

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20150451440 01**

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

RE: Buttonwood Partners, Inc., Respondent
Member
CRD No. 27108

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Buttonwood Partners, Inc. ("Buttonwood" 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Buttonwood 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

Buttonwood has been a FINRA member since 1990. The Firm has nine registered representatives, maintains its principal place of business in Madison, Wisconsin, and provides retail broker-dealer and investment advisory services.

RELEVANT DISCIPLINARY HISTORY

Buttonwood has no relevant disciplinary history.

OVERVIEW

Buttonwood failed to establish, maintain and enforce a supervisory system and written supervisory procedures reasonably designed to review and monitor the transmittals of funds from customer accounts to third party

accounts. As a result, in March 2015, a Buttonwood customer's funds were fraudulently transferred out of her account after her email was hacked. Based upon the foregoing, Buttonwood violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3110 requires that each member establish and maintain a system, and establish, maintain and enforce written supervisory procedures, 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 applicable NASD and FINRA Rules.

FINRA Rule 3110(c) requires members, under certain conditions, to test and verify their supervisory policies and procedures involving the transmittals of customer funds (e.g., wires or checks, etc.) or securities to third party accounts. These policies and procedures must include a means or method of customer confirmation, notification, or follow-up that can be documented. Firms must use reasonable risk-based criteria to determine the authenticity of the transmittal instructions.¹

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires members and their associated persons to observe high standards of commercial honor and just and equitable principles of trade.

Buttonwood's Use of Pre-signed Letters of Authorization for Customer Account Fund Transfers

In 2015, Buttonwood had approximately 100 customers who utilized a bill payment service whereby regular fund transfers were made by the Firm from the customers' securities accounts to pay invoices from third parties. For transfers involving \$100,000 or more, Buttonwood's clearing firm required a letter of authorization ("LOA"), signed by the customer.

Buttonwood did not have any written supervisory procedures ("WSPs") that addressed wire transfers of customers' funds to third-party accounts.

¹ FINRA addressed the scope of member firms' obligations relating to customer fund transmittals in Regulatory Notice 09-64, and again in Regulatory Notice 12-05. FINRA recommended that member firms, "reassess their policies and procedures for accepting instructions to withdraw or transfer funds via electronic means to ensure that they are adequately designed to protect customer accounts from the risk that customers' email accounts may be compromised and used to send fraudulent transmittal or withdrawal instructions." (Regulatory Notice 12-05, at 2.)

However, requests to wire funds from a customer's account to a third party account followed a routine and accepted practice at Buttonwood. Customers who utilized Buttonwood's bill payment service were asked to sign a blank LOA form, so they would not have to sign a new LOA for each third party funds transfer. When the customer made a request to wire funds to a third party account, a Buttonwood representative or sales assistant would communicate with the customer, typically by email, about the specifics of the wire transfer, and would complete a copy of the LOA that the customer had previously signed in blank. The LOA was then submitted to a Buttonwood compliance assistant, who would review the information on the form and effect the wire transfer. The LOA was not sent to the customer, however, for confirmation.

Hack of Buttonwood Customer Email Account and Unauthorized Transfers of Funds

In or about February 2015, a Buttonwood customer notified her registered representative that Buttonwood should expect her to request fund transfers in the near future from her trust account. However, the amount of the withdrawals and the accounts where the funds would be transferred were not discussed.

On February 27, 2015, the customer called the Firm and requested a wire transfer for \$569,700.53 to a title company. Buttonwood used a pre-signed, but otherwise blank, LOA form from the customer's file to process the transfer. Buttonwood photocopied the pre-signed LOA form, completed the form, and then processed the wire transfer of \$569,700.53 to the title company.

Within the next few days, the customer's email account was hacked and the following third party wires were fraudulently requested via the customer's hacked email account:

1. March 4, 2015 for \$77,000 to "R.A. Transport & Sales Service";
2. March 5, 2015 for \$16,000 to "Sandra B";
3. March 9, 2015 for \$57,000 to "Chibi Betanjo Business Acct";
4. March 9, 2015 \$73,000 to "Transcom Limited";
5. March 11, 2015 \$61,300 to "Transcom Limited".

The first request for \$77,000 did not go through because the R.A. Transport & Sales Service account was closed. Buttonwood did not contact the customer afterwards, however, to discuss the failed attempt to wire these funds.

When the subsequent wire requests were received over the course of the next week, Buttonwood did not contact the customer to confirm each request. Instead, it used the pre-signed LOA form it had on file. A total of \$207,300 was wired out of the customer's account as directed by the fraudulent emails, to accounts controlled by the hacker.

On March 11, 2015, in addition to receiving wire request number 5 above for \$61,300, which Buttonwood processed, a second wire request for a \$205,710 transfer to a company in Malaysia was received. Buttonwood became suspicious of this request and called the customer to confirm. Upon reaching the customer by telephone, the fraud was discovered. Thereafter, Buttonwood and its clearing firm were able to retrieve all but \$61,932.35 of the previously wired funds. On or about April 9, 2015, Buttonwood reimbursed this remaining amount to the customer, and self-reported the violations to FINRA, under FINRA Rule 4530.

Failure to Establish, Maintain and Enforce a Supervisory System and Written Supervisory Procedures Reasonably Designed to Review and Monitor the Transmittal of Funds from Customer Accounts to Third-Party Accounts

As noted above, Buttonwood had no WSPs addressing the transmittal of customers' funds to third party accounts based on a request via email or other electronic communication. In addition, the system the Firm had in place was not reasonable because it allowed Buttonwood personnel to copy pre-signed, blank LOA forms as the only means of recording the customer's authorization of each funds transfer, with no requirement for a customer confirmation, notification or follow-up for each transfer.²

As a result, Buttonwood failed to establish, maintain and enforce a supervisory system that was reasonably designed to review and monitor the transmittals of funds from customer accounts to third-party accounts.

Based on the foregoing, Buttonwood violated FINRA Rules 3110 and 2010.

² Buttonwood has amended its WSPs to provide that, when a customer requests a transmittal of funds to a third party, a notation must be made on a form requesting the transmittal as to how the request was received from the client. A newly signed LOA, with directions for the transmittal completed by the customer, must be attached to the transfer request. The transfer request and LOA will then be reviewed and approved by a principal, as evidenced by the principal's initials on the LOA. Confirmation of all third party transfers are then mailed to the client.

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

- A censure; and
- A fine in the amount of \$50,000.³

The Firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that the Firm 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

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

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

³ Pursuant to the General Principles Applicable to all Sanction Determinations contained in the *Sanction Guidelines*, FINRA imposed a lower fine in this case against the Firm, after it considered, among other things, the Firm's revenues and financial resources. See Notice to Members 06-55.

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 Firm 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

Buttonwood understands that:

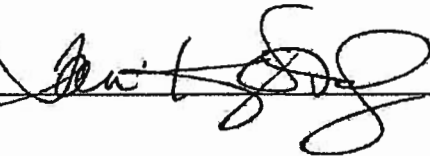
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will 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 the Firm;
 - 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. the Firm 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 Firm 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 Firm'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.

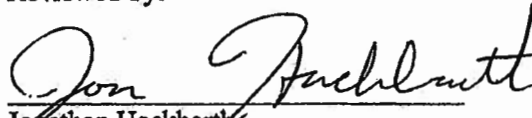
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, 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.

07/19/18
Date (mm/dd/yy)

Buttonwood Partners, Inc.
Respondent

By: 

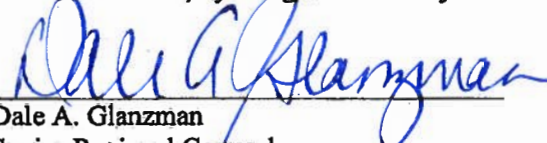
Reviewed by:


Jonathan Hackbart
Counsel for Respondent
Quarles & Brady
411 East Wisconsin Avenue, Suite 400
Milwaukee, IL 53202-4426
(414) 277-5603

Accepted by FINRA:

08/20/2018
Date

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


Dale A. Glanzman
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FINRA Department of Enforcement
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Chicago, IL 60603
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Attachment: Election of Payment Form