

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012030702601**

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

RE: Nikoh Securities Corporation, Respondent
Member Firm
CRD No. 39147

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Nikoh Securities Corporation ("Nikoh" 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

Respondent has been a member of FINRA since March 13, 1996. Respondent is based in Bannockburn, Illinois and currently employs one registered representative. Respondent engages in the sale of mutual funds, municipal securities, variable life policies and annuities, time deposits, and private placements.

RELEVANT DISCIPLINARY HISTORY

Nikoh Securities has no relevant disciplinary history.

OVERVIEW

Between approximately February 2008 and October 2012, Nikoh Securities Corporation (“Nikoh Securities”) failed to implement an adequate supervisory system with respect to the review of private securities transactions. During the same time period, two of Nikoh Securities’ registered representatives effected trades while employed by an outside entity, but the firm did not record the securities transactions conducted by these representatives on the firm’s books and records or supervise their activity by monitoring and approving the transactions. This conduct violated NASD Rules 3040(c) and 3010(a).

Between approximately December 2008 and October 2012, Nikoh Securities failed to conduct a review of preexisting activities of outside business activities associated with the two registered representatives, in violation of FINRA Rule 3270.

Nikoh Securities failed to conduct adequate due diligence with respect to a hedge fund to which the firm referred its customers, in violation of FINRA Rule 2010 and NASD Rule 2010.

Nikoh Securities was unable to provide a supervisory controls report for the years 2008, 2009, 2010, and 2011, in violation of NASD Rule 3012, MSRB Rule G-27, and FINRA Rules 3130 and 2010.

FACTS AND VIOLATIVE CONDUCT

Private Securities Transactions Review

Under NASD Rule 3040, before participating in a private securities transaction, an associated person must provide written notice to his member firm. Rule 3040 defines a “private securities transaction” as “any securities transaction outside the regular course or scope of associated person’s employment with member.” Rule 3040(c)(2) requires a member that has approved an associated person’s participation in a private securities transaction, where the person has received or may receive selling compensation, to record such transaction on its books and records and to supervise the person’s participation in the transaction as if the transaction was executed on behalf of the member.

NASD NTM 94-44 and NASD NTM 96-33 clarified that member firms must supervise the securities activity of registered representatives who engage in investment advisory activities away from the firm where those registered representatives participate in the execution of securities transactions on behalf of their investment advisor clients.

Between approximately February 2008 and October 2012, two individuals, who were registered as General Securities Representatives with Nikoh Securities, were

paid salaries by a non-FINRA member to execute securities trades on its behalf. Nikoh Securities was aware that the two registered representatives were participating in the private securities transactions, for compensation, but failed to supervise the representatives' participation in the private securities transactions and failed to record the securities transactions on Nikoh Securities books and records. In addition, Nikoh Securities did not have any supervisory procedures with respect to its review of private securities transactions by its registered representatives.

Based on the foregoing, Nikoh Securities violated NASD Conduct Rules 3010, 3040, and 2110 for the period from February 2008 through December 14, 2008, and FINRA Rule 2010 for the period from December 15, 2008 through October 2012.

Outside Business Activities Review

FINRA Rule 3270 replaced NASD Rule 3030 effective December 15, 2010, and prohibits registered persons from engaging in outside business activities ("OBAs") unless "he or she has provided prior written notice to the member, in such form as specified by the member." The Supplementary Material to Rule 3270, entitled "Obligations of Member Receiving Notice," further provides that upon receipt of written notice of an OBA, the member "shall consider" whether the proposed activity will (1) interfere with or compromise the person's responsibilities to the member and/or the member's customers, or (2) be viewed by customers or the public as part of the member's business. The Supplementary Material further instructs the member to evaluate whether to impose specific conditions or limitations on the OBA, and to evaluate whether the proposed activity is more properly characterized as a private securities transaction subject to NASD Rule 3040. Finally, the Supplementary Material states that a member must keep a record of its compliance with these obligations.

Nikoh Securities was aware that, between approximately December 15, 2010 and October 2012, two individuals, who were registered as General Securities Representatives with Nikoh Securities, were paid salaries by a non-FINRA member to perform non-securities related duties. Nikoh Securities failed to consider whether the two registered representatives' duties would interfere with the representatives' responsibilities to Nikoh Securities or its customers, or whether the representatives' outside activities would be viewed as an extension of Nikoh Securities' services.

Based on the foregoing, Nikoh Securities violated FINRA Rules 3270 and 2010.

Due Diligence

Between February 13, 2008 and October 10, 2012, Nikoh Securities received fees for referring customers to a certain hedge fund. However, the firm could not

evidence that, prior to referring clients to the hedge fund, the firm performed adequate due diligence of the hedge fund.

Based on the foregoing, Nikoh Securities violated NASD Rule 2110, for conduct occurring prior to December 15, 2008, and FINRA Rule 2010 for conduct occurring on and after December 15, 2008.

Supervisory Control Procedures and Reports

NASD Conduct Rule 3012 and MSRB Rule G-27 require firms to, among other things, designate and specifically identify one or more principals who shall establish, maintain and enforce a system of supervisory control policies and procedures that (a) test and verify that the member's supervisory procedures are reasonably designed with respect to the activities of the member and its registered representatives and associated persons, to achieve compliance with applicable securities laws, regulations and applicable rules, and (b) create additional or amend supervisory procedures where the need is identified by such testing and verification. The rules also contain a requirement that the designated principal or principal submit to the member's senior management, no less than annually, a report detailing each member's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

Nikoh Securities failed to prepare an annual supervisory report for the years 2008, 2009, 2010 and 2011. Based on the foregoing, Nikoh Securities violated NASD Conduct Rule 3012, FINRA Rule 2010, and MSRB Rule G-27.

NASD Rule 3013 provides that each member must delegate and identify on Schedule A of Form BD the specific principal to serve as a chief compliance officer. Nikoh Securities failed to provide such a report for the year 2008. Based on the foregoing, Nikoh Securities violated NASD Conduct Rules 3013 and 2110.

FINRA Rule 3130 requires the member firm's Chief Executive Officer (CEO)(or equivalent officer) to certify annually that the member firm has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable rules and federal securities laws and regulations, and that the CEO has conducted one or more meetings with the chief compliance officer in the preceding 12 months to discuss such processes.

Nikoh Securities failed to prepare an annual CEO Certification of the firm's compliance and supervisory certification for the year 2012, and failed to produce an adequate CEO certification for the year 2008, as there was no report completed in 2008 as referenced in the Certification. Based on the foregoing,

Nikoh Securities violated FINRA Rules 3130 and 2010.

B. I also consent to the imposition of the following sanctions:

- Censure; and
- A \$5,000 fine, of which \$500 pertains to the violation of MSRB Rule G-27

Respondent agrees to pay the monetary sanction upon notice that this AWC 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 it proposes to pay the fine imposed.

Pursuant to the General Principles Applicable to all Sanction Determinations contained in the Sanction Guidelines, FINRA imposed a lower fine in this case after it considered, among other things, the firm's revenues and financial resources. See Notice to Members 06-55.

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. expulsion shall become effective upon approval or acceptance of this AWC.

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 the firm;
- 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 waive 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 the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. 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 the firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. 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 the firm 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 the Firm to submit it.

09/09/2014
Date (mm/dd/yyyy)

Nikoh Securities Corp
Nikoh Securities Corporation, Respondent

By: [Signature] president

Reviewed by:

Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by FINRA:

09/23/16
Date

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

[Signature]

Dale A. Glanzman
Senior Regional Counsel
FINRA Department of Enforcement
55 West Monroe Street, Suite 2700
Chicago, IL 60603
(312) 899-4312; fax: (312) 899-4600

Attachment: Election of Payment Form