

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012030724501**

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

RE: Global Financial Services, LLC, Respondent
Member Firm
[CRD No. 35699]

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Global Financial Services, LLC (hereinafter, "Global Financial," "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 the Firm 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

Global Financial has been a FINRA member since February 2, 1994. The Firm is currently organized as a Limited Liability Corporation, which maintains a minimum net capital of \$100,000 and a fully-disclosed clearing relationship with another broker-dealer. Global Financial engages in the sale of municipal and corporate debt securities, U.S. Government securities, equities, mutual funds, and options. Global Financial employs approximately eighteen registered persons that operate from one OSJ office in Houston, Texas. The Firm has no relevant disciplinary history.

OVERVIEW

From October 11, 2008 to August 23, 2012, the Firm failed to (1) establish and implement policies and procedures reasonably expected to detect and cause the reporting of suspicious activities; and (2) establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act in that the Firm failed to conduct periodic activity reviews of a correspondent account for a foreign financial institution and the Firm failed to provide notices to its correspondent accounts for foreign financial institutions as required under Section 311 of the USA PATRIOT Act.

FACTS AND VIOLATIVE CONDUCT

1. **Global Financial violated FINRA Rule 3310(a), FINRA Rule 2010, NASD Rule 3011(a) and NASD Rule 2110 by failing to establish and implement policies and procedures reasonably expected to detect and cause the reporting of suspicious activity.**

- a. **The Firm failed to establish and implement policies and procedures reasonably expected to detect and cause the reporting of suspicious activities.**

NASD Conduct Rule 3011(a), which became effective in April 2002, and was replaced by FINRA Rule 3310(a) on January 1, 2010, requires each member to "Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. § 5318(g) and the implementing regulations promulgated thereunder."

In April 2002, NASD Notice to Members 02-21 stated that "each financial institution should have the flexibility to tailor its AML program to fit its business." The Notice further stated that "each broker/dealer, in developing an appropriate AML program that complies with the Money Laundering Abatement Act, should consider factors such as its size, location, business activities, the types of accounts it maintains, and the types of transactions in which its customers engage."

In July 2002, the U. S. Department of the Treasury issued regulations (31 C.F.R. Section 103.19(a)(1))¹ requiring suspicious activity reporting by broker-dealers. Generally, broker-dealers should report suspicious activity involving at least \$5,000 and conducted by, at, or through the broker-dealer.

The BNH Accounts

BNH was a registered broker-dealer in Venezuela which opened an account at the Firm in August 2005. The stated purpose of the account was "active trading of high yield fixed income securities." However, the actual activity in the account differed markedly from the stated purpose. Rather than actively trading fixed income products, the account instead transferred in Venezuelan sovereign and corporate debt instruments, liquidated the debt instruments to receive the proceeds in U.S. currency, and immediately wired the funds out, usually within three business days, without re-investment.

For instance, in 2010 BNH received approximately 64 deliveries of Venezuelan sovereign and corporate debt instruments, Argentinian debt instruments, and Euro currency contracts. The vast majority of the deliveries were Venezuelan sovereign and corporate debt instruments denominated in U.S. dollars. Within days of the delivery of the debt instruments, BNH liquidated the debt instruments and wired out the proceeds to other BNH accounts not held at Global Financial. In total, BNH had 60 liquidations in 2010 and only one purchase transaction. During 2010, BNH had 23 outgoing wires totaling approximately \$37 million sent to BNH accounts maintained at multiple banks in the United States and abroad.

This type of activity occurred in 2009 as well. In 2009, BNH received approximately 148 deliveries of predominantly Venezuelan sovereign and corporate debt instruments, a few Argentinian debt instruments, a few currency contracts, and some U.S. corporate bonds. Over the course of the year, BNH liquidated 160 positions held in the account, typically liquidating and wiring the proceeds out of the account less than a month after delivery. In 2009, BNH had 53 outgoing wires totaling approximately \$89,530,000 to BNH accounts maintained at multiple banks in the United States and abroad.

The delivery of Venezuelan corporate and sovereign debt, immediate liquidation, and wiring out of the cash proceeds in U.S. currency was entirely inconsistent with BNH's stated purpose for the account which was active trading of high-yield fixed income securities. In 2010, there was only one purchase. While 41

¹On March 1, 2011, FinCEN transferred its regulations from 31 CFR Part 103 to 31 CFR Chapter X as part of an ongoing effort to increase the efficiency and effectiveness of its regulatory oversight. As part of this transfer, 31 C.F.R. 103.19 was renamed 31 C.F.R. 1023.320.

purchase transactions occurred in 2009, there were four times as many deliveries and liquidations. Although the debt instruments were high-yield, active trading would have consisted of a more equal distribution of purchases and sales, which was not the case in the BNH account.

In addition, BNH represented to the Firm upon opening its account that the account was a proprietary account holding BNH's own assets. By at least January 2010, the Firm, however, became aware of a change in Venezuelan regulations that resulted in the possibility that the BNH account was operating as an omnibus account for BNH customers who wished to convert their holdings to U.S. currency. By June 2010, Global Financial began executing wire transfers to accounts held in BNH's name for further credit to BNH's underlying client accounts.

Additionally, at account inception, the Firm initiated a prohibition on third-party transfers into and out of the BNH accounts. However, BNH still engaged in at least one transfer with a third-party account in contravention of the prohibition. This activity was never addressed, and the Firm failed to conduct adequate due diligence regarding the circumstances of the money movement. Furthermore, the Firm's new account documentation specifically identified Venezuela as a "High Risk Country or Jurisdiction" for anti-money laundering purposes.

The activity in BNH's account triggered a number of red flags indicative of potential suspicious activity. These red flags were listed in the Firm's written AML procedures as follows:

- Wire activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose;
- Appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity;
- Customer's account has unexplained wire activity;
- The customer engages in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated strategy; and
- The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially inaccurate.

Despite the red flags indicative of potentially suspicious activity, Global Financial failed to investigate the activity to determine whether the activity warranted the filing of a SAR, if appropriate.

The IBC Account

IBC was a bank in Antigua that entered into a Customer Agreement with Global Financial on August 16, 2007 and an Options Agreement on November 16, 2010. Both agreements were signed by AL who was the president of IBC and had trading authority over IBC's accounts held at Global Financial. Although IBC is a bank in Antigua, account statements were sent to an address in Venezuela. Pursuant to the Customer Agreement with Global Financial, IBC bought and sold securities and borrowed several million dollars on margin. IBC represented to Global Financial in the Customer Agreement that its accounts were proprietary accounts and not omnibus accounts held on behalf of its underlying clients.

Despite these representations, on February 10, 2011, Global Financial received an email from YS, a director of DZ, a limited liability company located in Curaçao, West Indies, requesting that securities owned by DZ in the IBC account at Global Financial be transferred to DZ's account at another financial institution. DZ provided copies of custody certificates to Global Financial and AL confirmed that YS's request was legitimate. Global Financial froze the account upon its discovery that the IBC account was actually an omnibus account.

DZ filed suit against Global Financial due to its refusal to transfer the securities. Global Financial, in turn, filed a third-party petition against IBC on May 27, 2011, asserting fraud by IBC due to its misrepresentations regarding the nature of the account. Global Financial also claimed that pursuant to a custodial agreement that surfaced in the litigation that IBC and DZ had colluded to keep DZ's identity hidden from Global Financial. Furthermore, Global Financial learned that the owner of DZ was RMH, who had been named by the Republic of Colombia as a participant in an alleged money laundering scheme in pleadings filed in 2004 in Case No. 04-CV-4372, styled *The Republic of Colombia, et al v. Diageo North America, et al.* pending in the U.S. District Court for the Eastern District of New York.

These facts triggered the following red flags indicative of potentially suspicious activity listed in Global Financial's written supervisory procedures, which should have required additional due diligence by the firm:

- The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy;
- The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect;

- The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations; and
- The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.

In addition, Global Financial's new account documentation specifically identified Antigua and Venezuela as a "High Risk Country or Jurisdiction" for anti-money laundering purposes.

Despite the red flags indicative of potentially suspicious activity, Global Financial failed to adequately document its investigation of the activity to determine whether the activity warranted the filing of a SAR, if appropriate.

The CRM Companies

The Firm entered into referral agreements with three related Mexican entities, collectively the "CRM Companies". Under the referral agreements, between October 11, 2008 and December 2011 the CRM Companies referred specific securities transactions to Global Financial. The parameters of the transactions including the potential size of the specific security transaction, an indicative price, the potential seller, and the potential buyer were all identified. Global Financial simply executed the transactions. In exchange for the referrals, Global Financial agreed to pay the CRM Companies a percentage of the spread earned by the Firm.

According to the referral agreements, the CRM Companies were non-U.S. domiciled entities with non-U.S. institutional clients. The specific clients were listed in the agreements and characterized as "approved clients." The approved clients were all broker-dealers in Mexico that traded securities on the Mexican Stock exchange. In order to execute transactions under the referral agreements, Global Financial established a proprietary trading account with its clearing firm. For each trade, the CRM Companies would submit written orders containing the details of the trade to Global Financial. The Firm would then execute the trade with CRM's approved clients and settle the trades on a delivery versus payment or receipt versus payment basis between Global Financial and the approved clients. The contra-parties confirmed each trade directly with Global Financial. Following each trade, Global Financial wired the referral fee to the CRM Companies directly from its proprietary account at the clearing firm. Global did not know the identities of any customers of CRM's approved clients who may have purchased or sold the traded securities. Global Financial failed to detect this arrangement as a red flag warranting additional due diligence including, but not

limited to, a review into who was ultimately behind these trades at the Mexican broker-dealers.

There does not appear to be any legitimate business purpose for involving Global Financial as an intermediary in the transactions. The purchasers and sellers of the securities were large, well-known Mexican broker-dealers, who could have purchased and sold the securities in Mexico. In addition, the securities purchased and sold under the referral agreements were all securities issued by the Mexican government or large U.S. or Mexican corporate issuers. These arrangements could have been reached without involving Global Financial and incurring the additional commission costs. As an example of the activity, over one three month period in 2010, Global Financial executed 12 transactions involving non-U.S. bonds for the clients of the CRM Companies. The principal amounts of these trades each ranged from 11 million to 291 million pesos or approximately \$860,541 to \$22,765,221.

Despite a lack of understanding as to whether there were underlying customers of the approved clients, Global Financial failed to investigate the activity to determine whether the activity warranted the filing of a SAR, if appropriate.

As a result of the conduct described above, Global Financial violated FINRA Rule 3310(a) (for conduct after December 31, 2009), FINRA Rule 2010 (for conduct after December 14, 2008), NASD Rule 3011(a) (for conduct before January 1, 2010), and NASD Rule 2110 (for conduct before December 15, 2008).

b. The Firm's written AML procedures were inadequate.

During the period from on or about October 11, 2008 through August 23, 2011, the Firm's written AML Procedures failed to adequately address the following:

- a. Red flags indicating potential suspicious activity. The Firm's written AML Procedures listed certain red flags that the Firm considered indicative of potential suspicious activity. However, the red flags listed were inadequate because the list was not tailored to the Firm's customer base, (particularly with respect to foreign financial institutions), customer location, types of accounts, use of the accounts, actual trading and money movement activity, and other risk factors specific to the Firm's business.
- b. Responsibility for filing of SARs. The Firm's written AML procedures were inadequate, because the procedures stated that the Firm would rely on its clearing firm to make SAR filings on its behalf.

- c. Monitoring of third-party money movements for potentially suspicious activity. The Firm's written AML procedures were inadequate, because the procedures did not provide guidelines regarding review and investigation of third-party transfers.

During the period from on or about October 11, 2008 through September 23, 2010, the Firm's written AML Procedures failed to adequately explain what steps that the Firm would take to monitor for suspicious activity. For instance, the written AML Procedures did not identify the reports the Firm would use and did not list the systems or documents to be reviewed. The procedures also failed to address the frequency of the reviews and how the reviews would be documented.

As a result of the conduct described above, Global Financial violated FINRA Rules 3310(a) (for conduct after December 31, 2009), FINRA Rule 2010 (for conduct after December 14, 2008), NASD Rules 3011(a) (for conduct before January 1, 2010), NASD Rule 2110 (for conduct before December 15, 2008).

2. **Global Financial violated FINRA Rule 3310(b), FINRA Rule 2010, NASD Rule 3011(b), and MSRB Rule G-41 by failing to conduct appropriate due diligence on correspondent accounts for foreign financial institutions in contravention of the Bank Secrecy Act and its implementing regulation 31 CFR 1010.610 and by failing to provide notices to its foreign financial correspondent accounts as required under Section 311 of the USA PATRIOT Act.**

- a. **The Firm failed to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act.**

NASD Rule 3011(b), which became effective in April 2002, and was replaced by FINRA Rule 3310(b) on January 1, 2010, requires firms to establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder. Section 312 of the USA PATRIOT Act, which amended the Bank Secrecy Act, requires all financial institutions to conduct due diligence on correspondent accounts for foreign financial institutions. 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 procedures 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 C.F.R. 1010.610(a)(3).

From January 1, 2009 through July 30, 2010, the Firm inadequately conducted the required periodic review of the BNII accounts to determine if the account activity was consistent with information obtained by the Firm at account opening concerning the type, purpose, and anticipated activity of the foreign financial institution accounts. For instance, the anticipated activity of the accounts was active trading of high-yield fixed income securities. However, the actual activity in 2009 and 2010 was the frequent transfer into the account of Venezuelan sovereign and corporate debt instruments, immediate liquidation, and the subsequent wiring out of the proceeds. The Firm failed to adequately conduct ongoing due diligence to determine why the transactions in the accounts were potentially inconsistent with the anticipated account activity. Furthermore, in connection with the incoming transfers of Venezuelan sovereign and corporate debt instruments, the Firm failed to conduct ongoing due diligence on the numerous incoming fixed income positions to determine their source and true ownership.

As a result of the conduct described above, Global Financial violated FINRA Rule 3310(b) (for conduct after December 31, 2009), FINRA Rule 2010, and NASD Rule 3011(b) (for conduct before January 1, 2010).

- b. From April 26, 2010 to April 23, 2012, the Firm failed to have written AML procedures addressing its Section 311 requirements of the USA PATRIOT Act and therefore failed to provide notices to its foreign financial correspondent accounts.**

Section 311 of the USA PATRIOT Act² amends the BSA to require broker-dealers to take special measures intended to address particular money laundering concerns. 31 C.F.R. 1010.653 required financial institutions as of March 9, 2006 to provide notice to any correspondent account that the correspondent account may not be used to facilitate transactions for the Commercial Bank of Syria. Likewise 31 C.F.R. 1010.654 required financial institutions as of July 12, 2006 to provide a similar notice to its correspondent accounts regarding VEF Banka. This special measure was rescinded on August 1, 2011. In addition, 31 C.F.R. 1010.655 required financial institutions as of March 14, 2007 to provide a similar notice to its correspondent accounts regarding Banco Delta Asia.

² 31 C.F.R. Part 103 (31 C.F.R. Chapter X).

The Firm's written AML Procedures did not address monitoring for new special measures under Section 311 of the USA PATRIOT Act or the appropriate action the Firm would take when new special measures were enacted.

Between April 26, 2010 and August 23, 2012, the Firm maintained five correspondent accounts for foreign financial institutions. During the same time period three banks were designated by the US Treasury Department requiring notice to correspondent accounts for foreign financial institutions. The Firm did not provide notice to the account holders that the accounts could not be used to facilitate transactions for the Commercial Bank of Syria and affiliates, VEF Banka and affiliates, or Banco Delta Asia and its affiliates.

As a result of the foregoing conduct, Respondent Global Financial Services, LLC violated FINRA Rules 3310(b), and 2010; and violated MSRB Rule G-41.

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

A censure and a \$100,000 fine (\$15,000 of which pertains to the violations of MSRB Rule G-41).

Global Financial agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Global Financial has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Global Financial 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Global Financial 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.

Global Financial 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

Global Financial 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; 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

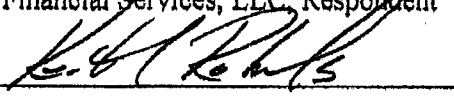
4. Global Financial may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in 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. Global Financial 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 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 Global Financial 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.

09/23/2014
Date (mm/dd/yyyy)

Global Financial Services, LLC, Respondent

By: 

Name: KEITH ROBERTS

Title: CHIEF COMPLIANCE OFFICER

Reviewed by:



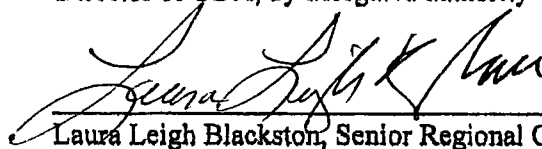
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Accepted by FINRA:

October 24, 2014

Date

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



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