FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015045550801

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

RE: Industrial and Commercial Bank of China Financial Services LLC, Respondent
CRD No. 131487

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Industrial and Commercial Bank of China Financial Services LLC ("ICBCFS," or the "Firm") 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 ICBCFS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. ICBCFS hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

ICBCFS is a subsidiary of Industrial and Commercial Bank of China Limited. ICBCFS or one of its predecessors has been a FINRA regulated broker-dealer since 2004. The Firm offers securities clearing, processing, and financing services to its correspondent customers through fully-disclosed and omnibus clearing arrangements. As part of its clearing business, ICBCFS clears various securities, including U.S. and Global Equities, U.S. Treasuries/Agencies, municipal securities, exchange-traded funds, and corporate and European bonds.

ICBCFS has a single office in New York City and approximately 66 registered individuals associated with the Firm. As of December 31, 2017, the Firm reported net capital of approximately $505 million, with required net capital of approximately $12 million.

RELEVANT DISCIPLINARY HISTORY

ICBCFS has no relevant disciplinary history.

OVERVIEW

In late 2012, ICBCFS started a new business line involving the clearance and settlement of equity transactions. In connection with this new business, the Firm began carrying and clearing for dozens of new correspondent broker-dealers, including thousands of new introduced customers. Many of these new introduced customers began purchasing and selling millions of dollars' worth of low-priced equity securities ("penny stocks") within a few months after the business was launched.

From January 2013 through at least September 2015 (the "Relevant Period"), ICBCFS's anti-money laundering ("AML") program was not reasonably designed to detect and cause the reporting of potentially suspicious transactions with respect to this new business line. Despite clearing and settling the liquidation of more than 33 billion shares of penny stocks, ICBCFS did not have in place procedures reasonably designed to ensure that penny stock transactions were sufficiently scrutinized for potentially suspicious activity.

Prior to June 2014, the Firm had no surveillance reports designed to monitor potentially suspicious liquidations of penny stock shares. As for the exception reports that the Firm did have in place, ICBCFS's AML procedures did not require its employees to document their review of such reports and the Firm did not track instances in which potentially suspicious trading activity was identified. After being placed on notice in or about June 2014 by the U.S. Securities and Exchange Commission ("SEC") that its surveillance system failed to detect potentially suspicious penny stock liquidations by introduced customers, ICBCFS did not amend its AML program to adequately monitor this activity. Although the Firm implemented two new surveillance reports that targeted penny stock transactions, ICBCFS failed to amend its written AML procedures to provide guidance to its employees regarding the purpose of the reports, how to use the reports and how to escalate matters of concern to Firm senior management for further review. Moreover, ICBCFS did not require its employees to document either their review of the new Firm-issued surveillance reports or escalations to senior management of issues of concern. Because of these deficiencies, ICBCFS did not track patterns of potentially suspicious trading activity over extended periods of time.

As a result of these deficiencies in its AML program, ICBCFS failed to reasonably detect and investigate red flags of potentially suspicious penny stock liquidations that may have required the filing of a suspicious activity report ("SAR"), despite clearing the liquidation of over 33 billion penny stock shares valued in excess of $210 million during the Relevant Period. By failing to develop and implement an AML program that was reasonably designed to detect and report suspicious activity, the Firm violated FINRA Rules 3310(a) and 2010.

ICBCFS also failed to conduct appropriate AML independent testing that

addressed the primary AML risks associated with the Firm's clearing of penny stock transactions, in violation of FINRA Rules 3310(c) and 2010.

In addition to the AML-related violations, ICBCFS had customer reserve hindsight deficiencies, in violation of Section 15(c) of the Securities Exchange Act of 1934 (the "Exchange Act"), Rule 15c3-3(e) thereunder, and FINRA Rule 2010. The Firm also performed inaccurate customer reserve formula computations, in violation of Section 17(a) of the Exchange Act, Rule 17a-4(b)(5) thereunder, and FINRA Rules 4511(a) and 2010.

The Firm also performed inaccurate segregation calculations and committed possession or control violations, in violation of Section 15(c) of the Exchange Act, Rule 15c3-3 thereunder, and FINRA Rule 2010, and improperly used three foreign custody accounts without first requesting the SEC to designate the custodial accounts as good control locations, in violation of Section 15(c) of the Exchange Act, Rule 15c3-3(c)(4) thereunder, and FINRA Rule 2010. Furthermore, the Firm filed three inaccurate FOCUS Reports, in violation of Section 17(a) of the Exchange Act, Rule 17a-5(a)(2) thereunder, and FINRA Rule 2010, and employed an individual who worked as a Financial and Operations Limited Principal but who lacked the appropriate license, in violation of NASD Rule 1021(a) and FINRA Rule 2010.

Finally, the Firm's supervisory system and written procedures governing compliance with the possession or control provisions of Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder were not reasonably designed, in violation of NASD Rule 3010(a) and (b) and FINRA Rules 3110(a) and (b) and 2010.

FACTS AND VIOLATIVE CONDUCT

ICBCFS's AML Program Was Not Reasonably Designed to Detect and Cause the Reporting of Potentially Suspicious Activity

FINRA Rule 3310 requires FINRA regulated broker-dealers to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor [their] compliance with the requirements of the Bank Secrecy Act" and the implementing regulations thereunder. Under Rule 3310(a), the program must, at a minimum, establish and implement policies and procedures that "can be reasonably expected to detect and cause the reporting of" transactions required to be reported under 31 U.S.C. § 5318(g) and the implementing regulations thereunder. A violation of FINRA Rule 3310(a) is also a violation of FINRA Rule 2010, which requires FINRA regulated broker-dealers to observe "high standards of commercial honor and just and equitable principles of trade."

Broker-dealers are also required to report suspicious activity pursuant to 32 C.F.R. § 1023.320. The U.S. Treasury Department has instructed broker-dealers to determine whether trading activity raised suspicions by monitoring for various "red flags." NASD Notices to Members 02-21 and 02-47 emphasize that a broker-dealer has a duty to (a) tailor its AML program to the particular risks of its business model, as well as its customer base; (b) monitor red flags of suspicious activity; and (c) where suspicious activity is detected, perform additional due diligence and determine whether or not to file a SAR.

As described below, during the Relevant Period, the Firm's AML program was not reasonably designed to detect and report potentially suspicious activity, including customer trading in penny stocks.

1. ICBCFS's AML Program Was Not Reasonably Tailored to the Firm's Business

In late 2012, ICBCFS added the clearing and settling of equity transactions as a new business line. The Firm began to clear for numerous direct customer accounts and dozens of correspondent clients (the "introducing broker-dealers") that introduced over 21,000 fully disclosed DVP/RVP[1] and held in custody accounts at ICBCFS. Within a few months of launching the equity clearing business, ICBCFS began clearing and settling the purchase and sale of millions of dollars' worth of penny stocks.

Despite adding the equity clearing as a new business line, ICBCFS failed to design an AML program that was reasonably tailored to identify potentially suspicious activity, particularly in penny stock transactions. From January 2013 through at least June 2014, the Firm had no surveillance or exception reports identifying potentially suspicious activity involving penny stock liquidations or red flags of potentially manipulative trading, such as (1) purchases and close in time liquidations of large blocks of thinly traded penny stocks, (2) substantial fluctuations in price of thinly traded penny stock shares, and (3) customers who dominated the trading volume in penny stocks. ICBCFS also did not require its employees to document their review of monitoring/surveillance reports that the Firm had in place during the Relevant Period. Nor did the Firm require its employees to document their decisions regarding the filing of SARs.

The Firm failed to track whether customer accounts were related, or determine whether or not account holders were acting in concert to liquidate penny stocks. The Firm also lacked systems and procedures to monitor whether certain activities – including the opening of multiple accounts, wire transfers out of an account, or funds transfers among accounts, each of which would be relevant to evaluating potentially suspicious activity – were unusual for any given customer, despite the

[1] "DVP" refers to "delivery versus payment," a procedure by which the purchaser's payment for securities is due at the time of delivery. "RVP," or "receipt versus payment," is the converse from the seller's perspective, *i.e.*, the seller's receipt of funds occurs at the time of delivery.

Firm's written AML procedures specifically identifying such items as red flags requiring monitoring.

The Firm's AML program also was unreasonable in that it assigned a significant number of the Firm's suspicious activity monitoring functions to a non-existent employee title. The Firm's written AML procedures delegated the responsibility for investigating indicia of potentially suspicious activity such as the opening of multiple accounts by a single customer, wire transfers from an introduced customer with no apparent business purpose, and transactions inconsistent with a customer's normal pattern of business to an unnamed employee identified by the title "Operations Manager." However, during the Relevant Period the title "Operations Manager" did not exist at the Firm and no Firm employees effectively carried out the investigation of suspicious activity assigned to the Operations Manager.

2. ICBCFS Failed to Identify Potentially Suspicious Activity

The Firm failed to detect or investigate potentially suspicious activity, particularly with regard to the clearance of penny stock transactions by introduced customers. During the Relevant Period, Firm customers liquidated more than 33 billion shares of penny stocks and generated approximately $210 million in proceeds. Approximately 15 billion penny stock shares were sold by Firm customer accounts that did not purchase a single penny stock during the Relevant Period. In total, approximately 106 accounts during the Relevant Period sold penny stocks without making any purchases. Liquidations of penny stocks by Firm introduced customers frequently dominated the overall trading volume, resulting in hundreds of instances where such liquidations represented more than 75% of a penny stock's trading volume in a single day.

As a result of ICBCFS's deficient AML surveillance and reporting systems and procedures, the Firm failed to reasonably detect or investigate potentially suspicious activity relating to penny stock transactions cleared by the Firm, as in the following:

- In 2013, ABC Bank Ltd. ("ABC Bank"), an introduced customer of the Firm, liquidated more than 42 million shares in a penny stock which generated approximately $16.2 million in proceeds during a three-month period. In 2013, introduced customer DEF Securities Inc. ("DEF Securities") also liquidated more than 1.4 million shares in a different penny stock, which generated more than $1 million in proceeds during a six-week period. Both transactions contained several red flags of potentially suspicious activity: (1) the penny stock shares were liquidated within a relatively brief period; (2) on several dates the total number of shares liquidated through the Firm exceeded 50% of the total trading volume in the security; (3) the price of one of the penny stocks dropped from $0.67 to $0.03 per share after ABC Bank finished liquidating its

shares; and (4) the accounts for ABC Bank and DEF Securities were domiciled in the Cayman Islands.

- In 2013 and 2014, the Firm opened two accounts for introduced customer XYZ Financial LLC ("XYZ Financial"), notwithstanding that the entity's beneficial owner had been barred from the securities industry in 2012 following a FINRA disciplinary action. XYZ Financial liquidated penny stocks associated with approximately 107 different issuers and generated more than $18 million in proceeds. In approximately 675 instances, XYZ Financial's liquidations represented more than 50% of the total daily market volume for a given penny stock.

- Over 143 trading days from June 2013 through June 2014, XYZ Financial liquidated more than 3.2 million shares of a thinly traded penny stock without purchasing a single share. On approximately 103 trading days, XYZ Financial's liquidations exceeded 50% of the total market volume. XYZ Financial generated more than $475,000 from the liquidations. During this period, the price of the stock dropped by roughly 77% from a high of approximately $0.35 per share to $0.08 per share.

- From late October 2013 through March 2014, XYZ Financial liquidated approximately 89 million shares of a different thinly traded penny stock without purchasing a single share. On several trading days, XYZ Financial's liquidations represented or exceeded 30% of the daily trading volume. During the time period of XYZ Financial's liquidations, the price of the penny stock dropped by more than 50%. XYZ Financial generated approximately $65,000 in proceeds from the liquidations.

- On five consecutive dates in February 2014, three introduced customers of the Firm liquidated nearly 3 billion shares of a thinly traded penny stock and generated more than $1.7 million in proceeds. On three trading days, the total number of shares collectively liquidated by these customers ranged from approximately 38% to 45% of the trading volume in the penny stock. By the end of the five-day trading period, the price of the penny stock dropped by approximately 50%. The penny stock issuer was purportedly involved in the marijuana business, an area identified by FINRA as susceptible to fraudulent penny stock activity.

Notwithstanding these and other red flags, due to its not reasonably designed AML program, ICBCFS failed to identify the activity described above as potentially suspicious or take meaningful steps to investigate the activity.

3. ICBCFS Failed to Take Appropriate Action Despite Being on Notice that Its Surveillance System Failed to Detect Potentially Suspicious Penny Stock Transactions by Introduced Customers

By no later than June 2014, ICBCFS was notified by the SEC that its AML program was ineffective given the Firm's failure to adequately monitor suspicious penny stock liquidations by its introduced customers. After being notified by the SEC during an examination about the deficiencies in its AML program, ICBCFS rolled out two new exception reports in June and December 2014: the "Penny Stock Report," and the "3% Report," to assist it in identifying potentially suspicious penny stock activity (the "Reports"). However, ICBCFS failed to make necessary changes to its AML written procedures to incorporate the review of these Reports or to provide written guidance instructing Firm employees how to use the Reports or whether and how to escalate matters of concern generated by the Reports to Firm senior management. ICBCFS did not require its employees to document their review of the Reports, nor did the Firm maintain written records of instances in which potentially suspicious activity was brought to the attention of Firm senior management. Consequently, the Firm failed to track patterns of potentially suspicious activity over extended periods of time, nor did it attempt to establish connections between activities that otherwise appeared unrelated. Given these deficiencies, the Firm's AML program and written procedures remained not reasonably designed to identify potentially suspicious activity.

Additionally, in August 2014, an independent AML auditor retained by the Firm to test its AML program recommended that the Firm incorporate policies governing microcap securities into its AML written procedures and amend the AML procedures to reflect a new risk assessment of its equity clearing business. Despite the AML auditor's recommendation, however, the Firm failed to amend or revise its AML written procedures.

As a result of the foregoing, ICBCFS violated FINRA Rules 3310(a) and 2010.

Inadequate AML Testing

FINRA Rule 3310(c) requires FINRA regulated broker-dealers to arrange for independent compliance testing of its AML program. The testing is required annually, subject to certain exceptions not applicable here. The failure to comply with Rule 3310(c) also violates FINRA Rule 2010.

From 2014 through 2016, ICBCFS retained an independent AML auditor to test the Firm's AML program. The auditor conducted three annual reviews of ICBCFS's AML program and summarized each year's findings in a report. In each of the three years, ICBCFS failed to reasonably describe its business activities to the auditor. Specifically, the Firm failed to indicate that it was clearing a large amount of penny stock activity, or take reasonable steps to alert the auditor to the amount of potentially suspicious activity involved in this penny

stock clearing. The Firm's omissions to its independent AML auditor persisted even after the SEC notified the Firm in June 2014 that introduced customers were engaged in potentially manipulative trading involving penny stocks.

As a result, the testing conducted by the auditor failed to uncover any of the deficiencies in ICBCFS's AML program and written procedures concerning trade monitoring. Additionally, the testing did not address penny stocks or the fact that ICBCFS cleared transactions for introduced customers, despite that such activity would have been highly material in assessing the adequacy of the Firm's AML program.

As a result of the foregoing, ICBCFS violated FINRA Rules 3310(c) and 2010.

Customer Reserve Hindsight Deficiencies

The purpose of Exchange Act Rule 15c3-3, known as "The Customer Protection Rule," is to prevent customer assets from being used improperly by a broker-dealer to fund its business operations. Rule 15c3-3(e)(1) requires broker-dealers that receive customer funds or securities to open and maintain the Special Reserve Bank Account for the Exclusive Benefit of Customers (the "Reserve Account"). Broker-dealers must at all times maintain certain minimum deposits of cash and/or qualified securities in the Reserve Account computed in accordance with a formula (the "Reserve Formula") incorporated in Exchange Act Rule 15c3-3. This requirement of 15c3-3(e)(1) helps ensure that funds are available to pay customers in the event the broker-dealer must liquidate its operations.

Rule 15c3-3(e)(2) requires broker-dealers to maintain a Reserve Account balance equal to the amount by which total credits exceed total debits, as determined by the Reserve Formula. Rule 15c3-3(e)(3) requires broker-dealers to perform weekly computations as of the close of the last business day of the week, to determine the requisite amount to be deposited in the Customer Reserve Account.

In performing its weekly Customer Reserve calculation, Rule 15c3-3 requires a broker-dealer to reduce its net debit balances by the amount of any single customer debit exceeding 25% of the broker-dealer's tentative net capital. A hindsight deficiency occurs when there is a deficiency in the funding of a required deposit.

A violation of Section 15(c) of the Exchange Act, and Rule 15c3-3(e) thereunder, constitutes a violation of FINRA Rule 2010.

On several occasions during April and May 2014, the Firm failed to reduce its customer debit balances by the amount of any single customer debit exceeding 25% of the Firm's tentative net capital. During the same period, the Firm also improperly classified several prime brokerage customer accounts as non-

customer accounts, and in so doing improperly excluded approximately $5.7 million in credits.

As a consequence, the Firm had customer reserve hindsight deficiencies on April 30, 2014, May 16, 2014, and May 30, 2014 ranging from approximately $8.2 million to approximately $9.5 million.

In addition, in November 2014, the Firm failed to accurately identify the adjusted amount of a customer's debit balance while performing the 25% tentative net capital customer reserve computation, resulting in its overstatement of the net debit balance by approximately $7.2 million.

As a result of the foregoing, the Firm violated Section 15(c) of the Exchange Act, Rule 15c3-3(e) thereunder, and FINRA Rule 2010.

Inaccurate Books and Records

Section 17(a) of the Exchange Act and Rule 17a-4(b)(5) thereunder require every broker-dealer to preserve "all trial balances, computations of aggregate indebtedness and net capital," among other things. An SEC Interpretation of this Rule states that all reserve computations and supporting documentation made pursuant to Rule 15c3-3(e)(3) are included within this requirement.

FINRA Rule 4511(a) requires broker-dealers to make and preserve books and records as required under the FINRA Rules, the Exchange Act and the applicable Exchange Act rules. A violation of Section 17(a) of the Exchange Act and Rule 17a-4(b)(5) thereunder, as well as of FINRA Rule 4511(a), constitutes a violation of FINRA Rule 2010.

The Reserve Account computations are books and records of the Firm that are required to be accurately maintained. By virtue of the above-referenced errors in the Reserve Account computations, these records of the Firm were inaccurate, in violation of Section 17(a) of the Exchange Act, Rule 17a-4(b)(5) thereunder, and FINRA Rules 4511(a) and 2010.

Inaccurate Segregation Calculations and Possession or Control Violations

Section 15(c) of the Exchange Act and Rule 15c3-3(b)(1) thereunder require a broker-dealer to promptly obtain and maintain physical possession or control of fully-paid and excess margin securities carried for customer accounts. The quantity of customers' fully-paid and excess margin securities required to be in a firm's possession or control is referred to as its "segregation requirement." If the quantity of shares in its possession or control exceeds a firm's segregation requirement, the firm has an "excess" of securities. If the quantity of shares in its possession or control is less than a firm's segregation requirement, the firm has a "deficit" of securities. The Interpretation of Rule 15c3-3(b)(2)/03 prohibits the

delivery or removal of securities from a firm's possession or control if doing so would create or increase a deficiency in the quantity of securities required to be in possession or control.

A firm may hold securities valued up to 140% of the customer's debit balance in order to adequately secure the balance. If the firm is holding securities that are valued at more than 140% of the customer's debit balance, the remainder of the securities are assumed to be "excess margin" and the firm must maintain these securities in its possession or control.

Exchange Act Rule 15c3-3(d) requires that "[n]ot later than the next business day, a broker or dealer, as of the close of the preceding business day, shall determine from its books or records the quantity of fully paid securities and excess margin securities in its possession or control and the quantity of fully paid securities and excess margin securities not in its possession or control." Under the Interpretation of Rule 15c3-3(d)(1)/09, a firm must prepare a listing of all instances in which it is required to obtain physical possession or control of customers' fully-paid and excess margin securities and deficit positions. A violation of Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder is also a violation of FINRA Rule 2010.

On numerous occasions the Firm inaccurately calculated the amount of securities required to be segregated for customer accounts. The Firm incorrectly included the market value of the customers' short option securities in its segregation calculation, which resulted in a deficit of approximately $44,800 as of November 28, 2014, and a deficit of approximately $490,461 as of March 23, 2015.

Additionally, the Firm's segregation calculation for one Firm customer was inaccurate as of November 25, 2015, because it did not capture the customer's partial "early release" sale of certain shares in a single stock, which resulted in a deficit involving 8,800 shares of stock worth approximately $657,807.

On May 10, 2016, the Firm manually reduced the segregation instructions for a stock held in a customer's account by 12,523 shares, which resulted in a deficit involving 10,827 shares of stock worth approximately $277,929.

On May 16, 2016, the Firm manually reduced the segregation instructions for the same stock by 20,761 shares, which resulted in a deficit of 15,681 shares of stock worth approximately $407,079. Immediately following the manual adjustment, the Firm improperly delivered out 8,500 shares of this stock worth approximately $219,844.

As a result of the foregoing, ICBCFS violated Section 15(c) of the Exchange Act, Rule 15c3-3 thereunder, and FINRA Rule 2010.

Inaccurate FOCUS Reports

Section 17(a) of the Exchange Act and Exchange Act Rule 17a-5(a)(2) thereunder require FINRA regulated broker-dealers to file monthly or quarterly Financial and Operational Combined Uniform Single ("FOCUS") reports, which must be accurate. Part II of the FOCUS Report includes the firm's computation of its net capital and customer reserve formula. The filing of an inaccurate FOCUS Report is a violation of Section 17(a) of the Exchange Act, Rule 17a-5(a)(2) thereunder, and FINRA Rule 2010.

On May 22, 2014, the Firm filed a FOCUS report indicating that it did not have a reserve formula requirement for the period ending April 30, 2014. However, the Firm had a customer reserve hindsight deficiency of $8,267,032, which rendered the FOCUS report inaccurate.

On June 24, 2014, the Firm filed a FOCUS report with FINRA for the period ending May 31, 2014 indicating that it had $8,304,269 in excess reserves. However, the Firm had a customer reserve hindsight deficiency of approximately $8,608,051.

On December 23, 2014, the Firm filed a FOCUS report with FINRA for the period ending November 28, 2014 indicating a reserve requirement of $41,695,369 and excess reserves of $56,803,467. However, the Firm's true reserve requirement was actually $48,751,590, and its excess reserves were $49,747,246.

By filing three inaccurate FOCUS reports, ICBCFS violated Section 17(a) of the Exchange Act, Rule 17a-5(a)(2) thereunder, and FINRA Rule 2010.

Failure to Seek SEC Approval to Use a Satisfactory Foreign Control Location

Section 15(c) of the Exchange Act and Exchange Act Rule 15c3-3(c)(4) thereunder state that securities in the custody of a foreign depository, foreign clearing agency or foreign custodian bank are under the control of the broker-dealer. The Interpretation of Exchange Act Rule 15c3-3(c)(4)/01 requires that, prior to treating such a location as a satisfactory control location, a broker-dealer must submit an application to the SEC and not have that application rejected by the SEC within 90 days of the SEC's receipt of the application. A violation of these rules is also a violation of FINRA Rule 2010.

In 2014, ICBCFS used three foreign custody accounts as satisfactory control locations but failed to submit the requisite application to the SEC requesting approval to treat these accounts as satisfactory control locations, in violation of Section 15(c) of the Exchange Act, Rule 15c3-3(c)(4) thereunder, and FINRA Rule 2010.

Registration Violation

NASD Rule 1021(a) requires "[a]ll persons engaged or to be engaged in the investment banking or securities business of a member who are to function as principals" to "be registered as such with NASD in the category of registration appropriate to the function to be performed as specified in Rule 1022." A principal is defined by NASD Rule 1021(b) as a person "actively engaged in the management of the member's ... securities business, including supervision, solicitation, conduct of business or the training of persons ... for any of these functions." NASD Rule 1021(d) requires a principal to pass the appropriate qualification examination within 90 days of assuming the duties of a principal. A violation of NASD Rule 1021 is also a violation of FINRA Rule 2010.

Under NASD Rule 1022(b), ICBCFS was required to designate a Financial and Operations Limited Principal ("FINOP") who was responsible for, among other things, the preparation and "final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body," the supervision of individuals who assist in the preparation of such reports, and the supervision and responsibility for the individuals who are involved in the administration and maintenance of the firm's back office operations. An individual may serve as a FINOP pursuant to NASD Rule 1022(b) provided that he or she holds a Series 27 license.

From November 2010 until July 2013, the Firm employed an individual who performed the work of a FINOP. However, this Firm employee had not passed the appropriate Series 27 qualification examination and did not possess the required Series 27 license to engage in those duties on behalf of the Firm.

In or around 2012, the Firm was notified that the employee who performed FINOP functions lacked the appropriate Series 27 license for his position at the Firm. Despite this notification, the Firm allowed the employee to perform the functions of a FINOP, even though the employee had not passed the appropriate qualification examination and did not possess the required Series 27 license.

By employing an individual to carry out FINOP duties without the requisite Series 27 license, ICBCFS violated NASD Rule 1021(a) and FINRA Rule 2010.

Inadequate Supervisory System and Written Procedures

NASD Rule 3010(a) and FINRA Rule 3110(a) require each FINRA regulated broker-dealer to establish and maintain a "system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with" applicable securities laws and regulations and with applicable FINRA Rules.[2] NASD Rule 3010(b) and

[2] FINRA Rule 3110 superseded NASD Rule 3010 effective December 1, 2014.

FINRA Rule 3110(b) require each FINRA regulated broker-dealer to establish, maintain, and enforce written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and FINRA Rules. A violation of these rules is also a violation of FINRA Rule 2010.

ICBCFS's systems and procedures governing the Firm's compliance with the possession and control requirements of Exchange Act Rule 15c3-3 were not reasonably designed, in that they failed to provide:

i. a process by which ICBCFS would determine that a foreign custody account constituted a satisfactory control location;

ii. a process by which the Firm could reasonably ensure that customer fully paid and excess margin securities were held in a satisfactory control location;

iii. a methodology for tracking and resolving deficits, as well as an escalation process addressing instances where appropriate and/or timely action was not taken to bring customer securities within the Firm's possession or control;

iv. written procedures for reasonably ensuring the accuracy of the Firm's excess deficit report, as well as instructions as to how ICBCFS's personnel could use the report; and

v. processes and written procedures for reasonably ensuring that customer fully paid and excess margin securities allocated to a short position for more than 30 calendar days were covered by the parties holding the short positions.

ICBCFS's processes for calculating the segregation requirements for customer omnibus accounts were also not reasonably designed. Rather than accept instructions provided by the omnibus account holder which, unlike the Firm, had individual ownership information for the securities at issue, the Firm calculated its segregation requirements for the omnibus account by merely netting "long" and "short" positions in securities in certain sub-accounts.

Additionally, ICBCFS had no written procedures in place to ensure that daily lists provided by omnibus account holders detailing excess shares were considered when the Firm calculated its daily segregation requirements for omnibus accounts.

As a result of the foregoing, ICBCFS violated NASD Rule 3010(a) and 3010(b) (for conduct before December 1, 2014), and FINRA Rules 3110(a) and 3110(b) (for conduct on or after December 1, 2014) and 2010.

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

1. A censure;
2. A fine of $5,300,000; and
3. ICBCFS shall:

   a. Retain, within 60 days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to compliance with FINRA Rule 3310 and the requirements of the Bank Secrecy Act, 31 U.S.C. § 5311, *et. seq.*, and the regulations promulgated thereunder. This review shall include the Firm's policies, systems, and procedures relating to monitoring for, identifying, investigating, and responding to red flags of suspicious transactions in general and specifically with respect to low-priced securities.

      The Independent Consultant's review must include the period from at least October 1, 2015 through the date of the Notice of Acceptance of this AWC;

   b. The Independent Consultant, any firm with which the Independent Consultant is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/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. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;

   d. Cooperate with the Independent Consultant in all respects, including by providing staff support. ICBCFS shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, ICBCFS shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; ICBCFS 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. At the conclusion of the review, which shall be no more than 120 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and FINRA staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to compliance with FINRA Rule 3310 and the requirements of the Bank Secrecy Act, 31 U.S.C. § 5311, *et. seq.*, and the regulations promulgated thereunder, including but not limited to, those related to monitoring for, identifying, investigating, and responding to red flags of suspicious transactions in general and specifically with respect to low-priced securities; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and

f. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with ICBCFS, 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 he/she is a member, and any person engaged to assist the Independent Consultant in performing his or her duties pursuant to this AWC, shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with ICBCFS or any of its 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.

g. Within 60 days after delivery of the Written Report, ICBCFS shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination. The Firm will 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.

4. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), ICBCFS shall provide FINRA staff with a written implementation report, certified by an officer of ICBCFS, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.

5. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

ICBCFS agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

ICBCFS specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

ICBCFS 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, ICBCFS 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 acceptance or rejection of this AWC.

ICBCFS 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

ICBCFS 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 the Firm; and

C. If accepted:

1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;

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 the subject matter thereof in accordance with FINRA Rule 8313; and

4. the Firm 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. The Firm 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 the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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 or its staff.

The undersigned, on behalf of ICBCFS, certifies that a person duly authorized to act on its 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 ICBCFS has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce ICBCFS to submit it.

Industrial and Commercial Bank of China Financial Services LLC

05/11/2018
Date (mm/dd/yyyy)

By: _____
Oleh Wlasenko
Chief Compliance Officer
Industrial and Commercial Bank of China Financial Services LLC

Reviewed by:

Julian Rainero, Esq.
Counsel for Respondent
Schulte Roth & Zabel LLP
919 Third Avenue
New York, NY 10022
Telephone: (212) 756-2411
Facsimile: (212) 593-5955

Accepted by FINRA:

5/16/18
Date

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

Richard Chin, Chief Counsel
Eric Hansen, Director
Gerald W. Sawczyn, Senior Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10281-1003
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