

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019062351401**

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

RE: Glendale Securities, Inc. (Respondent)
Member Firm
CRD No. 123649

Pursuant to FINRA Rule 9216, Respondent Glendale Securities, 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Respondent has been a FINRA member since 2003, with headquarters located in Sherman Oaks, California. The firm's business primarily consists of liquidating and making a market in microcap and low-priced over-the-counter securities. Glendale has three branch offices and approximately 12 registered representatives.

In 2010, Glendale consented to FINRA's findings that, between 2005 and 2008, the firm failed to adequately implement its anti-money laundering (AML) compliance program insofar as the firm failed to detect, analyze, and/or report suspicious transactions. AWC Nos. 2009019747601 and 20060075263 (Nov. 2010). The firm also failed, between 2007 and 2009, to establish and maintain an adequate supervisory system and written procedures that were reasonably designed to prevent participation in an unregistered distribution of securities. As a result, the firm allowed a customer to deposit millions of shares of low-priced securities into more than 50 foreign corporate accounts, promptly liquidate them, and wire the proceeds to multiple foreign bank accounts. Additionally, the firm consented to the imposition of a censure and a \$45,000 fine for violating NASD Rules 3011, 3010, and 2110, as well as FINRA Rule 2010.

In 2021, the National Adjudicatory Counsel (NAC) held that the firm violated FINRA Rules 3310 and 2010 by failing to: (a) establish and implement an AML compliance program reasonably tailored to its microcap stock liquidation business; (b) detect, investigate, and report red flags presented in 2015 and 2016 by suspicious liquidations of three penny stocks; (c)

conduct adequate due diligence on accounts introduced to the firm by a bank in Belize; and (d) employ non-documentary means, in accordance with the firm's Customer Identification Program, to verify the identities of customers based in China, Malaysia, and Singapore. *Dep't of Enforcement v. Glendale Securities, Inc., et al.*, No. 2016049565901, 2021 FINRA Discip. LEXIS 25 (NAC Oct. 6, 2021). In addition, the NAC held that the firm violated FINRA Rules 3110 and 2010 by failing to supervise communications between Asia-based customers and one of its registered representatives. The NAC sanctioned the firm with a censure, a \$155,000 fine, and a requirement to retain a consultant to review and revise its AML-related procedures to appropriately tailor them to its microcap stock liquidation business model.¹

OVERVIEW

Between June 2018 and April 2019, Glendale failed to develop and implement an AML compliance program reasonably designed to detect and report suspicious transactions. As a result, the firm failed to investigate red flags of potentially suspicious trading activity in the account of one of its corporate customers.

Through this conduct, the firm violated FINRA Rules 3310(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

1. Broker-dealers are required to develop and implement a reasonable AML compliance program.

FINRA Rule 3310 provides that “[e]ach member shall 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 by the Department of the Treasury.” Rule 3310(a) further provides that a firm must “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions under 31 U.S.C. § 5318(g) and the implementing regulations thereunder.”

In 2002, the Department of the Treasury issued BSA implementing regulations governing broker-dealers’ obligation to file suspicious activity reports (SARs). The regulations are entitled “Reports by brokers or dealers in securities of suspicious transactions,” and they apply to transactions occurring after December 30, 2002. 31 C.F.R. § 1023.320 (formerly 31 C.F.R. § 103.19). Section 1023.320(a)(1) provides: “Every broker or dealer in securities . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation.” Section 1023.320(a)(2) provides: “A transaction requires reporting if . . . the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part) . . . [h]as no business or apparent lawful purpose . . . or [i]nvolves use of the broker-dealer to facilitate criminal activity.”

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

In 2002, NASD issued guidance to broker-dealers regarding their AML compliance programs and SAR-filing obligations. NASD Notice to Members (NTM) 02-21 highlights the duty to develop and implement an AML compliance program reasonably designed to detect, investigate, and report red flags of suspicious activity. It provides a non-exhaustive list of example red flags, including: (a) "The customer wishes to engage in transactions that lack business sense or apparent investment strategy;" and (b) "The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations." NASD NTM 02-47 outlines the BSA implementing regulations and the duty to file a SAR within 30 days of becoming aware of any transaction or pattern of transactions that raises suspicion.

A violation of FINRA Rule 3310(a) also constitutes a violation of FINRA Rule 2010, which requires FINRA members to observe "high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

2. Glendale failed to develop and implement an AML compliance program reasonably designed to detect and report suspicious trading activity.

During the relevant period, Glendale failed to develop and implement an AML compliance program reasonably designed to detect and report suspicious trading activity.

First, the firm lacked reasonable written AML procedures for the surveillance of potentially suspicious transactions in customer accounts. The firm's written AML procedures stated that supervisors would monitor for suspicious trading activity and potential market manipulation. They failed, however, to identify the need to monitor for: (a) sustained customer trading activity representing a significant proportion of the daily trading volume in a thinly-traded or low-priced security; and (b) customer trading activity with no discernable purpose or that appears to lack business sense. They also failed to describe how supervisors were supposed to conduct their monitoring or the frequency of such monitoring. In addition, the written AML procedures directed supervisors to use exception reports for suspicious trading that the firm no longer made available. Further, although the written AML procedures required a supervisor to initial a "Daily Transaction Report," the firm did not maintain such documentation during the relevant period. Finally, the written AML procedures did not contain any other information about documenting the investigation of potentially suspicious trading activity.

Second, the firm relied primarily on a manual review of the daily trade blotter to monitor for suspicious trading activity. The firm's reliance on this manual review was unreasonable because the daily trade blotter did not reflect patterns of trading across accounts or across multiple days. The blotter also did not reflect coordinated trading between firm accounts, sustained customer trading activity representing a significant proportion of the daily trading volume in a thinly-traded or low-priced security, or trading resulting in losses that might indicate a lack of discernable purpose and business sense or an intent to artificially support the price of a security.

In June 2018, the firm implemented a new set of exception reports that related to monitoring for suspicious trading. However, these reports only alerted the firm to evidence of marking the open, marking the close, and suspicious order cancellations. The firm had no exception reports to alert

it to evidence of other forms of suspicious and potentially manipulative trading such as coordinated trading between firm accounts and sustained customer trading activity representing a significant proportion of the daily trading volume in a thinly-traded or low-priced security. Further, the firm's written AML procedures did not contain any reference to these new exception reports or provide any information about how they should be used.

3. Glendale failed to reasonably detect, investigate, and respond to potentially suspicious transactions by a corporate customer.

As a result of Glendale's failure to implement a reasonably designed AML compliance program, the firm failed to detect, investigate, and respond to potentially suspicious transactions in the account of a publicly traded holding company (the Customer).

During the relevant period, the Customer's trading activity reflected multiple red flags. The Customer made numerous purchases of small blocks of the stock of an affiliated holding company (the Issuer) that lacked indications of business sense. The Customer was the majority owner of the Issuer, and both companies were majority owned by the same individual. The Customer and the Issuer had subsidiaries in diverse industries including cryptocurrency, commercial lending, real estate, vaping, restaurants, and textiles. Both companies went through multiple business changes before and during the relevant period. The Customer's purchases of the Issuer's stock consistently comprised the majority of total market volume for the Issuer during the relevant period. These purchases occurred at a time when there was minimal market interest in the Issuer, no positive Issuer developments, and while both the Issuer and the Customer were the subject of negative news and reported negative cash flow on their financial balance sheets. On multiple trading days, the Customer nevertheless placed a series of small buy orders at increasing prices, and the Issuer's closing price improved from the prior trading day. The Customer also engaged in multiple transactions with other firm customers, including accounts controlled by firm principals, on trading days when that activity comprised the majority of total market volume for the Issuer. On those days, the Issuer's closing price improved from the prior trading day. The firm failed to reasonably detect or investigate these red flags.

Through this conduct, Respondent violated FINRA Rules 3310(a) and 2010.

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

- a censure;
- a \$50,000 fine; and
- an undertaking to retain an independent consultant as described below.

1. Respondent has undertaken to do the following:

- a. Retain at its own expense and within 60 days of the date of the notice of acceptance of this AWC an independent consultant not unacceptable to FINRA to conduct a comprehensive review the reasonableness of

Respondent's policies, systems, procedures (written and otherwise), and training related to compliance with FINRA Rule 3310 and the requirements of the BSA and regulations promulgated thereunder for monitoring, identifying, investigating, documenting, and responding to red flags of suspicious trading activity and potential market manipulation.

- b. Ensure that the independent consultant, any firm with which the independent consultant is affiliated or of which he or she is a member, and any person engaged to assist the independent consultant in performance of his or her duties, shall not have provided consulting, legal, auditing, or other professional services to, or had any affiliation with, Respondent during the two years prior to the date of the notice of acceptance of this AWC.
- c. Cooperate with the independent consultant in all respects, including providing the independent consultant with access to Respondent's files, books, records, and personnel, as reasonably requested for the above-mentioned review. Respondent shall require the independent consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the independent consultant's communications with FINRA. Further, upon request, Respondent shall make available to FINRA any and all communications between the independent consultant and the Respondent and documents examined by the independent consultant in connection with this review.
- d. Refrain from terminating the relationship with the independent consultant without FINRA's written approval. Respondent shall not be in and shall not have an attorney-client relationship with the independent consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the independent consultant from transmitting any information, reports, or documents to FINRA.
- e. Require the independent consultant to submit an initial written report to Respondent and FINRA at the conclusion of the independent consultant's review, which shall be no more than 120 days after the date of the notice of acceptance of this AWC. The initial report shall, at a minimum,
 - (i) evaluate and address the adequacy of Respondent's AML compliance program; (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Respondent should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to suspicious trading activity; and
 - (i) Within 60 days after delivery of the initial report, Respondent shall adopt and implement the recommendations of the independent consultant or, if Respondent considers a recommendation to be, in

whole or in part, unduly burdensome or impractical, propose an alternative procedure to the independent consultant designed to achieve the same objective. Respondent shall submit such proposed alternative procedures in writing simultaneously to the independent consultant and FINRA.

- (ii) Respondent shall require the independent consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the independent consultant's original recommendation and (B) provide Respondent and FINRA with a written report reflecting its evaluation and determination within 30 days of submission of any Respondent's proposed alternative procedures. In the event the independent consultant and Respondent are unable to agree, Respondent must abide by the independent consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the independent consultant.
 - (iii) Within 30 days after the issuance of the later of the independent consultant's initial report or any written report regarding proposed alternative procedures, Respondent shall provide the independent consultant and FINRA with a written implementation report, certified by an officer of Respondent, attesting to, containing documentation of, and setting forth the details of Respondent's implementation of the independent consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.
- f. Require the independent consultant to enter into a written agreement that, for the duration of the engagement and for a period of two years from the completion of the engagement, the independent consultant shall not enter into any other employment, consultant, attorney-client, auditing, or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the independent consultant is affiliated or of which it is a member, and any person engaged to assist the independent consultant in the performance of its duties pursuant to this AWC, shall not, without FINRA's prior written consent, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Respondent or any of Respondent's present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the

period of the engagement and for a period of two years after the engagement.

2. Upon written request showing good cause, FINRA may extend any of the procedural dates 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 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 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

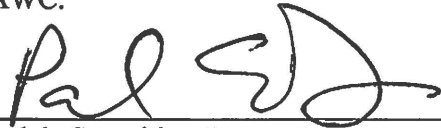
Respondent understands that:

- 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.

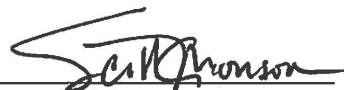
07/07/2022
Date


Glendale Securities, Inc.
Respondent

Print Name: ERIC FLESCHIE

Title: CCO

Reviewed by:


Scott G. Monson
Counsel for Respondent
7600 Hollywood Boulevard, Suite 303
Hollywood, CA 90046-2741

Accepted by FINRA:

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

September 9, 2022
Date


Meghan A. Ferguson
Director
FINRA Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850