FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023218602

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

RE: Vandham Securities Corp. Respondent
CRD No. 26258

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Vandham Securities Corp. ("Respondent" or "Vandham" or "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 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

Vandham has been registered with FINRA and the U.S. Securities and Exchange Commission ("SEC") since 1990. The Firm currently employs approximately 31 registered representatives in three offices, with its principal office in Woodcliff Lake, New Jersey. The Firm engages in trading on behalf of institutional customers and in market making, which during the relevant period also included providing direct market access to approximately ten customers. As a FINRA member firm, Vandham is subject to FINRA's jurisdiction.

OVERVIEW

FINRA member firms are required to develop and implement an AML program, including AML procedures, reasonably designed to detect and cause the reporting of suspicious transactions. A firm's AML program must be tailored to its business model.

From January 1, 2008 to December 31, 2010 (the "initial review period"), Vandham's AML procedures were deficient in that they did not address its direct market access ("DMA") platform. In addition, Vandham did not implement its procedures with respect to suspicious

activity monitoring of transactions and money movements. As a result, Vandham failed to adequately establish and implement AML policies and procedures that could reasonably be expected to detect and cause the reporting of suspicious activity.

From September 1, 2012 through December 31, 2013 (the "DVP review period"), Vandham failed to establish and implement an adequate supervisory system and written supervisory procedures reasonably designed to ensure compliance with Section 5 of the Securities Act. In addition, the Firm failed to have AML policies and procedures reasonably designed to detect and cause the reporting of suspicious transactions related to penny stock liquidations in DVP accounts.

These failures violated NASD Rules 3010(a) and (b), 3011(a) (for conduct before January 1, 2010) and 2110 (for conduct before December 15, 2008) and FINRA Rules 3310(a) (for conduct beginning January 1, 2010) and 2010 (for conduct beginning December 15, 2008).

LEGAL STANDARDS

Anti-Money Laundering ("AML") Requirements

Since 2002, the United States Department of the Treasury has required suspicious transaction reporting by broker-dealers pursuant to the Bank Secrecy Act of 1970, 31 U.S.C. section 5311, *et seq.*, as amended. The implementing regulation, 31 C.F.R. section 103.19(a)(1), which was in effect during the relevant period,[1] requires that "[e]very broker or dealer in securities within the United States . . . file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation."[2]

Section (a)(2) of the implementing regulation further clarifies which financial transactions should be deemed suspicious for reporting purposes:

> A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least $5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):
>
> > (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
> >
> > (ii) Is designed, whether through structuring or other means, to evade any requirements of this part or any other regulations promulgated under

[1] The implementing regulations at 31 C.F.R. section 103.19, were transferred and reorganized in a new chapter, 31.C.F.R. section 1023.320, effective March 1, 2011.

[2] FinCEN is the Financial Crimes Enforcement Network of the United States Department of the Treasury.

the Bank Secrecy Act . . . ;

(iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

(iv) Involves use of the broker-dealer to facilitate criminal activity.

In 2002, FINRA's predecessor, NASD, adopted amendments to Conduct Rule 3011 to require, among other things, members to develop and implement an AML compliance program and designate persons responsible for AML compliance. On January 1, 2010, NASD Conduct Rule 3011 was superseded by FINRA Rule 3310. NASD also issued detailed guidance to the industry regarding broker-dealer monitoring and reporting requirements. In Notice to Members ("NTM") 02-21, NASD emphasized that each broker-dealer has a duty to detect red flags that may indicate money laundering or other violative activity and where detected, "to perform additional due diligence before proceeding with the transaction." In NTM 02-47 and subsequent guidance, NASD further advised broker-dealers of their duty to file a "Suspicious Activity Report" for certain suspicious transactions.

Rule 3010 and Section 5 Requirements

NASD Rule 3010(a) requires firms to "establish and maintain a system to supervise 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 NASD rules." Under NASD Rule 3010(b), these systems must be documented in the firm's written supervisory procedures. The procedures must be tailored to the specific nature of the business engaged in by the firm, and must set out mechanisms for ensuring compliance and for detecting violations, and not merely set out what conduct is prohibited.

Section 5 of the Securities Act of 1933 ("Section 5") prohibits the offer or sale of any security unless there is a registration statement in effect as to that security or there is an exemption available for the transaction. Exemptions to the registration requirement of Section 5 are construed narrowly. A broker who sells securities in violation of Section 5 violates FINRA Rule 2010. There is no exception under Section 5 and the related rules for delivery versus payment ("DVP") accounts.

FACTS AND VIOLATIVE CONDUCT

Vandham Failed to Establish and Implement Adequate AML Procedures to Detect, Monitor and Report Suspicious Activity

During the initial review period, Vandham provided brokerage services and access to its DMA platform to three customers (JL, HB, and GB), all assigned to the same broker of record at the Firm, who also served as the Firm's Chief Operating Officer. DMA allows a customer to

execute trades directly into the market without the need to place orders with a broker at Vandham.

During the initial review period, Vandham failed to sufficiently monitor for the risks of permitting three customers — two of whom, JL and HB, the SEC had barred from the industry in 2002 — to use the Firm's DMA platform.

The three customers also deposited, bought, and/or sold three micro-cap securities through the Firm's trading desk. The three customers deposited shares and over time liquidated most of them. The customers had professional relationships with each other and with the issuers whose stock they were selling into the market.

One of those customers, GB, a foreign national who resided in Italy, introduced and controlled the trading and communications of six Italian customers who deposited, held, bought and/or sold the same three micro-cap securities. In February and March of 2009, GB journaled over 75,000 shares of one of the microcap securities from his own account to the accounts of five of the Italian customers. GB and one of the Italian customers wired proceeds from sales of the micro-cap securities to accounts each held at the same bank in Overland Park, Kansas, which also was where two of the micro-cap securities issuers and JL and HB were located.

Despite the existence of red flags, which matched red flags in the Firm's AML procedures, in the backgrounds of the above customers, their relationships to each other, their relationships to the issuers whose penny stocks they sold, their communications with Vandham, or their wiring activity, Vandham failed to sufficiently investigate or monitor their activity in order to determine whether the Firm needed to report it.

The AML omissions were due in part to deficiencies in Vandham's AML procedures and the implementation of its suspicious activity monitoring program. Specifically, Vandham's AML procedures were not tailored to its business model. While the Firm's AML procedures addressed the monitoring of transactions generally, the procedures did not address monitoring of activity for customers using the Firm's higher risk DMA platform. The procedures did not contain detailed guidelines regarding monitoring for suspicious activity.

Moreover, the AML Compliance Officer and the supervisor of the DMA program each assumed the other was monitoring wire activity and the Firm improperly relied to a large extent on its clearing agent for the review of incoming stock questionnaires for AML compliance purposes. As a result, these areas were not adequately monitored and thus the Firm did not investigate whether certain suspicious transactions needed to be reported.

As a result, Vandham violated NASD Rules 3011(a) (for conduct before January 1, 2010) and 2110 (for conduct before December 15, 2008) and FINRA Rules 3310(a) (for conduct beginning January 1, 2010) and 2010 (for conduct beginning December 15, 2008).

Vandham Failed to Establish and Implement an Adequate Supervisory System and Written Supervisory Procedures for Compliance with Section 5 and an Adequate AML System to Detect, Monitor, and Report Suspicious Activity with Respect to its DVP Accounts

During the DVP review period, Vandham held accounts for its customer CSL, an entity based in the Cayman Islands. The accounts were DVP accounts, the shares being held away from Vandham. The prime broker for the CSL account was not a U.S. registered broker dealer and was located in Canada.

CSL liquidated large blocks of at least nine penny stocks through those accounts. The sales were done for the benefit of CSL's customers, whose identities Vandham did not know and did not attempt to learn. Vandham failed to conduct an adequate inquiry into the registration of the shares, how the customers of CSL obtained the shares, the relationship of the customers of CSL to the issuers, how long the customers of CSL held the shares or anything else about whether the shares were freely tradable. .

Vandham sold over 250 million shares of the nine penny stocks for CSL for proceeds of approximately $39 million. The Firm earned close to $500,000 in commissions on those trades. At the time that each of the blocks of penny stocks were being liquidated, the securities were the subject of internet touting campaigns.

Vandham's written supervisory procedures did not address handling of sales of low priced securities in DVP accounts and the Section 5 and other potential issues that may arise in such transactions. The Firm had no system in place and failed to conduct a reasonable inquiry to ensure that the shares being sold were freely tradable and that the sales did not constitute a distribution in violation of Section 5 and its implementing regulations.

The Firm's written AML procedures did not address the issues presented by DVP accounts and the implementation of its procedures was inadequate to deal with the activity in its DVP accounts. As a result, Vandham did not conduct any review to determine whether any of the potentially suspicious CSL trading activity warranted further investigation to determine if a suspicious activity report should be filed.

As a result, Vandham violated NASD Rule 3010(a) and (b) and FINRA Rules 3310(a) and 2010.

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

1. A censure; and
2. A fine of $75,000.

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

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or

at any time hereafter, the monetary sanctions 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 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.

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 Respondent;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;

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 I have 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 the Firm to submit it.

5-16-2014
Date (mm/dd/yyyy)

FRANK P CATRINI
Respondent
Vandham Securities Corp.

By: _____

Reviewed by:

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Accepted by FINRA:

5/22/14
Date

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

Samuel Israel
Associate Vice President and Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive
Rockville, Maryland 20950

Corrective Action Statement

This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

In connection with FINRA matter # 2010023218602, Vandham Securities Corp. (the "firm") has amended its policies and procedures as follows

* The firm has discontinued all DMA programs

* The firm has instituted a heightened review program for customers with prior regulatory issues.

* The firm has incorporated in its AML Compliance program, the trading procedures that are currently part of the firm's Written Supervisory Procedures.

* The Firm is expanding its AML procedures, including additional red flags, the use of additional exception reports, if available, and expanding its due diligence for potentially suspicious trading

* The firm will clarify the supervisory system to clearly define the roles of the supervisors to avoid confusion and overlap.

* The firm is amending its wire policy to provide for additional reviews and supervisory signoffs.

* The firm is revising its policies on receiving certificate deposits of PinkSheet and OTC Bulletin Board securities from customers. The updated policies provide for additional surveillance via questionnaires and documentation of inquiries.