

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the Continued

Membership

of

COR Clearing LLC

(CRD No. 117176)

with

FINRA

Notice Pursuant to
Rule 19h-1
Securities Exchange Act
of 1934

SD- 2229

Date: December 21, 2018

I. Introduction

In October 16, 2018, COR Clearing LLC (“COR” or “the Firm”) submitted a Membership Continuance Application (“MC-400A” or the “Application”) to FINRA’s Department of Registration and Disclosure (“RAD”).¹ The Application seeks to permit the Firm to continue in membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Regulation (“Member Regulation” or “the Department”) approves the Firm’s Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act”).

II. The Statutorily Disqualifying Event Underlying the Application

The Firm is subject to a statutory disqualification, as that term is defined in Section 15(b)(4)(D), incorporated by reference in Section 3(a)(39)(F) of the Exchange Act, as a result of the U.S. Securities and Exchange Commission’s (“SEC” or “Commission”) September 28, 2018 Order (the “Order”), which found that the Firm willfully violated Section 17(a) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 17a-8 thereunder.² Specifically, the Firm’s statutory disqualification resulted

¹ See the MC-400A Application and related exhibits compiled by RAD and provided to the parties and the Office of General Counsel, pursuant to Procedural Rule 9524(a)(3), with a cover memorandum dated March 14, 2018. The Firm authorized the deduction of the \$1,500 processing fee for the Application from its Central Registration Depository (“CRD”) account on March 9, 2018 (*see* page 435) (attached as Exhibit 1).

² See the Order, *In the Matter of COR Clearing, LLC*, Admin. Proc. File No. 3-18851, dated September 28, 2018 (attached as Exhibit 2).

from its failure to file Suspicious Activity Reports (“SAR” or “SARS”) for certain suspicious trade and wire activity relating to the deposit and sale of low-priced securities during the period from January 2015 through June 2016 (“the “relevant period”). During the relevant period, COR cleared sales of shares of low-priced securities on behalf of customers of its introducing broker-dealer clients. These trades included a number of instances in which the customers deposited large blocks of low-priced securities and sold the securities into the market shortly thereafter, and then later, withdrew the proceeds of these sales from their accounts. In some instances, the same customer engaged in this pattern of depositing large blocks of low-priced securities, followed by sales and withdrawals with respect to multiple securities. The SEC found that COR’s Anti-Money Laundering (“AML”) procedures were not reasonably designed to detect the risk associated with its low-priced securities business. COR’s Low Priced Security Frequency alert failed to generate alerts in some instances and was only programmed to generate alerts for sales of securities priced below \$1 per share despite conventional guidance by the Commission and FINRA, both of whom stated that low-priced securities are generally priced under \$5 per share. Consequently, the suspicious trading activity by its customers was not flagged by COR’s AML Compliance system, causing the Firm’s failure to file the necessary SARS. As a result of its failures, the Firm was ordered to cease and desist from committing or causing violations or future violations of Section 17(a) of the Exchange Act and Rule 17a-8, comply with a set of undertakings, censured, and fined \$800,000.³

III. Background Information About the Firm

A. Location of the Firm & its Business Activities

COR is based in Omaha, Nebraska and has been a FINRA member since June 2002.⁴ The Firm has two Offices of Supervisory Jurisdiction (“OSJ”) and two branch offices.⁵ The Firm employs 36 registered principals, 88 registered representatives and 134 non-registered employees.⁶ The Firm does not employ any statutorily disqualified persons.

³ See Exhibit 2 at FINRA00078. The Firm was required to pay its fine within 30 days of the entry of the Order. Staff from the SEC’s Office of General Counsel have confirmed that the Firm paid the fine, in full, on October 1, 2018. See also, Exhibit 1 at p. FINRA00115-00116.

⁴ See Exhibit 1 at FINRA00082-00083, in response to Item 1, from Section Two.

⁵ *Id.*

⁶ *Id.*

COR has represented that, as of September 21, 2018, it will not accept, through its platform, for deposit or sale any deposit of OTC equity securities that trade below \$5 per share. Examination History

Cycle Examinations

COR's most recent Cycle Examination was conducted in 2017 and the Firm was issued a cautionary action for the three exceptions noted therein.⁹ The exceptions related to the Firm's failure to maintain an adequate process for identifying related accounts in order to determine the concentrated debit balances to be excluded from the Customer Reserve Formula computation; its failure to obtain the necessary written documentation for seven accounts in order to consider those accounts as Propriety Accounts of Broker-Dealers; and a review of Possession or Control deficits disclosed that the Firm did not have adequate controls to ensure that customers fully-paid-for shares were properly segregated at Northern Trust. As a result of these exceptions, FINRA found that the Firm was not in compliance with FINRA Rule 3110(a), Exchange Act Rule 240.15c3-3.

The Firm's 2016 Cycle Examination also resulted in a cautionary action for seven exceptions noted.¹⁰ Amongst other things, the exceptions related to the Firm's failure to provide customers with copies of account records within thirty days; deficiencies related to the Firm's application of free-riding violations; and a review of COR's BMO Harris Bank, N.A. reflected that there was no lien letter for its federal eligible good control location. With respect to all of the exceptions, the Firm failed to comply with Exchange Act Rules 240.10b-5, Section 15(c), 240.15c3-3(c)(5), 240.17a-3(3)(17)(i)(b), 240.17a-4(f)(2), 240.17a-4(f)(3), 240.17a-4(i); FINRA Rules 2010, 2020, 2121, 2122, 3110(a), 4511, 11870; NASD Rules 3010(a); BZX Rule 2.5 Interpretation .01(e); ISE Rule 313(b) and NYSE Arca Equities Rule 4.5.

Cause Examinations

During the past five years, FINRA has conducted five Cause Examinations of COR. In four of the five examinations, no exceptions were reported for the Firm. Those examinations focused on the Firm's options clearing procedures; its procedures relative to large options positions report ("LOPR"); and segregation requirements for possession

⁷ See extract from CRD, Types of Business for COR (attached as Exhibit 3).

⁸ See extract from CRD, Other Business Descriptions for COR (attached as Exhibit 4).

⁹ See FINRA Disposition Letter dated May 14, 2018, the Examination Report (No. 20170524927) dated March 19, 2018 and the Firm's response dated May 4, 2018 (collectively attached as Exhibit 5).

¹⁰ See FINRA Disposition Letter dated September 1, 2017, the Examination Report No. 20160476862 dated June 12, 2017 and the Firm's response dated July 24, 2017 (collectively attached as Exhibit 6).

or control procedures.¹¹ The fifth cause examination, from 2016, resulted in a cautionary action.¹² In that examination, COR was cited for one exception; its failure to comply with FINRA Rule 3110 (Supervision) because its supervisory systems failed to detail appropriate settlement instructions.

The Firm's Disciplinary History

In the past two years, COR has been subject to one disciplinary action, which was brought by FINRA.

In July 2017, COR signed a Letter of Acceptance, Waiver and Consent ("AWC") due to its failure to comply with rules related to close-out requirements for short sales.¹³ FINRA found that from December 9, 2013 through August 27, 2014; and from September 16, 2013 through October 27, 2013, there were 22 instances where COR had fail-to-deliver positions at a registered clearing agency in an equity security that resulted from a long sale, and the Firm did not close out those positions. This misconduct resulted in a violation of SEC Rule 204(a)(1) of Regulation SHO. For its misconduct, the Firm was censured and fined \$35,000.

IV. The Firms' Proposed Continued Membership with FINRA and Proposed Supervisory Plan

Pursuant to Exchange Act Rule 19h-1(c)(4) and FINRA Rule 9523(b), the Firm has agreed to the following plan of supervision (the "Supervisory Plan"):¹⁴

1. Comply with the undertakings specified in the Order;
2. If the Firm were to seek to reengage in the approval for sale of the OTC equity securities prohibited by the undertakings specified in the Order, it must first notify FINRA, in writing and also update its written supervisory procedures accordingly; and
3. Further, if COR intends to reengage or engage in the service line mentioned in paragraph 2 of this plan of supervision it must first inform FINRA, in writing, of its intent to do so. The Firm may submit its written documentation to:

Anita Moore

¹¹ See the Examination Reports for the four cause examinations of COR, which resulted in no findings (collectively attached as Exhibit 7).

¹² See FINRA Disposition Letter dated June 22, 2017 and the Examination Report No. 20160476862 dated March 6, 2017 (collectively attached as Exhibit 8).

¹³ See FINRA AWC No. 20140404620-01, accepted on July 11, 2017 (attached as Exhibit 9).

¹⁴ See the Firm's agreement to the Supervisory Plan, dated December XX, 2018 (attached as Exhibit 10).

FINRA
Litigation and Counsel
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New York, New York 10281
Anita.Moore@finra.org.

V. Discussion & Recommendation

After carefully reviewing the records in these matters, FINRA approves COR's Application. In evaluating applications like these, FINRA assesses whether the statutorily disqualified firm seeking to continue its membership with FINRA has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. *See* FINRA By-Laws, Art. III, Sec. (3)(d); *cf Frank Kufrovich*, 55 SEC. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on our assessment include the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, and whether there has been any intervening misconduct.

FINRA finds that COR has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm. While FINRA recognizes that the underlying misconduct involved serious violations of the federal securities laws, rules and regulations, as referenced above, FINRA also takes into account that the Commission did not expel, suspend or otherwise limit COR's securities activities. Instead, the Commission imposed remedial sanctions consistent with the purpose of disciplinary actions under the Exchange Act. *See* Exchange Act § 15(b) *et seq*; *Paul Edward Van Dusen*, 47 SEC 668, 670-671 (1981), quoting *Commonwealth Securities Corporation*, 44 SEC 100, 101-102 (1969) ("The sanctions ... serve[] to deter both the particular respondents as well as others in the securities industry from committing violations of the securities laws. We have been cognizant of the importance of exercising the discretionary power reposed to us in this area in a manner that will afford investors protection without visiting upon the wrongdoers adverse consequences not required in achieving the statutory objectives").


FINRA finds that a review of the Firm's regulatory history, including recent examinations, should not prevent the Firm from continuing as a FINRA member. Further, the Firm has taken additional measures to comply with the SEC's Order by limiting the scope of its OTC business line and in so doing, the Firm is no longer accepting, for deposit or sale, any deposit of OTC equity securities that trade below \$5 per share. Further, COR has represented that in order to fulfill its responsibility to comply with the undertakings¹⁵ outlined in the Order, the Firm submitted a Certification

¹⁵ *See* Exhibit 2 at FINRA00077-00078, 22 and 23.

of Compliance to the SEC on October 5, 2018.¹⁶ The Firm also stated that it amended its policies and issued a written notice to correspondent on September 21, 2018.¹⁷ Accordingly, and in compliance with paragraph 22 of the Order, COR provided notice to its correspondents, that it had effectively limited the scope of its business line, relative to accepting over-the-counter (“OTC”) deposits and sales below \$5 per share. In addition, COR has agreed, pursuant to its Supervisory Plan, to continue to comply with the undertakings ordered by the Commission. FINRA accepts the Commission ordered undertakings as sufficient to deter similar misconduct by the Firm in the future. Additionally, FINRA may, through its own examination program, assess whether the recommended changes are implemented.

FINRA approves COR’s continued membership with FINRA as it does not present an unreasonable risk of harm to the market or investors. The Firm is also a member of the following SROs: BOX, CBOE BZX, CHX, IEX, ISE, NYSE ARCA and NQX.¹⁸ The Firm is also a member of the Depository Trust Company (“DTC”) and its subsidiaries, the National Securities Clearing Corporation (“NSCC”) and the Fixed Income Clearing Corporation – Government Securities Division (“FICC-GOV”). In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of the National Adjudicatory Council,



Marcia E. Asquith
Senior Vice President and Corporate Secretary

¹⁶ See COR’s Certification of Compliance, dated October 15, 2018 (attached as Exhibit 11). The Firm has represented that this Certification was submitted to the SEC in order to comply with provision 23, listed as an undertaking in the Order.

¹⁷ See Notice to Correspondents dated September 21, 2018 (attached as Exhibit 12). See also Exhibit 1 at FINRA00096.

¹⁸ See extract from CRD, Organization Registration Status for COR (attached as Exhibit 13).

Exhibits

1. COR's MC-400A Application and related exhibits.
2. The SEC Order, *In the Matter of COR Clearing, LLC*, Admin. Proc. File No. 3-18851, dated September 28, 2018.
3. Extract from CRD, Types of Business for COR.
4. Extract from CRD, Other Business Descriptions for COR.
5. FINRA Disposition Letter dated May 14, 2018, the Examination Report (No. 20170524927) dated March 19, 2018 and the Firm's response dated May 4, 2018.
6. FINRA Disposition Letter dated September 1, 2017, the Examination Report No. 20160476862 dated June 12, 2017 and the Firm's response dated July 24, 2017.
7. The Examination Reports from the four cause examinations of COR.
8. FINRA Disposition Letter dated June 22, 2017 and the Examination Report No. 20160476862 dated March 6, 2017.
9. FINRA AWC No. 20140404620-01, accepted on July 11, 2017.
10. The Firm's agreement to the Supervisory Plan, dated December 21, 2018.
11. COR's Certification of Compliance, dated October 15, 2018.
12. Notice to Correspondents dated September 21, 2018.
13. Extract from CRD, Organization Registration Status for COR.