

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120315075- 01

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

RE: BMA Securities, Respondent
Broker-Dealer
CRD No. 108219

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, BMA Securities ("BMAS" 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. BMAS 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

BMAS became a FINRA member on July 5, 2001, and the firm's registration remains in effect.

DISCIPLINARY HISTORY

BMAS does not have any relevant disciplinary history.

SUMMARY

In connection with STAR No. 20120315075, FINRA's Market Regulation Department's Trading and Market Making Surveillance Section ("TFCE")¹ reviewed the items set forth as Exhibit 1, to determine BMAS's compliance with various FINRA and Securities Exchange Act of 1934 ("SEA") rules, among others, during the period of July 2, 2012 through July 13, 2012 ("the 2012 Exam period"), unless otherwise noted.

¹ "TMMS" is now known as the Trading and Financial Compliance Examinations Section ("TFCE").

FACTS AND VIOLATIVE CONDUCT

During the 2012 Exam period, BMAS:

1. Failed to accurately mark a proprietary sale on the firm's trading ledger in 166 instances; document the Time in Force term and condition on a customer order ticket in 35 instances; accurately record customer executions on the Firm's proprietary trading ledger by compiling multiple executions into single ledger entries in 7 instances; provide a requested customer order ticket in 3 instances; document cancel/replace times regarding size and/or price changes made during the life of an order in 3 instances; document a trade cancellation on a customer order ticket in 2 instances; accurately record an order entry and/or execution times on a customer order ticket in 2 instances; maintain the Time in Force condition on an order record in one instance; document execution times and/or execution details on a customer order ticket in one instance; accurately report LEK time and sales that match the Firm's Bloomberg records or its clearing reports in one instance; document the order cancellation time on an order ticket in one instance; include a contra party and an accurate execution time in on the firm's ledger in one instance. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4511 and SEA Rules 17a-3 and 17a-4.
2. Failed to submit an accurate account type code and an accurate Buy/ Sell code to OATS in 151 instances; submit an accurate account type code to OATS in 51 instances; submit information to OATS for a reportable event in 26 instances; submit only necessary order report to OATS in 8 instances; submit an accurate order entry time, execution time and order type code and limit price to OATS in 7 instances; submit an accurate Buy/Sell code to OATS in 5 instances; submit an accurate order entry time to OATS in 4 instances; submit an accurate order entry time, execution time and order type code and limit price to OATS in 3 instances; submit data regarding an order size and/or price change to OATS in 2 instances; submit an accurate order entry time, execution time, special handling code and order type code and limit price to OATS in 2 instances; submit an inaccurate order entry time, special handling code and order type code and limit price to OATS in 2 instances; submit accurate NW and corresponding EX reports in 2 instances; submit accurate order entry time, account type code and replaced order share quantity to OATS in one instance; submit accurate order entry time, execution time and special handling code to OATS in one instance; submit accurate order entry time, execution time, special handling code, account type code and order type code and limit price to OATS in one instance; submit accurate order entry time, execution time, special handling code and order type code and limit price to OATS in one instance; submit accurate order entry time, special handling code and order type code and limit price to OATS in one instance; submit an accurate account type code in one instance; submit an accurate order entry time, special handling code and order type code and limit price to OATS in one instance; submit an accurate account type code to OATS in one instance; submit an inaccurate order entry time and order type code and limit price to OATS in one instance; submit data regarding an order size change to OATS in one instance; submit an accurate account type code and order type code and limit price to OATS in one instance; maintain accurate books and records for OATS purposes in 5 instances; and to provide order records corresponding to order routing information submitted to OATS in 2 instances. The

conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450 or 7440.

3. Failed to accurately report or match a trade to the OTCRF with an accurate short sale indicator in 157 instances. The conduct described in the proceeding sentence constitutes separate and distinct violations of FINRA Rule 6624. Additionally, BMAS failed to report or match a trade to the TRF with an accurate short sale indicator in 3 instances. The conduct described in the proceeding sentence constitutes separate and distinct violations of FINRA Rule 6182.
4. Failed to report a trade to the OTCRF in 25 instances; accurately report or accept a trade on the OTCRF in 12 instances; media report a transaction that was tape reportable in 5 instances; cancel a trade report on the OTCRF for a cancelled trade in 3 instances; accurately submit a non-media-reported step-out trade report in 2 instances; accurately report a trade to the OTCRF in 2 instances; accurately media report only reportable events in 2 instances; submit only necessary trade reports to the OTCRF in 2 instances; and accurately report a trade to the FINRA/Nasdaq Trade Reporting Facility ("TRF") in 9 instances. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rules 7330 or 7230A.
5. Failed to accurately report a riskless trade to the TRF with a principal capacity in 7 instances; and accurately report shares executed in a riskless capacity to the OTCRF with a principal capacity in 3 instances. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rules 6380A or 6622.
6. Failed to send an accurate customer confirmation in 12 instances. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rule 10b-10.
7. Failed to provide a customer with an extended hours risk disclosure prior to executing an order in the extended hours in 10 instances. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2265.
8. During July 2012, the firm failed to accurately report routing statistics for both the NYSE and AMEX in its SEA Rule 606 Quarterly Routing Report. Additionally, the firm failed to disclose to its customers in writing the availability of written quarterly reports, as well as, individual order information. The conduct described in this paragraph constitutes a violation of SEA Rule 606 of Regulation NMS.
9. During July 2012, BMAS failed to establish and maintain a supervisory system designed to achieve compliance with respect to certain applicable laws and regulations concerning Regulation NMS and/or provide sufficient evidence of reviews performed. The conduct described in this paragraph constitutes a violation of SEA Rule 611 of Regulation NMS.
10. During July 2012, BMAS's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and

regulations, and/or FINRA rules. At a minimum, adequate WSPPs regarding quality of markets issues 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.

However, BMAS's WSPPs failed to provide for one or more of the four above-cited minimal requirements for adequate WSPPs in the following subject areas:

- **Supervisory System, Procedures & Qualifications:** OSJ Office Designation [(b)]; Qualified Supervisory Personnel [(a), (b)];
- **Order Handling:** Disclosure of Order Routing Information [(b)]; Limit Order Display [(a), (b), (c), (d)]; Order Protection [(a), (b), (c), (d)]; Disclosure of Order Execution Information [(a), (b), (c), (d)];
- **Best Execution:** Best interdealer market for OTC equity securities [(a), (b), (c), (d)];
- **Anti-Intimidation/Coordination:** Procedures to detect/prevent coordination/collaboration [(a), (b), (c), (d)]; Procedures to detect/prevent threats/coercion, and intimidation [(a), (b), (c), (d)]; Educating personnel as to what constitutes improper conduct [(a)];
- **Trade Reporting:** Timely and accurate reporting to the TRF [(a), (b), (c), (d)]; Proper use of trade modifiers [(a), (b), (c), (d)]; Reporting riskless principal transactions [(a), (b), (c), (d)]; Accepting or matching trades in a timely manner [(a), (b), (c), (d)]; Trade reporting by a third party on behalf of the member [(a), (b), (c), (d)];
- **Sale Transactions:** Review of order marking/SEC Rule 200(g) [(a), (b), (c), (d)]; Review of locates [(a), (b), (c), (d)]; Monitoring settlement [(a), (b), (c), (d)]; Selling short after a fail [(a), (b), (c), (d)]; Registered in relevant security or related derivative product [(a), (b), (c), (d)]; Proprietary market making account activity [(a), (b), (c), (d)]; Continuous orders/quotations in a market making capacity [(a), (b), (c), (d)]; Publicly accessible quotations [(a), (b), (c), (d)]; Liquidity providing during trade imbalances [(a), (b), (c), (d)]; Market making activity unrelated to investment purposes [(a), (b), (c), (d)]; Naked short selling [(a), (b), (c), (d)]; Reporting sales to a TRF [(a), (b), (c), (d)]; Prohibition on short sales following 10% price decrease [(a), (b), (c), (d)];
- **Other Trading Rules:** Trading/quoting during a halt [(a), (b), (c), (d)]; Honoring quotes [(a), (b), (c), (d)]; Entering identical quotes in OTC equity securities across multiple real-time quotation systems [(a), (b), (c), (d)]; Ensuring integrity of transactions [(a), (b), (c), (d)]; FINRA clearly erroneous filings [(a), (b), (c), (d)]; Review and detection of trade reporting errors [(a), (b), (c), (d)];
- **OATS:** Clock synchronization [(a)]; Accurate and timely reporting of OATS data [(b)]; OATS data rejections [(b)]; Review to ensure that reported OATS data is consistent with information submitted to the TRF [(b)]; OATS routed order identification number consistency [(b)];

- **Other Rules:** Accurate books and records [(a), (b), (c), (d)]; Sub-penny priced \$1.00 or higher [(a), (b), (c), (d)]; Sub-penny priced under \$1.00 [(a), (b), (c), (d)]; Electronic communications review [(a), (b), (c), (d)]; and
- **Use of Multiple Market Participant Identifiers:** Monitoring the use of each MPID [(a), (b), (c), (d)]; Procedures to limit access to and information sharing between multiple MPIDs [(a), (b), (c), (d)]; Procedures to ensure required supervision is performed for each MPID [(a), (b), (c), (d)].

Additionally, BMAS failed to provide documentary evidence that the Firm performed the supervisory reviews set forth in its written supervisory procedures concerning:

- **Supervisory System, Procedures & Qualifications:** Qualified Supervisory Personnel;
- **Order Handling:** Disclosure of Order Routing Information;
- **Ant-Intimidation/Coordination:** Educating personnel as to what constitutes improper conduct;
- **Sale Transactions:** Review of order marking/SEC Rule 200(g);
- **OATS:** Clock synchronization, Accurate and timely reporting of OATS data, Review to ensure that reported OATS data is consistent with information submitted to the TRF, OATS routed order identification number consistency; and
- **Other Rules:** Chinese Walls/Information Barriers, Information barrier breaches.

The above-described conduct constitutes a violation of FINRA Rule 2010 and NASD Rule 3010.

B. The firm also consents to the imposition of the following sanctions:

Censure and fine of \$52,500 (consisting of a \$2,500 fine for the SEA Rules 17a-3 and 17a-4 and FINRA Rule 4511 violations; a \$7,500 fine for the FINRA Rule 7440 and 7450 violations; a \$5,000 fine for the FINRA Rules 6182 and 6624 violations; a \$5,000 fine for the FINRA Rules 6380A, 6622, 7230A and 7330 violations; a \$2,500 fine for the SEA Rule 10b-10 violations; a \$5,000 fine for the FINRA Rule 2265 violations; a \$10,000 fine for the Reg. NMS Rule 606 violations; a \$5,000 fine for the Reg. NMS Rule 611 violations; and a \$10,000 fine for FINRA Rule 2010 and NASD Rule 3010 violations).

BMAS 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.

BMAS 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

BMAS 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, BMAS 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.

BMAS 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

BMAS 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 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 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. The firm 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. The firm 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. The firm 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 BMAS, 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.

4/10/15
Date

Respondent
BMA Securities

By: [Signature]

Name: Rust M. Arnold

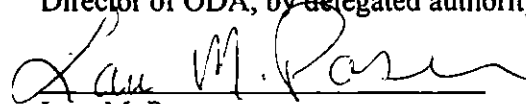
Title: President

Reviewed by:

Accepted by FINRA:

5/14/15
Date

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



Lara M. Posner
Chief Counsel
Department of Market Regulation

2012 Market Regulation Examination Samples
BMA Securities ("BMAS")
Exam No. 20120315075
Sample Source/Period*: July 2-13, 2012

Exhibit No. 1

Sample

<u>Size</u>	<u>Sample Description</u>
60	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
95	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
311	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
0	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
0	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
45	Sell orders entered into NYSE-Arca execution system for compliance with NYSE-Arca Equities Rule 7.16 long/short reporting requirements
4	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604
27	Held Orders for compliance with best execution requirements of FINRA Rule 5310: 3 Orders from Customer Sales Review 24 Orders from the Order Protection Review and OTC/OTCBB Review 0 Order executed with a .PRP (Prior Reference Price) trade modifier
3	Orders for compliance with limit order protection requirements of NASD Rule IM 2110-2 during trade dates July 2-6, 2012
9	Orders for compliance with market order protection requirements of NASD Rule 2111 during trade dates July 2-6, 2012
15	Orders for compliance with order protection requirements of FINRA Rule 5320 during trade dates July 9-13, 2012
0	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with FINRA Rule 5330
8	Non-tape reports to a TRF or OTCRF for compliance with the Related Market Center Indicator requirements of FINRA Rules 7230A and 7330
0	Order memoranda and Net Trading agreements for compliance with FINRA Rule 2124 requirements

2012 Market Regulation Examination Samples
BMA Securities ("BMAS")
Exam No. 20120315075
Sample Source/Period*: July 2-13, 2012

Exhibit No. 1

<u>Sample Size</u>	<u>Sample Description</u>
284	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450 requirements
14	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
0	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
0	Data sets published for July 2012 monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
14	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020-1040; Nasdaq Rule Series 1020-1040, Nasdaq OMX BX Rule Series 1020-1040; Nasdaq OMX PHLX Rule Series 600-604; EDGA/EDGX Rules 2.3, 2.5 and 11.4 and NYSE-Arca Rules 2.4, 6.18 and 7.21
25	Customer orders in OTC equity securities for compliance with FINRA Rule 5310, Supplementary Material .06: Securities with Limited Quotation or Pricing Information
0	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265
505	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4
497	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with FINRA Rule 5310 and NASD Rule 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, Nasdaq OMX BX Rule 3010, Nasdaq OMX PHLX Rule 748, EDGA Rule 5.1, EDGX Rule 5.1 or NYSE-Arca Rule 6.18 requirements
All Provided	Member's risk management and supervisory system/procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Rule 15c3-5 requirements

CORRECTIVE ACTION STATEMENT

The Matters of BMA Securities, Inc. (CRD# 108219) (Star# 20120315075)

This Corrective Action Statement is submitted by the Respondent, BMA Securities, Inc. ("BMA" or the "Firm"). This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff. This corrective action statement is responsive to the Trading and Market Making Surveillance Examination (TMMS) which covered the period July 2, 2012 through July 13, 2012.

BMA began operations in 2001 as a trading and market making firm. At inception, the Firm established a set of written supervisory procedures (WSPs) and designated personnel to supervise all aspects of its business including its trading and market making operations. The results of the TMMS examination found several shortcomings in BMA's written procedures and the personnel to implement these procedures. The TMMS examination covering activity in 2012 was the first examination of the Firm's trading activity since its inception.

Prior to the examination BMA was aware of certain shortcomings in its WSPs and daily oversight responsibilities, relating to supervisory systems, order handling and trade reporting (particularly OATS systemic reporting problems), amongst other issues. To that end, before the TMMS, BMA hired a consultant to assist in a complete updating of its WSP policies and procedures, with a major emphasis on its trading and market making operations.

BMA takes seriously its regulatory responsibility pursuant to SEA and FINRA Rules and regulations. As discussed more fully, subsequent to the TMMS results, BMA adopted a new set of written supervisory procedures that covered the violative conduct found in the TMMS examination and added personnel and an outside consultant to provide for supervision reasonably designed to achieve compliance with respect to applicable securities laws and/or FINRA rules. The WSP specifically identifies individuals responsible for supervision, the steps and reviews to be taken by the appropriate supervisor, the frequency of reviews and how these reviews are documented.

BMA added a seasoned Compliance Director with responsibility for daily review of all trading activity. A Principal with Series 24 and 55 licenses was added to the trading desk to observe and monitor trading activity throughout each market day. An additional Series 24 Principal was added to the Administrative/Compliance department for review of anti-money laundering and 'red flag' issues that might arise with regard to trading activities. BMA conducts annual on-line continuing education that covers trading rules and procedures for all trading personnel, conducts a formal year end Compliance Meeting and, as applicable, will discuss changes and updates to trading rules and procedures with its staff.

The outside consultant hired by BMA in May 2013 provides a Daily Trading Supervisory & Surveillance Log. This Log recaps BMA's previous trading day activity into several categories including, but not limited

to, Order Handling, Best Execution, Trade Reporting, Sale Transactions, Reg NMS, Marking the Close, Reg SHO, Short Sale Transactions and Reporting, Order History, Manning Reports, Reg NMS, Sales Conditions and Modifiers, ACT & ORF Report Analysis & Exceptions, AGU Reporting, Pink Sheet Quotes and Orders, and notes on any unusual activity.

This report is delivered daily to the Head Trader, Compliance Director, Trading Supervisor and senior management for review and discussion. In addition to this report, BMA has generated daily a further review of various aspects of trading and operational procedures by Principals of the Firm. This Daily Compliance Checklist covers trade tickets and blotters, OATS Reporting, Order and Trade Handling, Best Execution, Sale Transactions, MPIDs, and additional areas of review based upon the nature of the Firm's business to help assure that BMA is not in violation of SEA and FINRA rules, and specifically FINRA Rule 2010 and NASD Rule 3010 (now FINRA Rule 3110).

In summary, during the TMMS examination process, BMA received input regarding certain violative conduct in its policies and procedures for compliance with SEA and FINRA Rules. The Firm completed an extensive re-write of its trading policies and procedures and contracted an outside consultant for daily review of all trading activity. The Firm hired a Compliance Director to co-ordinate these daily trading reviews and two additional principals for specific responsibilities for trading and market making activities.