCPs that were reasonably designed to ensure compliance with the "Limited Size and Resources" Exception. Based on the foregoing, Gilford violated NASD Conduct Rule 3012 and FINRA Rule 2010.

**ANTI-MONEY LAUNDERING COMPLIANCE AND  
CUSTOMER IDENTIFICATION PROGRAM VIOLATIONS**

FINRA Rule 3310(b) requires that members establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act ("BSA") and the implementing regulations thereunder. 31 CFR § 103.122, an implementing regulation under the BSA, requires, among other things, broker-dealers to establish, document and maintain a written Customer Identification Program ("CIP") that includes risk-based procedures for verifying customer identity, using documentary, non-documentary methods or a combination thereof. On March 1, 2011, FinCEN transferred its regulations from 31 CFR Part 103 to 31 CFR Chapter X. As part of the transfer, 31 CFR § 103.122 was recodified at 31 CFR § 1023.220.

Gilford's AMLCP contained procedures regarding compliance with 31 CFR § 103.122 and 31 CFR § 1023.220. Nevertheless, between April 2010 and March 2012 Gilford failed to implement those procedures in that Gilford failed to verify the identity of 12 new customers opening new accounts, and failed to resolve substantive discrepancies discovered when verifying the identifying information of 13 new customers opening new accounts. Based on the foregoing, Gilford violated FINRA Rules 3310(b) and 2010.

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

1. A Censure; and
2. A Fine in the amount of \$125,000.

Gilford agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Gilford has submitted an Election of Payment form showing the method by which Gilford proposes to pay the fine imposed.

Gilford 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**

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

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

Gilford further specifically and voluntarily waive 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**

Gilford 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 Gilford; and

C. If accepted.

1. this AWC will become part of Gilford's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Gilford;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Gilford'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. Gilford 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. Gilford 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 Gilford'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. Gilford may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Gilford 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 Gilford 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 Gilford to submit it.

2/28/2014  
Date (m/m/dd/yyyy)

GILFORD SECURITIES INC.

By: \_\_\_\_\_



Accepted by FINRA

April 3, 2014

Date

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

A handwritten signature in black ink, appearing to read 'S. Barkin', with a stylized flourish at the end.

Samuel L. Barkin  
Senior Regional Counsel  
FINRA, District 10  
1 World Financial Center  
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# GILFORD SECURITIES

INCORPORATED • MEMBER FINRA / SIPC

February 28, 2014

Samuel L. Barkin  
Senior Regional Counsel  
FINRA, District 10  
1 World Financial Center  
200 Liberty Street  
New York, NY 10281-1003

Re: AWC No. (Gilford Securities, Inc.)  
Respondent's Statement of Corrective Action

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

To Whom This May Concern:

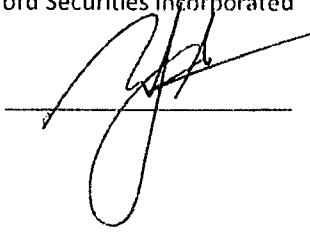
Respondent, Gilford Securities Incorporated ("Gilford" or "Firm") respectfully submits this Statement of Corrective Action to accompany Gilford's Letter of Acceptance, Waiver and Consent ("AWC"). In response to certain conduct set forth in the AWC Gilford has taken the following action.

With respect to the Research Report Violations (i) Failure to Disclose Conflicts of Interest NASD Conduct Rule 2711(h)(1)(C) and (ii) Failure to Implement Written Supervisory Procedures NASD Conduct Rule 2711(i), it should be noted that upon being advised by FINRA of such potential violations the Firm immediately implemented corrective action by requiring the following additional disclosure on the Firm's research reports:

*"The analysts responsible for preparing research reports are compensated on non-investment banking activities such as research fees and from transactional trading which may include commissions on subject company securities."*

Gilford believes the above prompt corrective action demonstrates the Firm's commitment to make all necessary improvements operate in a FINRA/SEC compliant manner.

Gilford Securities Incorporated

By: 

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