FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016048244301

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

RE: Valdes & Moreno, Inc., Respondent
Member Firm
CRD No. 37560

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent Valdes & Moreno, Inc. (“Valdes” or the “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 Valdes alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

A. Valdes 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

Valdes became a FINRA registered firm in 1995. The Firm has eight registered individuals and three branch offices. Valdes engages in a general securities business.

RELEVANT DISCIPLINARY HISTORY

Valdes does not have any relevant disciplinary history.

OVERVIEW

From May 2014 through May 2015, Valdes failed to establish and implement anti-money laundering (“AML”) policies, procedures, and internal controls to detect and investigate potentially suspicious activities or potential manipulative trading, in violation of FINRA Rules 3310 and 2010.

Additionally, during the same time period, the Firm failed to conduct the required
due diligence for one foreign correspondent account, in violation of FINRA Rules 3310 and 2010.

For the years 2013 through 2015, Valdes failed to conduct adequate, independent annual tests of its AML compliance program, in violation of FINRA Rules 3310(c) and 2010.

From July 2015 through December 2015, Valdes permitted the Firm’s Director of Research, SI, to author research reports though he had not successfully completed the qualification examination for research analysts. Additionally, between July 2015 and December 2015, Valdes permitted SI to issue nineteen research reports that lacked required disclosures or valuation methods used to determine the price targets. The Firm also failed to maintain and enforce adequate written supervisory procedures related to research reports. Through this conduct, Valdes violated FINRA Rule 2241 (for conduct on and after December 24, 2015), NASD Rule 2711 (for conduct prior to December 24, 2015), NASD Rule 1050, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Valdes Failed to Adequately Review and Investigate Potentially Suspicious Activity

FINRA Rule 3310(a) provides that broker-dealers must establish, implement, and enforce policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious activity or transactions as required by the Bank Secrecy Act, 31 U.S.C. § 5318(g), and the implementing regulations thereunder.

Between May 2014 and May 2015, Valdes failed to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act for microcap securities transactions. Specifically, the Firm failed to detect and further investigate potentially suspicious activity or manipulative trading by one customer. During this twelve-month period, that customer engaged in ten securities transactions involving the stocks of ten microcap issuers. Valdes failed to review the ten transactions at issue, despite the presence of numerous red flags, including that many of these microcap transactions occurred during periods of large increases in trading volumes for the issuing companies. Additionally, the issuers lacked financial viability and promoted their stocks in a manner that was indicative of pump and dump schemes. As a result of the foregoing conduct, Valdes violated FINRA Rules 3310(a) and 2010.
Valdes Failed to Conduct the Required Due Diligence on a Correspondent Account of a Foreign Financial Institutions

Regulations promulgated under the Bank Secrecy Act require, among other things, that a broker-dealer establish a risk-based due diligence program (that is part of its AML Compliance Program) for any correspondent accounts maintained by foreign financial institutions. See, 31 CFR § 1010.610.

From May 2014 to May 2015, Valdes failed to conduct the required due diligence for the Firm’s single correspondent account for a foreign financial broker-dealer located in the United Kingdom. Specifically, the Firm failed to maintain documentation evidencing that:

(1) it had determined whether each correspondent account was subject to enhanced due diligence based on FINRA Rule 3310(b);

(2) it had assessed the money laundering risk presented by each correspondent account, based on a consideration of all relevant factors; and,

(3) it had applied to the correspondent account risk-based procedures and controls reasonably designed to detect and report known or suspected money laundering activity, including a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account.

As such, the Firm failed to comply with the above-referenced regulations promulgated under the Bank Secrecy Act, in violation of FINRA Rules 3310 and 2010.

Valdes Failed to Conduct Adequate, Independent Annual AML Testing

FINRA Rule 3310(c) requires member firms that conduct business with the public to provide for independent testing of their AML programs on an annual basis.

For the years 2013, 2014, and 2015, Valdes failed to conduct adequate, independent annual tests of its AML compliance program. The Firm’s AML testing was inadequate because it failed to identify the accounts that were reviewed and failed to address the Firm’s Customer Identification Program, the opening of new accounts, and trading activity in high-risk areas.

The Firm’s AML tests were conducted by the Firm President, CEO, and CCO, who was also responsible for performing certain functions being tested, including the administration of AML training and the periodic review of trading activity.
As a result of the foregoing conduct, the Firm violated FINRA Rules 3310(c) and 2010.

Valdes Permitted its Research Analyst to Author Research Reports without Successfully Completing the Qualification Examination

On June 29, 2015, Valdes hired registered representative SH as its “Director of Research.” Between July 2015 and December 2015, SH created and distributed nineteen research reports to at least 350 individuals. Valdes permitted SH to author these research reports though he had not successfully completed the qualification examination for research analysts. Through this conduct, the Firm violated NASD Rule 1050 and FINRA Rule 2010.

Valdes Failed to Disclose Valuation Methods on Research Reports

Although SH’s research reports contained price targets, the reports did not disclose the valuation methods that SH used to determine the price targets, nor did they disclose the risks that could have impeded achieving those price targets. By failing to include SH’s valuation methods and the required risk disclosures on the research reports, Valdes violated NASD Rule 2711(h) (for conduct prior to December 24, 2015) and FINRA Rules 2241(c) (for conduct on and after December 24, 2015) and 2010.

Valdes Failed to Establish and Maintain Adequate Written Supervisory Procedures for Research Reports

The Firm’s written supervisory procedures stated that “the firm does not employ any research analysts or issue any research reports, nor does it have an investment banking department.” These procedures were inadequate because they did not address SH’s hiring, his activities, or the research reports he issued on the Firm’s behalf between July 2015 and December 2015.

Through this conduct, Valdes violated NASD Rule 2711 (for conduct prior to December 24, 2015) and FINRA Rules 2241 (for conduct on and after December 24, 2015) and 2010.

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

1. A censure; and

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1According to NASD Rule 2711(a)(9) and FINRA Rule 2241(a)(11), “Research report” means, “any written (including electronic) communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.”

2 On September 24, 2015, NASD Rule 2711 was superseded by FINRA Rule 2241. The Firm’s misconduct occurred under both NASD Rule 2711 and FINRA Rule 2241.
2. A fine of $20,000.³

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

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

Valdes 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, Valdes 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.

Valdes 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.

³ 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.
III.

OTHER MATTERS

Valdes 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 Valdes' 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. Valdes 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. Valdes 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. Valdes may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Valdes 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.

Respondent Valdes & Moreno, Inc.

Date (mm/dd/yyyy) 3/17/17

By: [Signature]

Title: [Title]

Accepted by FINRA:

Date 4/6/17

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

[Signature]

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