

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017053820401**

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

RE: INTL FCStone Financial Inc., Respondent
Member Firm
CRD No. 45993

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent INTL FCStone Financial Inc. 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

INTL, a broker-dealer subsidiary of a diversified global brokerage and financial services firm, has been a FINRA member since March 1999. It has 346 registered persons and 20 branch offices. Prior to July 2017, INTL's securities business primarily consisted of providing brokerage services to institutional customers, including foreign brokerage firms. In July 2017, Respondent added a correspondent clearing function by acquiring another FINRA member firm. INTL currently clears for approximately 70 correspondents and one affiliated independent contractor firm.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

Between January 2016 and October 2016, INTL liquidated low-priced securities for two foreign financial institutions, one of which was an investment management company based in the United Arab Emirates (UAE) and the other a broker based in Sweden.

Respondent's supervisory system was not reasonably designed to detect red flags associated with the trading or otherwise assess whether its customers were engaged in unlawful trading activity, such as manipulation of microcap securities and/or the sale of unregistered securities. As a result, INTL failed to satisfy its supervisory and anti-money laundering (AML) obligations, thereby violating FINRA Rules 3110, 3310, and 2010.

In addition, from July 2017 until separate time periods in 2018 and 2019, INTL's AML program for its newly-acquired clearing business had certain deficiencies in how it tracked (or failed to track) ACH transfers, foreign accounts that had common addresses, and customers that had previously been blocked by its direct business. These weaknesses in its AML program also violated FINRA Rules 3310 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter arose from two cycle examinations by FINRA.

A. FINRA's supervisory and AML requirements.

FINRA Rule 3110 requires member firms to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules. This obligation includes the duty to supervise the sale of low-priced securities.

FINRA Rule 3310 requires member firms to develop and implement a written AML program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. § 5311, *et seq.*), and the implementing regulations promulgated thereunder. Rule 3310(a) requires that the AML program, at a minimum, (a) establish 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. The implementing regulation issued by the U.S. Department of the Treasury, 31 C.F.R. § 1023.320, requires broker-dealers to file with FinCEN a report of any suspicious transaction relevant to a possible violation of law or regulation.

FINRA Rule 2010 requires member firms to observe high standards of commercial honor and just and equitable principles of trade. Violations of FINRA Rules 3110 and 3310 are also a violation of FINRA Rule 2010.

B. INTL failed to reasonably supervise or address AML risks associated with its low-priced securities business.

INTL acted as introducing broker for a number of foreign financial institutions, including an investment management company based in the UAE and a securities broker based in Sweden. These entities maintained omnibus brokerage accounts on a delivery versus payment/receive versus payment basis with INTL. The UAE investment management

company account was opened in early 2016, and promptly began trading low-priced securities through INTL. The Swedish brokerage entity account was opened in 2012, but did little low-priced securities trading prior to 2016.

Between January and October 2016, these two accounts liquidated over eighty low-priced securities. Some of this trading raised red flags of potential misconduct by the customers engaged in the trading. For example:

- Liquidation of low-priced securities was a change in behavior for one of the accounts and inconsistent with the stated investment strategy of the other;
- One of the accounts was responsible for a significant portion of the daily trading volume of certain of the securities being traded;
- At least 14 of the securities were the subject of promotional efforts by third-parties, including spam emails, press releases or other promotional efforts;
- There were significant trading volume increases in the securities, ranging from doubling in average volume to hundred-fold or greater increases; and,
- There were significant upward spikes in the price of some of the securities.

During this time period, INTL sold approximately \$10.8 million of low-priced securities on behalf of these two accounts.¹

INTL did not detect the red flags and thus did not investigate the trading activity by these customers with a view toward ascertaining whether there was manipulative trading activity. It also did not undertake any effort to identify the ultimate owner of the securities being sold or to ascertain the “provenance” of the shares – how they were obtained, how long they were held, whether they were paid for, and other factors to determine whether they could be sold without violating Section 5 of the Securities Act of 1933. The firm failed to review the trading until it was brought to the firm’s attention by one of its clearing firms and FINRA.

INTL’s supervisory system was not reasonably designed to address the risks associated with low-priced securities liquidations. Its written supervisory procedures did not address manipulation of low-priced securities; did not address the sale of unregistered securities in possible contravention of Section 5; did not specify how low-priced security trading was to be reviewed or how any exception reports would be reviewed or applied.

Although INTL had a daily supervision review checklist for its trading desk, none of the review items was geared towards low price securities, manipulation (other than marking the open or marking the close), or the sale of unregistered securities.

¹ The SEC later brought an action charging one of the entities, which held an account at the UAE-based investment management company, with fraud and other misconduct in connection with its sale of low-priced securities during this time period.

INTL's AML program also failed to reasonably address the risks associated with low-priced securities liquidations for purposes of its obligation to investigate and/or report suspicious activity. The vast majority of its AML procedures addressed the movement of funds, not securities transactions, and the procedures failed to reasonably address potentially manipulative trading activity or potential Section 5 violations. For example, INTL's AML program did not use any sort of reports or alerts to identify potentially suspicious transactions associated with the liquidation of low-priced securities.

In the fall of 2016, after the trading in the two accounts discussed above was brought to its attention, INTL took corrective actions: it began the process of revising its procedures for low-priced securities; closed one of the accounts; and began to conduct surveillance on low-priced security transactions, including liquidations, by having its Compliance Department and Trading Supervision Desk review separate low-priced securities reports.

By virtue of the foregoing, Respondent violated FINRA Rules 3110, 3310 and 2010.

C. Deficiencies in INTL's AML program for its clearing business.

In July 2017, INTL's AML program began using for its securities clearing business a commercially available automated system to help it detect and report suspicious activity. The automated system assigned risk scores to both money movements and securities transactions based on a series of factors including size of the transactions and information about the involved parties. Transactions with risk scores above a certain level were reviewed by the firm's AML staff. INTL's configuration of the automated system was unreasonable in certain respects:

First, INTL failed to include ACH transactions for its customers into its system monitoring for suspicious activity, defined in its applicable AML procedures as "patterns of unusual size, volume, or type of transactions." As configured, the automated system generated alerts based on, along with other patterns, high incoming or outgoing asset transfers, high levels of cash activity, high levels of fund transfers or movements, changes in patterns of such transfers over time, and small but structured withdrawals over a specified period of time. The system did not, however, incorporate deposits or withdrawals made through the ACH system. Thus, ACH transactions were not included within the firm's AML surveillance platform or in its written AML procedures. Beginning in September 2019, INTL enhanced its AML monitoring to include ACH transactions.

Second, INTL's system was not initially configured to detect common addresses for its foreign brokerage customers, although it was so configured for domestic accounts, for purposes of risk scoring. This prevented the firm from identifying potentially related brokerage customers in assessing suspicious money movements and transactions. This issue was also resolved in September 2019, when INTL enhanced its automated system.

Third, INTL's direct brokerage and securities clearing businesses maintained separate systems which identified accounts closed for engaging in potentially suspicious

transactions. INTL did not cross-reference accounts on its two internal systems until October 2018, when this issue was brought to INTL's attention during a FINRA exam. The dual lists resulted in at least one instance of a client of an investment manager customer — previously identified as engaging in suspicious activity and having its account closed — being permitted to open an account and liquidate low-priced securities between October and November 2017 through a different introducing firm using INTL's clearing business.

By virtue of the foregoing, Respondent violated FINRA Rules 3310 and 2010.

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

1. a censure; and
2. a fine of \$375,000

Respondent further agrees to the following undertaking:

Certification: Within 60 days of Notice of Acceptance of this AWC, INTL shall certify to FINRA in a submission signed by an officer and registered principal of INTL that, as of the date of the certification, INTL has established and implemented policies, procedures, and internal controls reasonably designed to address and remediate the issues identified in this AWC. The certification shall be addressed to Perry Hubbard, Senior Director, 15200 Omega Drive, Suite 300, Rockville, Maryland 20850. Upon written request showing good cause, FINRA staff may extend the procedural date set forth above.

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 that 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 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 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 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 Respondent 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce it to submit it.

08/11/20
Date

INTL FCStone Financial Inc.

Respondent

By: Will Dunaway

Print Name: William Dunaway

Title: Chief Financial Officer

Reviewed by:

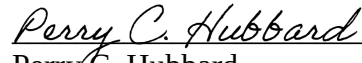
Gerald J. Russello/gr

Gerald J. Russello
Counsel for Respondent
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019

Accepted by FINRA:

~~September 10, 2020~~
Date

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



Perry C. Hubbard
Senior Director
FINRA
Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850