

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016052500601**

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

RE: J K R & Company, Inc., Respondent
Member Firm
CRD No. 8040

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent J K R & Company, Inc. (JKR, the firm, or Respondent), submits this Letter of Acceptance, Waiver and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violation 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

JKR has been a FINRA member since 1979. The firm is headquartered in Van Nuys, California, has two branches, employs two FINRA registered representatives, and is approved to engage in corporate debt securities, corporate equity securities over-the-counter, investment advisory services, mutual funds, municipal debt and bonds, options, proprietary trading, and variable contracts.

RELEVANT DISCIPLINARY HISTORY

JKR does not have any relevant disciplinary history with the United States Securities and Exchange Commission (SEC), any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

During a sales practice examination of JKR, FINRA staff discovered that between November 2012 and December 2016 (the "relevant period"), JKR failed to detect red flags of suspicious activity in four related accounts. These red flags included: common

ownership of multiple accounts without an apparent business purpose for multiple accounts; one account owner with significant disciplinary history related to securities fraud; potentially manipulative trading activity, unusual transfer activity between related accounts that was inconsistent with expected activity in such accounts and without an apparent business purpose; and unexplained third-party wire transfers that were inconsistent with expected account activity. By failing to detect these red flags, investigate them, and report the activities as required, the firm violated FINRA Rules 3310(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3310(a) requires firms to “[e]stablish 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) [the Bank Secrecy Act] and the implementing regulations thereunder.” The implementing regulations require broker-dealers to file with FinCEN “a report of any suspicious transaction relevant to a possible violation of law or regulation.”¹

NASD Notice to Members 02-21 (April 2002) provides long-standing guidance regarding anti-money laundering (AML) compliance programs, including that: (a) firms must tailor their AML programs to fit their business models and customer bases; (b) firms must monitor for “red flags” of suspicious activity that suggest money laundering; and (c) if firms detect red flags, they should investigate and determine whether to file a suspicious activity report (SAR).

JKR had written AML procedures that required the firm to monitor for red flags of potentially suspicious activity. Those red flags included the following, which were triggered by activity in the four accounts and which JKR failed to identify or investigate:

- Customer has a questionable background or one that differs from expectations or business activities;
- Customer with no discernable reason for using the firm’s service;
- Customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason;
- Wire activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose; and
- Unusual transfers of funds or journal entries among accounts without any apparent business purpose.

The firm’s AML procedures indicated that when the firm detected any red flags of potentially suspicious activity, it would determine whether and how to investigate further and take steps that could include: gathering additional information internally or from third parties, contacting the government, freezing the account, or filing a SAR. JKR did not, however, implement those measures.

¹ 31 C.F.R. 103.19, recodified as 31 C.F.R. 1023.320.

During the relevant period, the firm opened four accounts that should have triggered AML red flags requiring further investigation. When the accounts were opened, JKR, based upon conversations with the customer, expected that one of the accounts would primarily engage in liquidations of a penny stock and reinvest the proceeds in other securities in the account. The firm expected that the other accounts would engage in cash and margin transactions in various forms of securities, including but not limited to, stocks, options, mutual funds, bonds and annuities. The accounts, however, engaged in activity that was inconsistent with the expected activity.

Although the four accounts had beneficial owners and control persons in common, JKR failed to detect and/or investigate several red flags relating to the ownership and control of the accounts. For example, the firm failed to identify that one of the accounts was opened seven months after the accountholder's corporate president and the control person (Customer 1) had been barred by the SEC from participating in any manner in any offering involving penny stocks. The firm also failed to identify that the other three accounts were controlled by one person (Customer 2), that Customer 2 was the investment advisor for another account owner (Customer 3), and that Customer 2 had granted Customer 3 Power of Attorney over one of the accounts, effectively allowing Customer 3 to control trading activity in that account.

JKR also failed to identify that the legal address for one of the accounts was not a physical address, but instead, was a personal mailbox at a retail store. Additionally, the firm failed to recognize that the account-opening documents for one of the accounts indicated that Customer 2 was self-employed as an investment banker for the corporate entity listed for one of the other four accounts. The firm also did not recognize that the copy of the passport it collected for Customer 2 was not properly certified, reflecting only a stamp from a Notary Public in the State of Florida, instead of an affidavit sworn to by Customer 2 as the custodian of the passport, as required by the American Association of Notaries' rules governing copy certification by a document custodian. Similarly, the firm did not identify as a red flag the fact that the corporate entities for two of the accounts had been created just one week prior to account-opening under the laws of the Republic of Seychelles, a country known for heightened money-laundering risk.

In addition to its failure to identify and investigate the above-described red flags during the account-opening process, JKR also failed to identify and investigate the following suspicious trading activity in the four accounts.

- The firm did not identify or investigate extensive trading in a penny stock in two of the accounts, which, based upon conversations with the customer, was contrary to the expected activity in those accounts. In addition, Customer 2 had previously assisted in the penny stock's initial offering, and given the close relationship with the penny stock, JKR should have identified the fact that one of the accounts traded almost exclusively in that penny stock. Indeed, for the majority of the time, the penny stock was the only equity traded in one of Customer 2's accounts, which not only liquidated shares of the traded penny stock, but purchased them as well. This was contrary to the

expected activity in the account because, based upon conversations with the customer, JKR understood that Customer 2 intended to liquidate the penny stock and use the proceeds to diversify holdings in the account. Two of the accounts owned and controlled by Customer 2 purchased the traded penny stock.

- In addition, the firm failed to investigate potentially suspicious wire activity that was unexplained, repetitive and showed unusual patterns with no apparent business purpose. One of the accounts frequently wired proceeds of liquidations of the penny stock out to third parties almost immediately after the liquidations. These third-party wire transfers accounted for approximately 20 percent of the value of wire transfers sent by all JKR customers during the same period. One of Customer 2's three accounts also sent wire transfers to a bank account in the name of one of Customer 2's other accounts for no apparent business purpose.
- JKR also failed to identify or investigate unusual transfers of funds or journal entries among accounts at JKR. For example, and without an apparent business purpose, JKR journaled funds between two of the related accounts and subsequently sent wire transfers to the same third party beneficiary that the first account had previously sent outgoing wire transfers to shortly before the journals. The journals served no business purpose and were suspicious because the wire transfers could have been sent directly to the third party without the intervening journals.
- The firm further failed to identify and investigate a red flag associated with two of the accounts where it was apparent that the customer had no discernable reason for using the firm's service. Specifically, during the relevant period, two of Customer 2's accounts engaged in very minimal securities activity. JKR did not recognize that the two accounts engaged in only minimal securities activity, and therefore, did not question the customer's reason for opening the accounts.

Despite the existence of the numerous AML red flags described above that may have been indicative of either money laundering or price manipulation (in the case of the traded penny stock), JKR failed to detect the red flags, failed to reasonably investigate them, and/or failed to report the suspicious activity in a timely manner, as appropriate.

By virtue of the foregoing, Respondent violated FINRA Rules 3310(a) and 2010.

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

1. A censure; and
2. A fine in the amount of \$50,000.

3. The firm further agrees to the following undertaking:

Within 90 days of the date this AWC is accepted, a principal of JKR shall certify in writing to FINRA staff that the firm has established systems and procedures reasonably designed to achieve compliance with its AML obligations, including, but not limited to, remediating the deficiencies identified herein. FINRA staff may, upon request, extend this deadline.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payments are 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 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 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 acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waive(s) 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

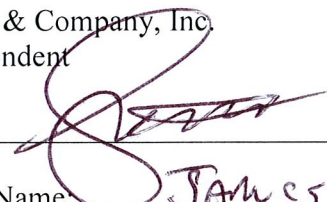
Respondent understands that:

- 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(s); 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(s);
 - 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(s) 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: (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.

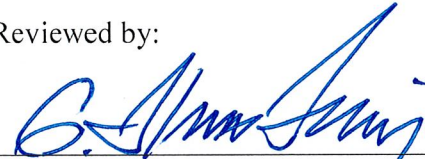
Respondent certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent to submit this AWC.

6-23-2020
Date

J K R & Company, Inc.
Respondent

By: 
Print Name: James Ellis
Title: President

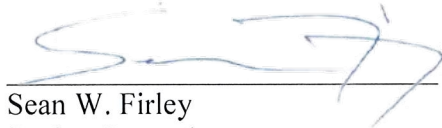
Reviewed by:


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Accepted by FINRA:

07/27/2020
Date

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


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