

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012033723601**

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

RE: BB&T Securities, LLC. (BD No. 142785),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, BB&T Securities, LLC ("BB&T" 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 BB&T 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

BB&T has been a member of FINRA since June 13, 2007. Until January 2, 2013, BB&T was known as Clearview Correspondent Services, LLC ("Clearview"). On April 8, 2013, BB&T merged with its affiliate and former member firm Scott & Stringfellow, LLC ("S&S") (BD No. 6255), which had been a member of FINRA since October 16, 1936.

BB&T employs approximately 752 registered persons and operates from 8 branches. It is headquartered in Richmond, Virginia.

RELEVANT DISCIPLINARY HISTORY

Before the merger, S&S had the relevant disciplinary history listed below:

- In June 2012, FINRA accepted an AWC wherein BB&T agreed, without admitting or denying the findings, to the entry of findings that it failed to establish, maintain and enforce a supervisory system, including written procedures, that was reasonably designed to achieve compliance with applicable NASD and FINRA Rules in connection with the sale of non-traditional exchange-

traded funds (ETFs) and allowed its representatives to make sales of non-traditional ETFs without performing reasonable due diligence to understand the risks and features associated with them. The Firm agreed to a censure and \$350,000 fine.

BB&T and S&S have no other prior relevant formal disciplinary history with the Securities and Exchange Commission, any self-regulatory organization or any state securities regulator.

OVERVIEW

From September 1, 2011 to December 28, 2011, prior to its merger with BB&T, S&S effected sales of unregistered securities in contravention of Section 5 of the Securities Act of 1933 ("Securities Act"). During this period S&S failed to enforce its written supervisory procedures ("WSPs") concerning the sale of unregistered securities.

From September 1, 2011 to December 28, 2011, S&S failed to implement an adequate AML Program designed to detect and cause the reporting of suspicious activity, where appropriate. Specifically, S&S's AML Program failed to adequately address potentially suspicious activity related to the deposits and liquidations of unregistered low-priced securities before or at the time the liquidations commenced.

Further, from August 23, 2010 to February 24, 2012, S&S failed to maintain sufficient records of public appearances made by its research analysts to ensure that they made disclosures required by NASD Rule 2711(h). From at least 2002 through 2011, S&S and BB&T failed to consistently send letters to customers notifying them of a change in address made to their account records.

FACTS AND VIOLATIVE CONDUCT

Sales of Unregistered Securities in Contravention of Section 5 of the Securities Act

From September 1, 2011 to December 28, 2011, S&S participated in the sale of approximately 242 million shares of unregistered low-priced securities issued by four companies: KNSL, PWSV, MWIP and TOFS. These sales were effected on behalf of three customers (JC, LM and RII) who maintained a total of four accounts at the Firm. The sales generated proceeds of approximately \$537,000.

The customers and the activity are listed below:

- Customers JC and LM

On August 17, 2011, JC opened an S&S account under the name of his company, SMI. Notably, JC was the subject of SEC and FINRA disciplinary actions.¹ JC referred his partner LM to the S&S broker servicing his SMI account and on September 26, 2011 LM opened an S&S account under the name of his company WPI.

JC and LM began depositing physical stock certificates in their newly established accounts. Shortly after depositing the shares, they liquidated their positions and then wired the proceeds out of the accounts. Both JC and LM advised the S&S broker servicing his account that the incoming shares represented compensation for consulting services rendered to the issuers, which included raising capital for these "start-up companies." The S&S broker never inquired about the details of their fundraising activities and the circumstances under which the shares were issued.

Between August 19, 2011 and November 11, 2011, JC deposited unregistered shares of two companies, KNSL and PWSV in his S&S account. Between August 19, 2011 and November 11, 2011, JC deposited physical certificates representing 1,099,000 physical shares of KNSL in his SMI account. Between September 6, 2011 and December 12, 2011, JC made several sales of KNSL totaling 343,600 shares (at prices between \$0.6 and \$1.16) and received proceeds of \$203,883. Following each of the sales, the majority of the proceeds were wired from SMI's account at the Firm to a bank account. There were no registration statements in effect for the KNSL securities.

Between September 13, 2011 and October 20, 2011, JC deposited in his SMI account PWSV stock certificates totaling 4,800,000 shares. One of the certificates for 2,400,000 shares contained a restrictive legend. Between November 1, 2011 and December 28, 2011, JC sold 1,438,179 shares of PWSV (at prices between \$0.0101 and \$0.02) and received proceeds of \$16,178.68. Following each of the sales, a substantial amount of the proceeds were wired from the SMI account to a bank account. There were no registration statements in effect for the PWSV securities.

LM deposited unregistered shares of PWSV, in his S&S account. On October 16, 2011, LM deposited a PWSV stock certificate totaling 1.5 million shares in his WPI account. Between October 20 and December 27, 2011, LM sold 1,175,000 shares of PWSV (at prices between \$0.0155 and \$0.02) for which he received \$26,484.31. There were several wire transfers of the proceeds from

¹ The SEC action involved a fraudulent scheme involving approximately 190 investors who lost approximately \$8.7 million involving highly publicized public offerings of securities. JC and three other defendants were held jointly and severally liable for disgorgement and prejudgment interest in the amount of \$9,395,066 and ordered to pay a civil penalty of \$10 million.

these sales to a bank account. There were no registration statements in effect for the PWSV securities.

- Customer RII

On August 17, 2011, customer RII opened two S&S accounts with a broker at S&S, a personal account and an account under the name of his company OC. RII began depositing physical stock certificates into the accounts. Shortly after receiving the share deposits, RII caused the liquidation of the shares in both accounts and then transferred the sales proceeds out of the accounts. RII told the S&S broker servicing the accounts that he had received the securities as payment for consulting services. The S&S broker never asked RII the nature of the consulting services nor did he or the Firm attempt to corroborate his representations through a request for documentary evidence.

On September 8, 2011, RII deposited two MWIP stock certificates, each representing 5,000,000 shares into his OC account. Between September 13, 2011 and September 29, 2011, RII liquidated all 10,000,000 shares (at prices between \$0.005054 and \$0.005) and received proceeds of \$75,526. There was no registration statement in effect for the MWIP securities.

On August 18, 2011, RII deposited a TOFS stock certificate representing 25,000,000 shares in his personal account. Eleven days later, on August 29, 2011, he deposited a TOFS stock certificate representing 250,000,000 shares in his OC account. Between September 1, 2011 and September 12, 2011, RII sold 24,392,049 shares of TOFS from his personal account (at prices between \$0.008372 and \$0.001) and received proceeds of \$22,260. Between September 6, 2011 and October 12, 2011, RII sold 205,421,606 shares of TOFS from his OC account (at prices between \$0.0007615 and \$0.001) for which he received \$192,877. There was no registration statement in effect for the TOFS securities.

Section 5 of the Securities Act of 1933 prohibits the offer or sale of any security unless there is a registration statement in effect as to that security or there is an exemption available for that securities transaction. To make a *prima facie* case that Section 5 was violated, it must be shown that: (1) no registration with the SEC was in effect; (2) the respondents sold or offered to sell the security; and (3) respondents used the means of interstate commerce in connection with the offer or sale. With regard to the second element of the *prima facie* case, it need only be shown that a respondent was a "necessary participants in a sale of unregistered stock."

Once a *prima facie* case is established, the burden is on the party seeking to invoke an exemption to prove its applicability. Exemptions to the registration requirement of Section 5 are construed narrowly.

From September 1, 2011 to December 28, 2011, S&S participated in the sale of approximately 242 million shares of unregistered stock of low-priced securities on behalf

of four issuers, which generated proceeds of approximately \$537,000. The securities were not subject to a registration statement. Moreover, S&S used the means and instrumentalities of interstate commerce and/or the mails to sell the securities. In addition, despite certain questionable circumstances surrounding the sales (e.g., substantial deposits of the same low-priced securities in related accounts at the firm followed shortly by liquidation of the shares), S&S failed to conduct a “searching inquiry” to ensure that the sales did not violate Section 5 of the Securities Act. Based on the foregoing, BB&T violated FINRA Rule 2010.

***Supervisory Deficiencies - Failure to Enforce WSPs Concerning
the Sale of Unregistered Securities***

NASD Rule 3010(b) requires members to establish, maintain and enforce written procedures to supervise the types of business in which it engages and the activities of all associated persons that is reasonably designed to achieve compliance with all applicable laws, rules, and regulations.

S&S’s WSPs provided that when confronted with a customer wanting to sell a block of stock where there may be a question about the registration status of a stock, among other things, the following questions should be asked:

- How long has the customer held the securities?
- How did a customer acquire the securities?
- Does the customer intend to sell additional shares of the same class of securities through other means?
- Has the customer solicited or made any arrangement for the solicitation of buy orders in connection with proposed resale of unregistered securities?
- How many shares or other units of the class are outstanding, and what is the relevant trading volume?

From September 1, 2011 to December 28, 2011, S&S failed to adequately enforce its WSPs regarding the sales of unregistered securities. S&S had no documentation to show that it performed any reviews or asked the questions the firm’s WSPs mandated concerning the subject securities (KNSL, PWSV, MWIP, TOFS) before they were sold. In fact, S&S did not conduct - as required by its WSPs - sufficient inquiries on any of the physical stock certificates that it received in the customer accounts even though there were several red flags, some of which were identified in the WSPs and include the following: the customers opening new accounts and delivering physical certificates representing a large block of thinly traded or low-priced securities, and the customers having a pattern of depositing physical certificates, immediately selling the shares and the wiring the proceeds of the resale. The S&S brokers who serviced the accounts in question did not conduct any searching inquiries and instead assumed that S&S’s clearing firm (S&S affiliate known as Clearview at the time) was supposed to ensure that all securities deposited were available to sell.

Based on the foregoing, BB&T violated NASD Conduct Rule 3010 and FINRA Rule 2010.

AML – The Firm's System to Detect and Investigate Suspicious Activity was Deficient

Pursuant to FINRA Rule 3310, FINRA member firms are required to develop and implement a written AML program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act ("BSA"), 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder. Under FINRA Rule 3310(a), FINRA member firms are required to establish and implement policies and procedures that can be reasonably expected to monitor, detect and cause the reporting of suspicious activity as proscribed under BSA implementation regulation 31 CFR §103.19(a)(1).

NASD Notice-To-Members (NTM) 02-21 (Apr. 2002) emphasized each firm's duty to detect red flags, indicating potentially suspicious activity, and to perform additional due diligence, when confronted with those red flags, before proceeding with the transaction. NASD NTM 02-47 (Aug. 2002) also reiterated these obligations under the US Treasury's regulations.

S&S was required to implement an AML program that was reasonably designed to monitor, detect and cause the reporting of suspicious activity and transactions. S&S's AML surveillance system detected red flags involving potentially suspicious trading in customer accounts including:

- Customers, one of whom had a reported history of securities-related infractions, who engaged in a pattern of depositing large blocks of low-priced securities into accounts, selling a major portion of the deposited securities and wiring the majority of the proceeds out of the accounts.

However, between September 1, 2011 and December 28, 2011, the Firm failed to adequately respond to these red flags that were apparent at the time sales began. S&S did not conduct appropriate due diligence on the underlying clients and the issuers before proceeding with further transactions. Specifically, the Firm did not conduct any inquiry into the issuers (KNSL, PWSV, MWIP, TOFS), which would have revealed additional red flags. Furthermore, the Firm failed to review whether these trades represented potentially manipulative activity on the market. In addition, regarding JC, LM and RII's purported consulting relationship with the issuers and their acquisition of the securities through those relationships, S&S did not request supporting documentation to verify their consulting relationships with the issuers and to determine the circumstances under which they acquired the shares. The Firm's AML Program eventually detected and stopped the questionable trading activity. Nevertheless, the activity was allowed to continue for approximately four months before being stopped by the Firm. By reason of the foregoing, BB&T violated FINRA Rules 3310(a) and 2010.

Recordkeeping Violations - Customer Change of Address Notification

NASD Conduct Rule 3110(a) provides: "Each member shall make and preserve books, accounts, records, memoranda, and correspondence...as prescribed by Exchange Act Rule 17a-3." Exchange Act Rule 17a-3(a)(17)(i)(B) provides that firms must make and keep current "a record indicating that" they have sent the mailings required by the subsequent sections. In particular, Exchange Act Rule 17a-3(a)(17)(i)(B)(2) requires that a record be kept indicating that "For each account record updated to reflect a change in the name or address...the member, broker or dealer furnished a notification of that change to the customer's old address...on or before the 30th day after the date the member, broker or dealer received notice of the change." (Emphasis added).

Due to a problem with the automated systems utilized by S&S and BB&T, from at least 2002 through 2011, letters to customers notifying them of a change in address made to their account records did not consistently go out as required by Section 17(a) of the Exchange Act and Rule 17a-3 thereunder. By way of example, in 4th Quarter 2011:

- S&S failed to send letters to at least 7 of 21 (33%) of sampled customers notifying them of a change in address made to their account records; and
- BB&T failed to send letters to 801 of 1,250 (64%) of all customers who had a change in address made to their account records notifying them of this change.

Based on the foregoing, the Firm violated Exchange Act Rule 17a-3, NASD Conduct Rules 3110 (for conduct before December 5, 2011) and 2110 (for conduct before December 15, 2008), FINRA Rules 4511 (for conduct after December 4, 2011) and 2010 (for conduct after December 14, 2008) and MSRB Rule G-8.

Research Analyst Violation – Failure to Maintain Records of Public Appearances by Analysts to Ensure Compliance with NASD Conduct Rule 2711(h)

NASD Conduct Rule 2711(h)(12) requires that member firms maintain records of public appearances by research analysts to demonstrate compliance by those research analysts with the applicable disclosure requirements under paragraph (h) of Rule 2711.

From August 23, 2010 to February 24, 2012, S&S did not retain sufficient records of public appearances by its research analysts for all 569 public appearances made by the analysts. As a result, the Firm's records did not show what disclosures were made with these public appearances and, most importantly, whether any disclosures complied with Rule 2711(h). Based on the foregoing, BB&T violated NASD Conduct Rule 2711(h) and FINRA Rule 2010.

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

- A Censure; and
- Fine of \$300,000 (\$80,000 of which pertains to the violations of MSRB Rule G-8).

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

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, 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.

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 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 it; and
- C. If accepted:
 - 1. this AWC will become part of its 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 its 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. 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 its: (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. 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 understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm 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.

BB&T Securities, LLC.

12/04/2013
Date (mm/dd/yyyy)

By: 
William R. Yates
President

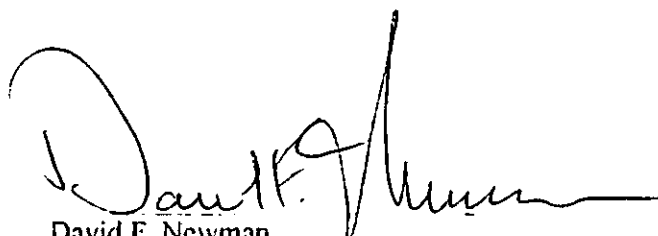
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Accepted by FINRA:

December 13, 2013
Date

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


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