

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ~~2012033033901~~**

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

RE: Girard Securities, Inc., Respondent
FINRA Member Firm
CRD No. 18697

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

I.

ACCEPTANCE AND CONSENT

- A. The 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

Girard Securities, Inc. became a FINRA member in August 1988. Girard is an introducing broker dealer engaged in the following lines of business: corporate debt securities, over-the-counter equity securities, underwriter, mutual fund retailer, U.S. Government securities dealer and broker, municipal securities dealer and broker, variable life insurance, options, investment advisory services, tax shelters/limited partnerships, non-exchange member arranging for transactions in listed securities by an exchange member, trading for the firm's own account and private placements. Girard has approximately 360 registered individuals and 136 branches. Girard has no disciplinary history.

OVERVIEW

From approximately May 9, 2011 through July 20, 2012, Girard's systems and procedures, including its written procedures, were not reasonably designed to prevent fraudulent third party wire transfer requests in violation of NASD Conduct Rules 3010(a) and 3010(b) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

The Fraudulent Wire Transfers

In 2011 and 2012, Girard's clearing firms issued a number of alerts and updates concerning a rise in fraudulent e-mail instructions used to effect fraudulent wire transfers. As a result, in March 2012, Girard adopted procedures governing "Ad-Hoc Third Party Federal Funds Wired". The procedures stated that, where the relationship between the account holder and the recipient of the wire is not clearly identifiable and the amount of the payment exceeds \$20,000, third-party federal fund wires could be processed provided a senior compliance officer (or another authorized senior officer of the firm) signed an Attestation document confirming that the firm has verbally confirmed the Letter of Authorization ("LOA") instructions with the account holder(s) or those authorized to act on their behalf ("the Attestation"). The Attestation was then to be faxed to the clearing firm along with a signed LOA and, where applicable, and all required supporting documentation. The Attestation was modeled after an attestation distributed in March 2012 by one of Girard's clearing firms, along with new clearing firm procedures for processing third-party wires. The clearing firm attestation said, among other things, "I have verbally confirmed with the account holder(s) or those authorized to act on their behalf that the LOA instructions are authentic and the signature(s) on the instructions are their own." However, in Girard's Attestation, the word "I" has been changed to "our firm," so the assertion reads "Our firm has verbally confirmed..."

AC and DC ("the Cs") were Girard customers. After the Cs divorced in the first few months of 2012, they each established in April 2012 a new account at Girard to receive their share of the brokerage assets that were split during the divorce.

Beginning in May 2012, the C's e-mail accounts were hacked by unknown parties to enable them to fraudulently conduct third-party wire transfers through Girard. The hackers were able to achieve the fraud by observing how legitimate requests for redemptions by wire were processed by the Cs; creating email addresses that were similar to, but not an exact match for the Cs' email addresses; and using cut-and-pasted copies of the Cs' signatures from prior legitimate letters of authorization ("LOAs").

On April 16 and May 10, 2012, AC and DC each initiated a legitimate request for a third party wire transfer which was processed by Girard and its clearing firm. However, subsequent wire requests, as discussed below, received for AC and DC's accounts were, unbeknownst to Girard, fraudulent. Because the Cs had been unable to make any investments for one year while their divorce was being finalized, no one at Girard found the requests for money movements unusual.

On May 11, 2012, MJ, an Operations Principal in the branch that serviced the Cs accounts, received an email purportedly from AC, requesting that \$85,432.50 be wired from AC's account to a third party in Texas. After receiving an LOA purportedly signed by AC, the funds are wired out on May 14, 2012.

On May 15, 2012, MJ received an e-mail, purportedly from AC, asking that \$155,850 be wired from AC's account to a Bank for the benefit of a third party. Girard and its clearing firm directed MJ to ask a series of questions of AC concerning, among other things, the third party and the purpose of the wire. MJ did not speak to AC; instead, he asked the required questions via e-mail, and, therefore, communicated with the impersonators, not AC himself. At that time, MJ was not aware of Girard's policy and procedures requiring that customers confirm such wire requests orally, or that an Attestation to the effect was required, as he had not been advised of this by the firm. After receiving an LOA purportedly signed by AC, Girard wired the funds as requested on May 16, 2012.

On May 18, 2012, MJ received an e-mail, purportedly from DC, requesting a redemption from DC's account for \$285,485 and a further request that the proceeds be wired to an Overseas Chinese Banking Corporation in Singapore. Again, MJ asked a series of questions concerning the wire request via e-mail, again causing the communication to be directed to the impersonators, not DC herself. After receiving an LOA from DC, the funds are wired as instructed on May 22, 2012.

An Operations Manager at Girard's main office, DZ, completed an Attestation for these three fraudulent wires, attesting that someone at Girard had verbally confirmed the legitimacy of the wires with the account holder. However, DZ had not spoken to AC or DC and he had not confirmed with anyone else at Girard that they had spoken to either of the Cs to ensure the wires were legitimate. DZ assumed that MJ had spoken to the Cs about the wire requests because he knew MJ had made contact with them as directed by Girard and the clearing firm, but he did not confirm that the communication was oral, not via e-mail. At the time of the fraudulent wire transfers, DZ had not had discussions and had not received any training from Girard's management concerning the purpose of the Attestation, how it should be completed, who should sign it, and who should call the customer.

After the second fraudulent wire was initiated, the Anti-Money Laundering Department of the clearing firm involved expressed escalating concerns that the "customers" were unable to satisfactorily answer basic questions about the purpose of the wires. Though the second and third wires were released, the clearing firm rejected three later wire requests. When the branch office contacted the real Cs on June 20, 2012, to inform them about the rejection of "their" wires, the customers claimed they were not aware of (and did not authorize) the previous three wire transfers in question. The branch notified Girard's main office and both customers' accounts were subsequently frozen. Girard then began an internal investigation that ultimately led the firm to terminate its Chief Compliance Officer and the Chief Operations Officer resigned. Girard reimbursed the Cs their losses and also amended its procedures to prohibit third-party and international wires.

Violative Conduct

Girard did not establish and maintain systems and procedures, including written procedures, reasonably designed to prevent fraudulent third party wire transfers. Girard adopted the Attestation, but the firm failed to establish adequate systems and procedures concerning the use of this document. For example: The language in the second bullet point on Girard's Attestation

stated, "[t]he firm has verbally confirmed with the account holder(s) or those authorized to act on their behalf that the LOA instructions are authentic and the signature(s) on the instructions are their own." However, Girard did not designate who, specifically, should "verbally confirm" the authenticity of the wire instructions with the client. As a result DZ was not aware he had any responsibility to contact customers and incorrectly assumed that MJ (or someone else at the branch that serviced the Cs) had spoken with the Cs.

The person signing Girard's Attestation warranted they were either the "Senior Compliance Officer" or a "Senior Officer" of their firm and that "the client instructions as described in this LOA have been reviewed and approved by our firm's approvers and are in full compliance with our firm's policies and procedures and supervisory review process." DZ was a registered principal and an operations manager, but he was not the Senior Compliance Officer, a Senior Officer, or an officer of Girard. DZ acknowledged signing the Attestations and it appears the firm allowed him to do so, but the language on the Attestation suggests a more senior person should have performed this function.

Though the firm changed its procedures in response to notification by the clearing firm to include the Attestation, Girard did not provide an explanation or any training to firm personnel as to why the procedures were changed or why the Attestation was required.

Due to the foregoing, Girard violated NASD Conduct Rules 3010(a) and 3010(b) and FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

A Censure and a \$15,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent 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 imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

The 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 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, the Respondent 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.

The 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

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

Respondent certifies that it 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 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 it to submit it.

10/22/2013
Date

Margaret Susan Tiefen
Girard Securities Inc.

By: Margaret Susan Tiefen CEO

Reviewed by:

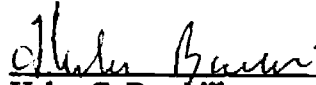
R. Craig Zafis 10/23/13
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Accepted by FINRA:

12.5.2013
Date

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



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