

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009018985203**

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

RE: Raymond James Financial Services, Inc., Respondent
CRD No. 6694

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Raymond James Financial Services, Inc. ("RJFS") 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 RJFS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. RJFS 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

RJFS is a FINRA registered broker dealer with approximately 4,749 registered persons and approximately 2,372 branch offices. RJFS, which is one of three broker dealer subsidiaries of Raymond James Financial, Inc., utilizes an independent contractor business model. RJFS introduces accounts to an affiliated company.

RELEVANT DISCIPLINARY HISTORY

RJFS has no relevant disciplinary history.

OVERVIEW

This matter involves the failure of RJFS to implement procedures that were reasonably designed to detect and cause the reporting of suspicious transactions in the accounts of its customer, JR. JR used his brokerage accounts at RJFS to conduct a Ponzi scheme that

resulted in losses of approximately \$17.8 million to the individuals who provided funds to him.

Between January 5, 2005 and July 11, 2007 (the “relevant time period”), RJFS became aware of numerous red flags suggesting that JR may have been engaged in suspicious or illegal activity. However, RJFS failed to adequately consider or review many of these red flags in light of its Anti-Money Laundering obligations. In many instances, the information about the red flags was not provided to the firm’s AML Officer for consideration and evaluation. After RJFS became aware of a suspicious flow of funds in and out of JR’s accounts, it still failed to conduct adequate due diligence or monitoring of JR’s accounts.

By failing to implement policies and procedures that were reasonably designed to detect and cause the reporting of suspicious transactions in the accounts of JR, RJFS violated NASD Rule 3011(a), and, by virtue of that violation, NASD Rule 2110.

FACTS AND VIOLATIVE CONDUCT

Facts

During the relevant time period, JR conducted a Ponzi scheme using his accounts at RJFS. That scheme resulted in losses of over \$17 million to his “investors.” JR accomplished this, in part, by periodically transferring funds to his RJFS brokerage accounts and then writing monthly checks to his supposed “investors” from his brokerage-linked money market account. Many of the checks were for identical, round-dollar amounts each month.

On July 6, 2007, the Ohio Division of Securities filed a complaint to place JR’s assets, including his accounts at RJFS, into receivership. On July 17, 2007, JR pleaded guilty to first degree felonies for selling unregistered securities, perjury, and forgery. JR was sentenced to 20 years in prison and ordered to pay \$17.8 million in restitution to approximately 200 victims who had provided him with funds.

RJFS Failed To Devote Adequate Resources to Its AML Program

RJFS’s Anti-Money Laundering procedures provided that any employee of the firm who became aware of “any red flag, or other activity that may be suspicious” was to “notify the AML Officer.” The procedures also provided that RJFS’s AML Officer had “full responsibility for the firm’s AML program,” and was responsible for “develop[ing], administer[ing], and enforce[ing] policies and procedures designed to comply with U.S. AML rules and regulations.”

The RJFS AML Officer’s specific responsibilities also included, among others, reviewing AML exception reports for suspicious activity, filing Suspicious Activity Reports, communicating with Branch Managers regarding client actions, and conducting risk assessments of any incoming subpoenas concerning client accounts. The AML Officer

was also responsible for reviewing approximately 15 lengthy exception reports to identify potentially suspicious activity.

The RJFS branches were staffed with independent contractors. RJFS's AML program placed considerable reliance on the RJFS AML Officer's review of exception reports to detect suspicious activity at the branches. These exception reports generally covered only particular time periods, such as the preceding 30 or 90 days. In spite of the importance that the exception reports played in RJFS's AML program, RJFS did not maintain a database or other means of combining and reflecting information generated by multiple reports.

RJFS did not devote adequate resources to its AML program in light of limitations in its review processes. The AML Officer was responsible for, among other things, overseeing the AML program with respect to more than 2,000 independent contractor offices, manually reviewing 15 weekly and monthly exception reports for suspicious activity, and investigating potentially suspicious activity. Although certain individual reports were filtered to identify items for further review, the Firm did not centralize or integrate the information generated by the various reports used by the AML Officer. Moreover, during the relevant time period, more than 2,100 client accounts — approximately 3.3 accounts per business day — were identified as warranting further detailed investigation by the firm's AML Officer. The resources that RJFS devoted to AML compliance were inadequate in light of these extensive responsibilities.

RJFS Failed to Adequately Investigate Suspicious Activity in JR's Accounts

In addition to executing a large volume of options transactions, JR moved large sums of money in and out of his RJFS accounts, in large part to accomplish his Ponzi scheme. For example, in one ten-and-a-half-month period, JR deposited approximately \$3.8 million in cash equivalents into one of his brokerage accounts and then wrote 1302 checks, mostly in round-dollar amounts, withdrawing funds from the account. Many of the checks were payments to "investors" of JR who were unknowingly participating in his Ponzi scheme.

During the relevant period, JR's accounts frequently triggered several RJFS exception reports. JR's accounts appeared on the Firm's Structured Deposit Report almost every week. The Structured Deposit Report sorted cash equivalent deposits over the preceding 90- and 365-day periods in order to detect potential structuring. JR's voluminous check writing also repeatedly appeared on the Excessive Activity Report generated by RJFS's affiliate, who shared this information with RJFS. Finally, on several occasions JR's account appeared on RJFS's Third Party Disbursements Report after JR wired funds to pay off relatives of "investors" who had died or who had sued him.

By the beginning of 2005, the AML Officer had identified potential money laundering concerns associated with the flow of funds in and out of JR's account, and with JR's unusual practice of writing checks in round dollar amounts. On January 5, 2005, RJFS's AML Officer emailed the registered representative assigned to JR's accounts, asking the

registered representative to explain the unusual account activity. The AML Officer specifically referred to the large number of deposits in the brokerage account and the large number of checks JR then wrote from his money-market account, generally in round-dollar amounts:

“One of the reports I review for suspicious activity monitors for the use of cash equivalents (e.g. money orders, cashier’s checks, etc.) [One of JR’s accounts] has a history of using cash equivalent deposits... [f]or the most part, all of your client’s cash equivalents are for over \$10k. However, your client does make a very large number of these type of deposits (compared to other accounts). Case in point, in the last 90 days a total of 12 cash equivalent deposits totaling ~ \$373k have been made into this account. This concern is then multiplied by the fact that your client also writes numerous checks out of their [money market] sweep account. These checks are generally in pretty standard amounts (e.g. \$1500.00 as opposed to say \$1497.23 as if they were buying something). What this results in is a very large amount of money is flowing through the account in a suspicious manner coming in as cash deposits and leaving via [money market] checks. I do see there is some extensive investing in this account, but as I said there is still a very large flow of funds through this account.

The PATRIOT Act requires that we monitor for suspicious activity in accounts. One practice that raises suspicion is the use of cash equivalents, and/or the flow of funds into and back out of an account. Therefore, would you please provide me with an explanation as to why your client makes transactions in this manner.”

In response, the registered representative provided the following explanation for the account activity:

“I have known [JR] for over 25 years [JR] is a very successful businessman. He not only has a portfolio of stock and options, but also Real estate, cars, and a very successful insurance firm. The deposits that come into his account are the proceeds from the periodic sales of these numerous assets. The income that he makes from the call options is used to fund his ventures into real estate, cars, and the expenses that go along with those transactions. [JR] is a meticulous bookkeeper and likes to have a paper trail for all transactions. Therefore he prefers Bank Checks to conduct transactions because of the reasons listed previously.... I can vouch for [JR’s] honesty and integrity. I feel that Raymond James has nothing to be concerned with. If you have any additional questions, please let me know. ”

Over the next two and a half years, RJFS’s AML Officer continued to email the registered representative about the round-dollar check writing and flow of funds in and out of the account. Specifically, in October 2005 and again in August 2006, the AML Officer emailed the registered representative about the numbers of deposits and checks in JR’s account, and sought further details of the activity, noting that JR “makes numerous

deposits via cash equivalents totaling hundreds of thousands of dollars each month.” For example, on October 4, 2005, the AML Officer wrote:

“[T]his account appears on one of my reports I review quite frequently...As you presumably know, [JR] makes numerous deposits via cash equivalents totaling hundreds of thousands of dollars each month. Per your email below you explained that these were proceeds from the periodic sale of his assets, but from the level of deposits this would mean he sells quite a large number of (large ticket) items??? And I am curious to know what all the [money market] checks are for?? He routinely writes numerous checks, almost always for even dollar amounts.”

On August 22, 2006, the AML Officer again contacted the registered representative assigned to JR’s account with the same concerns:

“[Since October 2005] there has been approx \$3.8 million dollars of cash equivalents (official checks, cashiers checks, etc) deposited into the account and 1302 [money market] checks written totaling ~\$3.9+ million. A flow of funds into and back out of an account can be a sign of money laundering. While I am certainly not implying anything of this sort has taken place I do have the responsibility to question the activity and document your reply. Could you please take a moment and provide me with the circumstances surrounding this activity and any additional detail(s) you think I should be aware of.”

In response to each of these emails, the registered representative assigned to the account provided the same explanation for the account activity—that the large flow of funds in and out of the account resulted from JR’s dealings in real estate and cars. This information had been obtained several years earlier when JR opened his first account with RJFS. In spite of the unusual nature of the response, no one at RJFS attempted to pursue the concerns about JR’s account activity directly, contact the branch manager, or ascertain whether JR had been asked about the account activity. Nor did anyone at RJFS conduct an adequate review of the checks JR had written, even though they were presented to the RJFS AML officer for review. Instead, RJFS relied on the information provided by the registered representative and a Lexis report that listed JR’s properties and vehicle registrations. The registered representative never adequately explained, and RJFS never determined, why JR frequently wrote checks in round dollar amounts.

RJFS Failed to Implement its AML Program to Adequately Consider Numerous Red Flags Related to JR’s Accounts

During the relevant time period, different departments at RJFS failed to share information about potential red flags concerning suspicious activity in JR’s accounts with each other and with the firm’s AML Officer. For instance, RJFS’s Legal Department failed to inform the AML Officer about a criminal inquiry and allegations that JR had converted funds and deposited them into his RJFS account. Similarly, the local branch office where

JR's accounts were located failed to report red flags related to JR's account activity and legal troubles to the AML officer. The firm's AML Officer also failed to adequately review information they were provided.

Even with respect to information that was provided to the firm's AML Officer, RJFS failed to adequately implement its procedures to review that information. For example, checks written by JR from his money market account showed that he was writing round dollar checks in identical amounts to the same individuals each month. Although the checks were specifically provided to RJFS's AML Officer for review, an adequate review of those checks was never conducted.

As a result of these failings, RJFS did not adequately consider certain red flags related to activity in JR's accounts that were indicative of suspicious activity. These red flags included the following:

1. A civil complaint was served on RJFS by a relative of JR alleging that JR had converted funds, deposited them into his RJFS accounts, and improperly acted as an investment advisor. Although RJFS was aware of the lawsuit and had reviewed the complaint, no one at RJFS provided the AML Officer with a copy of the complaint. Likewise, no one at RJFS informed the AML Officer that JR had "invested" a relative's money in his RJFS account.
2. RJFS's AML Officer was provided with a subpoena issued to RJFS by the Ohio Division of Securities that sought information about JR's accounts. However, because RJFS failed to adequately review that subpoena, RJFS AML personnel took no further action with respect to the subpoena.
3. JR had questioned the branch manager at the office where his account was located about the possibility of investing on behalf of others using his RJFS accounts. No one at the branch informed the firm's AML Officer of these facts.
4. In early June of 2007, the registered representative assigned to JR's accounts received a Grand Jury Subpoena to testify and provide documents about JR. Although a copy of the subpoena was provided to RJFS on June 5, 2007, no one informed the AML Officer of the subpoena, even though RJFS's procedures required its AML Officer to review and conduct a risk assessment of any customer who was the subject of a subpoena.
5. Several weeks before the Ohio Division of Securities initiated the complaint to seize JR's assets, JR told personnel at the branch office where his account was located that he had been investing on behalf of "family members" using his RJFS accounts. No one at the branch informed the firm's AML Officer of these facts.
6. Shortly before the Ohio Division of Securities initiated the complaint to seize JR's assets, JR told local branch personnel that he had committed fraud and was going to jail. No one at the RJFS branch provided this information to the firm's AML Officer.

Because RJFS did not adequately identify or consider numerous red flags related to JR's accounts, it also failed to adequately consider whether it should file a Suspicious Activity Report with respect to the accounts, as required by the Bank Secrecy Act and the implementing regulations promulgated thereunder.

RJFS Failed to Conduct Adequate Monitoring of JR's Accounts

In part because of the inadequate investigation described above, RJFS also failed to conduct adequate monitoring of JR's accounts. The firm's AML Officer recognized that JR wrote checks in "round dollar amounts," frequently to the same individuals, and identified the flow of funds into and out of the accounts as a potential problem. In spite of this, RJFS did not adequately follow up on these concerns. For instance, RJFS did not follow up when the registered representative failed to provide an explanation for the fact that the checks were written in round dollar amounts. RJFS also failed to review JR's physical account file, which would have demonstrated JR's pattern of depositing third party stock certificates. The firm's Stock Receive Department, which it had outsourced to its affiliate, also failed to monitor JR's repeated deposits of third party stock certificates.¹ Finally, RJFS failed to contact the Branch Manager about JR's account activity—even though the firm's AML Procedures specifically tasked the AML Officer with communicating with Branch Managers.

As described above, RJFS also devoted inadequate resources to its AML program in light of the limitations of its review processes. In addition, RJFS's AML Officer was unable to review, as a practical matter, the various instances that JR's accounts had triggered the firm's exception reports. The firm's processes did not realistically allow the AML Officer to call up each of the past instances in which JR's accounts had triggered those reports.

Because RJFS did not conduct adequate monitoring of JR's accounts, it also failed to adequately consider whether it should file a Suspicious Activity Report with respect to the activity in the accounts, as required by the Bank Secrecy Act and the implementing regulations promulgated by the Department of the Treasury.

Violations

RJFS Violated NASD Rules 3011 (and 2110)²

NASD Conduct Rule 3011(a) requires that member firms must, at a minimum, "establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious transactions required under 31 U.S.C. 5318(g) and the

¹ JR repeatedly deposited third party stock certificates into his accounts and sometimes accepted physical stock certificates from the investors in his Ponzi scheme.

² Effective January 1, 2010, NASD Rule 3011 became FINRA Rule 3310.

implementing regulations thereunder.” In developing its AML program, a broker-dealer should consider factors such as its size, location, business activities, the types of accounts it maintains, and the types of transactions in which its customers engage.¹ Two FINRA Notices to Members, 02-21 and 02-47, emphasize a member’s duty to detect “red flags” and, if detected, to “perform additional due diligence before proceeding with the transaction.”

As described above, RJFS failed to implement policies and procedures that could reasonably have been expected to detect and cause the reporting of suspicious activity in the accounts of JR, who was operating a Ponzi scheme. Numerous red flags were either not provided for review, or not adequately considered, by the firm. Even after the firm became aware of a highly unusual flow of funds in and out of the accounts, it failed to conduct adequate due diligence or monitoring of the activity in JR’s accounts, in part because the firm devoted inadequate resources to its AML department.

By failing to implement policies and procedures that were reasonably designed to detect and cause the reporting of suspicious transactions in the accounts of JR, RJFS violated NASD Rules 3011(a) and 2110.

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

1. A censure;
2. A fine in the amount of \$400,000; and,
3. The undertaking described below.

Undertaking: RJFS shall conduct a comprehensive review of the adequacy of its AML policies, systems, procedures (written and otherwise), and training. At the conclusion of the review, which shall be no more than 90 days after the date of the Notice of Acceptance of this AWC, RJFS shall certify that its procedures are reasonably designed to achieve compliance with FINRA Rule 3310 (formerly NASD Rule 3011). The certification shall be provided in a written letter to FINRA staff, and signed by a corporate officer of RJFS on behalf of RJFS. The letter should identify the Respondent and the case number, and shall be submitted by e-mail to EnforcementNotice@FINRA.org and by letter to Thomas Kimbrell, Senior Counsel, FINRA, Department of Enforcement, 1801 K Street NW, Suite 800, Washington DC 20006. In addition, at the time the certification is provided, RJFS will provide the staff with a copy of its procedures relating to compliance with FINRA Rule 3310.

RJFS agrees to pay the monetary sanction(s) upon notice that this AWC has been

¹ See Notice to Members 02-21 at 4.

accepted and that such payment(s) are due and payable. RJFS has submitted an Election of Payment form showing the method by which the firm proposes to pay the fine imposed.

RJFS specifically and voluntarily waives any right to claim that the firm is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

RJFS 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, RJFS 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.

RJFS 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

RJFS 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 RJFS; and
- C. If accepted:
 - 1. this AWC will become part of RJFS’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against RJFS;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my 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. RJFS 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. RJFS 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 RJFS’s right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. RJFS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. RJFS 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 the Firm, 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 RJFS 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 RJFS to submit it.

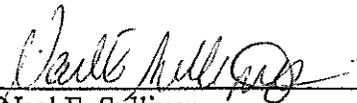
2/28/2012
Date (mm/dd/yyyy)

Respondent

Raymond James Financial Services, Inc.

By: 
PRESIDENT

Reviewed by:


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Gerald J. Russello
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2020 K Street NW
Washington, DC 20006-1806
202-373-6159

Accepted by FINRA:

3/29/12
Date

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


Thomas B. Lawson
Vice President and Chief Counsel
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