

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017056769402**

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

RE: Royal Alliance Associates, Inc., Respondent
Broker-Dealer
CRD No. 23131

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Royal Alliance Associates, Inc. (Royal Alliance 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 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

Royal Alliance has been a member of FINRA since July 1989. It is a full-service broker-dealer that sells a wide array of securities products to its customers. Respondent has approximately 4,000 registered individuals and more than 1,500 branches.

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 2009 and 2017 (the Relevant Period), two registered representatives at Royal Alliance, acting independently of each other, stole customer funds by directing wire transfers or checks from customer accounts into accounts for entities they created. Some of the transfers were made in violation of firm policies and procedures for third-party payments, which the firm failed to enforce, and in some instances the transfers were also accompanied by red flags to which the firm failed to reasonably respond. By virtue of

the foregoing, Royal Alliance violated NASD Rules 3010 and 3012(a)(2) and FINRA Rules 3110, 3110(c)(2), and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter arose from a Form U5 filing regarding the termination of one of the representatives involved in this matter.

A. The Applicable Supervisory and Control Requirements

NASD Rule 3012(a)(2)(B)(i) and its successor FINRA Rule 3110(c)(2)(a)(iv) (effective December 1, 2014) require firms to establish, maintain, and enforce a system of supervisory control policies and procedures that are reasonably designed to review and monitor:

transmittals of funds (wires or checks, etc.) or securities from the accounts of customers to third-party accounts (i.e., a transmittal that would result in a change of beneficial ownership); from customer accounts to outside entities (e.g., banks, investment companies, etc.); from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and between customers and registered representatives, including hand delivery of checks.¹

NASD Rule 3010(a) & (b) and its successor FINRA Rule 3110(a) & (b) (effective December 1, 2014) require that firms 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 NASD/FINRA rules.

B. Respondent's Procedures

During the Relevant Period, Royal Alliance had policies and procedures regarding wire transfers and checks from customer accounts. In particular, Royal Alliance only allowed third-party wires to escrow companies for home closings and to approved product sponsors for the benefit of the customer. Royal Alliance also permitted wires to accounts in which the customer was the owner, joint owner, or trust beneficiary. The wire transfer request forms specifically stated that the account titles at Royal Alliance and the recipient bank had to be identical.

Royal Alliance allowed the use of third-party checks, but required that the person processing the check in the firm's cashing group verify that the check was not going to

¹ The parenthetical text "i.e., a transmittal that would result in a change in beneficial ownership" was eliminated when the provision was transitioned to FINRA Rule 3110(c) in order to clarify that all transmittals to an account where a customer on the original account is not a named account holder are subject to the rule. Regulatory Notice 14-10 at 10 (March 2014).

the advisor's office or home address and to document that verification in the processing notes for the issuance of the check.

C. The Firm's Supervisory Failures

Two of Royal Alliance's registered representatives, acting independently of each other, stole a total of more than \$3,800,000 from four customers. As described further below, Respondent failed to enforce its procedures or, in certain instances, respond reasonably to red flags of potential misconduct in processing the wire transfer and check requests through which the thefts were perpetrated.²

1. The New Jersey representative

A registered representative in New Jersey ("the New Jersey representative") stole money from the accounts of two of his customers between October 2009 and July 2017.³ Most of the money was stolen from Customer A, a disabled widow who resided in New Hampshire. Between October 2009 and July 2017, the New Jersey representative, using forged wire transfer request forms, had more than 60 wire transfers totaling \$1,262,000 sent from Customer A's Royal Alliance account to the bank account of an LLC he created and controlled. The LLC's address on publicly-available documents was the same as the New Jersey representative's office address. The initial three wire transfer requests designated the transfers as being sent to the LLC with no mention of any purported connection between the LLC and Customer A. The next five wire transfer requests were directed to the LLC, but the New Jersey representative added Customer A's name along with that of the LLC. However, the firm's cashiering group unreasonably treated these eight transfers as first-party transactions and thus processed them in contravention of the firm's prohibition against third-party wire transfers. The remaining 54 wire transfers were designated as being to Customer A's bank account, but they were sent to the same account number at the bank previously designated as the LLC's account – a red flag which the firm failed to identify.

In addition, in August 2009, the New Jersey representative had a \$150,000 wire sent from Customer A's account to a bank account of a law firm in New Jersey. This wire was processed, again contrary to firm procedures, since that bank account was not titled in the customer's name.

The New Jersey representative also stole money through the use of unauthorized third-party checks. He forged three requests to send a total of \$75,000 from Customer A's account to an entity unrelated to her between November 27, 2009 and June 10, 2010. In addition, he caused a \$25,000 check to be issued from the account of another customer (Customer B) to the same LLC which received the funds from Customer A's account. In

² Royal Alliance has compensated all of the customers addressed in this AWC.

³ The New Jersey representative was barred from the securities industry in a March 2018 AWC for refusing to testify before FINRA. He also pleaded guilty to certain criminal charges in connection with the matters discussed herein and was sentenced to 70 months in prison.

none of these instances did the cashiering group adhere to the firm's requirement to ascertain that the checks were not going to an address controlled by the New Jersey representative. In at least once instance, the check was sent to a post office account he used for business purposes.⁴

2. The Massachusetts representative

A registered representative in Massachusetts ("the Massachusetts representative") stole money from the accounts of two of her customers between June 2013 and June 2017.⁵ Using forged wire transfer request forms, she stole more than \$2 million from Customer C through 65 third-party wire transfers to the bank account of an LLC she controlled and through which she conducted her business. The cashiering group again unreasonably treated these as first-party transfers. The wire request forms identified the recipient bank account as being titled almost identically to the Massachusetts representative's d/b/a name, a red flag. These transfers violated the firm's prohibition against third-party wire transfers, including its requirement that wire transfers go to identically-titled accounts.

In July 2013, a member of the firm's cashiering group noticed a discrepancy between the signatures on the second wire request form and the account records. In response, the Massachusetts representative claimed that the customer always signed her name differently, which explanation the firm accepted without contacting the customer or taking any other steps to verify that the signature was valid.

At that time, the firm also asked for a copy of the LLC agreement for the LLC which was receiving the funds. The Massachusetts representative provided a falsified LLC agreement, creating the appearance that the LLC was established by Customer C. However, the LLC agreement was faxed to the cashiering group on the letterhead of the Massachusetts representative's d/b/a, highlighting the nearly identical names of the purported LLC and the d/b/a of the Massachusetts representative. The firm did not take any additional steps to investigate the purported LLC receiving the funds. Had it done so, it could have discovered that the purported LLC receiving the funds was not a legal entity and that the LLC actually receiving the funds was controlled by the Massachusetts representative.

The Massachusetts representative also stole \$325,000 from another couple who were her customers (Customer D). In May and June 2017, the Massachusetts representative induced the customers to authorize the issuance of two checks from their Royal Alliance

⁴ Royal Alliance entered settlements with two state securities regulators in connection with the firm's supervision of the New Jersey representative. It entered into a Consent Order with the New Hampshire Bureau of Securities Regulation in May 2019 in which the firm agreed, among other things, to pay a fine of \$190,000. Royal Alliance also entered into a Consent Order with the New Jersey Bureau of Securities in December 2019 in which it agreed, among other things, to pay a civil monetary penalty of \$250,000.

⁵ The Massachusetts representative was barred from the securities industry in March 2018 due to her failure to provide information and failure to testify in FINRA's investigation. She also pleaded guilty to certain criminal charges in connection with the matters discussed herein and was sentenced to 87 months in prison and three years of supervised release.

accounts to the same LLC receiving the wire payments from Customer C. Both checks were sent to the Massachusetts representative's home address. Neither of the check approvals included the required verification by the cashiering group that the check was not being sent to the representative's home address.

Following the firm's discovery of the events described above, it undertook remedial measures to address the deficiencies in the application of its procedures.

* * *

As described above, by failing to enforce its procedures and respond reasonably to red flags of potential misconduct, Royal Alliance violated NASD Rules 3010 and 3012(a)(2) (for conduct prior to December 1, 2014) and FINRA Rules 3110 and 3110(c)(2) (for conduct beginning December 1, 2014). In addition, by violating those provisions, it violated FINRA Rule 2010.

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

1. a censure; and
2. a fine of \$400,000.

Royal Alliance further agrees to the following undertaking:

Certification. Within 60 days of Notice of Acceptance of this AWC, Royal Alliance shall certify to FINRA in a submission signed by an officer and registered principal of the Royal Alliance that, as of the date of the certification, it 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 sanctions 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 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. 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 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 the firm to submit it.

12/23/19.
Date

Royal Alliance Associates, Inc.
Respondent

By: _____

Print Name: _____

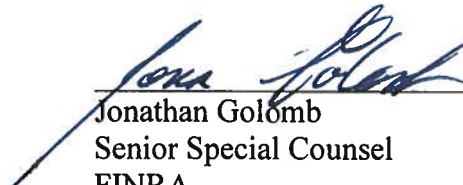
Title: _____

Dmitry Goldin
Dmitry Goldin
President & CEO

Accepted by FINRA:

1/16/20
Date

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



Jonathan Golomb
Senior Special Counsel
FINRA
Department of Enforcement
15200 Omega Drive
Rockville, MD 20850