

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016050194001**

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

RE: Georeson Securities Corporation, Respondent
CRD No. 46749

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Georeson Securities Corporation ("GSC," the "Firm" or "Respondent"), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

GSC has been a member of FINRA since June 4, 1999. The Firm, headquartered in Edison, New Jersey, engages in limited business activities as an introducing broker. The Firm has approximately 41 registered representatives working out of 4 branch offices.

GSC has two primary lines of business: 1) providing asset reunification programs to issuers; and 2) facilitating trading for its affiliate companies. The asset reunification program involves notifying shareholders on behalf of issuers who have undergone a merger or other reorganization that they may exchange stock certificates for certificates issued by the post-merger/reorganized company, as well as helping to locate beneficial owners whose assets may shortly become eligible for escheatment.

RELEVANT DISCIPLINARY HISTORY

In Letter of Acceptance, Waiver and Consent No. 2006004077101 (June 2007), GSC consented to findings that, from July 2005 to April 2006, it failed to capture, maintain and preserve all of the electronic communications that had been deleted from a user's Deleted Items folder during

the day, in violation of Section 17(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), Rule 17a-4 thereunder and NASD Rule 3110. For these violations, the Firm consented to a censure and a fine of \$30,000.

OVERVIEW

Beginning in January 2004 and continuing through November 2016 (the “Relevant Period”), the Firm failed to maintain approximately 8.7 million electronic brokerage records in non-erasable and non-rewritable format, sometimes known as WORM format, as required by Section 17(a) of the Exchange Act, Rule 17a-4(f) thereunder, NASD Rule 3110 and FINRA Rule 4511. WORM stands for “write once, read many,” and is intended to prevent the alteration or destruction of broker-dealer records stored electronically. The majority of records not stored in WORM format by GSC were trade tickets generated by the Firm beginning in September 2010.

Additionally, during the Relevant Period, the Firm experienced related notice, audit and attestation deficiencies affecting its ability to adequately retain and preserve electronic records, in violation of Exchange Act Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. Finally, the Firm’s written supervisory procedures in effect during the Relevant Period failed to have supervisory processes relating to compliance with the WORM requirement, in violation of NASD Rule 3010 and FINRA Rule 3110.

FACTS AND VIOLATIVE CONDUCT

Over the past decade, the volume of sensitive financial data stored electronically by broker-dealers has risen exponentially. These broker-dealer electronic records must be complete and accurate, not only to assist FINRA and other regulators in their efforts to protect investors through periodic examinations, but also to ensure member firms can carry out their audit functions. Recent years also have seen increasingly aggressive attempts to hack into electronic data repositories, enhancing the need for firms to keep these records in WORM format.

Section 17(a) of the Exchange Act and Rule 17a-3 thereunder require broker-dealers to make certain records relating to its business, including trade blotters, asset and liability ledgers, order tickets, trade confirmations and other records. Rule 17a-4 specifies the manner and length of time that those records must be maintained. When broker-dealers use electronic storage media to retain records, Rule 17a-4(f)(2)(ii) requires the firms to “[p]reserve the records exclusively in a non-rewritable, non-erasable” or WORM format.

NASD Rule 3110(a) provides, in part, that each member “shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and...[t]he record keeping format, medium and retention period shall comply with” Rule 17a-4.”¹

FINRA Rule 4511 provides, in part, that each member “shall make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act

¹ NASD Rule 3110 was replaced by FINRA Rule 4511, effective December 5, 2011.

rules” ... and all “books and records required to be made pursuant to the FINRA rules shall be preserved in a format and media that complies with” Rule 17a-4.

These requirements are an essential part of the investor protection function because preservation of these records is the “primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards.”²

1. The Firm Failed to Retain Electronic Records in WORM Format

When broker-dealers use electronic storage media to retain records, Rule 17a-4(f)(2)(ii) requires the firms to “[p]reserve the records exclusively in a non-rewritable, non-erasable” or WORM format. During the Relevant Period, GSC failed to maintain in WORM format approximately 8.7 million electronic records pivotal to its brokerage business. This deficiency spanned 17 categories of records, but centered upon the Firm’s transaction-related records. For example, from September 2010 through the present, the Firm failed to maintain in WORM format approximately 8.6 million trade tickets. Other records affected by the Firm’s WORM deficiency include customer account ledgers, various trade blotters, records relating to the review and approval of advertising and sales literature, and records relating to the Firm’s corporate governance and supervisory policies.

Based on the foregoing, GSC violated Exchange Act Rule 17a-4(f)(2)(ii), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.³

2. The Firm Failed to Provide 90-day Notice to its Designated Examining Authority Prior to Using Electronic Storage Media

Exchange Act Rule 17a-4(f)(2)(i) requires a broker-dealer to notify its designated examining authority at least 90 days prior to employing electronic storage media. During the Relevant Period, the Firm failed to provide the required 90-day notice to FINRA, prior to retaining a vendor to provide electronic storage.

Based on the foregoing, GSC violated Exchange Act Rule 17a-4(f)(2)(i), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

3. The Firm Failed to Implement an Audit System Regarding the Inputting of Records in Electronic Storage Media

Exchange Act Rule 17a-4(f)(3)(v) requires a broker-dealer to “have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.”

² Commission Guidance to Broker Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), SEC Interpretation Release No. 34-44238, 17 C.F.R. Part 241, at p. 3 of 15 (May 1, 2001).

³ FINRA Rule 2010 replaced NASD Rule 2110, effective December 15, 2008.

During the Relevant Period, the Firm did not have an audit system as required by Rule 17a-4(f)(3) for those records it failed to maintain in WORM format.

Based on the foregoing, GSC violated Exchange Act Rule 17a-4(f)(3)(v), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

4. The Firm Failed to Obtain an Attestation from its Third-Party Vendor

Exchange Act Rule 17a-4(f)(3)(vii) requires a broker-dealer using electronic storage media to retain a third-party vendor “who has access to and the ability to download information from the [broker-dealer’s] electronic storage media” to any acceptable medium and to obtain an undertaking from the vendor that it will provide these records to the SEC, FINRA or any other regulatory authority in the event the Firm is unable to provide the records.

During the Relevant Period, the Firm failed to obtain an attestation from its vendor that it will supply electronically stored records to regulatory authorities in the event the Firm is unable to provide the electronically stored records.

Based on the foregoing, GSC violated Exchange Act Rule 17a-4(f)(3)(vii), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

5. The Firm’s Supervisory System was not Reasonably Designed

NASD Rule 3010(b) and FINRA Rule 3110(b) require member firms 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 regulations, and with applicable FINRA rules.⁴ During the Relevant Period, Georgeson failed to establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with Rule 17a-4(f) WORM requirements. The Firm’s written supervisory procedures in effect during the Relevant Period failed to have supervisory processes concerning its compliance with the WORM requirement.

Based on the foregoing, GSC violated NASD Rules 3010(b) and 2110, and FINRA Rules 3110(b) and 2010.

B. The Firm also consents to the imposition of the following sanctions:

1. Censure; and
2. Fine in the amount of \$650,000.

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

⁴ FINRA Rule 3110 replaced NASD Rule 3010, effective December 1, 2014.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice 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.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 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. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

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 AWC and has been given a full opportunity to ask questions about it; that Respondent 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 Respondent to submit it.

December 13, 2016
Date (mm/dd/yyyy)


Respondent
Georgeson Securities Corporation

By: Jin Soo Park
Treasurer / Financial Operations Principal

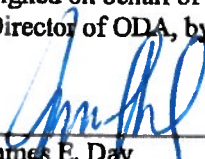
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Washington, DC 20004
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Counsel for Respondent

Accepted by FINRA:

12/21/16
Date

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


James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
Phone: 301-258-8520

GEORGESON SECURITIES CORPORATION
FINRA No. 2016050194001

CORRECTIVE ACTION STATEMENT

Georgeson Securities Corporation (“GSC”) hereby submits this Corrective Action Statement demonstrating corrective actions or enhancements undertaken with respect to the issues contained in the Letter of Acceptance, Waiver and Consent (“AWC”) No. 2016050194001.¹ GSC accepted and consented to the AWC, without admitting or denying the findings, solely for the purpose of this proceeding in contemplation of a proposed settlement of the allegations described in the AWC. In pertinent part, the AWC alleges that GSC was deficient for the period of January 2004 and continuing through November 2016 (the “Relevant Period”) because the Firm failed to maintain approximately 8.7 million electronic brokerage records in non-erasable and non-rewritable format, sometimes known as WORM format, as required by Section 17(a) of the Exchange Act of 1934 (the “Exchange Act”), Rule 17a-4(f) thereunder, NASD Rule 3110 and FINRA Rule 4511. WORM stands for “write once, read many” and is intended to prevent the alteration or destruction of broker-dealer records stored electronically. However, the majority of the records not stored in WORM format was comprised of 8.6 million trade tickets. Additionally, during the Relevant Period, the Firm experienced related notice, audit and attestation deficiencies affecting its ability to adequately retain and preserve electronic records, in violation of Exchange Act Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. Finally, the Firm’s written supervisory procedures in effect during the Relevant Period failed to describe a supervisory process relating to its compliance with the WORM requirement, in violation of NASD Rule 3010 and FINRA Rule 3110.

GSC is committed to complying with applicable securities laws and regulations, and it has committed substantial monetary resources and personnel to meeting its regulatory obligations, including with respect to the areas identified in the AWC. GSC began its remediation efforts relating to WORM compliance in advance of the FINRA examination conducted in 2015 that is the basis for the AWC. As set forth below, GSC has implemented corrective actions or

¹ This Corrective Action Statement is submitted by Georgeson Securities Corporation. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

enhancements to address each alleged deficiency stated in the AWC. GSC believes that the actions described below appropriately address the issues in the AWC.

With respect to storing books and records in compliance with all of the rules cited in the AWC, GSC has implemented the following corrective actions or enhancements.

All records that are maintained pursuant to Section 17(a) of the Exchange Act and Rules 17a-3 and 17a-4 thereunder (“BD Records”) are initially located on certain shared drives. Periodically, and at least once a day, the BD Records are swept by Veritas Enterprise Vault (“EV”) software onto an EMC Centera storage array (“Centera”) that is fully WORM compliant. All BD records are coded by EV with the retention period mandated by the rules. BD Records stored within the Centera cannot be erased or overwritten until the expiration of the relevant retention period. Any BD Record that is modified on the shared drive will be archived onto the Centera through EV as a different version with the original document remaining as a separate BD record.

EV includes a tool called Archive Explorer that contains an index of all the records that have been archived on the Centera. EV also provides reports that allow GSC to implement an audit system for all BD Records.

Additional steps taken by GSC include:

- GSC has amended its supervisory procedures so that they are reasonably designed to achieve compliance with Exchange Act Rule 17a-4(f) WORM requirement.
- GSC provided notification to FINRA more than 90 days prior to full implementation of the above-described storage system for BD Records.
- GSC retained a Designated Third Party (“D3P”) and filed an attestation from that D3P with FINRA.