

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2013037312201**

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

RE: Amherst Pierpont Securities LLC, (f.k.a. Amherst Securities Group, L.P.), (Respondent)
Member Firm
CRD No. 150696

Pursuant to FINRA Rule 9216, Respondent Amherst Pierpont Securities LLC (f.k.a. Amherst Securities Group, L.P.) ("ASG"¹ 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 Respondent alleging violations based on the same factual findings described in this AWC.

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

ASG has been a member of FINRA since 1993. The firm is a self-clearing, independent broker-dealer operating in the fixed-income capital markets. It is headquartered in New York, New York, and has approximately 13 branch offices and approximately 184 registered personnel.

Respondent does not have any relevant disciplinary history.

OVERVIEW

Between January 1, 2012 and June 30, 2014 (the Relevant Period), an associated person of ASG who acted as a salesperson for Residential Mortgage-Backed Securities (RMBS), made misleading pricing-related statements to ASG counterparties in connection with negotiations involving 11 separate transactions in RMBS that triggered additional review by ASG due to the size of the spreads realized by ASG.

¹ In October 2014, Amherst Securities Group, L.P. (CRD No. 31141) merged into Amherst Pierpont Securities LLC (CRD No. 150696). The events in question date from prior to that merger.

During the Relevant Period, ASG failed to enforce a supervisory system reasonably designed to review and supervise for red flags when raised in connection with customer transactions in RMBS, in violation of NASD Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Applicable Rules

1. NASD Rule 3010 required firms to establish, maintain, and enforce a system, including written supervisory procedures (WSPs), to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.
2. FINRA Rule 2010 requires associated persons in the conduct of their business to observe high standards of commercial honor and just and equitable principles of trade. In addition, a violation of a FINRA or NASD Rule, such as NASD Rule 3010, constitutes a violation of FINRA Rule 2010.

Factual Background

3. RMBS are debt instruments secured by a bundle of residential mortgages and sold to investors as securities. During the Relevant Period, current RMBS pricing information generally was not available to the public. Accordingly, RMBS investors generally relied on a combination of factors, including, but not limited to, proprietary models, historical performance metrics and the price information provided by brokers when negotiating transactions in RMBS.
4. During the Relevant Period, ASG was engaged in secondary market trading of RMBS. ASG would buy bonds in a principal capacity from one party, and then sell those bonds to one of its customers at a higher price. ASG employed registered representatives that acted as salespersons, whose responsibilities included representing the firm with institutional investors and, when authorized by the firm's trading desk, facilitating the buying and selling of RMBS on behalf of the firm. The profit ASG earned was generally equal to the difference between the purchase and sale prices, which were set by ASG traders rather than salespersons, as is customary for "riskless principal trading."
5. Throughout the Relevant Period, ASG maintained WSPs that prohibited its associated persons, including salespersons, from making misleading statements in outgoing correspondence and directed that "[e]xaggerated, unwarranted, or misleading statements or claims are prohibited."
6. ASG also maintained WSPs that, in addition to the general policies prohibiting associated persons from making misleading statements, subjected to automatic supervisory review any RMBS transaction where the markup was equal to or above 3%. For all such transactions, the firm required that the trader involved in the trade provide a written statement outlining the reasons for the pricing decision and sign-off by a supervisor. The firm's supervisory procedures stated that, when conducting such reviews, the designated supervisor must consider: the type and availability in the market of the security involved;

the price of the security and dollar value of the transaction; and whether there is a pattern of markups.

7. However, during the Relevant Period, one of ASG's former registered representatives (who was an ASG salesperson throughout the Relevant Period) made statements, normally over Bloomberg Chat instant messaging, that could have misled ASG counterparties about available bid or offer prices associated with the purchase and sale of 11 RMBS. The misleading statements concerned, among other things, the pricing of RMBS transactions, including the prices at which ASG was able to buy or sell the subject RMBS and the bids or offers counterparties communicated to ASG.
8. The spreads ASG realized on nine of the 11 RMBS transactions exceeded the 3% margin, requiring further review pursuant to the firm's WSPs.

ASG's Supervision of the 11 RMBS Transactions

9. Notwithstanding the existence of the WSPs noted in paragraphs 5 and 6 above, ASG's system during the Relevant Period for supervising activities related to RMBS transactions was not reasonably enforced to achieve compliance with applicable securities laws and regulations and FINRA Rules.
10. ASG's internal systems flagged for supervisory review nine of the 11 RMBS transactions described above because the transactions had markups that exceeded 3%. For each of these nine RMBS transactions, the trader submitted written statements concerning the pricing decisions and the underlying reasons for them, such as "used ... analytics to sell bonds to another account," "this is an illiquid market," and "[h]ard to price." These statements were accompanied by modeling spreadsheets and references to analytics that had been completed, noting that each of these bonds were covered by a monoline insurance protection, *e.g.* "since AMBAC is a distressed institution, and these securities are extremely unique in how they are valued, we believe the riskless mark-ups are justified given the 'equity' like nature of the asset."
11. Although these statements provided a general reason for the markups imposed on the nine RMBS transactions, the firm knew of additional information regarding these transactions that should have led to further investigation. In particular, certain circumstances should have made the firm aware of a heightened potential for misleading communications from the salesperson associated with the transactions. For example, ASG knew, through its supervisory review of these nine RBMS transactions, that the same registered representative was on both sides of many of the transactions; that the registered representative negotiated directly with ASG counterparties to obtain the greatest spreads for ASG; that often only the registered representative had direct access to the actual bid or offer prices conveyed by the counterparties; that some of the markups triggering review exceeded 4.5%; and that the profits generated from these transactions ranged from approximately \$71,000 to \$710,000 per transaction from these same-day, riskless-principal transactions in a highly illiquid and opaque market. Despite these red flags, ASG supervisors failed to review the ASG salesperson's communications with

respect to these transactions and relied upon the explanations provided by the traders referenced above.

12. By virtue of the foregoing, the firm violated NASD Rule 3010 and FINRA Rule 2010.

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

- a censure
- a \$250,000 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 Respondent's testimonial obligations or 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

12/29/2020

Date

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Amherst Pierpont Securities LLC
Respondent

Print Name: Joseph N. Walsh, III

Title: Chief Executive Officer

Reviewed by:



Daniel Laguardia
Shearman and Sterling LLP
Counsel for Amherst Pierpont Securities, LLC

Accepted by FINRA:

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

1/20/2021

Date



Joaquin Gubb
Senior Counsel
FINRA
Department of Enforcement
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