

**NASD
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

REDWOOD SECURITIES GROUP,
INC.

(CRD No. 27536),

and

ADITYA MUKERJI

(CRD No. 342216),

Respondents.

Disciplinary Proceeding
No. C01040024

Hearing Officer – SNB

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: February 7, 2005

INTRODUCTION

The Department of Enforcement of NASD (“Complainant”) filed Disciplinary Proceeding No. C01040024 on October 18, 2004. Respondents Redwood Securities Group, Inc. (“Redwood”) and Aditya Mukerji (collectively referred to as “Respondents”) submitted an Offer of Settlement (“Offer”) to Complainant on January 25, 2005.

Pursuant to Code of Procedure Rule 9270(e), the Complainant and the National Adjudicatory Council (“NAC”) Review Subcommittee or the Office of Disciplinary Affairs (“ODA”) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to Code of Procedure Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by NASD.

BACKGROUND

During the period from February 1991, through the present, Respondent Redwood Securities Group, Inc. ("Redwood") has been a member of NASD.

During the period from February 1991, through the present, Respondent Aditya Mukerji has been President and Chief Executive Officer of Respondent Redwood. Respondent Mukerji has been registered with NASD as a General Securities Representative, General Securities Principal, Municipal Securities Representative and Municipal Securities Principal and those registrations remain currently effective.

On September 4, 2003, Complaint No. C01030027 was filed against Respondent Redwood and its Financial and Operations Principal alleging that the Respondent conducted a securities business while not maintaining sufficient net capital. An Offer of Settlement was issued on February 27, 2004, that included a joint and several fine of \$8,500.

On May 4, 2003, Respondent Redwood entered into an AWC for \$2,000, with findings that the firm failed to timely file Form G-36 for its municipal underwriting to MSRB.

On June 16, 1995, the Connecticut Department of Banking issued a cease and desist (C&D) order against Respondent Redwood. The C&D directed Respondent Redwood to cease and desist from regulatory violations and to review, revise and implement supervisory and compliance procedures designed to be in compliance with Connecticut's securities laws and its regulations thereunder. Respondent Redwood remitted a \$500 civil penalty and \$2,233 in disgorgement, which represented commissions earned during the period of unregistered activity in the state without state registration.

Mukerji does not have any disciplinary history.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

During the period from approximately August 22, 2002 through December 23, 2002, Respondent Mukerji was inactive for failure to fulfill his continuing education ("CE") requirements. During this period of CE inactive status, Redwood allowed Mukerji to engage in securities activities and to earn \$50,679 in commissions during October and November 2002. Mukerji also reviewed and approved all the securities transactions placed by all the registered employees at Redwood in his capacity as registered principal of the firm.

During the period from approximately January 11, 2002 through March 5, 2002, and from July 2, 2002 through October 18, 2002, Kim Tu, Redwood's Financial and

Operations Principal (“FINOP”), was inactive for failure to fulfill her CE requirements. During this period of her CE inactive status, Redwood, acting through Mukerji, allowed Tu to perform her FINOP duties for Redwood, submit monthly FOCUS filings to NASD and respond to NASD inquiries regarding Redwood’s FOCUS reports as Redwood’s FINOP.

Redwood, acting through Mukerji, failed to restrict the duties of Mukerji and Tu as registered persons when they became CE inactive.

Redwood’s Supervisory System, regarding its compliance with NASD Rule 1120(a), failed to address how often the firm is to access NASD’s Central Registration Depository (“CRD”) status reports to determine when a registered representatives regulatory element assessment must be completed; how subject persons will be notified of the requirement; what the firm will do with respect to persons who fail to complete the assessment; and how the firm will prevent such persons from engaging in activity for which registration is required.

Redwood designated Respondent Mukerji as its principal responsible for reviewing the supervisory system, procedures, and inspections implemented by Redwood and take appropriate action reasonably designed to achieve Redwood’s compliance with NASD’s Rules. Redwood, acting through Mukerji, failed to establish and maintain a system to adequately supervise its representative’s compliance with the Regulatory Element of continuing education, as required.

Redwood’s Written Procedures (“WSPs”), dated September 5, 2001, regarding its compliance with NASD Rule 1120(a), state that: “Redwood will rely on the NASD’s

CRD reports to monitor its representative's compliance with the Regulatory Element of continuing education." And: "[t]he Designated Principal will be responsible for informing registered representatives of their 120-day windows and will keep a record that tracks each registered representative's compliance with the testing requirement."

Redwood's WSPs state that Respondent Mukerji is the responsible principal in monitoring the continuing education regulatory element. Redwood's WSPs fail to address how often the firm is to access the CRD status reports to determine when a registered representatives regulatory element assessment must be completed; how subject persons will be notified of the requirement; what the firm will do with respect to persons who fail to complete the assessment; and how the firm will prevent such persons from engaging in activity for which registration is required. Redwood, acting through Mukerji, failed to establish, maintain and enforce adequate written procedures that were designed to achieve compliance with the Regulatory Element of continuing education, as required.

On December 11, 2002, NASD issued Complaint No. C01020025, alleging that Brookes Bendetsen, a representative registered with Redwood, had signed a customer's name to a margin agreement, in violation of Rule 2110; made unsuitable recommendations to the customer, in violation of Rules 2310, 2860(b)(1) and 2110; and created false account statements and provided them to the customer in violation of Rule 2110. A Decision was rendered on July 8, 2003, wherein Bendetsen was barred from associating with any NASD member in any capacity. A copy of that Decision was sent to Redwood.

Bendetsen's CRD record reflected the filing of Form U-6 by NASD to reflect the Decision and bar. Bendetsen appealed the Decision to the NAC and the bar was stayed.

On August 5, 2003, Bendetsen's registration was suspended, due to his failure to pay an arbitration award in Proceeding No. ARB030008. A copy of the Decision was sent to Redwood. Bendetsen's CRD record reflected the filing of Form U-6 by NASD to reflect the Decision and suspension.

On August 7, 2003, Redwood filed a Form U-5, requesting full termination of Bendetsen's registration. The Form U-5 was filed by Redwood and electronically signed and acknowledged by Mukerji. The reason for termination of registration was marked "Discharge" however, no explanation was given, as required by the Form. The Form U-5 filed by Redwood, terminating Bendetsen's registration, did not contain a "yes" answer to question 7A. Question 7A of Form U-5 asks: "Currently is, or at termination was, the individual the subject of an *investigation* or *proceeding* by a domestic or foreign governmental body or *self-regulatory organization* with jurisdiction over *investment-related* businesses? (Note: Provide details of an *investigation* on an Investigation Disclosure Reporting Page and details regarding a *proceeding* on a Regulatory Action Disclosure Reporting Page.)"

Redwood filed an amendment to Bendetsen's Form U-5 on August 27, 2003. The Form U-5 amendment, electronically signed and acknowledged by Respondent Mukerji, disclosed the failure to pay the arbitration award. Respondent Mukerji, however, willfully failed to disclose the Decision rendered in Complaint No. C01020025 in response to question 7A. Redwood, acting through Respondent Mukerji, never filed a subsequent amendment to Bendetsen's Form U-5 and re-hired Bendetsen on September 19, 2003, with his registration becoming effective on October 10, 2003.

On May 3, 2004, Redwood filed a Form U-5 requesting full termination of Bendetsen's registration. The Form U-5 was electronically signed and acknowledged by Respondent Mukerji. Respondent Mukerji willfully failed to answer "yes" to question 7A, for Complaint No. C01020025.

Based on the foregoing, Respondents violated Rules 1120, 2110, 3010(a) and 3010(b) and Article V of NASD By-Laws. Respondent Mukerji also violated Rule IM-1000-1.

Based on the foregoing, the Fifth Cause of the Complaint is hereby dismissed.¹

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents from any future misconduct, and represent a proper discharge by NASD of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that:

Respondents Redwood and Mukerji shall be jointly and severally liable to pay a fine in the amount of \$16,000; and

Respondents Redwood and Mukerji are censured.

The sanctions imposed herein shall be effective on a date set by NASD staff.

¹ In Respondents Offer of Settlement, they have consented to the issuance of this Order, which includes the entry of findings of fact and violations as alleged in the Complaint. The Fifth Cause of the Complaint was alleged in the alternative to the Fourth Cause of the Complaint and, therefore, is dismissed.

SO ORDERED.

NASD

By: 

Elisabeth P. Owens

Senior Vice President, West Region
on behalf of the Director of ODA, pursuant
to delegated authority