

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020065116601**

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

RE: CICC US Securities, Inc.
Member Firm
CRD No. 143221

Pursuant to FINRA Rule 9216, Respondent CICC US 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

CICC US Securities, Inc. (CICC US) has been a FINRA member since August 2007. The firm has 36 registered representatives and two branch offices and is headquartered in New York, NY. CICC US's parent company is China International Capital Corporation (USA) Holdings, Inc. The firm assists U.S. and foreign-based institutional clients with trading in foreign markets, acting as a chaperone between its clients and foreign broker-dealers.¹

OVERVIEW

Between at least February 2019 and February 2020, CICC US failed to develop and implement an anti-money laundering (AML) compliance program and establish, maintain and enforce a supervisory system including written supervisory procedures (WSPs) reasonably designed to detect and cause the reporting of potentially suspicious activity in violation of FINRA Rules 3310(a) and 2010. CICC US's AML compliance program was not reasonably designed in light of the firm's customers and business model to achieve compliance with the requirements of the Bank Secrecy Act (BSA), and implementing regulations promulgated by the Department of the Treasury, including the obligation to report suspicious activity. This conduct violated FINRA Rules 3310(a), 3110 and 2010.

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

Between at least February 2019 and February 2020, CICC US marked all trades on trade confirmations and firm blotters as “unsolicited” by default without reviewing or considering the circumstances of each transaction, despite activity by CICC US and its affiliates that may have constituted solicitation. As such, CICC US’s supervisory system and written supervisory procedures (WSPs) were not reasonably designed to achieve compliance with Rules 10b-10 and 17a-3 of the Securities Exchange Act of 1934 and FINRA Rules 4511 and 2232, which require firms to maintain accurate books and records. This conduct violated FINRA Rules 3110 and 2010.

In addition, between at least February 2019 and February 2020 CICC US provided three non-registered individuals with the authority and discretion to commit the firm’s capital as authorized signatories for its bank accounts. This conduct violated FINRA Rules 1210 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of CICC US.

A. AML Program

1. Broker-dealers are required 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 the implementing regulations promulgated thereunder by the Department of the Treasury.” FINRA Rule 3310(a) also requires each firm 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 the implementing regulations thereunder.”

The implementing regulation issued by the U.S. Department of the Treasury, 31 CFR. § 1023.320, requires broker-dealers to file with the Financial Crimes Enforcement Network (FinCEN) “a report of any suspicious transaction relevant to a possible violation of law or regulation.” In the Adopting Release for the rule, FinCEN stated that the “has no business or apparent lawful purpose” prong of the SAR Rule “should be interpreted to require the reporting of transactions that appear unlawful for virtually any reason.” Moreover, the rule does not carve out possible violations of foreign law.

NASD Notice to Members (NTM) 02-21, issued in April 2002, provided detailed guidance to the industry regarding the obligation of a broker-dealer to detect and cause the reporting of suspicious transactions. In NTM 02-21, the NASD advised each broker-dealer that when developing an AML program, it should tailor the program to fit its business, taking into consideration, among other factors, “the types of transactions in which its customers engage.” NTM 02-21 further reminded broker-dealers of their duty to look for “red flags”—i.e., signs of suspicious activity that suggest money laundering or other violative activity—and provided broker-dealers with a non-exhaustive list of such

red flags, including, among others, that the customer wishes to engage in transactions that lack business sense or apparent investment strategy. In August 2002, NASD issued NTM 02-47, which described the suspicious activity reporting rule promulgated by the Department of the Treasury for the securities industry. NTM 02-47 further advised broker-dealers of their duty to file a suspicious activity report (SAR) for any transaction raising suspicions of illegal activity occurring after December 30, 2002.

FINRA Regulatory Notice 19-18, issued in May 2019, provided additional guidance to member firms regarding red flags for firms to consider incorporating into their AML programs, including, among others, that the customer engages in pre-arranged or other non-competitive securities trading, including wash or cross trades, with no apparent business purpose. Regulatory Notice 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.”

Failure to detect and investigate suspicious activity to determine whether it is appropriate to file a SAR violates FINRA Rule 3310(a). A violation of FINRA Rule 3310(a) also constitutes a violation of FINRA Rule 2010, which requires FINRA members, in the conduct of their business, to observe “high standards of commercial honor and just and equitable principles of trade.”

FINRA Rule 3110(a) requires that FINRA members “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 that each FINRA member “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 the applicable securities laws and regulations, and with applicable FINRA Rules.” The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation. A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

2. CICC US failed to establish and implement an AML program that could reasonably be expected to detect and cause the reporting of suspicious transactions.

Between at least February 1, 2019, and February 21, 2020, CICC US did not establish and implement an AML compliance program reasonably designed to detect and investigate red flags of suspicious activity. CICC had an AML compliance program and written supervisory procedures (WSPs) that generally required monitoring of “red flag” indicators of customer activity. However, the firm’s procedures did not describe the factors to consider when performing surveillance for potential market manipulation, including a description of the potential types of market manipulation or information about how such surveillance should be documented. CICC US’s compliance program also was not tailored to account for the firm’s business model and the types of customers and

activities it served. The firm maintains omnibus affiliate account relationships in foreign jurisdictions and generates commissions from agency trading for 79 institutional customers that trade in both U.S. and foreign securities. Many of the firm's institutional customers do significant trading in non-U.S. securities through CICC US and its foreign affiliations. CICC US also engages in transactions involving foreign customers opening omnibus accounts with CICC US. Despite this, CICC US did not have a reasonable means of detecting suspicious activity in trades executed on non-U.S. stock exchanges. For example, CICC US did not supervise or conduct any reviews for suspicious activity in trades executed on non-U.S. stock exchanges and had no specific procedures for review of trades in non-U.S. securities. As a result, CICC US did not track activity that might have raised red flags of market dominance or manipulation by specific clients.

In March 2021, CICC US engaged an outside compliance consultant to recommend revisions to CICC US's AML procedures and compliance monitoring procedures. CICC US implemented new AML, customer due diligence and monitoring procedures and training for all employees throughout 2021, and has implemented new surveillance and monitoring alert systems that include monitoring activity executed on certain non-U.S. exchanges.

CICC US also did not reasonably review trades in low-priced securities by CICC US customers. The firm's written procedures for monitoring low-priced securities were not tailored towards the firm's business activity and not effectively implemented by the firm's compliance program. For example, the firm's monitoring for wash trades in low-priced securities only reviewed domestic trades without considering additional trades made by CICC US customers in foreign markets. In addition, the firm's monitoring of domestic trades was limited to certain activity and volume thresholds that made it difficult for the firm to effectively identify suspicious patterns of activity. The alerts the firm did generate for low-priced securities trading were not timely reviewed, and CICC US failed to identify market volume concerns, among other issues, that should have raised red flags associated with some of these trades. As a result of this failure to adequately monitor low-priced securities, CICC US did not have a reasonable means of detecting suspicious activity in these trades.

CICC US suspended low-priced securities trading in January 2021, and adopted revised WSPs for monitoring and supervising low-priced securities trades in September 2021.

Therefore, as a result of the firm's failure to establish and implement an AML program reasonably designed to detect and cause the reporting of suspicious transactions, CICC US violated FINRA Rules 3310(a) and 2010.

3. CICC US failed to establish and implement an AML program and supervisory system reasonably designed to detect and cause the reporting of potentially suspicious trading in its stock buyback business.

Between at least February 1, 2019, and February 21, 2020, the firm's supervisory procedures for its stock buyback business were not reasonably designed to monitor

trading for compliance with timing, price and volume conditions set by Exchange Act Rule 10b-18. The firm's procedures also did not set forth a means for complying with Exchange Act Rule 10b-18 and contractual average daily trading volume (ADTV) requirements. One condition was that purchasers could not repurchase over 25% of a security's four-week ADTV. While the firm did not have specific procedures for monitoring ADTV compliance, CICC US relied on calculations from an algorithm controlled by its executing broker to determine compliance with ADTV limits without monitoring the accuracy of the algorithm. Because of calculation errors by the executing broker that CICC US failed to detect, the firm did not identify four instances in which purchases were in excess of permissible volume thresholds. As a result, CICC US failed to monitor for and detect trades that exceeded Exchange Act Rule 10b-18 ADTV limits.

CICC US's unreasonable monitoring of stock buybacks directly led to its failure to effectively detect and report potentially suspicious activity. In addition to failing to monitor the accuracy of its executing broker's ADTV calculations, the firm did not monitor for or detect patterns of high-volume trading in its stock buyback business. The firm's compliance program also did not reasonably monitor the buyback program for red flags or investigate and respond to red flags the firm was aware of. As a result, the firm failed to detect, investigate, and respond to certain customer activity that raised red flags indicative of potential suspicious activity, or otherwise respond to red flags of suspicious activity for purposes of determining whether to file a SAR.

In September 2019, CICC US Customer A, a corporate entity, and Customer B, an individual affiliated with that corporate entity, both participated in CICC US's stock buyback program and repurchased shares of Customer A through an omnibus account at CICC US's foreign affiliate. Furthermore, CICC US was aware that the trades occurred two days before an announcement that increased Customer A's share prices. The volume and timing of the trades should have raised red flags for CICC US, but the firm did not take reasonable steps to investigate the activity.

CICC US suspended its stock buyback program in January 2021, adopted new WSPs for investigating and reporting suspicious activities in August and October 2021, and implemented new surveillance and monitoring alert systems, including a system designed to identify unusually high trading volumes that occur right before a significant price movement in the same direction as the trading and trading in excess of an entity's normal market share.

Therefore, as a result of the firm's failure to establish and implement a reasonably designed AML program and supervisory system for its stock buyback business, CICC US violated FINRA Rules 3310(a), 3110 and 2010.

B. Trade Marking Procedures and Supervision

1. Broker-dealers must supervise reasonably to achieve compliance with the obligation to create accurate records in connection with solicitation indicators on trade confirmations and blotters.

Exchange Act Rule 10b-10 requires broker-dealers that effect securities transactions for customers to provide customers a confirmation, at or before completion of each transaction, disclosing certain basic terms of the transaction, such as the identity, price, number of shares of the security bought or sold, and the execution capacity of the broker-dealer. FINRA Rule 2232(a) requires members, at or before the completion of any transaction in any security effected for or with an account of a customer, to provide such customer with written confirmations that conform with the requirements of Exchange Act Rule 10b-10.

Exchange Act Rule 17a-3 requires broker-dealers to make and keep current, among other things, securities purchase and sale blotters and confirmations of all purchases and sales of securities. FINRA Rule 4511 requires members to make and preserve books and records as required under FINRA Rules, the Exchange Act, and applicable Exchange Act rules. The obligation to make and keep confirmation records current embodies the requirement that such records be accurate.

2. CICC US did not have a supervisory system or WSPs reasonably designed to ensure trades were accurately marked “solicited” or “unsolicited.”

Between at least February 2019 and February 2020, CICC US used an Order Management System (OMS) for processing transactions. A default setting in this system automatically marked every order as “unsolicited.” While it was possible to override the unsolicited tag by manually tagging an order as “solicited,” the firm and its representatives never made use of this functionality. Moreover, the firm had no WSPs for determining whether and when to mark an order as “solicited.” As a result, every transaction during the above period—over 22,000 trades—was marked “unsolicited” on the firm’s blotter and trade confirmations.

Nor did the firm conduct any supervisory reviews to ensure that trades were appropriately marked, notwithstanding that CICC US and its affiliates engaged in activities potentially constituting solicitations. For instance, analysts associated with CICC US’s foreign affiliates attended meetings, conducted investor roadshows, and gave presentations to CICC US investors, with some investors subsequently purchasing securities that were presented or discussed.

Because CICC US had no WSPs and did not conduct any supervisory reviews to ensure that trades were accurately marked as solicited or unsolicited, the firm’s supervisory system and procedures were not reasonably designed to achieve compliance with its recordkeeping obligations under the Exchange Act Rules and FINRA Rule 4511.

In July 2021, CICC US amended its WSPs to include guidance for determining whether a transaction should be marked solicited.

Therefore, as a result of the firm's failure to conduct supervisory reviews or implement a supervisory system and procedures to comply with its recordkeeping obligations, CICC US violated FINRA Rules 3110 and 2010.

C. CICC US granted non-registered persons the authority to commit the firm's capital.

FINRA Rule 1210 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 functions and responsibilities, as specified in Rule 1220. A violation of FINRA Rule 1210 is also a violation of FINRA Rule 2010.

FINRA Rule 1220(b)(3)(A)(i)(c) requires that "persons with the authority or discretion materially to commit a member's capital" be registered as an Operations Professional.

Between at least February 2019 and February 2020, CICC US allowed three persons who were not registered with FINRA to serve as authorized signatories for three firm bank accounts. Each of the bank accounts were set up to permit any authorized signatory to approve account activity, including those who were not registered as Operations Professionals. The non-registered individuals' access to CICC US's accounts gave them control over the cash and clearing accounts that comprise most of the firm's net capital assets. As such, the non-registered individuals had the authority and discretion to commit the firm's capital through authorized signatory access to its bank accounts.

The firm removed the three non-registered individuals as signatories on bank accounts by July 2021 and revised its WSPs relating to individuals with authority over firm bank accounts to ensure only persons with the appropriate registration would have that authority going forward.

Therefore, as a result of the firm permitting non-registered persons to serve as authorized bank account signatories, CICC US violated FINRA Rules 1210 and 2010.

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

- a censure and
- a \$300,000 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.

October 17, 2024

Date

Xiangdong Shi

CICC US Securities, Inc.

Respondent

Print Name: Xiangdong Shi

Title: COO

Reviewed by:

Diane L. McGimsey

Diane McGimsey

Counsel for Respondent

Sullivan & Cromwell

1888 Century Park East

Los Angeles, CA 90067

Accepted by FINRA:

Signed on behalf of the

Director of ODA, by delegated authority

October 17, 2024

Date

Catherine L. Hoge

Catherine L. Hoge

Counsel

FINRA

Department of Enforcement

Brookfield Place

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