

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018058464601**

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

RE: Intesa Sanpaolo IMI Securities Corp. (Respondent)
Member firm
CRD No. 19418

Pursuant to FINRA Rule 9216, Respondent Intesa Sanpaolo IMI Securities Corp. 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 in this AWC.

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

Intesa Sanpaolo IMI Securities Corp. (IMI Securities) has been a FINRA member since approximately 2010.¹ It is a subsidiary of a bank based in Italy. The firm has its sole office in New York City and is comprised of 31 registered representatives. IMI Securities conducts general securities business, consisting primarily of fixed-income and equity trading for institutional customers, including foreign financial institutions (FFIs).²

OVERVIEW

From January 2015 through May 2018, IMI Securities failed to establish an anti-money laundering (AML) compliance program reasonably designed to detect, monitor, and cause the reporting of potentially suspicious activity relating to low-priced securities transactions. These transactions consisted primarily of trades in the correspondent account of the firm's parent bank, which traded through the firm on behalf of other FFIs not named on the account. Despite conducting approximately \$153 million in transactions involving over-the-counter (OTC) securities, approximately half of which comprised

¹ Until approximately July 2020, IMI Securities was known as Banca IMI Securities Corp.

² For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

low-priced securities, during this period, prior to December 2015 the firm had no systems to monitor for potentially suspicious activity involving equity trading. Although the firm later implemented new monitoring systems, these systems were not reasonably designed to detect red flags typically associated with low-priced securities transactions, and the firm failed to amend its written AML procedures to provide guidance to its employees regarding the purpose of the systems, how to use them, and how to escalate red flags to firm management for further review. Because of these deficiencies, the firm did not detect and investigate multiple red flags of suspicious low-priced securities transactions by its customers. As a result, the firm violated FINRA Rules 3310(a) and 2010.

IMI Securities also failed to establish and implement a system reasonably designed to comply with the firm's obligation to conduct due diligence and enhanced due diligence on correspondent accounts for FFIs. Among other things, the firm failed to obtain information concerning the anticipated trading activity for many accounts held by FFIs and failed to conduct periodic reviews of account activity to determine whether the activity was consistent with the type, purpose, and anticipated activity of the account. As a result, the firm violated FINRA Rules 3310(b) and 2010.

In addition, from May 2015 through February 2019, the firm failed to establish and maintain a supervisory system and written procedures reasonably designed to achieve the review of electronic communications. Consequently, the firm failed to review more than 560,000 electronic communications during this period. As a result, the firm violated FINRA Rules 3110(a) and (b) and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA cycle examination of the firm.

A. IMI Securities failed to develop and implement an AML program reasonably designed to detect and cause the reporting of potentially suspicious activity involving low-priced securities.

FINRA Rule 3310 requires FINRA members to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor [their] compliance with the requirements of the Bank Secrecy Act (BSA) (31 U.S.C. § 5311, *et seq.*) and the implementing regulations thereunder. Under FINRA Rule 3310(a), an AML program must, at a minimum, have policies and procedures that “can be reasonably expected to detect and cause the reporting of” transactions required to be reported under 31 U.S.C. § 5318(g) and the implementing regulations thereunder. The relevant 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.” As stated in NASD Notice to Members 02-21, firms have a duty to monitor for signs of suspicious activity, and if a firm detects any “red flags,” it should perform additional due diligence to determine whether to file a Suspicious Activity Report (SAR).

A violation of FINRA Rule 3310 is also a violation of FINRA Rule 2010, which requires FINRA member firms to observe “high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

From January 2015 through May 2018, the firm effected approximately \$153 million worth of transactions in at least 749 million shares of 1,283 different OTC securities. Approximately half of the \$153 million in OTC transactions were in low-priced, or microcap, stocks. Nearly all of the firm’s trading in OTC securities originated from a correspondent account held by the firm’s parent bank, which was an FFI. The correspondent account of the firm’s parent bank functioned as a nested account through which the parent bank’s customers, primarily other FFIs, gained access to the U.S. securities markets. The firm’s parent bank used the account to purchase and sell OTC equity securities on behalf of its customers, including FFIs based in Italy, Luxembourg, Monaco, and Switzerland. Due to the nested structure of the account, IMI Securities had little to no information concerning the identities or anticipated business activities of the underlying customers for which the firm’s parent bank traded in the account, which heightened the money-laundering risk associated with this account. Despite this risk, IMI Securities failed to develop and implement an AML program during the relevant period that was reasonably designed to identify suspicious activity, particularly suspicious activity involving low-priced securities transactions.

1. The firm’s AML monitoring procedures were not reasonably designed to detect potentially suspicious activity.

From January to December 2015, the firm had no process to monitor for suspicious activity involving equity trading. In December 2015, the firm first implemented a procedure for detecting suspicious activity that required a manual review of trade blotters, containing hundreds of trades per day, by the firm’s equity desk head. This procedure was not reasonably designed to detect suspicious activity. The trade blotters, which contained daily transactional data such as share quantities and prices, did not provide sufficient information to the desk head to identify red flags typically associated with low-priced securities transactions. For example, the blotters did not identify significant price fluctuations in a security, market domination in particular securities by firm customers, or patterns of customers purchasing or selling the same low-priced securities multiple times. Given that the firm effected as many as 700 equity trades per day, it was not reasonable to expect a manual review of daily trade blotters to detect patterns of illicit conduct over multiple days or weeks. Moreover, the firm failed to provide any written guidance to the desk head on how to detect suspicious activity or what constituted red flags. As a result of these deficiencies, the firm failed to detect red flags of suspicious activity.

In 2016, the firm established, for the first time, an internal email address through which firm employees could report suspicious activity. However, the firm had no written policies or procedures regarding the availability or use of the email address. As a result, no firm employee ever sent an email reporting potentially suspicious activity to the email address.

In March 2017, the firm began distributing a daily list to its Compliance and Operations Departments of all customer trades involving low-priced securities (the “LPS Report”). However, the LPS Report was not reasonably designed to detect suspicious activity because it did not contain sufficient information to permit reviewers to track patterns of suspicious activity or identify red flags relevant to low-priced securities trading. The report, which was limited to daily trading activity, failed to include comparative data, such as increases in trading volume in a single day or week, or changes in share price. Additionally, the firm failed to provide any written guidance concerning how the LPS Report was to be reviewed, who was responsible for reviewing it, and whether the review had to be documented. No firm employee ever identified red flags of suspicious activity through the review of the LPS Report and the firm had no documentation evidencing review of the LPS Report.

In the middle of 2017, the firm implemented a monthly review of trading in high-risk securities identified on a list maintained by the firm’s executing broker-dealer. However, the firm had no written procedures or other guidance in place regarding the scope or method of this review and did not require the review to be documented. The firm employee who conducted the review randomly only selected three-to-five percent of the securities on the executing broker-dealer’s list of high-risk securities to compare to the firm’s trade blotter. This sample was not sufficient to detect suspicious activity and did not result in the identification of red flags of suspicious activity. The firm did not implement additional AML monitoring procedures until May 2018.

2. The firm’s written AML procedures were not reasonably designed.

From January 2015 to April 2018, the firm’s written AML procedures did not accurately reflect the firm’s AML monitoring procedures. For example, the written AML procedures stated that the firm monitored for suspicious activity through “a review of monthly statements and/or at the time of account opening,” but this review was not performed. In addition, when the firm implemented new monitoring procedures in 2015 and 2017, as discussed above, the firm did not amend the written AML procedures to reflect the new procedures. The firm’s written AML procedures did not accurately reflect the firm’s AML monitoring procedures until April 2018.

The firm’s written AML procedures also failed to discuss significant red flags associated with low-priced securities trading, including those discussed in FINRA Regulatory Notice 19-18, such as (1) a sudden spike in share price and/or investor demand for a low-priced security; (2) the volume of trading by firm customers in a low-priced security comprising a large share of the daily trading volume; and (3) a customer using a master/sub account structure, which enables trading anonymity for the sub-accounts, to liquidate low-priced securities.

Additionally, the written AML procedures instructed firm employees to send SARs to a third-party site that was no longer in use, rather than to FinCEN, as required by 31 C.F.R. § 1023.320.

3. The firm failed to identify suspicious activity.

The firm failed to detect or investigate suspicious activity involving low-priced securities transactions. In a single month in 2017, for example, the firm effected 763 equity trades involving securities that appeared on its executing broker-dealer's list of high-risk securities but did not investigate any trading activity by firm customers. Throughout the relevant period, the firm failed to detect or investigate suspicious activity involving low-priced securities transactions, including the following:

- From March 2016 through April 2017, the correspondent account of the firm's parent bank purchased 520,000 shares and sold 10.6 million shares issued by an Italian company purportedly involved in cancer research. During this period, the issuer's share price declined by approximately 93 percent, from \$0.017 to \$0.0011 per share. Sales by the correspondent account of the firm's parent bank represented more than 40 percent of the total market volume of this security on 27 trading days during this period.
- From February 2017 to April 2017, the correspondent account of the firm's parent bank sold 6.5 million shares issued by a company with minimal assets and indebtedness of approximately \$14 million. During this period, the share price declined from \$0.0018 to \$0.0015. On two days, sales by the correspondent account of the firm's parent bank represented more than 95 percent of the trading volume of this security.
- From February 2016 to May 2018, the correspondent account of the firm's parent bank purchased 435,799 shares and sold 576,872 shares issued by a foreign company purportedly involved in developing new technology for various industries. During this period, the issuer published 24 press releases but had no revenue. The execution prices for these transactions ranged from \$0.35 to \$0.10. On 17 days during this period, purchases by the correspondent account of the firm's parent bank exceeded 40 percent of the total market volume of this security.

The activity described above exhibited red flags of suspicious activity, including customer trading representing a large share of the daily trading volume in a low-priced security, and the firm's parent bank using a nested account to liquidate large volumes of low-priced securities on behalf of customers not named on the account. Despite these and other red flags, during the relevant period, IMI Securities failed to detect or investigate red flags of suspicious activity or file SARs when it would have been appropriate to do so.

4. The firm failed to timely address deficiencies in its AML program identified in audits.

In 2016, an internal audit of the firm's AML program resulted in recommendations that the firm make changes to its AML program, including by updating its written AML procedures to accurately reflect the firm's actual procedures for monitoring suspicious

activity and by implementing an enhanced AML monitoring system. The firm, however, failed to implement these recommendations. A subsequent internal audit in 2017 rated the firm's AML risk as "high" and reiterated the recommendations made in the 2016 audit. Nonetheless, the firm failed to revise its written AML procedures until April 2018 and failed to enhance its AML monitoring procedures until May 2018.

As a result of the foregoing, IMI Securities violated FINRA Rules 3310(a) and 2010.

B. IMI Securities failed to establish and implement due diligence policies, procedures and controls for FFIs.

FINRA Rule 3310(b) requires FINRA members to "establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the [BSA] and the implementing regulations thereunder," including 31 C.F.R. § 1010.610. Under 31 C.F.R. § 1010.610(a), broker-dealers are required to apply risk-based procedures and controls to correspondent accounts for FFIs based on a consideration of all relevant factors, including: (1) the nature of the FFI's business and the markets it serves; (2) the type, purpose, and anticipated activity of the account; (3) the nature and duration of the firm's relationship with the FFI; (4) the AML regime of the jurisdiction in which the FFI is located; and (5) information known or reasonably available to the firm about the FFI's AML record. The risk-based procedures for monitoring FFI correspondent accounts must also include "a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account." In addition, under 31 C.F.R. § 1010.610(b), enhanced due diligence procedures are required for correspondent accounts of certain foreign banks, including foreign banks operating pursuant to an offshore banking license. For such accounts, broker-dealers are required to obtain and consider, among other things, information about the bank's AML program to assess money laundering risk and monitor transactions for potential money laundering.

The firm had more than 200 customers that were FFIs, including nine customers that were foreign banks operating pursuant to an offshore banking license. The firm, however, failed to obtain required information concerning the nature of the anticipated trading activity in the accounts of many of its FFI customers. For example, the only information that the firm obtained for the correspondent account of the firm's parent bank, the firm's most significant FFI account for equities trading, was limited to a four-page account form that contained no information about the anticipated activity in the account. The firm also did not obtain any information concerning the AML programs of four customers that were foreign banks operating pursuant to an offshore banking license. Due to these failures, the firm was unable to reasonably assess the degree of money-laundering risk posed by these accounts.

In addition, the firm had dozens of customers that were FFIs located in countries or overseas jurisdictions known for heightened money-laundering risk, including the Bahamas and the Cayman Islands. The firm, however, did not complete a formal risk assessment of these customers until November 2017, despite repeated recommendations

from its internal auditors to do so. Even after the firm completed risk assessments of its customers in 2017, the firm failed to implement controls over the accounts of FFIs targeted to any specific risk posed by the accounts. The firm also failed to periodically review FFI account activity, including to determine if the activity was consistent with each account's stated purpose.

As a result, IMI Securities violated FINRA Rule 3310(b) and 2010.

C. IMI Securities failed to reasonably supervise the electronic correspondence of firm personnel.

FINRA Rule 3110(a) requires FINRA members to “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”

FINRA Rule 3110(b)(4) requires FINRA members to review the incoming and outgoing electronic correspondence of its associated persons and internal communications relating to its securities business.

A violation of FINRA Rule 3110 also violates FINRA Rule 2010.

From May 2015 through February 2019, the firm failed to perform supervisory reviews of at least 560,000 electronic communications, including emails and instant messages (IMs), involving firm employees. The firm's review failures were dispersed across different firm employees and time periods: (1) from May 2015 through May 2018, the firm did not review emails or IMs received by firm employees unless the employee responded to the communication; (2) from October 2017 through December 2017, the firm failed to review any emails sent or received by any firm employee; (3) from January 2018 through March 2018, the firm failed to review any IMs sent or received by any firm employee; (4) from May 2015 through April 2018, the firm failed to review the emails and IMs involving three firm supervisory analysts; and (5) from January 2018 through February 2019, the firm failed to review the emails of three senior-level employees.

The firm used a surveillance platform provided by a vendor to perform keyword searches of firm employees' electronic communications designed to detect problematic activity, including potential regulatory violations and customer complaints. The firm's review lapses, described above, were generally caused by the firm's failure to enable certain functions on its vendor's surveillance platform or to add certain employees' communications to its review protocol. The firm failed to detect the lapses because it had no reconciliation system or written procedures to compare the quantity of electronic communications sent or received by firm employees to the quantity subject to review during a given time period or to otherwise ensure that its employees' electronic communications were reviewed. As a result of the firm's unreasonable supervision, the firm failed to review at least 560,000 electronic communications from May 2015 to February 2019.

As a result, the firm violated FINRA Rules 3110(a) and (b) and 2010.

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

- a censure and
- a \$650,000 fine.

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 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 after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

December 21, 2021

Date

Stefano Marras

Intesa Sanpaolo IMI Securities Corp.
Respondent

Print Name: Stefano Marras

Title: Chief Executive Officer

Reviewed by:

Martine Beamon

Martine Beamon, Esq.
Counsel for Respondent
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017

December 21, 2021

Accepted by FINRA:

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

December 22, 2021

Date

Gerald Sawczyn

Gerald W. Sawczyn
Senior Counsel
FINRA
Department of Enforcement
Brookfield Place
200 Liberty Street, 11th Floor
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STATEMENT OF CORRECTIVE ACTION

This Statement of Corrective Action 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.

In connection with the issuance of the Letter of Acceptance, Waiver, and Consent No. 2018058464601 (the “AWC”), Intesa Sanpaolo IMI Securities Corp. (“Respondent,” the “Firm,” or “IMI Securities”) submits this Statement of Corrective Action to describe actions taken since the end of the Relevant Period (in May 2018) to enhance its Compliance program with respect to the issues identified in the AWC. As described below, the Firm has implemented a number of significant changes strengthening its policies and procedures and supervisory structures related to transaction monitoring, its AML program, and electronic communications surveillance. The Firm has made significant enhancements to its Compliance program since May 2018 including, but not limited to, the following:

- **Discontinued Trading in OTC Securities.** In February 2020, the Firm ceased trading in any OTC securities designated by its executing broker as high risk, and in June 2021, the Firm discontinued trading in OTC securities entirely. The Firm’s surveillance team continues to monitor all equities trade activity to ensure that IMI Securities does not receive any OTC orders.
- **Instituted New Transaction Monitoring Programs.** Subsequent to the end of the Relevant Period, the Firm implemented new transaction monitoring processes for equity trading, including:
 - *New Equities Surveillance Procedures*, which entail, among other things, performing a daily equities surveillance review that flags (based on a number of criteria) certain transactions in listed securities priced at or below \$5.00 for further review on the day after trading (and, if necessary, thirty days thereafter) in an effort to identify potential insider trading, market manipulation and/or anomalous trading patterns; and
 - *A “Lookout” Alert Process*, pursuant to which the Compliance function of the Firm’s parent bank, Intesa Sanpaolo S.p.A. (“ISP”), shares alerts with the Firm’s Compliance department generated from ISP’s automated “Lookout” system. That system flags equity securities transactions exceeding certain volume/value/price/frequency thresholds and detects patterns that may indicate potential insider trading and market manipulation. The Firm’s Compliance department reviews the alerts received to determine if further investigation and escalation are necessary.
- **Strengthened the Firm’s AML Program.** Subsequent to the end of the Relevant Period, IMI Securities issued new AML Program Compliance and Supervisory Procedures that, among other things, enhanced:
 - The Firm’s risk assessment program for onboarding new customers;
 - Monitoring of existing customers for AML risk;
 - Processes for closing accounts of inactive customers; and
 - Procedures for due diligence on foreign financial institution customers.

In addition, the Firm, supported by an independent consultant, is performing an assessment of its current customer account framework to implement a robust due diligence review of its underlying omnibus client account relationships.

- **Enhanced Compliance's Expertise.** IMI Securities has enhanced its Compliance department's expertise with personnel serving in the following roles:
 - (i) *A Dedicated Surveillance Specialist* tasked with streamlining and enhancing surveillance reviews and controls, as well as performing a surveillance "lookback" review of prior trading to identify any red flags; and
 - (ii) *A Dedicated AML Specialist* tasked with overseeing the Firm's daily KYC/onboarding, sanction screening, and customer risk assessment processes.
- **Bolstering Electronic Communications Surveillance.** IMI Securities has implemented an additional control related to electronic communications surveillance pursuant to which, on a monthly basis, the Compliance department performs a reconciliation to confirm that Bloomberg Vault is capturing the electronic communications of all Firm employees.