

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021211901**

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

RE: Firstrade Securities, Inc., Respondent
CRD No. 16843

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Firstrade Securities, Inc. ("Respondent" or "Firstrade") submit 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

Firstrade has been a member of FINRA since December 17, 1985. Firstrade is based in Flushing, New York and employs approximately fifteen registered representatives. Firstrade is an on-line discount broker-dealer whose primary business consists of providing an on-line platform for customers to enter orders.

RELEVANT DISCIPLINARY HISTORY

On April 27, 2009, Firstrade entered into an AWC with FINRA for violations of NASDAQ Rules 3010, 4613(E) and 4755(A)(4). Firstrade received a censure, a fine of \$10,000 and was required to revise its written supervisory procedures regarding locked and crossed markets within thirty business days.

On September 4, 2009, Firstrade entered into an AWC with FINRA for violations of NASD Rules 2110, 3010, 6230(A) and 6230(C)(8). Firstrade received a censure and a fine of \$12,500.

OVERVIEW

Between May 2008 and July 2011, Respondent failed to establish and implement an adequate Anti-Money Laundering (AML) program and related procedures to adequately identify, investigate and respond to red flags of suspicious activities. In addition, Respondent's independent AML test for 2009 was deficient and its AML training for 2008 and 2009 was inadequate. By reason of the foregoing, Respondent violated NASD Conduct Rules 3011(a), 3011(b), 3011(c), 3011(e) and 2110, FINRA Rules 3310(a), 3310(b) and 2010, and Municipal Securities Rulemaking Board (MSRB) Rule G-41.

Between May 2008 and March 2010, in a sampling of thirty order tickets for municipal securities orders, all thirty order tickets failed to include the time of entry on the tickets. By reason of the foregoing, Respondent violated MSRB Rules G-14 and G-8.

FACTS AND VIOLATIVE CONDUCT

ANTI-MONEY LAUNDERING VIOLATIONS

Firstrade's primary business consists of providing a direct on-line platform for customers to trade on the United States securities markets, many of whom are in China. Firstrade's business model allows customers to open accounts on a non-face-to-face basis with limited in-person contact. Direct online access also allows customers the ability to automatically and electronically route orders to the securities markets for execution, which may present an increased risk of the use of customer accounts to evade the anti-money laundering laws.

Inadequate Systems to Monitor For, Detect and Investigate Suspicious Activity

FINRA Rule 3310(a), like its predecessor, NASD Rule 3011(a), requires that members "establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of" suspicious activity and transactions. NASD Notice to Members 02-21, which was issued concurrent with the adoption of Rule 3011, reminded broker-dealer firms that their AML procedures must apply to monitoring of account activities, including but not limited to, trading and monitoring for, detecting, and responding to "red flags."

Between May 2008 and July 2011, Firstrade failed to establish and maintain an adequate system to monitor for, detect and investigate suspicious activity to determine whether it was necessary to file a Suspicious Activity Report (SAR). As a result, Firstrade failed to detect and investigate certain suspicious activity in customer accounts:

Potential manipulative trading

Firstrade's written procedures require that it have processes designed to review account activity for unusual or suspicious activity, including, but not limited to manipulative activity. The procedures include "red flags" of suspicious activity that require additional investigation, including transactions involving certain types of securities, such as penny stocks, which have been related to fraudulent schemes and money laundering activity.

Some of the most suspicious activity in customer accounts was apparent pre-arranged trades of Chinese issuer stock done in related accounts.

- Fifteen customers of Firstrade shared the same mailing address as an issuer Eastern Environment Solutions Corporation (EESC). A review of trading activity between January 1, 2010 and March 31, 2010, revealed that Firstrade's customers conducted 173 trades in EESC including three accounts that shared the same address as EESC. The price per share increased from \$.65 on January 12, 2010 to \$2.20 on March 31, 2010. Firstrade did not review the price movement, or the investors and their possible relationship with EESC or each other. There was no additional scrutiny placed on the stock.
- Between December 1, 2009 and April 5, 2010, 32 customer accounts conducted 797 trades of approximately 895,981 shares in China HGS Real Estate, Inc. (CAHS). The price of CAHS increased per share from \$2.35 on January 4, 2010 to \$4.86 on March 3, 2010. Firstrade did not review the price movement or place any additional scrutiny over the stock.
- Between December 2009 and July 2011, trading between related Firstrade customer accounts accounted for nearly 100% of the daily trading volume in two issuers, China Digital Animation Development, Inc. (CHDA) and GFR Pharmaceuticals (GFRP), and artificially boosted the price of the stock. Yet, Firstrade did not adequately review the price movements or the investors and their possible relationship with the issuers. Firstrade also did not act timely in placing additional scrutiny on the issues.
- Between December 2009 and July 2011, customers at Firstrade purchased over 1.84 million shares of CHDA, and sold over 1.12 million shares. Between February 3, 2010 and January 7, 2011, the price of CHDA rose from \$1.81 to \$4.20 and Firstrade customers, on a daily basis, averaged 6,105 buys of CHDA where the daily average volume was 6,987, or about 87% of the market. In addition, the Staff identified 791 separate matched trades in CHDA at Firstrade. There were also potential "wash trades" in CHDA, in which trades were executed on both sides of the market by presumably different accounts at Firstrade but which shared the same: (i) address of record; (ii) email address; (iii) telephone number; (iv) social security number; or (v) name. Between December 2009 and July 2011, at least 56 separate Firstrade accounts traded CHDA. Of those 56 accounts, 11 accounts conducted 71% of all retail purchases of CHDA at

Firstrade. Those 11 accounts were also affiliated with the issuer, including as employees, and individuals who shared an Internet Protocol (IP) address associated with the issuer.

- **Between December 2009 and July 2011, customer accounts at Firstrade purchased over 2.99 million shares of GFRP and sold more than 2.3 million shares. The price moved from \$.08 in December 2009 to \$1.43 in July 2011. The GFRP shares purchased at Firstrade represented 82% of the entire market during this period. On 84 trading dates, the firm was 100% of the entire market for GFRP. The Staff identified 422 separate matched trades in GFRP at Firstrade. In other instances, there were potential “wash trades” in GFRP, in which trades were executed on both sides of the market by different Firstrade accounts which shared the same: (i) address of record; (ii) email address; (iii) telephone number; (iv) social security number; or (v) name. Eighteen separate customers listed a subsidiary of GFRP as their employer. If Firstrade had reviewed any SEC Filings for GFRP at any point they would have seen those account holders’ relationship to GFRP.**

In January 2009, Firstrade instituted an exception report as part of its AML program that identified potential wash sales based on the ten-day share volume and proximity of the buys and sells in accounts with shared characteristics. The Potential Wash Sale Reports are generated if a buy and sale in the same security takes place, and one of the following five pieces of information is the same in the transactions: (i) address of record; (ii) telephone number; (iii) e-mail address; (iv) social security number; or, (v) name. Due to these limited parameters for the Potential Wash Sale Report, the reports did not capture potential matched trading also occurring in the customer accounts and the firm did not implement any separate reports to monitor for matched trading.

CHDA transactions appeared on 56 separate wash sale reports from January 2010 through June 2011, while 791 matched trades occurred, most of which were not captured on the reports. In almost every case where a CHDA transaction appeared on the Potential Wash Sales Report, the accounts were one of the 11 that were associated with the issuer. Similarly, GFRP transactions appeared more than 16 times (on eight reports), where 422 matched trades occurred. This disproportionately higher number of matched trades versus wash sale reports is most likely due to the limitations on the parameters instituted for the reports. Notwithstanding the limitation of the Potential Wash Sale Report, Firstrade did not take timely action to address the potential manipulative activity raised by the 56 exceptions generated for CHDA or the eight reports generated for GFRP.

In addition to the other red flags, Firstrade was on notice from its clearing firm of transactions that raised questions regarding potential matched or wash trades by its customers as early as November 2007. The clearing firm had noted orders from Firstrade to buy and sell EESC within close proximity of receipt of an order on the other side of the market that would potentially interact with each other (because they are similarly priced). Due to the size of the orders, the relative illiquidity of the security, and the similarity of pricing, the clearing firm requested additional information from Firstrade prior to the orders and confirmation that the orders were

“legitimate buys and sells and that they were entered for bona fide purposes.” Although Firstrade responded to its clearing firm’s inquiry, it failed to take adequate steps to report and investigate the potential manipulation.

Since July 2011, Firstrade has taken steps towards addressing these deficiencies, including restricting and/or closing customer accounts. Among other things, Firstrade has implemented heightened procedures and incorporated additional reports in order to monitor, detect and investigate this type of trading activity in its customer accounts.

Journals

Firstrade’s AML procedures state that excessive journal entries between unrelated accounts without any apparent business purpose will be considered a red flag requiring additional review. Between August 18, 2008 and November 18, 2008, there were approximately 4,171 journal entries in about 61 different accounts at Firstrade in the stock Advanced Battery Technologies, Inc. (ABAT). Firstrade, however, did not conduct any independent analysis or due diligence on ABAT as a result of these multiple journals in that short span of time.

Between March 1, 2009 and April 30, 2010, approximately 3.876 million shares of Chang-On International Inc. (CAON) were journaled to third party non-customers of Firstrade. During that same period, there were over eight million shares of CAON journaled from Firstrade customers to other Firstrade customers and third parties. Three other stocks during that period each had over 500,000 shares journaled to a third party and eleven other stocks had journals totaling over a million shares. Firstrade did not conduct an adequate review of these securities or adequate follow up in assessing the accounts or the beneficiaries.

Deposit/Withdrawal at Custodian (“DWAC”)/Receipt of Physical Securities

Firstrade did not have any written procedures regarding the transfer of low priced stock via DWAC or physical certificate. Certain customer accounts had large amounts of transactions involving low-priced securities transferred into the accounts via DWAC or physical certificate that were typically sold shortly after receipt, and the proceeds promptly wired out of the accounts. Firstrade did not adequately monitor or review these receipts or their subsequent liquidating transactions for suspicious activity:

- The account of customer LK received over 37 million shares of Greenshift Corp. between April and May 2009 via DWAC which were then immediately sold and the proceeds wired out.**
- In April 2009, the account of RCP received 7 million shares of Quest Minerals & Mining Corp. via DWAC which were then immediately sold and the proceeds wired out.**
- In May 2009, the account of customer AQ was opened at Firstrade and received 3 million**

shares of Geobio Energy Inc. (GBOE) via DWAC. Immediately after receipt of the GBOE shares, the account began selling out the shares and wiring out the proceeds. By September 2, 2009, the account sold all 3 million shares of GBOE and by the next day, September 3, 2009, the account had wired out approximately \$9,646. There was no further activity in that account.

- The account of customer LK received 30 million shares of Ecosystem Corporation in May and June 2009.
- The account of customer EL received 20 million shares of six different securities between October 2009 and January 2010. Between December 2009 and March 2010, this account's only activity was approximately 868 sell transactions. From March 2009 through April 2010, the account also wired \$970,000 to a bank account in the Turks and Caicos.

By reason of the foregoing, Respondent violated NASD Conduct Rules 3011(a) and 2110 and FINRA Rules 3310(a) and 2010.

Inadequate AML Written Procedures

Between May 2008 and July 2011, Firsttrade failed to establish and implement AML policies, procedures and internal controls that were reasonably designed to achieve compliance with the Bank Secrecy Act, 31 U.S.C. 5311, *et seq.* ("BSA"), and the implementing regulations thereunder.

FINRA Rule 3310(b), like its predecessor, NASD Conduct Rule 3011(b), and MSRB Rule G-41 require FINRA members to establish and implement an anti-money laundering compliance program reasonably designed to achieve and monitor ongoing compliance with the requirements of the BSA and the regulations thereunder. The implementing regulations require member firms to establish risk-based customer identification procedures, or CIP.¹ The CIP must be tailored to the firm's business and customer base and must require the firm to collect certain customer information and establish a process for verifying customers' identities. Firsttrade failed to establish a CIP in writing tailored to the nature of its business and adequate to address all of the required elements of the regulation. Among other things, the procedures did not outline when additional verification steps should be taken for certain customers, as required by the implementing regulations, and failed to sufficiently address specific areas such as risk-based criteria for the verification of customer identities.

Firsttrade's written AML procedures failed to address how employees are to review, detect and

¹ See generally 31 C.F.R. § 103.122(b)(2003), now codified at 31 C.F.R. 1023.220(a). On March 1, 2011, FinCEN transferred its regulations from 31 C.F.R. Part 103 to 31 C.F.R. Chapter X as part of an ongoing effort to increase the efficiency and effectiveness of its regulatory oversight. 31 C.F.R. Chapter X is organized by generally applicable regulations and by industry-specific regulations.

escalate potentially suspicious activity and trading. The procedures fail to address how exception reports are used at Firstrade and by whom.

There were no procedures for the detection, review and reporting of suspicious activity related to the deposit of physical certificates and Deposit/Withdrawal at Custodian (DWACs). There were also no procedures for the detection, review and reporting of suspicious activity related to third party journals and wires.

By reason of the foregoing, Respondent violated NASD Conduct Rules 3011(b) and 2110 and FINRA Rules 3310(b) and 2010 and MSRB Rule G-41.

Inadequate Independent AML Test

NASD Conduct Rule 3011(c) required and MSRB Rule G-41 requires FINRA member firms conduct annual independent testing for compliance with the AML Rules. The independent test conducted by Firstrade of its AML system in 2009 was inadequate. Although it stated a certain sample of customer applications, deposits and outgoing wires were reviewed, Firstrade was unable to evidence such reviews. Further, the test did not address certain risks associated with Firstrade's business and client base including testing Firstrade's procedures for detecting suspicious activity related to DWACs, physical certificates and journals.

By reason of the foregoing, Respondent violated NASD Conduct Rule 3011(c), FINRA Rule 2010 and MSRB Rule G-41.

Inadequate AML Training

NASD Rule 3011(e) required and MSRB Rule G-41 requires firms to have AML compliance programs that provide ongoing training for appropriate personnel. Firstrade's AML training in 2008 and 2009 was inadequate in that it failed to include training specific to the risks associated with Firstrade's business model, namely its online trading operation. Firstrade was also unable to provide any supporting documentation demonstrating the topics that were addressed during its AML trainings in 2008 and 2009.

By reason of the foregoing, Respondent violated NASD Conduct Rules 3011(e) and 2110, FINRA Rule 2010 and MSRB Rule G-41.

MUNICIPAL TRADE TICKETS

MSRB Rule G-14 requires all brokers, dealers and municipal securities dealers to report trades to MSRB within 15 minutes of the time of execution and the MSRB published data about all reported municipal securities transactions, including, but not limited to, time of trade, price and volume information.

MSRB Rule G-8 requires that every dealer make and keep current a memorandum of each transaction in municipal securities (whether purchase or sale) for the account of such broker, dealer or municipal securities dealer, showing the price and date of execution and, to the extent feasible, the time of execution.

Between May 12, 2008 and August 12, 2003, all thirty municipal trades sampled, on Firsttrade's Municipal Trade Blotter, failed to include a time of entry on the order tickets.

Based on the foregoing, Respondent violated MSRB Rules G-14 and G-8(a).

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

- A censure; and**
- A fine in the amount of \$300,000 (\$25,000 of which pertains to the violations of MSRB Rules G-41, G-14 and G-8(a)).**

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 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 Respondent;**
- 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 General Counsel, 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 response to public inquiries about Respondent's disciplinary record;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**

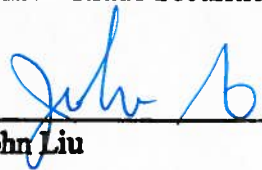
4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding 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 my 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 Respondent, 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.

02/25/2013
Date (mm/dd/yyyy)

Respondent Firsttrade Securities, Inc.

By: 
John Liu

Reviewed by:


Gregory P. Vidler, Esq.
GUZOV, LLC
900 Third Avenue, 5th Floor
New York, NY 10022
Telephone 212-371-8008, ext. 123

Counsel for Respondent

Accepted by FINRA:

5/7/13
Date

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

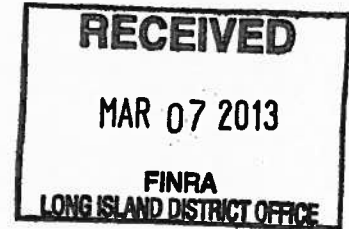
Vaishali Shetty

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March 4, 2013

FINRA District 10
Attn: Vaishali Shetty, Esq.,
Senior Regional Counsel
Two Jericho Plaza
Jericho, NY 11753



Re: Exam No. 20100212119 (Firstrade Securities, Inc.)
Respondent's Statement of Corrective Action

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

To Whom It May Concern:

Respondent Firstrade Securities, Inc. ("Firstrade" or the "Firm") respectfully submits this Statement of Corrective Action to accompany Firstrade's Letter of Acceptance, Waiver and Consent ("AWC") with regard to the above-referenced examination. In response to the conduct set forth in the AWC, Firstrade has taken the corrective measures set forth below.

In May 2011, Firstrade implemented a policy of not accepting the deposit of securities certificates in OTCBB and Pink Sheet securities. In addition, Firstrade scrutinizes each incoming account transfer so that any transfer request whereby the account holds a large number or majority of assets in low priced or illiquid securities is rejected.

Firstrade also enhanced its policy related to the journaling of assets between Firstrade accounts. The enhanced policy requires customers to indicate the reason for the requested transfer as well as the relationship between the parties. This effectively eliminated the transfer of assets between unrelated accounts and/or transfers without an apparent business purpose. Additionally, internal transfers of assets between foreign accounts are prohibited. This policy became effective in the summer of 2011.

Firstrade implemented additional automatically generated reports including a report to that generates an alert when 25% or more of the total daily volume in a security was either bought or sold through Firstrade customer accounts. These alerts are reviewed by compliance personnel and additional action is taken if warranted. This report was implemented in June 2011 and enhanced the Firm's then current reports, including the Firm's Potential Wash Sale Reports. Further, Firstrade has undertaken extensive measures to thwart any perceived improprieties regarding the trading of certain securities, namely low priced and illiquid

equities. Some of these measures include: (1) the restricting and subsequent closing of accounts; and (2) restricting certain securities so that only liquidations are permitted.

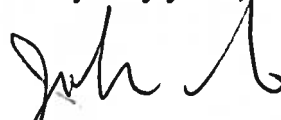
In December 2010, Firstrade contracted with an independent anti-money laundering consultant to revamp Firstrade's AML Compliance Program. This remediation project concluded with a very thorough and effective AML Compliance Program, designed in part to prevent, detect, and report suspicious activity in a timely manner. The Firm's new AMLCP also addresses the Firm's CIP program so that there are no questions concerning the identity of each customer who wishes to conduct business through Firstrade.

Moreover, beginning in December 2010, Firstrade contracted for the annual AMLCP Independent Test to be conducted by an independent auditor. The 2010, 2011, and 2012 Independent Tests have been conducted by this CAMS & CFE certified auditor. Firstrade has also implemented a more robust and effective AML Training Program designed to provide ongoing training for appropriate personnel as well as customize the training to address the risks associated with Firstrade's business model.

Finally, Firstrade has trained and instructed appropriate personnel to ensure the Time of Entry is captured on all municipal bond order tickets. A sampling of 100% of municipal bond order tickets has indicated complete compliance with this requirement and MSRB Rule G8(a).

Firstrade has greatly enhanced its policies and procedures while at the same time scaling back the types of business it conducts. This has a twofold effect, in that the business model has become more simplified while at the same time procedures have been intensified and designed to prevent and detect any suspicious activity in a timely manner. Firstrade strives to be in compliance with both FINRA and SEC Rules. The Firm believes that the detail provided and documents referenced in this Statement of Corrective Action demonstrate Firstrade's diligence as well as its willingness to continue to make improvements not only to address FINRA's concerns, but also to serve its clients better.

Very truly yours,

A handwritten signature in black ink, appearing to read "John Liu", written in a cursive style.

John Liu, CEO