

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Legent Clearing LLC
(n/k/a COR Clearing LLC),
CRD No. 117176,

Respondent.

Disciplinary Proceeding
No. 2009016234701

Hearing Officer LBB

OFFER OF SETTLEMENT

I.

Respondent Legent Clearing LLC, now known as COR Clearing LLC (“the Firm”), makes this Offer of Settlement (“Offer”) to the Financial Industry Regulatory Authority (“FINRA”) with respect to the matters alleged by FINRA in Disciplinary Proceeding No. 2009016234701 filed on April 23, 2012 (“Complaint”), as amended by this Offer.

This Offer is submitted to resolve this proceeding and is made without admitting or denying the allegations of the Complaint, as well as the amended allegations set forth herein. It is also submitted upon the condition that FINRA shall not institute or entertain, at any time, any further proceeding as to the Firm based on the allegations of the Complaint, as amended by this Offer, and upon further condition that it will not be used in this proceeding, in any other proceeding, or otherwise, unless it is accepted by the National Adjudicatory Council (“NAC”) Review Subcommittee, pursuant to FINRA Rule 9270.

II.

ORIGIN OF DISCIPLINARY ACTION

This disciplinary action resulted from various FINRA examinations of the Firm from 2009 through 2013.

III.

ALLEGED ACTS OR PRACTICES AND VIOLATIONS BY RESPONDENT

As alleged in the Complaint and as amended herein, the Firm engaged in the following acts, or failed to act as follows:

SUMMARY

1. During the period beginning in January 2009 through early 2013 (the “Relevant Period”), the Firm failed at times to meet its anti-money laundering (“AML”), financial reporting and supervisory responsibilities. The Firm had numerous violations in these areas, demonstrating a lack of supervisory controls and a failure by the Firm to devote adequate attention and resources to these important regulatory areas.
2. In that regard, examinations of the Firm from January through April 2009 and from February 24, 2012 through May 20, 2012 revealed that during those time periods, the Firm failed to (1) establish and implement policies and procedures reasonably designed to monitor for, detect and cause the reporting of transactions required under the Bank Secrecy Act (“BSA”), (2) establish and implement policies and procedures reasonably designed to achieve compliance with other requirements of the BSA and its implementing regulations, and (3) designate and identify to FINRA an individual responsible for implementing and monitoring the day-to-day operations of the AML program.

3. In addition, the Firm failed to prepare accurate customer reserve and net capital computations at times during the Relevant Period. The Firm also did not prepare accurate books and records as a result of its errors in net capital and reserve computations.
4. The Firm's repeated and consistent failures to comply with its AML, financial reporting and supervisory requirements resulted in violations of NASD Rules 1021, 3010, 3011, 3020, 3110 and 2110; FINRA Rules 1230, 3310, 4110, 4210, 4511 and 2010; SEC Rules 15c3-1, 15c3-3, 15c3-5, 17a-3, and 17a-5; and Rule 204 of Regulation SHO by the Firm.

RESPONDENT AND JURISDICTION

5. The Firm is based in Omaha, Nebraska, and has been registered with FINRA since June 4, 2002. The Firm primarily provides clearing services for approximately 86 correspondent firms through fully-disclosed clearing agreements. As a clearing firm, the Firm performs order processing, settlement and record keeping functions for introducing broker/dealers that do not maintain back-office facilities to perform these functions. The Firm changed its ownership in December 2011 and in September 2012 changed its name from Legent Clearing LLC to COR Clearing LLC.

FIRST CAUSE OF ACTION DEFICIENT AML POLICIES, PROCEDURES AND IMPLEMENTATION (2009) NASD CONDUCT RULE 3011(a) AND FINRA RULE 2010

6. Between approximately January 1, 2009 and April 30, 2009, the Firm failed to establish and implement policies and procedures that were reasonably designed to detect and cause the reporting of transactions required under the BSA.

7. During this time period, the Firm failed to implement a program to review transactions in order to adequately detect and then evaluate the presence of potential AML “red flags” with a view towards determining whether the presence of the “red flags” required follow up reporting.
8. For example, as part of its AML compliance program, for the period January through April 2009, the Firm maintained a “tagged identifier list” (“TIL”). According to the Firm’s procedures, the TIL was a list of names, identification numbers and addresses that were affiliated with individuals or entities that maintained high risk accounts at the Firm in the past. The Firm’s procedures at the time required that the TIL be checked against information obtained from a demographic AML (“DAML”) information system, which consisted of customer identification information gathered by the introducing firms and maintained by a third party vendor.
9. However, not all of the Firm’s introducing firms populated the DAML system, although checking the TIL against the DAML system was the method that the Firm used to determine whether customers had maintained a high risk account in the past. For those introducing firms that did not populate the DAML system, there was no customer identification information available in the DAML system. Customers of those introducing firms that did not populate the DAML system, contrary to the requirements of the Firm’s written procedures, could not be checked for prior Firm accounts with potential red flags and suspicious activities.
10. In addition, the Firm failed to implement procedures to ensure that its employees were aware of established criteria for identifying red flags that were reasonably designed to monitor for suspicious activity. According to the Firm’s procedures, a

transaction required reporting through the filing of a Suspicious Activity Report (“SAR”) if the transaction involved or aggregated “funds or other assets of at least \$5,000” and certain other criteria was met related to the nature of the transaction that identified it as suspicious.

11. During the relevant period, instead of identifying and reporting those transactions that involved at least \$5,000 and met the other specified criteria, the Firm identified accounts that had a current account value in excess of \$5,000. As a result, the Firm did not identify as suspicious or report, where appropriate, those transactions that involved activity in excess of \$5,000 if the account value was below \$5,000.
12. Moreover, the Firm failed to implement procedures reasonably designed to accurately and completely report suspicious activity through the identification and investigation of red flags.
13. Also during this time period, the Firm implemented what it called a Defensive SARS Program that promoted the filing of SARs without first completing a review to investigate the suspicious activity or red flags that may have been identified. In implementing its Defensive SAR program, the Firm failed to establish procedures or implement a program that required, among others, the collection of sufficient and accurate information necessary to complete the SAR form, adherence to the guidelines for completing and filings SARS, and the retention of source documentation for the subject of its filings, including the internal exception reports.
14. Also, the Firm failed to implement procedures to ensure that timeframes and deadlines that were required by its written AML program were being followed, including those for Weekly AML Program Reviews and Risk Assessment Meetings.

15. As a result of the foregoing conduct, the Firm violated NASD Conduct Rule 3011(a) and FINRA Rule 2010.

**SECOND CAUSE OF ACTION
INADEQUATE WRITTEN PROCEDURES
RELATED TO FBARS
AND FAILURE TO TIMELY FILE A FBAR (2008)
NASD CONDUCT RULES 3011(b) and 2110 and
FINRA RULE 2010**

16. During the calendar year 2007, the Firm had a foreign bank account with a balance in excess of \$10,000. As such, the Firm was required to file a Foreign Bank and Financial Accounts Report (“FBAR”). A filing was due on or before June 30, 2008, but the Firm did not file the FBAR until approximately May 21, 2009.
17. The Firm failed to establish adequate written procedures and internal controls regarding the reporting of FBARS and failed to accurately state in its written procedures that the filing requirement was for accounts in excess of \$10,000 as required by the BSA.
18. As a result of the foregoing conduct, the Firm violated NASD Conduct Rules 3011(b) and 2110 and FINRA Rule 2010.

**THIRD CAUSE OF ACTION
CUSTOMER PROTECTION RULE—RESERVES
YEAR 2009
SEC RULE 15C3-3 AND FINRA RULE 2010**

19. SEC Rule 15c3-3 requires, among other things, that broker-dealers maintain with a bank or banks a “Special Reserve Bank Account for the Exclusive Benefit of Customers” (“Reserve Bank Account”) which must be separate from any other bank account of the broker or dealer. The broker-dealer is required to deposit and maintain in the Reserve Bank Account an amount no less than the amount computed using the

formula set forth in 15c3-3a (“Formula for Determination of Reserve Requirement for Brokers and Dealers”). The computation for determining the reserve requirement must be made weekly.

20. SEC Rule 15c3-3(e)(2) prohibits a broker or dealer from accepting or using any of the amounts under items comprising Total Credits under the formula except for the specified purposes indicated under items comprising Total Debits under the formula, and, to the extent Total Credits exceed Total Debits, at least the net amount must be maintained in the Reserve Bank Account.
21. There were three instances during the period of March through May 2009 when the bank loans of certain Firm customers decreased as of the reserve computation date, and were reinstated on the following business day. This required that the Firm’s Customer Reserve Computations be adjusted to include the decreases in customer bank loans as credits. As a result of the adjustments, these three instances resulted in cumulative hindsight deficiencies of approximately \$4.7 million.
22. As a clearing broker/dealer, the Firm must perform a computation for assets in the proprietary account of an introducing broker dealer (“PAIB assets”). There were additional inaccuracies in the PAIB Reserve Computation and the Customer Reserve Computation as of March 31, 2009. As a result of the inaccuracies in the PAIB Reserve Computation, adjustments increased the Firm’s Customer Reserve Requirement by \$207,090.
23. In addition, the Firm made several computational errors as of March 31, 2009 when it mistakenly included or excluded certain allocations in the Customer Reserve Computation.

24. As a result of the foregoing conduct, the Firm violated Rule 15c3-3 of the Exchange Act of 1934 and FINRA Rule 2010.

**FOURTH CAUSE OF ACTION
CUSTOMER PROTECTION RULE—CUSTODY
YEAR 2009
SEC RULE 15C3-3 AND FINRA RULE 2010**

25. SEC Rule 15c3-3(b) requires that a broker or dealer shall promptly obtain and thereafter maintain the physical possession or control of all fully paid securities and excess margin securities carried by a broker or dealer for the account of customers. The Firm violated this requirement in at least three instances in March 2009 by delivering shares to bank loans when the Firm did not have enough excess shares to make those deliveries.

26. As a result of the foregoing conduct, the Firm violated Rule 15c3-3 of the Securities Exchange Act of 1934 and FINRA Rule 2010.

**FIFTH CAUSE OF ACTION
CUSTOMER PROTECTION RULE—RESERVES
YEAR 2010
SEC RULE 15C3-3 AND FINRA RULE 2010**

27. The Firm's weekly Customer Reserve Computations were also found to include numerous inaccuracies. A review of the Firm's weekly Customer Reserve Computation pursuant to 15c3-3 as of February 26, 2010 required the following adjustments:

- a. The Firm over pledged customer securities held at the Bank of New York. The customer bank loan agreement did not contain the appropriate no lien language. Since the Firm also obtained a \$5,000,000 unsecured bank loan with the same entity, the \$5,000,000 should have been included as credit in the customer reserve formula.
- b. The Firm incorrectly reflected \$20,768,132 instead of \$9,673,977 as both a debit and credit as its OCC margin requirement in the formula. As a result, the Firm

overstated customer debit and credit balances by \$11,094,155. The net impact to the reserve formula was favorable by \$322,825 due to the three percent charge for the Alternative Method of Net Capital Computation.

- c. The account number for the 15c3-3 Bay Cities Bank Customer Reserve Notification letter did not correspond to the Bay Cities Bank Customer Reserve Statement as of March 31, 2010. As a result, the \$5,024,979.18 on deposit did not qualify as a bona fide deposit for the weekly Customer Reserve Computation as of February 26, 2010.
- d. The Firm failed to properly include certain other credits and debits, incorrectly included aged fails to deliver more than 30 calendar days old, and failed to include interest earned in the Customer Reserve Bank Account.

28. The above errors resulted in a customer reserve formula hindsight deficiency of \$9,830,172 for the Firm.
29. The Firm did not have a process in place to identify and exclude unsecured and partly secured debit balances in proprietary accounts of introducing brokers from its PAIB Reserve Formula Computation and to calculate the required capital charges for partly secured accounts.
30. As a result of the foregoing conduct, the Firm violated Rule 15c3-3 of the Exchange Act of 1934 and FINRA Rule 2010.

**SIXTH CAUSE OF ACTION
Customer Protection Rule - Custody (2010)
SEC Rule 15c3-3 and FINRA Rule 2010**

31. The Firm failed to properly classify securities in its custody or control. As of February 26, 2010, the National Securities Clearing Corporation ("NSCC") Long Free Account included four positions that were improperly considered to be in the possession or control of the Firm for more than fourteen calendar days.
32. As a result of the foregoing conduct, the Firm violated Rule 15c3-3 of the Exchange Act of 1934 and FINRA Rule 2010.

SEVENTH CAUSE OF ACTION
Procedures Related to Books and Records
NASD Rules 3010 and 3110, and FINRA Rule 2010

33. From January through April 2009, the Firm failed to have written procedures for the solicitation and acceptance of checks from customers that were made payable to correspondents.
34. In addition, the Firm failed to evidence that it had obtained or reviewed written procedures from any of its correspondents that were allowed to offer check writing privileges to customers. The Firm did not obtain or review the correspondents' written internal control procedures designed to monitor customer property that is made payable to the correspondents.
35. The Firm allowed one correspondent firm to provide check writing capabilities to its customers and two correspondent firms to solicit and accept checks from customers that were made payable to the correspondents.
36. The Firm did not maintain any records demonstrating that these check writing capabilities described above were included in the Firm's due diligence, vetting and approval process of the correspondents.
37. As a result of the foregoing conduct, the Firm violated NASD Rules 3010 and 3110 and FINRA Rule 2010.

EIGHTH CAUSE OF ACTION
Inaccurate FOCUS Report
SEC Rules 17a-3 and 17a-5, and FINRA Rule 2010

38. The Firm's February 26, 2010 FOCUS Report included several classification errors which resulted in misstatements on the FOCUS report and inaccurate books and

records. Those errors included aged suspense items that were erroneously included, and incorrect netting of unsecured receivables and non-customer payables.

39. As a result of the foregoing conduct, the Firm violated Rules 17a-3 and 17a-5 of the Securities Exchange Act of 1934 and FINRA Rule 2010.

NINTH CAUSE OF ACTION
Net Capital Computations
SEC Rules 15c3-1 and 17a-5, and FINRA Rule 2010

40. As of February 26, 2010, the Firm was not in compliance with Rule 15c3-1 when it failed to take a net capital charge in the amount of \$17,057 for aged suspense positions.
41. As of February 26, 2010, the Firm was not in compliance with Rule 15c3-1 when it failed to take the appropriate stock borrow deficit capital charge in the amount of \$87,177.
42. The Firm was not in compliance with Rules 15c3-1 and 17a-5 as of February 26, 2010 when it improperly reconciled three foreign bank accounts by comparing the February 26, 2010 book balance to the February 25, 2010 bank balance for such accounts and failed to calculate a foreign currency net capital charge. The Firm also excluded a foreign currency balance in the Bank of New York account.
43. As a result of the foregoing conduct, the Firm violated Rules 15c3-1 and 17a-5 of the Securities Exchange Act of 1934 and FINRA Rule 2010.

TENTH CAUSE OF ACTION
Fidelity Bond
NASD Rule 3020 and FINRA Rule 2010

44. NASD Rule 3020 requires that each member required to join the Securities Investor Protection Corporation (“SIPC”), which includes the Firm, shall maintain a blanket

Fidelity Bond covering officers and employees which provides against loss and has agreements within including a Cancellation Rider providing that the insurance carrier will use its best efforts to promptly notify FINRA in the event the bond is cancelled, terminated or substantially modified.

45. A review of the Firm's Fidelity Bond, dated October 18, 2009 through October 18, 2010, disclosed that the agreement did not state that FINRA would be notified if the Fidelity Bond is cancelled, terminated, or substantially modified.
46. As a result of the foregoing conduct, the Firm violated NASD Rule 3020 and FINRA Rule 2010.

ADDITIONAL FINDINGS

Under the terms of the Offer, the Firm has also consented to the entry of findings and violations arising out of examinations of the Firm conducted by FINRA in 2011, 2012 and 2013, without admitting or denying the allegations, 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, to the imposition of the sanctions set forth below, and fully understands that the Order Accepting Offer of Settlement will become part of the Firm's permanent disciplinary record and may be considered in any future action brought by FINRA. The additional findings are described below.

ANTI-MONEY LAUNDERING VIOLATIONS FINRA Rules 3310(a), (b), (d) and FINRA Rule 2010 (2012-2013)

FINRA Rule 3310(a)

47. FINRA Rule 3310(a) requires each member to establish and implement policies and procedures reasonably designed to monitor for, detect and cause the reporting of suspicious transactions required under 31 U.S.C. § 5318(g), and the implementing regulations promulgated thereunder.

48. From February 24, 2012 to May 20, 2012, the Firm did not have an AML program that was reasonably designed to monitor for, detect and report suspicious activity in compliance with the BSA. The Firm's AML program did not adequately address the risks of the Firm's business model, which included servicing introducing firms with significant numbers of accounts conducting activity in microcap securities, as well as third party wire activity.
49. The Firm's AML program relied in part on the introducing firms for surveillance of suspicious activity, even though the Firm did not conduct any review of the introducing firms' AML programs.
50. The Firm's procedures called for the use of manual reports for monitoring of suspicious activity, some of which had parameters that were not adequate to detect suspicious activity, and had limited staff and resources devoted to this monitoring. These limited staff and resources were inadequate to maintain a reasonable AML program for the Firm's clearing business.
51. In addition to having an AML system that was not reasonably designed to achieve compliance with the BSA, the Firm failed altogether to implement many parts of its program to monitor for, detect and report suspicious activity from February 24, 2012 through May 20, 2012. This failure is evidenced by the following findings:
- The Firm did not update or review its internal reports that monitored for suspicious activities and tracked activities identified by the Firm as potentially suspicious. These internal reports were the Firm's primary methods for monitoring possible red flags of suspicious activities
 - The Firm's risk mitigation committee, described in its written AML program as a forum for discussion of potentially suspicious activity, did not meet.
 - The Firm did not investigate negative responses generated from McDonald Information Service checks on customers.

- The Firm personnel did not report AML red flags and issues to the AML Officer for review as required by its procedures.
- The Firm did not complete email reviews within its internal email search system, as required in its written AML program.
- The Firm did not update its Tagged Identifier List, which was designed to verify that high risk accounts introduced by a correspondent firm that had been closed by the Firm had not been opened at another correspondent firm that cleared through the Firm.
- The Firm did not review Letters of Authorization and wire transfer logs for suspicious activity and red flags.
- The Firm allowed wire transfers to be sent to third parties in countries identified by the Firm as “watch list” countries without any heightened review of this activity as required by the Firm’s procedures.

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

FINRA Rule 3310(b)

53. FINRA Rule 3310(b) requires each member to establish and implement a written AML program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the BSA, as amended by the Patriot Act, (31 U.S.C. § 5311, et seq.), and the implementing regulations thereunder.

54. 31 C.F.R. 1010.610, which implements Section 312 of the Patriot Act, requires financial institutions to conduct due diligence on correspondent accounts for foreign financial institutions. Specifically, this due diligence must include “appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls that are reasonably designed to enable the covered financial institution to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account”

55. From February 24, 2012 through May 20, 2012, the Firm failed to identify correspondent accounts for foreign financial institutions and conduct appropriate due diligence on these accounts.

56. As a result of the foregoing conduct, the Firm violated FINRA Rules 3310(b) and 2010.

FINRA Rule 3310(d)

57. FINRA Rule 3310(d) requires each member to designate and identify to FINRA an individual responsible for implementing and monitoring the day-to-day operations of the AML program.

58. From March 23, 2012 through May 21, 2012, the Firm did not have an AML Officer with the appropriate training or knowledge required to function as an AML Officer.

59. As a result of the foregoing conduct, the Firm violated FINRA Rules 3310(d) and 2010.

**CUSTOMER RESERVE VIOLATIONS
SEC Rule 15c3-3 and FINRA Rule 2010**

60. The Firm made erroneous calculations in its weekly Customer Reserve Computation as of February 28, 2011. The Firm reported total credits of \$137,995,575, when its total credits were actually \$138,194,719. In addition, the Firm reported total debits of \$148,938,064, when its total debits were actually \$143,937,734.

61. The Firm made erroneous calculations in its weekly PAIB Reserve Computation as of February 28, 2011. The Firm reported total PAIB credits of \$9,037,603, when its total PAIB credits were actually \$8,855,638. In addition, the Firm reported total PAIB debits of \$4,645,645, when its total PAIB debits were actually \$4,209,993.

62. The Firm made erroneous calculations in its weekly Customer Reserve Computation as of November 30, 2011. These errors were caused by the Firm's failure to establish a process to identify and eliminate unsecured debits that resulted from IRA accounts, the Firm's improper netting of negative bank balances with positive bank balances, and the Firm's failure to establish a process to detect improper classification of Firm household accounts.
63. The Firm made erroneous calculations in its weekly Customer Reserve Computation and PAIB Reserve Computation as of November 30, 2012. These errors were caused by the failure to include certain credits or debits in the respective computations and from the failure to correctly code customer accounts as officer/director accounts.
64. In March 2011 and December 2011, the Firm made three deliveries of securities that created improper deficits in the Firm's securities positions. In another instance in March 2011, the Firm did not maintain sufficient excess margin securities under its possession or control.
65. As a result of the foregoing conduct, the Firm violated Rule 15c3-3 of the Securities and Exchange Act of 1934 and FINRA Rule 2010.

**NET CAPITAL VIOLATIONS
SEC Rule 15c3-1 and FINRA Rule 2010**

66. In November 2011, the Firm overstated its net capital by approximately \$243,000 due to various misclassifications of allowable assets and improper netting of payable accounts on the Firm's general ledger.

67. In November 2012, the Firm made errors in its net capital computation, which resulted in the Firm amending its FOCUS report in order to correctly report its net capital position.

68. As a result of the foregoing conduct, the Firm violated Rule 15c3-1 of the Securities Exchange Act of 1934 and FINRA Rule 2010.

SUPERVISORY VIOLATIONS

**NASD Rules 1021 and 3010; FINRA Rules 1230, 4110, 4210, 4511 and 2010;
SEC Rules 15c3-5, 17a-3 and 17a-5; and Rule 204 of Regulation SHO**

Regulation SHO Violations

69. From January 1 through April 30, 2011, the Firm did not properly complete delivery and close out requirements for fails to deliver under Regulation SHO in four instances. These failures led to improper long sales in multiple accounts that persisted for up to four months.

70. In addition, from August 2012 through February 2013, the Firm failed to have adequate written supervisory procedures (“WSPs”) to address its compliance with Rule 204 of Regulation SHO. The existing procedures were out of date and addressed an older version of Rule 204.

71. As a result of this conduct, the Firm violated Rule 204 of Regulation SHO, NASD Rule 3010 and FINRA Rule 2010.

Incorrect FOCUS Report

72. In February 2011, the Firm incorrectly reported a fail to deliver (“FTD”) balance on the wrong line in its FOCUS report. As a result, the payable to non-customers was overstated and FTD was understated.

73. As a result of this conduct, the Firm violated Rule 17a-3 and 17a-5 of the Securities Exchange Act of 1934, and FINRA Rule 2010.

Inadequate Supervision of Control Stocks

74. From May 2011 through January 2012, the Firm did not maintain written WSPs to identify control stock in customer margin accounts. As such, the Firm did not have a supervisory system in place to identify the impacts of control stock to its net capital and customer reserve computations..

75. As a result of this conduct, the Firm violated NASD Rule 3010, and FINRA Rules 4210 and 2010.

Improper Outsourcing of Back-Office Functions

76. From May 2011 through January 2012, the Firm improperly outsourced certain back-office functions to a Canadian broker-dealer. The Canadian broker-dealer had a U.S. subsidiary that was a correspondent of the Firm. The U.S. subsidiary received customer securities and forwarded them directly to the Canadian broker-dealer, and the Firm did not have an adequate reconciliation process for the deposit of securities in those circumstances. The Canadian broker-dealer also determined whether restrictive legends could be removed from customer securities and engaged Canadian transfer agents to remove restrictive legends, when the individuals performing these duties should have been associated with and supervised by the Firm.

77. In addition, from August 2012 through February 2013, the Firm failed to implement reasonable WSPs to address the arrangement with the Canadian broker-dealer. The Firm inappropriately continued to outsource its back office functions to the Canadian broker-dealer.

78. As a result of this conduct, the Firm violated NASD Rule 3010 and FINRA Rule 2010.

Inadequate Due Diligence of Microcap Securities

79. The Firm's WSPs for microcap securities required the Firm to conduct due diligence on microcap securities before allowing its correspondents to sell those securities for its customers. The Firm failed to follow these WSPs in several instances in 2012 and 2013, as follows:

- On January 30, 2012, one of the Firm's correspondents received 2,500,000 shares of a microcap security in a customer account. These shares were sold out of the account from January 31, 2012 through February 2, 2012. The Firm failed to conduct adequate due diligence on these shares prior to their sale.
- In December 2012, one of the Firm's correspondents instructed the Firm to transfer 3,000,000 restricted shares of a microcap security on two occasions. The Firm did not conduct adequate due diligence on these shares before completing the transfers.

80. As a result of this conduct, the Firm violated NASD Rule 3010 and FINRA Rule 2010.

Inadequate Supervision of NSCC Illiquid Charges

81. The Firm did not have adequate supervisory systems and WSPs to prevent customer transactions from materially increasing its National Securities Clearing Corporation ("NSCC") illiquid charges. In one instance in April 2012, the Firm's NSCC illiquid charge reached \$5.3 million, primarily because of the trading by a correspondent's

customer in a microcap security. The increase in the charge gave rise to a significant NSCC clearing fund requirement relative to the Firm's available cash. In order to meet the higher requirement, the Firm drew on its customer bank loan, which posed inappropriate risks to the Firm's ability to meet its customer reserve requirement.

82. In addition, although the Firm set a threshold for NSCC illiquid charges of \$100,000 per security, the Firm did not establish an overall limit to mitigate its risk exposure in the aggregate.

83. As a result of this conduct, the Firm violated NASD Rule 3010 and FINRA Rule 2010.

Inadequate Supervision of an Executive's Email Account

84. The Firm failed to retain and monitor the outside email account used by its Executive Vice President from January 1, 2012 through May 20, 2012. The Firm was aware that its Executive Vice President was using an outside email account for securities business purposes and failed to require that the Executive Vice President submit these emails to the Firm for retention and monitoring.

85. As a result of this conduct, the Firm violated NASD Rule 3010, and FINRA Rules 4511 and 2010.

Inadequate Controls for Fixed Income Trading Desk and Correspondent Order Flow

86. From August 2012 through February 2013, the Firm failed to establish adequate financial and regulatory risk management controls and WSPs relating to market access of its fixed income trading desk and its correspondent order flow. The inadequacies included the following: (a) the Firm failed to establish processes and controls to systematically institute and enforce reasonable pre-trade credit and capital

limits related to market access; (b) the Firm failed to establish and implement pre-trade risk management controls to prevent the entry of erroneous or duplicative orders; (c) the Firm failed to establish, document and maintain a system for regularly reviewing the effectiveness of risk management controls and supervisory procedures; and (d) the Firm failed to conduct the required Chief Executive Officer certification that the risk management controls and supervisory procedures surrounding its correspondent flow order were in compliance with the market access rules.

87. As a result of this conduct, the Firm violated SEC Rule 15c3-5, NASD Rule 3010 and FINRA Rule 2010.

Inadequate Controls Over Funding and Liquidity

88. From August 2012 through February 2013, the Firm failed to implement adequate WSPs to address its internal controls over funding and liquidity. Among other things, the Firm did not conduct regular liquidity stress tests based on firm-specific and market-wide events for varying time horizons and varying levels of liquidity duress.

89. As a result of this conduct, the Firm violated NASD Rule 3010 and FINRA Rule 2010.

Inadequate Supervision of RVP/DVP Accounts

90. From August 2012 through February 2013, the Firm's WSPs prohibited the sale of microcap securities in Receive Versus Payment/Delivery Versus Payment ("RVP/DVP") unless the accounts were properly documented and verified as prime broker executing accounts. There were 141 microcap security sale transactions during this time period that were executed in DVP accounts that were not prime broker executing accounts. These sales were contrary to the Firm's WSPs, and these

transactions were not properly reviewed in accordance with the Firm's microcap security review policies. The Firm was aware that such transactions were occurring, but it failed to take any steps to enforce its WSPs.

91. As a result of this conduct, the Firm violated NASD Rule 3010 and FINRA Rule 2010.

Inadequate Supervision of Principals

92. On July 11, 2012, the Firm filed a Form BD amendment in which it reported that a new president had been put in place. As an officer of the Firm, this new president was required to be registered as a principal within 90 days. However, this president was not registered as a principal in that time period. In March 2013, FINRA discovered he was not registered as a principal and promptly notified the Firm of this requirement. The Firm's president did not become registered as a principal until March 11, 2013, which was nine months after he became the Firm's president.

93. On another occasion, on April 1, 2012, the Firm promoted an individual to Manager of Operations. This individual functioned within the definition of an Operations Professional pursuant to FINRA Rule 1230 and was required to be registered as such. In March 2013, FINRA discovered she was not registered in any capacity and promptly notified the Firm of this requirement. The Operations Professional did not become registered in any capacity until April 19, 2013, which was over a year after she began acting as an Operations Professional.

94. As a result of this conduct, the Firm violated NASD Rules 1021 and 3010, and FINRA Rules 1230 and 2010.

IV.

Pursuant to the conditions set forth herein, the Firm consents to the issuance of an Order Accepting Offer of Settlement (“Order”) and disposing of this proceeding in the following manner:

A. Without admitting or denying the allegations, 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, to the entry of findings of facts and violations by the Firm as set forth above in Section III; and,

B. Imposing sanctions of:

1. A censure;
2. A fine of \$1,000,000;
3. For a period of one year, within five business days of each submission of its customer reserve and net capital computations made pursuant to SEC Rules 15c3-3 and 15c3-1, the Firm’s Chief Executive Officer and Chief Financial Officer shall each certify to FINRA in writing that, on behalf of the Firm, they have completed a review of the Firm’s customer reserve and net capital computations and that based on that review, as of the date of submission of each customer reserve and net capital computation, the officers believe the computations to be accurate. The written certification must be submitted to a person designated by FINRA staff, and signed by both officers. The failure of FINRA staff to alert the Firm of any deficiencies or inaccuracies in the customer reserve computations submitted pursuant to this requirement shall not preclude FINRA from instituting a subsequent disciplinary action as a result of deficiencies. For good cause shown

and upon receipt of a timely request, FINRA staff may extend the certification deadlines, as set forth herein;

4. In addition, the Firm shall:

- a. Retain, within 30 days of the date of the Order Accepting Offer of Settlement, 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: (1) the anti-money laundering rules and regulations; (2) the net capital, liquidity, and customer protection rules and regulations; (3) the supervision and supervisory control rules and regulations; and (4) for the period of the Independent Consultant's review through the submission of the Independent Consultant's report, the Independent Consultant shall conduct a risk assessment of any proposed clearing arrangements for the Firm. In connection with this risk assessment, the Firm shall provide the Independent Consultant information collected pursuant to Notice to Members 11-26 and risk-related information concerning the proposed correspondent. The risk assessment shall address, at a minimum, the potential impact on items (1) to (3) above. For the period between the retention of the Independent Consultant and fourteen days after submission of the Independent Consultant's report described below, the Firm shall continue to provide to FINRA the clearing agreement and materials required under Rule 4311, as well as the risk assessment prepared for the Firm by the Independent Consultant, in the event the Firm

elects to clear for such proposed correspondent, for timely review and approval. Such approval may not be unreasonably withheld or delayed, and FINRA shall provide the Firm a written regulatory basis and opportunity to cure or respond regarding any clearing agreement that is not approved within 14 days of submission.

- b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
- c. Cooperate with the Independent Consultant in all respects, including by providing staff support. The Firm 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, the Firm shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; The Firm 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;
- d. At the conclusion of the review, which shall be no more than 90 days after the date of the Order Accepting Offer of Settlement, require the Independent Consultant to submit to the Firm and FINRA staff a Written

Report. The Written Report shall address, at a minimum: (1) the adequacy of the Firm's policies, systems, procedures, and training relating to the anti-money laundering rules and regulations; the net capital and customer protection rules and regulations; and the supervision and supervisory controls rules and regulations; (2) a description of the review performed and the conclusions reached; and (3) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and

- e. 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 the Firm, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such; provided, however, that for purposes of this paragraph neither Banc of California, Inc. nor any of its affiliates shall be considered affiliates of the Firm. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to the Order Accepting Offer of Settlement shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Firm 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.

5. Within 30 days after delivery of the Written Report, the Firm 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: (1) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (2) provide the Firm with a written decision reflecting his or her determination. The Firm shall 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.
6. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), the Firm shall provide FINRA staff with a written implementation report, certified by an officer of the Firm, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
7. Upon written request showing good cause, FINRA staff may extend any of the

procedural dates set forth above.

The Firm agrees to pay the monetary sanction upon notice that this Offer has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that the Firm is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

V.

In connection with the submission of this Offer, and subject to the provisions herein, the Firm specifically waives the following rights provided by FINRA's Code of Procedure:

A. any right to a hearing before an Adjudicator (as defined in FINRA Rule 9120(a)), and any right of appeal to the NAC, the U.S. Securities and Exchange Commission, or the U.S. Court of Appeals, or any right otherwise to challenge or contest the validity of the Order issued, if the Offer and the Order are accepted;

B. any right to claim bias or prejudice by the Chief Hearing Officer, Hearing Officer, a hearing panel or, if applicable, an extended hearing panel, a panelist on a hearing panel, or, if applicable, an extended hearing panel, the General Counsel, the NAC, or any member of the NAC; and

C. any right to claim a violation by any person or body of 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 the Offer and the Order or other consideration of the Offer and Order, including acceptance or rejection of such Offer and Order.

VI.

The Firm understands that:

A. the Order 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 Respondent;


B. the Order will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;

C. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

D. 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 allegation in the Complaint (as amended herein) or create the impression that the Complaint (as amended herein) 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 allegation in the Complaint (as amended herein). 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.


The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Offer and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement or promise of any kind or nature, other than the terms set forth herein, has been made to induce the Firm to submit it.

12/9/13
Date


COR Clearing LLC

By: Carlos P. Salas, President
[Printed Name and Title]

Reviewed by:


Gerald Russello, Esq.
Sidley & Austin LLP
787 Seventh Avenue
New York, NY 10019
Counsel for Respondent COR Clearing LLC