

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2018056386601**

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

RE: Chapin, Davis, Respondent
Member Firm
CRD No. 28116

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Chapin, Davis ("Chapin, Davis" 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

The Firm has been a FINRA member since 1991. The Firm has approximately 44 registered persons and operates seven branch offices, with its headquarters in Baltimore, Maryland.

RELEVANT DISCIPLINARY HISTORY

In December 2010, Chapin, Davis executed AWC No. 2010021065701, consenting to be censured and fined \$50,000 in connection with FINRA's findings, which included findings that the Firm failed to develop and implement a reasonably designed written anti-money laundering ("AML") compliance program and failed to adequately test its AML compliance program.

OVERVIEW

From March 2016 to April 2018 (the "Relevant Period"), Chapin, Davis failed to implement its written Customer Identification Program ("CIP"), as required by FINRA

Rule 3310(b). During the Relevant Period, the Firm also failed to implement its written AML policies and procedures relating to the detection and reporting of suspicious transactions, as required by FINRA Rule 3310(a). As a result, the Firm violated FINRA Rules 3310(a) and (b) and 2010.

FACTS AND VIOLATIVE CONDUCT

A. Chapin, Davis Failed to Implement its Written Customer Identification Program

FINRA Rule 3310 requires that each member firm 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.*) ("BSA"), and the implementing regulations promulgated thereunder. FINRA Rule 3310(b) requires that each member firm "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the [BSA] and the implementing regulations thereunder." The BSA's implementing regulations provide that "[a] broker-dealer must establish, document, and maintain a written Customer Identification Program ... appropriate for its size and business" and that the CIP must contain "procedures for verifying the identity of each customer to the extent reasonable and practicable."¹ A violation of FINRA Rule 3310 also constitutes a violation of FINRA Rule 2010.

During the Relevant Period, Chapin, Davis failed to implement its written CIP in certain respects. Among other things, the Firm's procedures pertaining to its CIP required the completion of a new account form, and the collection of supplemental information and documentation, for each account opened. The Firm's procedures further required the verification of the accuracy of information and documentation provided at account opening "sufficient to form a reasonable belief that the true identity of the customer is known." However, the Firm failed to fully implement these procedures and, as a result, failed to verify the identity of each customer to the extent reasonable and practicable. For example, Customer A opened four joint accounts; each account had three or four account holders, and all of the account holders were resident citizens of Trinidad and Tobago. The account documentation used to open these four accounts contained incorrect passport numbers and incorrect or missing Tax Identification Numbers, including two hand-written Tax Identification Numbers of "000000000," among other incorrect information. As a result, the Firm was not able to verify with sufficient documentation the identities of the account holders of these four accounts. While the Firm's procedures required that the Firm refuse to open or restrict these accounts until the account holders' identities could be verified, the Firm allowed the customers to open and place trades in the accounts without having obtained such verification.

By virtue of the foregoing, Chapin, Davis violated FINRA Rules 3310(b) and 2010.

¹ 31 C.F.R. 1023.220(a)(1) and (a)(2).

B. Chapin, Davis Failed to Implement its Written Policies and Procedures Relating to the Detection and Reporting of Suspicious Transactions

FINRA Rule 3310(a) requires that each member firm “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of” transactions required by the BSA. The BSA’s implementing regulations provide that each broker-dealer shall file with the Financial Crimes Enforcement Network (FinCEN) a report of any suspicious transaction relevant to a possible violation of law or regulation.² In FINRA Regulatory Notice 19-18 (“RN 19-18”), issued in May 2019, FINRA reminded all broker-dealers of their obligations to develop and implement a written AML program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the BSA and its implementing regulations, and to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under the BSA and its implementing regulations. RN 19-18 provided broker-dealers with a non-exhaustive list of money-laundering “red flags” potentially indicative of suspicious activity. RN 19-18 further explained that “[u]pon detection of red flags through monitoring, firms should consider whether additional investigation, customer due diligence measures or a SAR filing may be warranted.”

During the Relevant Period, Chapin, Davis failed to implement its written policies and procedures pertaining to the detection and reporting of suspicious transactions. The Firm’s AML procedures stated that the Firm would “monitor account activity for unusual size, volume, pattern or type of transactions” and other AML red flags through (a) daily review of exception reports provided by the Firm’s clearing firm and (b) daily review of deposit and withdrawal activity in customer accounts. The Firm’s AML procedures provided a list of “Red Flags that signal possible money laundering or terrorist financing” that included: “[w]ire activity that is unexplained, repetitive, unusually large...or with no apparent business purpose”; “[u]nusual concern with the firm’s compliance with government reporting requirements and firm’s AML policies”; “unusual or suspicious identification documents”; the deposit of a physical certificate that is “titled differently than the account”; and “a pattern of receiving stock in physical form...selling the position and wiring out proceeds.” The Firm’s AML procedures further required that Firm personnel review activity detected through the daily monitoring, conduct appropriate investigations, and document such reviews and investigations.

But, inconsistent with its own procedures, Chapin, Davis failed to monitor account activity for unusual size, volume, pattern, or type of transactions and other red flags. For example, the Firm often failed to review the daily exception reports provided by the Firm’s clearing firm and daily deposit and withdrawal activity, or failed to review them until months after the potentially suspicious transactions occurred. As a result, the Firm failed to detect and investigate certain customer activity that raised red flags of potentially suspicious activity. For example:

² 31 C.F.R. 1023.320(a).

- Customer A, as noted, opened four joint accounts, each with three to four account holders, all of whom were resident citizens of Trinidad and Tobago. On at least five separate occasions, trading in the accounts was not consistent with account objectives, including by engaging in frequent trading that did not match the accounts' "moderate growth" objective. Customer A also engaged in a pattern of in-and-out wire transfers involving various foreign accounts. As a further red flag, Customer A asked the Firm if the source of the funds deposited in one of the accounts would be investigated.
- Customer B was a resident citizen of Singapore who opened one individual account at Chapin, Davis. The Firm received large quantities of physical shares from Customer B; however, the securities were in the name of a Cayman Islands trust rather than in the customer's name. Customer B failed to provide required corporate documents for the Cayman Islands trust, and improperly signed a trust resolution as trustee. Nevertheless, the Firm accepted the securities without conducting a review of how Customer B obtained the securities or who was the actual owner of them. Customer B also liquidated, and then repurchased, a large quantity of physical shares within a short period of time.

The accounts of Customers A and B exhibited the kinds of red flags that were identified in the Firm's procedures as warning signs of money laundering or other illegal activities, and the accounts also appeared on exception reports provided to the Firm by its clearing firm. However, contrary to the Firm's own procedures, the Firm failed to review, or failed to review for months, those reports, and it also failed to review daily deposit and withdrawal activity, and, as a result, failed to detect or investigate these red flags.

By virtue of the foregoing, Chapin, Davis violated FINRA Rules 3310(a) and 2010.

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

- A censure;
- A fine of \$35,000; and
- The following undertaking:
 - i. Within no later than 90 days from the issuance of the Notice of Acceptance of this AWC, or such additional period as agreed to by a FINRA staff member in writing, a registered principal and executive officer of the Firm, on behalf of the Firm, shall submit a certification that: (1) the Firm implemented its written CIP, in compliance with FINRA Rule 3310, the Bank Secrecy Act, and the regulations promulgated thereunder; and (2) the Firm implemented its written policies and procedures pertaining to the detection and reporting of suspicious transactions, in compliance with FINRA Rule 3310, the Bank Secrecy Act, and the regulations promulgated thereunder.

- ii. The certification that the Firm has complied with the undertaking set forth above shall be provided to Karen C. Daly, FINRA Department of Enforcement 1601 Market Street, Suite 2700 Philadelphia, PA 19103, either by letter that identifies Chapin, Davis and Matter No. 2018056386601 or by email from a work-related account of a registered principal of the Firm to EnforcementNotice@FINRA.org, with a copy to karen.daly@finra.org.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payments 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 an inability 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.

Chapin, Davis
Respondent

12.30.19
Date

By: Stephanie N. Elliott
Print Name: Stephanie N. Elliott
Title: President & CEO

Reviewed by:

D. J. Donovan
Daniel J. Donovan
Counsel for Respondent
Donovan & Rainie, LLC
One South St. - Suite 1120
Baltimore, MD 21202

Accepted by FINRA:

4/8/20
Date

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

Karen C. Daly
Karen C. Daly
Principal Counsel
FINRA
Department of Enforcement
1601 Market St., Suite 2700
Philadelphia, PA 19103