

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20160476257 01**

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

RE: Groton Securities LLC, Respondent
BD No. 126600

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Groton Securities LLC ("Groton" or 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. The Firm 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

Groton has been a member of FINRA since 2003. The Firm currently employs approximately 10 registered representatives and has a single office in New York, New York. The Firm earns all of its revenues from underwriting activities.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history with the Securities and Exchange Commission, any self-regulatory organization, or any state securities regulator.

OVERVIEW

During the three-month period from April 1, 2016 through June 30, 2016, the Firm conducted a securities business while failing to maintain the minimum required net capital, failed to properly record its liabilities on its books and records, and filed an inaccurate Financial and Operational Combined Uniform Single ("FOCUS") Report, in violation of Section 15(c) of the Securities and

Exchange Act of 1934 (“Exchange Act”) and Rule 15c3-1 promulgated thereunder, Section 17(a) of the Exchange Act and Rules 17a-3 and 17a-5 promulgated thereunder, and FINRA Rules 4511 and 2010.

Additionally, during the approximately four-year period from March 10, 2012 through July 21, 2016, the Firm failed to conduct a supervisory review of its registered representatives’ electronic communications and also failed to retain and store electronic correspondence in the manner required by Exchange Act Rule 17a-4. By virtue of this conduct, the Firm violated Section 17(a) of the Exchange Act and Rule 17a-4 promulgated thereunder, NASD Rule 3010(d), and FINRA Rules 3110(b)(4), 4511, and 2010.¹

Further, during the period March 10, 2012 through July 21, 2016, the Firm failed to document that it had evaluated the outside business activities (“OBAs”) of its registered representatives, as required by FINRA Rule 3270. By virtue of this conduct, the Firm violated FINRA Rules 3270 and 2010.

Finally, in each of the four consecutive years from 2012 through 2015, the Firm failed to conduct an annual test of its supervisory controls and failed to complete an annual certification of its compliance and supervisory processes, in violation of NASD Rule 3012, and FINRA Rules 3120, 3130, and 2010.²

FACTS AND VIOLATIVE CONDUCT

Net Capital and Related Recordkeeping Violations

Section 15(c) of the Exchange Act and Exchange Act Rule 15c3-1 require broker-dealers to have and maintain a minimum level of net capital.

Section 17(a) of the Exchange Act and Exchange Act Rule 17a-3 require that broker-dealers maintain accurate books and records, including general ledgers and net capital calculations. And FINRA Rule 4511 requires members to make and preserve accurate books and records as required under the Exchange Act and applicable Exchange Act rules.

Exchange Act Rule 17a-5 requires a member firm to file accurate FOCUS Reports of the firm’s financial status.

During the three-month period from April 1, 2016 through June 30, 2016, the Firm conducted a securities business while failing to maintain its required minimum net capital of \$5,000. The Firm’s net capital deficiencies during this period ranged from approximately \$2,373 to \$4,583.

¹ NASD Rule 3010(d) applies to conduct that occurred prior to December 1, 2014, and FINRA Rule 3110(b)(4) applies to conduct that occurred on or after December 1, 2014.

² NASD Rule 3012 applies to conduct that occurred prior to December 1, 2014. FINRA Rule 3120 applies to conduct that occurred on or after December 1, 2014.

The Firm's net capital deficiencies resulted from two accounting errors. The first error related to the manner in which Groton accounted for a bank account that was established "for the benefit of" its affiliated investment advisory firm. Even though the money in the account belonged to the investment advisory firm, Groton incorrectly recorded the money in the account as an allowable asset without simultaneously booking an offsetting liability. The second error related to Groton's failure to book as expenses the fees that were charged by Groton's outside Financial and Operations Principal ("FINOP"). Although Groton's parent company paid the FINOP's fees on Groton's behalf, Groton's share of the fees should have been recorded as a direct liability of the Firm on its books and records.

As a result of these accounting errors, the Firm also failed to properly record its liabilities on its books and records, and its quarterly FOCUS Report for the months of April 2016 through June 2016 was inaccurate.

By virtue of the foregoing, Groton violated Section 15(c) of the Exchange Act and Rule 15c3-1 promulgated thereunder, Section 17(a) of the Exchange Act and Rules 17a-3 and 17a-5 promulgated thereunder, and FINRA Rules 4511 and 2010.

Failure to Retain and Review Electronic Communications

FINRA Rule 3110(b)(4) and its predecessor rule, NASD Rule 3010(d), both require member firms to establish and maintain supervisory procedures for the review of electronic correspondence relating to the member's investment banking or securities business.

Additionally, Exchange Act Rule 17a-4(b) requires member firms to preserve for a period of not less than three years, the first two years in an easily accessible place, electronic communications relating to the firm's business as a broker-dealer. Exchange Act Rule 17a-4(f) authorizes member firms, under certain conditions, to maintain and preserve electronic communications by means of "electronic storage media" ("ESM").

During the approximately four-year period from March 10, 2012 through July 21, 2016, the Firm did not conduct a supervisory review of any of the approximately 25,000 emails that were captured by the Firm's third-party ESM provider for five of the Firm's registered representatives. During the same period, the Firm did not review or retain, in the manner required by Exchange Act Rule 17a-4, any of the emails for 11 registered representatives who were dually employed by Groton's affiliated investment advisory firm and who used an email address provided by the investment advisory firm in order to conduct business for Groton.

By virtue of the foregoing, Groton violated Section 17(a) of the Exchange Act and

Rule 17a-4 promulgated thereunder, NASD Rule 3010(d), and FINRA Rules 3110(b)(4), 4511, and 2010.

Failure to Document Review of OBAs

FINRA Rule 3270 requires that upon receiving written notice that a registered representative is engaged in an OBA, the member must consider whether the OBA will (1) interfere with or otherwise compromise the registered person's responsibilities to the member and/or the member's customers or (2) be viewed by customers or the public as part of the member's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Based on its consideration of these factors, the member must evaluate the advisability of imposing specific conditions or limitations on the registered person's OBA, including, where circumstances warrant, prohibiting the activity. A member also must evaluate the OBA to determine whether it should be treated as a private securities transaction subject to the requirements of FINRA Rule 3280. FINRA Rule 3270 further requires that a member keep a record of its compliance with the foregoing obligations.

During the period March 10, 2012 through July 21, 2016, Groton failed to document that it had evaluated the OBAs for 12 registered representatives, as required by FINRA Rule 3270. Although many of the OBAs disclosed by the Firm's registered representatives appeared, on their face, to be investment-related, the Firm failed to document that it had considered, among other things, the potential conflicts of interest that could be implicated by such OBAs.

By virtue of the foregoing, the Firm violated FINRA Rules 3270 and 2010.

Failure to Conduct Annual Testing of Supervisory Controls and to Complete Annual Certifications of Compliance and Supervisory Processes

FINRA Rule 3120 and its predecessor rule, NASD Rule 3012, both require member firms to, among other things, test and verify that the member's supervisory procedures are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA rules. FINRA Rule 3120 and NASD Rule 3012 also require that a designated principal submit to the member's senior management at least annually a report detailing the 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.

FINRA Rule 3130 requires that a member firm's CEO or equivalent officer annually certify that the member has processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with the applicable FINRA Rules and federal securities laws and regulations.

Groton failed to test its system of supervisory controls, it failed to prepare an annual report detailing its system of supervisory controls, and it failed to prepare an annual certification of the Firm's compliance and supervisory processes for the years 2012, 2013, 2014, and 2015.

By virtue of the foregoing, the Firm violated NASD Rule 3012, and FINRA Rules 3120, 3130, and 2010.

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

- A censure; and
- A \$10,000 fine.³

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

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions 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 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

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

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 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

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 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.

- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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 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.

11/09/2017
Date (mm/dd/yyyy)

Groton Securities LLC
Respondent

By: 

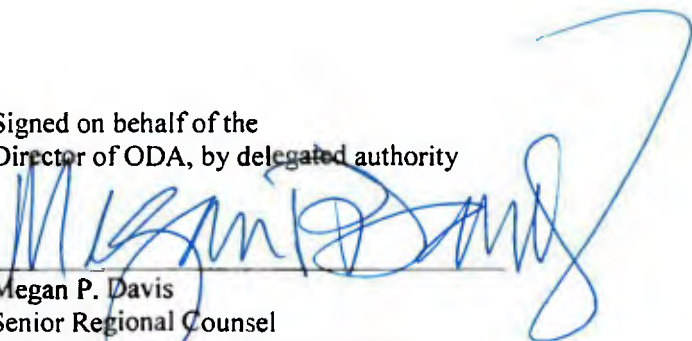
Name: LUIS RINALDINI

Title: MANAGING DIRECTOR AND
CHIEF COMPLIANCE OFFICER

Accepted by FINRA:

December 4, 2017
Date

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


Megan P. Davis
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FINRA Department of Enforcement
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New York, New York 10281
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GROTON SECURITIES, LLC

November 9, 2017

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

RE: **Corrective Action Statement** in connection with
Letter of Acceptance, Waiver and Consent # 20160476257
Groton Securities, LLC, Respondent
BD No. 126600

This letter summarizes corrective actions taken by Respondent (the "Firm") in relation to the above-cited Letter of Acceptance, Waiver and Consent.

1. **Net Capital and Related Recordkeeping Violations.** The Firm has amended its accounting practices and Expense Sharing Agreement to comply with the accounting procedures cited.
2. **Failure to Retain and Review Electronic Communications.** The Firm has reviewed emails from May 12, 2017 to date and has corrected the deficiencies cited with regard to its retention of electronic communications.
3. **Failure to Document Review of OBAs.** The Firm has conducted a review of its registered representatives' outside business activities ("OBAs") as of June 30, 2017 and documented its analysis in an internal file.
4. **Failure to Conduct Annual Testing of Supervisory Controls and to Complete Annual Certifications of Compliance and Supervisory Processes.** The Firm has been working with its compliance consultant to test its Supervisory Control Systems and is in the process of completing its testing and certification for 2017.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

Sincerely,



Luis E. Rinaldini
Managing Director and Chief Compliance Officer

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