

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014039092801**

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

RE: Intercontinental Asset Management Group, Ltd., Respondent
Member Firm
CRD No. 22408

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Intercontinental Asset Management Group, Ltd. ("Intercontinental," the "Firm," or "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 Firm 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

Intercontinental has been a FINRA member firm since 1988. The Firm is headquartered in San Antonio, Texas. The Firm currently has approximately 22 registered individuals and two branch offices. Intercontinental conducts a general securities business that specializes in providing access to the U.S. securities markets for its client base, many of whom outside the United States.

The Firm does not have any relevant disciplinary history.

OVERVIEW

At various times from January 2010 through December 2013, the Firm:

- Failed to establish an AML program reasonably designed to achieve and monitor compliance with the Bank Secrecy Act and its implementing regulations. Specifically, the Firm failed to investigate potentially suspicious activities during the account opening process and its reviews,

investigations and determinations with respect to certain money movements in and out of customer accounts was inadequate.

- Failed to conduct an adequate annual independent AML test.
- Failed to supervise charges for non-securities related services provided to customers.
- Failed to enforce its written supervisory procedures (“WSPs”) regarding the disclosure of mutual fund share classes and breakpoints.
- Failed to prepare an annual Rule 3012 Report for review by senior management.

By engaging in the foregoing misconduct, Intercontinental violated NASD Rules 3010(a), 3010(b), and 3012 and FINRA Rules 2010, 3310(a), and 3310(c).

FACTS AND VIOLATIVE CONDUCT

Between January 1, 2010 and December 31, 2013 (the “Relevant Time Period”), the Firm engaged in the following rule violations:

1. Intercontinental Failed to Establish an Adequate AML Compliance Program.

FINRA Rule 3310 requires each FINRA member to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member’s compliance with the requirements of the Bank Secrecy Act...and the implementing regulations promulgated thereunder by the Department of the Treasury.” The program must, at a minimum, “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder....” Broker-dealers are required to report suspicious activity pursuant to 32 C.F.R. 1023.320. The Treasury Department has advised broker-dealers to determine whether activity raises suspicions by monitoring for various “red flags,” and Notices to Members (NTM) 02-21 and 02-47 emphasize members’ duties to detect red flags and, if detected, to perform additional due diligence before proceeding with a suspicious transaction. In addition, NASD Rule 3010(b) requires firms to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages....”

FINRA Rule 2010 requires that member firms, in the conduct of their business, observe high standards of commercial honor and just and equitable principles of trade.

Intercontinental, which has a business model that is predicated on servicing customers who are predominantly located outside the United States, failed to implement an AML program that was reasonably designed to detect, investigate and report, where appropriate, potentially suspicious activity. Moreover, the Firm’s AML program was not reasonably tailored to address the risks associated

with its business model, particularly with respect to its monitoring of money movements. Specifically, although the Firm claims to have identified and investigated red flags, the Firm could not demonstrate, when requested, the implementation of important components of its AML program or its investigation of potentially suspicious money movements. These failures primarily related to two key areas of any firm's AML compliance program.

First, the Firm failed to reasonably investigate potential suspicious activity during the account opening process, including the following:

- **Customers with multiple Intercontinental accounts in the names of family members or LLCs.** Many of the accounts at Intercontinental are owned by related family members. Of the 1251 accounts at Intercontinental, 125 have addresses in Belize, with 70 of those accounts listing the same two main addresses with different suite numbers. The Firm was unable to evidence its review of the potentially suspicious activity relating to certain related accounts.
- **Senior Foreign Political Figure:** The Firm failed to identify the owner of a business account as a Senior Foreign Political Figure, even though he was a high-ranking officer with the Mexican taxing authority. The Firm further failed to reasonably investigate the source of funds for a corporate account, or to determine why the business, which was owned by a Mexican citizen, had a Swiss legal address, a US mailing address, and was incorporated in New Zealand.

Second, the Firm failed to reasonably investigate potentially suspicious money movements, including the following:

- **Wire transfers:** The Firm failed to demonstrate that it had identified and reasonably investigated wire transfer activity in customer accounts. For instance, from the beginning of 2011 through 2013, one Intercontinental customer deposited approximately \$20.6 million including approximately \$1.6 million in wire transfers from casinos in the United States, and withdrew approximately \$9.5 million from his various accounts. The Firm could not evidence that it had identified and investigated this activity. Similarly, the Firm was unable to evidence that it had reviewed the activity of another customer who deposited \$3.1 million in four wire transfers from one bank on July 6, 2012, and then transferred \$775,000 of this money to a different bank on July 12, 2012.
- **Potentially suspicious account liquidation:** Intercontinental failed to reasonably investigate why a customer liquidated his account by writing nine separate checks (eight of which were for \$100,000, and one of which was for \$50,000, for a total of \$850,000) on the same day to the same individual.

- **Customers with undisclosed banking relationships:** The Firm failed to identify and investigate multiple instances where customer's new account forms listed only one (or even zero) banking relationships, but the same customers deposited funds from numerous different banks, many of which were Casas de Bolsa in Mexico and Central America. For instance, one Argentinian customer who opened an account in 2012 listed no banking relationships on his new account form, yet transferred in funds from four separate banks, including three American banks.

As a result of the foregoing, Intercontinental violated FINRA Rules 2010 and 3310(a).

2. Intercontinental's annual independent AML test was inadequate.

FINRA Rule 3310(c) requires annual independent testing of a firm's AML compliance systems.

The Firm's annual independent AML tests during the Relevant Time Period were inadequate because they contained several inaccuracies. For instance, the 2013 test failed to note that the Firm maintained a wire transfer blotter even though the Firm did, in fact, have such a blotter. Indeed, that test failed to adequately sample wire transfer and securities activity, and thus failed to detect any instances of potentially suspicious activity.

As a result of the foregoing, Intercontinental violated FINRA Rules 3310(c) and 2010.

3. Intercontinental failed to adequately supervise the fees that were charged for personal services that registered representatives provided to customers.

NASD Rule 3010(a) provides that member firms shall establish and maintain a system to supervise the activities of registered representatives that is reasonably designed to achieve compliance with FINRA rules and applicable securities laws and regulations. NASD Conduct Rule 3010(b) requires a firm to establish, maintain, and enforce written procedures reasonably designed to achieve compliance with applicable securities laws and regulations, including rules prohibiting fraud and inaccurate representations made to customers.

NASD Rule 2430 provides as follows: "Charges, if any, for services performed, including miscellaneous services such as collection of moneys due for principal, dividends, or interest; exchange or transfer of securities; appraisals, safe-keeping or custody of securities, and other services, shall be reasonable and not unfairly discriminatory."

NTM 92-11 provides that “[i]n addition to being reasonable in nature, the NASD believes that customers must be provided with adequate notice prior to the member's implementation or change of a service fee. Members should provide written notification to customers of all service charges when accounts are opened, and customers also should be provided with written notification at least 30 days prior to the implementation or change of any service charge. Failure to do so could be construed as conduct inconsistent with just and equitable principles of trade. . . .”

Intercontinental failed to maintain a supervisory system that was reasonably designed to ensure compliance with NASD Rule 2430. Moreover, the Firm did not establish or maintain WSPs that specifically addressed its personal services fees, and ensured that such fees were in compliance with NASD Rule 2430. Specifically, Intercontinental did not adequately supervise “annual fee” charges that were assessed by registered representatives for providing various personal services for their clients. These services included a wide range of activities, including the hand-delivery of documents, personal shopping, and the referral of other professionals, such as attorneys or accountants.

At the end of each year, the Firm charged certain clients an “annual fee” for these services, which was then deducted from the client’s account pursuant to a standing LOA that the client had executed. The amount of the annual fee, which varied from customer to customer based on the services provided, was determined by the broker who performed the services, subject to the review and approval of a Firm principal. In practice, the principal approving these charges did not review any documentation or receipts substantiating the charges to determine that the charges were reasonable, and the Firm did not maintain adequate documentation to support the charges.

Moreover, the Firm’s disclosure of the annual fee was also inadequate, because the Firm failed to provide customers with advance notice of the assessment of the annual fee, and failed to provide customers with any type of itemization of the services upon which the fee was predicated.

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

4. Intercontinental failed to provide customers with required disclosures of mutual fund share classes and breakpoints.

NASD Rule 3010(b) requires that member firms establish, maintain and enforce written supervisory procedures, which are reasonably designed to achieve compliance with applicable securities laws and regulations. As noted in NTM 94-16, this rule requires, among other things, that member firms develop and enforce appropriate internal controls, including supervisory and compliance procedures, to ensure that mutual fund sales practices comply with all relevant FINRA rules and

are consistent with high standards of commercial honor and just and equitable principles of trade.

Intercontinental's WSPs required that investors be provided with written disclosure about their options with respect to mutual fund share classes and available breakpoints. During the Relevant Period, the Firm failed to enforce this policy, and no such written disclosures were provided to any of the Firm's customers.

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

5. Intercontinental failed to prepare the annual reports that are required by NASD Rule 3012.

NASD Rule 3012 provides that "[e]ach member shall designate and specifically identify to NASD one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures that (A) test and verify that the member's supervisory procedures are reasonably designed with respect to the activities of the member and its registered representatives and associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable NASD rules and (B) create additional or amend supervisory procedures where the need is identified by such testing and verification. The designated principal or principals must submit to the member's senior management no less than annually, a report detailing each member's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results."

For the years 2010, 2011, 2012 and 2013, the Firm failed to create a "3012 Report" detailing the firm's system of supervisory controls, the summary of test results of this system, significant exceptions identified, and any amended supervisory procedures created in response to the test results. Indeed, although the Firm did conduct some reviews of its business practices, it did not systematically test its supervisory systems on an annual basis.

As a result of the foregoing, the Firm violated NASD Rule 3012 and FINRA Rule 2010.

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

A censure and a fine of \$290,000.

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 Firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- 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.

Respondents 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

The Firm 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 my permanent disciplinary record and may be considered in any future actions 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 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 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. Respondent understands that I 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.

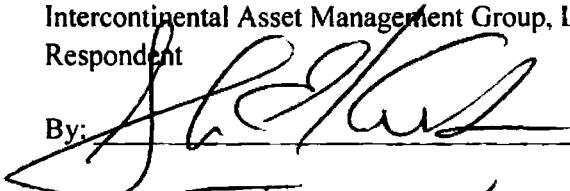
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions voluntarily;

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 me Respondent to submit it.

X_{kv} 11.2.16

Date (mm/dd/yyyy)

Intercontinental Asset Management Group, Ltd.,
Respondent

By: 

Name: John L Kovach

Title: CEO

Reviewed by:

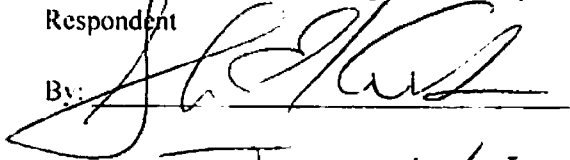
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and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me Respondent to submit it.

Ver. 11, 2016

Date (mm/dd/yyyy)

Intercontinental Asset Management Group, Ltd.,
Respondent

By: 

Name: Jim L Kovach

Title: CEO

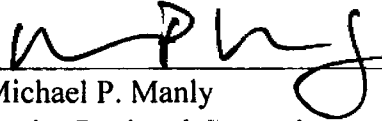
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Accepted by FINRA:

Dec 30, 2016
Date

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

A handwritten signature in black ink, appearing to read 'M P Manly', written over a horizontal line.

Michael P. Manly
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