Financial Industry Regulatory Authority

News Release

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FINRA Fines ICBCFS $5.3 Million for Anti-Money Laundering Compliance Deficiencies and Other Violations

WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has fined Industrial and Commercial Bank of China Financial Services LLC (ICBCFS) $5.3 million for systemic anti-money laundering (AML) compliance failures, including its failure to have a reasonable AML program in place to monitor and detect suspicious transactions, as well as other violations, including financial, recordkeeping, and operational violations.

In late 2012, ICBCFS began clearing and settling equity transactions. Within a few months of launching its new business line, ICBCFS took on thousands of new customers, many of whom began purchasing and selling millions of dollars' worth of penny stocks. From January 2013 through September 2015, ICBCFS cleared and settled the liquidation of more than 33 billion shares of penny stocks, which generated approximately $210 million for ICBCFS's customers.

However, despite clearing and settling billions of penny stock shares, ICBCFS failed to have in place a reasonably designed AML program to detect and cause the reporting of potentially suspicious transactions, particularly those involving penny stocks. FINRA found that prior to June 2014, ICBCFS had no surveillance reports that monitored potentially suspicious penny stock liquidations, and did not require its employees to document their review of the surveillance reports it did have in place. FINRA further found that ICBCFS lacked systems and procedures to monitor whether certain business activities were unusual for any given customer, despite the firm's written AML procedures specifically identifying such items as red flags requiring monitoring. ICBCFS also assigned critical suspicious activity monitoring duties to a non-existent employee title, and these duties were not performed effectively by any firm employees. As a result of its unreasonable AML supervisory system, ICBCFS failed to detect or reasonably investigate red flags of potentially suspicious activity involving the penny stock transactions run through the firm.

Susan Schroeder, FINRA Executive Vice President, Department of Enforcement, said, “Member firms are obligated to implement an AML program that is reasonably designed to address the unique money laundering risks posed by their business. Firms that engage in high-risk activities such as penny stock clearing are the gatekeepers to the market and must establish a reasonable supervisory system to detect and report suspicious trading activity.”

ICBCFS was notified in June 2014 by the Securities and Exchange Commission (SEC) in connection with an examination that its customers were engaged in penny stock trading that raised red flags of potentially suspicious activity which the firm did not detect or report. Despite this notice, ICBCFS failed to make necessary changes to its AML program to adequately monitor this type of activity. Also, the firm did not disclose the large amount of its penny stock clearing activity to its independent AML auditor, even after being notified about its customers' potentially suspicious penny stock trading by the SEC. Additionally, FINRA found that ICBCFS's compliance testing of its AML program was inadequate and failed to uncover any of the deficiencies in the firm's trade monitoring.

In settling this matter, ICBCFS neither admitted nor denied the charges, but consented to the entry of FINRA's findings. The SEC also announced today that ICBCFS agreed to pay an $860,000 penalty in a separate action involving AML and other violations by the firm.

Investors can obtain more information about, and the disciplinary record of, any FINRA-registered broker or brokerage firm by using FINRA's BrokerCheck. FINRA makes BrokerCheck available at no charge. Investors can access BrokerCheck at www.finra.org/brokercheck or by calling (800) 289-9999. Investors may find copies of this disciplinary action as well as other disciplinary documents in FINRA's Disciplinary Actions Online database. Investors can also call FINRA's Securities Helpline for Seniors at **(844) 57-HELPS** for assistance or to raise concerns about issues they have with their brokerage accounts and investments.

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