

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021069393901**

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

RE: Financial Security Management, Incorporated (Respondent)
Member Firm
CRD No. 43000

Pursuant to FINRA Rule 9216, Respondent Financial Security Management, Incorporated (FSM) 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

FSM has been a FINRA member since 1997. The firm's main office is located in Virginia Beach, Virginia. The firm has six branches and employs 43 registered representatives. The firm earns revenue from selling variable annuity products, mutual funds, and 529 plans to retail customers.¹

OVERVIEW

Between March 2019 and February 2021, FSM violated FINRA Rules 3310(b) and 2010 by failing to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act (BSA) and implementing regulations. During this period, the firm failed to search its records in response to information requests from the Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) pursuant to Section 314(a) of the USA PATRIOT Act and implementing regulation 31 C.F.R. § 1010.520 (314(a) requests).

Additionally, between at least 2017 and 2020, FSM violated FINRA Rules 3310(c) and 2010 by failing to conduct annual independent testing of its anti-money laundering (AML) compliance program.

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

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2021 cycle examination of FSM.

FSM failed to review FinCEN 314(a) requests.

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 BSA, and implementing regulations promulgated by the Department of the Treasury. FINRA Rule 3310(b) requires each member firm to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and its implementing regulations. A violation of FINRA Rule 3310(b) also constitutes a violation of FINRA Rule 2010, which requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

Under 31 C.F.R. § 1010.520, FinCEN may solicit information regarding whether a financial institution or a group of financial institutions maintains or has maintained accounts for, or has engaged in transactions with, each individual, entity, or organization named in the 314(a) requests they receive from FinCEN. Financial institutions are required to expeditiously search their records and report any positive matches to FinCEN in the manner and in the timeframe specified in FinCEN's request.

Between March 2019 and February 2021, FSM lacked reasonable procedures to ensure that a firm employee was actually and timely reviewing and responding to 314(a) requests from FinCEN. During this period, the firm failed to search its records in response to any 314(a) requests. The firm's written procedures failed to designate a responsible person by name or title. The written procedures also failed to explain any steps the responsible person was supposed to take to search firm records in response to such requests. In addition, the written procedures failed to state how any such steps should be documented. The firm designated an employee to complete such searches during the relevant period, but the employee failed to do so and the firm had no process for checking that the searches were being completed. In February 2021, FSM updated its written procedures and systems to address compliance with 314(a) requests.

By failing to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and implementing regulations, Respondent violated FINRA Rules 3310(b) and 2010.

FSM failed to conduct annual independent testing of its AML compliance program.

FINRA Rule 3310(c) directs member firms to conduct annual independent testing to assess the adequacy of their AML compliance programs. Under FINRA Rule 3310 Supplementary Material .01, independent testing must be conducted by a designated person with a working knowledge of applicable requirements under the BSA and its implementing regulations. Independent testing may not be conducted by: (1) a person who performs the functions being tested; (2) the designated AML compliance person; or

(3) a person who reports to a person described in (1) or (2). A violation of FINRA Rule 3310(c) is also a violation of FINRA Rule 2010.

Although FSM conducted annual testing of its AML compliance program between 2017 and 2020, the individual who conducted it reported to the firm's AML compliance officer and therefore was not "independent" within the meaning of FINRA Rule 3310(c). This individual also lacked training and experience concerning applicable requirements under the BSA and its implementing regulations. Finally, FSM also failed to conduct a risk-based review of its full AML program and its compliance with the BSA and its implementing regulations. The testing was limited to the review of a random sample of accounts for compliance with the firm's know-your-customer and customer identification program requirements. The firm took no other steps to review or test any other processes outlined in the firm's written AML procedures, including its process for searching firm records in response to FinCEN 314(a) requests. Since 2021, FSM has used a qualified outside party to perform annual AML testing.

By failing to conduct annual independent testing of its AML compliance program, Respondent violated FINRA Rules 3310(c) and 2010.

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

- a censure and
- a \$25,000 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.

5-10-23
Date

Gayle E. Blachura
Financial Security Management, Incorporated
Respondent

Print Name: Gayle Blachura
Title: President

Reviewed by:

Jeffrey H. Gray
Jeffrey Gray
Counsel for Respondent
Pender & Coward
222 Central Park Ave Suite 400
Virginia Beach, VA 23462

Accepted by FINRA:

May 22, 2023

Date

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



Meghan Ferguson
Director
FINRA Department of Enforcement
15200 Omega Drive
Rockville, MD 20850