Securities Regulation Daily Wrap Up, TOP STORY—Raymond James fined $17 million for anti-money laundering compliance deficiencies, (May 18, 2016)

Securities Regulation Daily Wrap Up

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By Kevin Kulling, J.D.

Two Raymond James affiliated entities have agreed to settle FINRA charges related to alleged failures of the firms' anti-money laundering programs and procedures. Raymond James & Associates (RJA) will pay $8 million, while Raymond James Financial Services, Inc. (RJFS), will pay $9 million. The former AML compliance officer of RJA also agreed to settle charges with a $25,000 fine and a three month suspension.

Affiliated firms. The settlement involves affiliated and wholly owned firms of the bank holding company, Raymond James Financial, Inc. RJA provides execution, clearance and custodial services to both its retail and institutional clients. RJA also engages in correspondent clearing services and clears for approximately 40 correspondent firms. One of those correspondent firms is RJFS, which offers products and services including mutual funds, securities brokerage, asset management, financial planning, securities underwriting and sales/ trading.

Linda Busby, a general securities representative since 2004, was the anti-money laundering compliance officer (AMLCO) at RJA between 2002 and February 2013.

Business growth. According to the Letter of Acceptance, Waiver and Consent (AWC), both firms experienced significant growth in their business between 2006 and 2014. For example, RJA grew from 190 branches to 445 branches, while RJFS grew from 2,351 to 2,519 branches during the period.

However, according to the AWC, the firms did not dedicate resources to match the firms' growth with reasonable AML compliance systems and procedures. As a result, the firms and Busby allowed certain red flags of potentially suspicious activity to go undetected or inadequately investigated. From November 2011 through June 2014, the firms failed to establish AML programs tailored to each firm's business and instead relied on a patchwork of written procedures and systems across different departments to detect suspicious activity.

These systems and procedures were not coordinated to allow the firms to link patterns and trends of suspicious conduct, leaving certain risk areas and certain red flags unchecked, according to the AWC.

AML program failures. The AML program deficiencies also included both firms' failure to conduct required due diligence and enhanced due diligence and periodic risk reviews for foreign financial institutions.

RJFS also failed to establish and maintain an adequate customer identification program as part of the firm's AML program.

In addition to its AML deficiencies, both RJA and RJFS failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with Section 5 of the Securities Act for transactions involving large blocks of low priced securities, the AWC said.

Finally, RJFS failed to establish and maintain reasonable written supervisory procedures with respect to its review of variable annuity exchange transactions and suitability reviews.

Terms of settlement. In addition to a censure and fine, both firms also agreed to conduct a comprehensive review of the adequacy of its AML and supervisory policies, systems, procedures, and training. The settlement requires that the firms certify that their procedures are reasonably designed to achieve compliance with FINRA Rule 3310. In addition, the firms will submit a written report covering the firms' policies, systems, and procedures

and a description of the review performed and the conclusions reached, as well as recommendations for modifications and additions to the policies, systems, and procedures.

RJFS prior settlement. The AWC notes that in March 2012, RJFS agreed to settle charges for failing to implement policies and procedures reasonably designed to detect and cause the reporting of suspicious transactions in the account of one of its customers who was operating a Ponzi scheme using his brokerage accounts. As part of that settlement, RJFS was fined $400,000 and agreed to review its anti-money laundering compliance program and procedures, and certify that its procedures were reasonably designed to achieve compliance with relevant FINRA Rules.

In accepting the settlement, RJA, RJFS and Busby neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

Companies: Raymond James & Associates; Raymond James Financial Services, Inc.

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