

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019064742001**

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

RE: Fenix Securities, LLC (Respondent)
Member Firm
CRD No. 159481

Pursuant to FINRA Rule 9216, Respondent Fenix Securities, LLC 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

Fenix has been a FINRA member since August 2012. The firm is headquartered in New York, New York, has one branch office in Buenos Aires, Argentina, and employs nine registered representatives.¹

OVERVIEW

From December 2016 through April 2024, the firm permitted foreign individuals to conduct a securities business using the firm's systems when they were not registered with FINRA in any capacity. As a result, the firm violated FINRA Rules 1210 and 2010 and NASD Rule 1031.²

From March 2018 through September 2018, the firm paid transaction-based compensation to nonregistered, foreign individuals without disclosing in trade confirmations that a finder's fee was paid. As a result, the firm violated FINRA Rules 2040 and 2010.

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

² FINRA Rule 1210 superseded NASD Rule 1031 on October 1, 2018.

From December 2016 through April 2024, the firm's supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with FINRA registration requirements (FINRA Rule 1210 and NASD Rule 1031) or with FINRA Rule 2040. As a result, the firm violated FINRA Rules 3110 and 2010.

From July 2016 through May 2022, the firm failed to establish and implement an anti-money laundering (AML) program that was reasonably designed to detect and cause the reporting of suspicious activity in violation of FINRA Rules 3310(a) and 2010. From May 2018 through May 2022, the firm's AML program failed to include appropriate risk-based procedures for conducting ongoing customer due diligence in violation of FINRA Rules 3310(f) and 2010.³

FACTS AND VIOLATIVE CONDUCT

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

Fenix permitted foreign individuals to conduct a securities business using the firm's systems when they were not registered with FINRA in any capacity.

FINRA Rule 1210, like its predecessor NASD Rule 1031, requires that each person engaged in the investment banking or securities business of a member shall be registered with FINRA as a representative or principal in each category of registration appropriate to his or her own functions and responsibilities. FINRA Rule 1230 Supplementary Material .01 (Rule 1230.01) further clarifies, "[e]ach person associated with a member who accepts customer orders under any circumstances shall be registered in an appropriate registration category."

Violations of FINRA Rule 1210 and NASD Rule 1031 are also violations of FINRA Rule 2010, which provides that member firms "shall observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

At all relevant times, the firm's primary business was agency trading of listed equities and foreign government debt instruments for predominately retail customers, the majority of whom were located in Latin America. Between December 2016 and April 2024, the firm permitted 47 foreign persons to access the firm's trading platform and place trades for customers when they were not registered with FINRA in any capacity. More specifically, the firm used nonregistered foreign individuals to refer non-US customer accounts to the firm. These nonregistered foreign individuals accessed the firm's trading platform and used that access to place trades in firm customer accounts. The firm issued these individuals representative codes that were used to effect transactions in the referred accounts.⁴

³ FINRA Rule 3310(f) became effective on May 11, 2018.

⁴ As of May 2024, the firm no longer permits foreign referral sources to place trades in firm customer accounts.

Therefore, Respondent violated FINRA Rules 1210 and 2010 and NASD Rule 1031.

Fenix issued trade confirmations that failed to disclose its payment of transaction-based referral fees.

FINRA Rule 2040(a) provides, “[n]o member or associated person shall, directly or indirectly, pay any compensation, fees, concessions, discounts, commissions or other allowances to ... any person that is not registered as a broker-dealer under Section 15(a) of the Exchange Act but, by reason of receipt of any such payments and the activities related thereto, is required to be so registered under applicable federal securities laws and SEA rules and regulations.” FINRA Rule 2040(c) provides an exception, allowing a member to “pay to a nonregistered foreign person (the ‘finder’) transaction-related compensation based upon the business of customers the finder directs to the member” if certain conditions are met, including “the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.”

A violation of FINRA Rule 2040 is also a violation of FINRA Rule 2010.

Between March 2018 and September 2018, the firm paid approximately \$20,000 in transaction-based compensation to a foreign, nonregistered entity in connection with 325 transactions for nine customer accounts that were referred to the firm by foreign individuals associated with the entity. However, the firm failed to disclose in the trade confirmations for those transactions that a referral fee was being paid.

Therefore, Respondent violated FINRA Rules 2040 and 2010.

Fenix failed to reasonably supervise its business with nonregistered foreign persons who engaged in securities business on the firm’s behalf.

FINRA Rule 3110(a) requires a member firm 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) requires a member firm to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Between December 2016 and April 2024, despite its routine use of nonregistered foreign persons to direct customers to the firm and place trades using the firm’s systems, the firm did not establish or maintain any policies or procedures concerning its registration obligations under FINRA Rule 1210 or NASD Rule 1031 regarding such foreign persons, nor did the firm have any procedures that explained the permissible activities of nonregistered persons introducing business to the firm. In addition, until August 2023, the firm’s WSPs did not provide any guidance concerning payments of transaction-based compensation, such as commissions, to foreign finders. The firm also did not have any supervisory system or procedures to review trade confirmations of transactions using

foreign finders to ensure that they disclosed foreign finder fees, as required by FINRA Rule 2040.

Therefore, Respondent violated FINRA Rules 3110 and 2010.

Fenix failed to develop and implement a reasonable AML program.

FINRA Rule 3310 requires each member firm to develop and implement a written AML program reasonably designed to achieve and monitor the firm's compliance with the requirements of the Bank Secrecy Act (BSA), and implementing regulations promulgated by the Department of the Treasury. FINRA Rule 3310(a) requires each firm to "[e]stablish 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 [its] implementing regulations." The implementing regulation issued by the Department of the Treasury, 31 CFR. § 1023.320, requires broker-dealers, under specified circumstances, to file with the Financial Crimes Enforcement Network "a report of any suspicious transaction relevant to a possible violation of law or regulation."

FINRA Rule 3310(f) requires a firm's AML compliance program to include appropriate risk-based procedures for conducting ongoing customer due diligence that include (i) understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (ii) conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

In April 2002, FINRA issued Notice to Members (NTM) 02-21, which provided detailed guidance to member firms about their obligation to monitor for and report suspicious transactions. The Notice discussed the duty to look for red flags suggestive of money laundering or other violative activity and provided a non-exhaustive list of such red flags, including: (i) the customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven; and (ii) the customer has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations. It also advised firms that "the obligation to develop and implement an AML compliance program is not a 'one-size-fits-all' requirement ... [and] each financial institution should ... tailor its AML program to fit its business." In May 2019, FINRA published Regulatory Notice (RN) 19-18, which reminded firms of their suspicious activity monitoring and reporting obligations and updated the list of non-exhaustive red flags provided in NTM 02-21. 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 [suspicious activity report] filing may be warranted."

A violation of FINRA Rules 3310(a) and 3310(f) is also a violation of FINRA Rule 2010.

From at least July 2016 through May 2022, the firm's AML compliance program did not have procedures that could be reasonably expected to detect and cause the reporting of suspicious transactions. The firm's AML program did not have procedures or guidance

on how to review for red flags of suspicious transactions. Moreover, while the firm's procedures required the firm to review certain exception reports, including reports that flagged accounts with a high number of payments or transfers, the firm did not review the exception reports specified in the firm's procedures. Instead, the firm conducted a manual review of activity reports that listed basic information about all transactions and did not identify potentially suspicious activity, which was not reasonable given the volume of trading by the firm's customers.

In addition, during the same period, the firm's AML compliance program did not develop and implement reasonable risk-based procedures for conducting ongoing customer due diligence, including understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. While the firm's procedures required the firm to conduct risk assessments of new accounts, in practice the firm gave all customers the same "acceptable" risk ranking based on internet and OFAC searches conducted only at account opening, without any assessment of the AML risk presented by the customer.⁵ The firm also lacked any process to conduct ongoing due diligence of customers, such as reviewing accounts to determine if the account's activities were consistent with the nature and purpose of the account.⁶

From at least July 2016 through May 2022, multiple firm customers engaged in suspicious securities transactions and made suspicious wire transfer payments without the firm conducting reasonable reviews to detect and report the suspicious activity, despite the presence of red flags, including money movements to entities in bank secrecy havens that the firm failed to review.

Therefore, Respondent violated FINRA Rules 3310(a), 3310(f), and 2010.

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

- a censure;
- a \$250,000 fine; and
- An undertaking that, within 180 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with FINRA Rules 1210, 2040, and 3310 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate

⁵ An OFAC check may inform a broker-dealer whether a potential customer is on the U.S. Treasury's Office of Foreign Assets Control's lists of individuals and entities with whom U.S. persons may be prohibited from engaging in transactions.

⁶ In June 2022, the firm took steps to enhance its AML program.

Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Robert Fair, Senior Counsel, FINRA Enforcement Department, 581 Main St., 7th Floor, Woodbridge, NJ 07095, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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

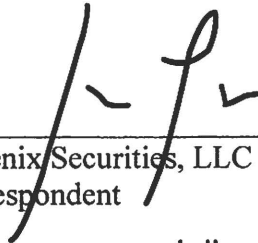
Respondent understands that:

- 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.

October 7, 2024
Date



Fenix Securities, LLC
Respondent
Print Name: Julian Galvez
Title: Managing Partner / CEO

Reviewed by:



Peter Ligh
Counsel for Respondent
Ligh Law LLC
250 West 75th Street
New York, NY 10023

Accepted by FINRA:

10/21/2024
Date

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



Robert Fair
Senior Counsel
FINRA
Department of Enforcement
581 Main St., 7th Floor
Woodbridge, NJ 07095

This Corrective Action Statement is submitted on behalf of Fenix. It does not constitute factual or legal findings by FINRA, nor does it reflect the view of FINRA, or its staff.

October 7, 2024

Mr. Robert Fair
Senior Counsel
FINRA Department of Enforcement
581 Main Street, 7th Floor
Woodbridge, NJ 07095

Re: Corrective Action Statement to Letter of Acceptance, Waiver and Consent (No. 2019064742001)

Dear Mr. Fair,

I am responding on behalf of Fenix Securities, LLC ("Fenix") to the above-referenced Letter of Acceptance, Waiver and Consent ("AWC").

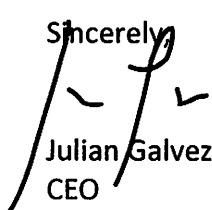
Fenix has undertaken several steps designed to remediate the issues identified in the AWC and to prevent future violations, and looks forward to certifying its full remediation to FINRA within 120 days, as consented to in the AWC. Among these improvements, the firm has replaced its Chief Compliance Officer and Chief Operating Officer. Additionally, the following measures have been enacted, each corresponding to items identified in the FINRA AWC:

- (1) prohibited Foreign Finders from holding Limited Trading Authorization (LTA) effective May 10, 2024, to mitigate conflicts of interest; (2) introduced procedures in April 2024 to ensure that client orders with LTA are properly reviewed by redirecting them to Fenix's trading desk for accuracy checks before execution; (3) developed Desktop Procedures to clarify differences between various account structures and ensure strict adherence to order-handling protocols, preventing Foreign Finders with LTA from directly placing trades; and (4) implemented proper disclosures in the firm's Customer Relationship Summary (CRS) Form to inform clients about potential conflicts of interest associated with Foreign Finders.
- The Firm implemented a monthly review process for trade confirmations to verify required disclosures are included.
- The Firm implemented a Desktop Procedure to clarify responsibilities regarding registration obligations, permissible activities, and transaction-based compensation for non-registered persons. The Firm's Written Supervisory Procedures were updated to include the trade confirmations review report and establish a requirement for annual training on these procedures for all associated persons.

- Also, the Firm (1) conducted several review of its Written Supervisory Procedures alongside its Anti-Money Laundering (AML) Compliance Program to ensure they meet FINRA requirements; (2) enhanced monitoring of post-trade activities and AML compliance through the acquisition of a compliance surveillance system, for ongoing assessments automating many reports, such as the AML Risk Rating; (3) reviewed and updated client profiles, including the verification of key information with the incorporation of new features that allow the Firm to perform the review on an ongoing basis; (4) the Firm demonstrated its commitment by filing multiple reports from 2019 as to the present. In addition, several lookback SARs were filed for the period 2016 to 2021; (5) ensured critical information is regularly reviewed and approved by the integrated monitoring system. Financial institutions are reviewed annually for customer identity verification, and former Politically Exposed Persons (PEPs) undergo semi-annual reviews; (6) hired LibScor Associates, Inc. to conduct a review of the AML program and Written Supervisory Procedures, resulting in enhanced policies; and (7) hired Kaufman Rossin to further review and enhance its policies and procedures.

Fenix takes seriously its obligations under the FINRA rules, and Fenix will do what is necessary to comply with such rules.

Sincerely,



Julian Galvez
CEO

Fenix Securities, LLC