

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020067467601**

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

RE: Precision Securities LLC (Respondent)
Member Firm
CRD No. 103976

Pursuant to FINRA Rule 9216, Respondent Precision Securities LLC 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 in this AWC.

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

Precision Securities has been a FINRA member since 2000, with headquarters in San Diego, California. The firm acts, in part, as an introducing broker-dealer that provides a trading platform for its online retail customers' self-directed trading activities, which is branded as "CenterPoint." Precision Securities has approximately 30 registered representatives and three branch offices.¹

OVERVIEW

From January 2017 through December 2018, Precision Securities failed to develop and implement an anti-money laundering (AML) program reasonably designed to achieve and monitor the firm's compliance with the Bank Secrecy Act and the implementing regulations thereunder. In particular, the firm did not establish and implement policies and procedures tailored to the firm's CenterPoint business, which could be reasonably expected to detect and cause the reporting of suspicious activity in domestic and foreign-based retail accounts. As a result, the firm violated FINRA Rules 3310(a) and 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

1. Broker-dealers are required to establish and implement a reasonable AML program.

FINRA Rule 3310 requires each member to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor [their] compliance with the requirements of the Bank Secrecy Act (BSA) (31 U.S.C. 5311, et seq.) and the implementing regulations promulgated thereunder by the Department of the Treasury.” Under FINRA Rule 3310(a), the program must, at a minimum, “establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. § 5318(g) and the implementing regulations thereunder.”

Title 31 U.S.C. § 5318(g) authorizes the Department of the Treasury to issue suspicious activity reporting requirements for broker-dealers. The Department of the Treasury issued the implementing regulation, 31 C.F.R. § 103.19(a)(1), on July 1, 2002, providing that, with respect to any transaction after December 30, 2002, “[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation.”

NASD Notice to Members (NTM) 02-21, issued in April 2002, provided detailed guidance to the industry regarding the obligation of a broker-dealer to monitor for and report suspicious transactions. In NTM 02-21, the NASD advised each broker-dealer that when developing an AML program, it should tailor the program to fit its business, taking into consideration, among other factors, “the types of transactions in which its customers engage.” NTM 02-21 further reminded broker-dealers of their duty to look for “red flags,” i.e., signs of suspicious activity that suggest money laundering or other violative activity, and provided broker-dealers with a non-exhaustive list of such red flags, including, among others, that the customer wishes to engage in transactions that lack business sense or apparent investment strategy or that the customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as penny stocks, which although legitimate, have been used in connection with fraudulent schemes. In August 2002, FINRA issued NTM 02-47, which described the suspicious activity reporting rule promulgated by the Department of the Treasury for the securities industry. NTM 02-47 further advised broker-dealers of their duty to file a suspicious activity report (SAR) for any transaction raising suspicions of illegal activity occurring after December 30, 2002.²

² More recently, in FINRA Regulatory Notice 19-18, issued in May 2019, FINRA reminded broker-dealers of their obligations to develop and implement a written AML program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the BSA and its implementing regulations, and to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under the BSA and its implementing regulations.

Failure to tailor a firm's AML procedures to its business and customer base and failure to monitor, analyze, and investigate red flags of suspicious activity to determine whether it is appropriate to file a SAR violates FINRA Rule 3310(a). A violation of FINRA Rule 3310 also constitutes a violation of FINRA Rule 2010, which requires FINRA members, in the conduct of their business, to observe "high standards of commercial honor and just and equitable principles of trade."

2. Precision failed to establish and implement a reasonable AML program that could reasonably be expected to detect and cause the reporting of suspicious transactions.

During the relevant period, Precision provided a self-directed trading platform to online retail customers, which was branded as "CenterPoint." CenterPoint customers were primarily active day- and swing-traders. The firm accepted accounts from customers located in the United States and foreign jurisdictions, including jurisdictions known for heightened money laundering risk, such as the People's Republic of China.³ During the relevant period, Precision had approximately 500 CenterPoint customers, who accounted for approximately 85 percent of the firm's revenue. CenterPoint executed over 50,000 trades per day and the CenterPoint customers traded an average of 400,000 shares per month.

a. Precision did not reasonably design its AML program.

Between January 2017 and December 2018, Precision Securities did not tailor its AML program to reasonably monitor for and report suspicious activity in light of the firm's business model.

First, the firm lacked reasonable written AML procedures for the surveillance of potentially suspicious transactions in customer accounts. The procedures did not identify any exception reports and did not describe how or how frequently supervisors should use them. Further, the firm's procedures stated that the firm would document its monitoring of transactions for potentially suspicious trading but did not describe how it would do so. Additionally, the AML procedures stated that "on a quarterly basis, the designated principal will generate and review all transactions processed by the firm for any violations." The procedures did not identify the designated principal, identify or describe the types of violations relevant to CenterPoint's business that would be the subject of review, or describe the manner in which any review would be conducted. Moreover, reviewing transactions on only a quarterly basis was not reasonable given the volume and complexity of the firm's business. Additionally, the firm's AML procedures did not contain any procedures about documenting any analyses or records regarding the investigation of potentially suspicious activity, and the firm did not document the findings of its investigations.

³ The U.S. Department of State includes the People's Republic of China on its list of locations characterized as major money laundering jurisdictions.

Second, from January 2017 until December 2018, the firm relied almost exclusively on a manual review of the daily trade blotter to identify certain types of suspicious trading, even though it did not reflect canceled order data or patterns of trading across accounts or across multiple days. During 2016, the firm obtained a trade monitoring system from a third-party for electronic analysis of executed trades. However, the firm did not use this system to identify red flags of suspicious activity, such as by monitoring canceled order data or patterns of trading across accounts or across multiple days. Also during this period, the firm did not use other exception reports that identified canceled orders, patterns of trading across accounts or over multiple days, coordinated trading between accounts, and trading resulting in persistent losses that might indicate a lack of rational economic motive. The firm's manual review was also unreasonable given the volume and complexity of the trading by the firm's customers.

Third, the firm had a practice of failing to reasonably respond to certain types of red flags of suspicious activity. Under 31 C.F.R. § 1023.320(a)(2), the firm is required to file a SAR for any transaction that it knows, suspects, or has reason to suspect "has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage." Although the firm's AML procedures contained the language of the statute, the firm's practice was to not file a SAR even after it found that the customer was engaging in transactions that were not the sort in which the firm expected the customer to engage.

b. Precision failed to timely or reasonably detect, investigate, or respond to potentially suspicious activities by retail customers, including China-based accounts.

As a result of Precision's failure to implement a reasonably designed AML program, the firm failed to detect, investigate, and respond to potentially suspicious activities.

For example, during 2017 and 2018, the firm failed to detect, investigate and respond to suspicious trading by multiple customers based in China. Two of these accounts alone generated over 33,000 orders and traded over \$200 million in securities over three months. Nearly all of the trades related to low-volume securities and presented red flags of attempts to manipulate prices.

One customer deposited \$77,000 and traded more than \$195 million in numerous low-volume stocks over two months. The customer entered a significant number of order cancelations, which the firm never detected and which is an indicator of potential market manipulation. The customer also traded in a pattern of buy orders at incrementally higher prices and sell orders at incrementally lower prices, which is an indicator of manipulative trading strategies designed to influence the price of a security. The customer also engaged in trading that did not appear to make economic sense by buying at high prices and selling at low prices and selling short low and buying back higher. Another customer also entered a significant number of cancelations in one day of trading, which the firm never detected, and traded high volumes of low-volume stocks. The firm failed to respond reasonably to these red flags.

Therefore, Respondent violated FINRA Rules 3310(a) and 2010.

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

- a censure;
- a \$350,000 fine; and
- an undertaking to retain an independent consultant as described below.
 1. Respondent has undertaken to do the following:
 - a. Retain at its own expense and within 60 days of the date of the notice of acceptance of this AWC an independent consultant not unacceptable to FINRA to conduct a comprehensive review of the reasonableness of the Respondent's policies, systems, procedures (written and otherwise), and training relating to compliance with FINRA Rule 3310 and the requirements of the Bank Secrecy Act, 31 USC §5311, et seq., and the regulations promulgated thereunder related to monitoring for, identifying, investigating, documenting, and responding to red flags of suspicious activity, including but not limited to transactions involving customers based outside of the United States, low-priced securities, low-volume securities, high-volume trading, and high-order cancelation rates by customers of CenterPoint.
 - b. Ensure that the independent consultant, any firm with which the independent consultant is affiliated or of which he or she is a member, and any person engaged to assist the independent consultant in performance of his or her duties, shall not have provided consulting, legal, auditing, or other professional services to, or had any affiliation with, Respondent during the two years prior to the date of the notice of acceptance of this AWC.
 - c. Cooperate with the independent consultant in all respects, including providing the independent consultant with access to Respondent's files, books, records, and personnel, as reasonably requested for the above-mentioned review. Respondent shall require the independent consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the independent consultant's communications with FINRA. Further, upon request, Respondent shall make available to FINRA any and all communications between the independent consultant and the Respondent and documents examined by the independent consultant in connection with this review.

- d. Refrain from terminating the relationship with the independent consultant without FINRA's written approval. Respondent 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;
- e. Require the independent consultant to submit an initial written report to Respondent and FINRA at the conclusion of the independent consultant's review, which shall be no more than 90 days after the date of the notice of acceptance of this AWC. The initial report shall, at a minimum, (i) evaluate and address the adequacy of Respondent's policies, systems, and procedures relating to monitoring for, identifying, investigating, documenting, and responding to red flags of suspicious activity, including but not limited to transactions involving customers based outside of the United States, low-priced securities, low-volume securities, high-volume trading, and high order cancellation rates; (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Respondent should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to Respondent's policies, systems, procedures, and training relating to monitoring for, identifying, investigating, documenting, and responding to red flags of suspicious activity; and
 - (i) Within 30 days after delivery of the initial report, Respondent shall adopt and implement the recommendations of the independent consultant or, if Respondent considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the independent consultant designed to achieve the same objective. Respondent shall submit such proposed alternative procedures in writing simultaneously to the independent consultant and FINRA.
 - (ii) Respondent shall require the independent consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the independent consultant's original recommendation and (B) provide Respondent and FINRA with a written report reflecting its evaluation and determination within 30 days of submission of any Respondent's proposed alternative procedures. In the event the independent consultant and

Respondent are unable to agree, Respondent must 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.

- (iii) Within 30 days after the issuance of the later of the independent consultant's initial report or any written report regarding proposed alternative procedures, Respondent shall provide the independent consultant and FINRA with a written implementation report, certified by an officer of Respondent, attesting to, containing documentation of, and setting forth the details of Respondent's implementation of the independent consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.
 - f. Require the independent consultant to enter into a written agreement that, for the duration of the engagement and for a period of two years from the completion of the engagement, the independent consultant shall not enter into any other employment, consultant, attorney-client, auditing, or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the independent consultant is affiliated or of which it is a member, and any person engaged to assist the independent consultant in the performance of its duties pursuant to this AWC, shall not, without FINRA's prior written consent, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Respondent or any of Respondent's 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.
- 2. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.
 - 3. Respondent shall further retain the independent consultant to conduct a follow-up review and submit a final written report to the Respondent and to FINRA no later than one year from the date of the notice of acceptance of this AWC. In the final report, the independent consultant shall address

Respondent's implementation of the systems, policies, procedures, and training, and shall make any further recommendations it deems necessary. Within 30 days of receipt of the independent consultant's final report, Respondent shall adopt and implement the recommendations contained in the final report, and inform FINRA in writing that it has done so.

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.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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:

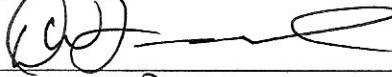
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not 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 action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 testimonial obligations or 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 the AWC's

provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

6/10/21
Date

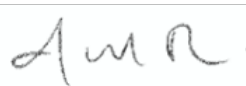
Precision Securities LLC
Respondent

By: 

Print Name: Douglas Livingston

Title: CFO

Reviewed by:


Julian Rainero
Counsel for Respondent
Schulte Roth & Zabel LLP
919 Third Avenue
New York, NY 10022

Accepted by FINRA:

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

7/19/2021
Date


Christina Stanland
Director
FINRA
Department of Enforcement
200 Liberty Street, 11th Floor
New York, NY 10281