

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013035632802**

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

RE: GWM Group, Inc., Respondent
CRD No. 42844

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, 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 Respondent 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

GWM Group, Inc. ("Respondent" or the "Firm") has been a FINRA regulated broker-dealer since 1997. The Firm's principal place of business is in Stamford, Connecticut. The Firm has approximately nine registered individuals working from three branch offices. The Firm is an introducing broker-dealer that provides brokerage services to retail and institutional customers. The Firm is currently a FINRA member and is therefore subject to FINRA jurisdiction. The Firm's gross revenue was approximately \$440,000 and its net capital approximately \$450,000 in the third quarter of 2015.

RELEVANT DISCIPLINARY HISTORY

In January of 2012, the Firm signed an AWC finding that the Firm violated NASD Rule 3010 and FINRA Rule 2010. The AWC states that: "During the review period [July 1, 2010 through September 30, 2010], the firm failed to enforce its written supervisory procedures, which specified that evidence of supervisory review of TRACE reporting be documented with copies of TRACE Quality of Markets Report Cards, a note of action taken, the reviewer's initials,

and the date reviewed.”

In connection with this AWC, the Firm consented to sanctions consisting of a censure and a \$13,500 fine.

OVERVIEW

From January 2011 through October 2012 (the "Relevant Period"), the Firm improperly paid securities commissions of approximately \$2,990,210 to XYZ, an unregistered entity wholly owned and controlled by a registered principal associated with the Firm, in violation of NASD Rule 2420 and FINRA Rule 2010.

During the Relevant Period the Firm failed to establish and enforce an adequate supervisory system, including written supervisory procedures ("WSPs"), to supervise the activity of a newly-acquired branch office. Among other things, the Firm failed to establish procedures to review the bank account opened in the name of XYZ that was used to conduct branch business, in violation of NASD Rule 3010(a) and FINRA Rule 2010.

In addition, the Firm failed to establish WSPs reasonably designed to provide guidance for branch office inspections, and to designate supervisors and assignment of supervisory responsibilities. The Firm also failed to enforce its written procedures prohibiting the payment of securities commissions to unregistered parties, in violation of NASD Rule 3010(b) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

During the Relevant Period, a registered principal of the Firm, SF, was the sole owner and president of XYZ. XYZ, a limited liability corporation, was not a FINRA-regulated firm and received compensation for engaging in trading and research on exchange traded funds at the request of portfolio managers. XYZ had three employees, including SF, each of whom were also registered representatives with the Firm, working out of the Firm's branch office located in Huntingdon Valley, Pennsylvania (the "Huntingdon Branch"). The Firm approved the three individuals' participation in XYZ as an outside business activity. All securities transactions effected by the three individuals were required to be processed through the Firm.

On October 26, 2010, SF, as president of XYZ, entered into a written "Office of Supervisory Jurisdiction Agreement" with the Firm (the "OSJ Agreement") pursuant to which XYZ staff was to operate as an OSJ branch of the Firm. The OSJ Agreement included a provision whereby the Firm agreed to pay XYZ for the commissions generated by XYZ staff, instead of paying each of the three registered staff directly.

After XYZ joined GWM, SF opened a bank account in XYZ's name (the "XYZ Bank Account") and designated himself as the sole authorized signatory. The XYZ Bank Account was thereafter, at all relevant times, used as the sole bank account for the Huntingdon Branch. Among other things, the XYZ Bank Account was used for the receipt of commission payments from GWM; the payment of compensation to XYZ staff; and the receipt of compensation paid to XYZ by outside broker-dealers in connection with XYZ's routing of order flow to them. GWM lacked an adequate supervisory system to supervise the Huntingdon Branch, including procedures to monitor or review the transactions in the XYZ Bank Account.

Improper Payments of Securities Commissions to Unregistered Entity XYZ

NASD Rule 2420 prohibits FINRA members from dealing with non-members except at the same prices, for the same commissions or fees, and on the same terms and conditions accorded by such member to the general public. This rule prohibits payments of fees and commissions to unregistered broker-dealers. A violation of NASD Rule 2420 is also a violation of FINRA Rule 2010.

Pursuant to the OSJ Agreement, securities commissions earned by XYZ staff during the Relevant Period were paid by the Firm directly to XYZ through wire transfers to the XYZ Bank Account. The total amount of commission paid by the Firm to XYZ during the Relevant Period was approximately \$2,990,210. SF then paid XYZ staff through checks written from the XYZ Bank Account.

By paying securities commissions to XYZ, a non-FINRA regulated entity, the Firm violated NASD Rule 2420 and FINRA Rule 2010.

Violations of NASD Rules 3010(a) and 3010(b), and FINRA Rule 2010

NASD Rule 3010(a), which was effective prior to December 1, 2014, requires members to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable [r]ules of NASD." A violation of NASD Rule 3010 is also a violation of FINRA Rule 2010.

NASD Rule 3010(b), which was effective prior to December 1, 2014, requires members to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable [r]ules of NASD."

During the Relevant Period, the Firm failed to establish and maintain a reasonable supervisory system, including WSPs, to monitor the activities of the Huntingdon

Branch. Among other things, the Firm was aware that XYZ maintained its own bank account because it was paying securities commissions directly to the XYZ Bank Account. The Firm however failed to establish a system to review or monitor the activity in this account which placed the Firm at an unreasonably high risk of failing to detect the improper receipt or payment of funds by XYZ.

Additionally, during the Relevant Period, several FINRA member firms paid XYZ a total of approximately \$900,000 as payment for order flow, although NASD Rule 2420 prohibited such payments to an unregistered entity. The Firm's lack of an adequate supervisory system to review the XYZ Bank Account permitted these improper payments to go undetected.

During the Relevant Period, the Firm's WSPs were inadequate insofar as they failed to provide adequate guidance on how to conduct branch inspections of the Huntingdon Branch; failed to identify the individuals responsible for specific supervisory responsibilities; and failed to identify the designated supervisor for each office location.

In addition, during the Relevant Period, although the Firm's WSPs prohibited the sharing of securities commissions with non-registered broker-dealers, the Firm failed to enforce this procedure by paying securities commissions of approximately \$2,990,210 directly to XYZ, an unregistered entity.

As a result of the foregoing, the Firm violated NASD Rules 3010(a) and 3010(b), and FINRA Rule 2010.

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

A censure and a \$60,000 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

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 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.

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 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 me;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 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 my: (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 understands all of the provisions of this AWC and have 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.

02/12/2016

Date


GWM Group, Inc. Respondent

By: Jose C. Gonzalez, President

Reviewed by:



Heidi VonderHeide
Counsel for Respondent
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(312)658-6512

Accepted by FINRA:

3/17/16
Date

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


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