FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077024501

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

RE: Sanctuary Securities, Inc. (Respondent)
Member Firm
CRD No. 205

Pursuant to FINRA Rule 9216, Respondent Sanctuary Securities, Inc. 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Sanctuary Securities has been a FINRA member since 1939. The firm is headquartered in Indianapolis, Indiana, and has approximately 80 branch offices and approximately 400 registered representatives. The firm is an introducing broker-dealer that engages in a general securities business using an independent contractor model and has primarily retail customers.[1]

OVERVIEW

From January 2022 to July 2024, Sanctuary Securities failed to develop and implement an anti-money laundering (AML) program reasonably designed to achieve compliance with the requirements of the Bank Secrecy Act (31 U.S.C. § 5311, *et seq*.) (BSA) and its implementing regulations. In addition, the firm failed to conduct an adequate independent test of its AML program in 2022. As a result, Sanctuary Securities violated FINRA Rules 3310 and 2010. For these violations, Sanctuary Securities is censured, fined $150,000, and agreed to an undertaking to certify that it has remediated its AML policies and procedures.

[1] For more information about the firm, including prior regulatory events, visit BrokerCheck® at www finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2023 cycle examination of the firm.

FINRA Rule 3310 provides that each member "shall develop and implement a written [AML] program reasonably designed to achieve and monitor the member's compliance with the requirements of the [BSA], and the implementing regulations promulgated thereunder." FINRA Rule 3310 further requires that the AML program "must be approved, in writing, by a member of senior management."

FINRA Rule 3310(a) requires each FINRA member 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) and the implementing regulations thereunder." FINRA Rule 3310(f), which restates 31 C.F.R. § 1023.210(b)(5), requires a FINRA member's AML compliance program to include appropriate risk-based procedures for conducting ongoing customer due diligence that include "(i) [u]nderstanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (ii) [c]onducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information."

In April 2002, NASD issued Notice to Members (NTM) 02-21, which provided guidance to member firms regarding their AML compliance obligations. NTM 02-21 advised that each firm's AML program should be tailored to the particular risks of its business model and customer base and explained that firms have an obligation to monitor for and report suspicious transactions, including those that raise "red flags" suggestive of money laundering or other violative activity and provided a non-exhaustive list of red flags. In May 2019, FINRA issued Regulatory Notice 19-18, which reminded firms of their suspicious activity reporting obligations and provided an updated non-exhaustive list of red flags, including with respect to "[w]ire transfers [that] are made to or from financial secrecy havens, tax havens, high-risk geographic locations or conflict zones, including those with an established presence of terrorism," "[w]ire transfers or payments [that] are made to or from unrelated third parties (foreign or domestic), or where the name or account number of the beneficiary or remitter has not been supplied," and a "securities account [that] is used for payments or outgoing wire transfers with little or no securities activities (*i.e.*, account appears to be used as a depository account or a conduit for transfers, which may be purported to be for business operating needs)." Regulatory Notice 19-18 also identified "[a]n account [that] is opened by a politically exposed person (PEP), particularly in conjunction with one or more additional risk factors, such as the account being opened by a shell company beneficially owned or controlled by the PEP, the PEP is from a country which has been identified by FATF as having strategic AML regime deficiencies, or the PEP is from a country known to have a high level of corruption" as a potential red flag. Regulatory Notice 19-18 further explained that "[u]pon detection of red flags through monitoring, firms should consider whether additional investigation, customer due diligence measures or a [suspicious activity report] filing may be warranted."

FINRA Rule 3310(b) requires each FINRA member to "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the [BSA] and the implementing regulations thereunder." One of the U.S. Treasury Department's implementing regulations, 31 C.F.R. § 1023.220, requires every broker-dealer, as part of its AML compliance program, to establish, document, and maintain a written Customer Identification Program (CIP) that is appropriate for its size and business. The CIP must include risk-based procedures for verifying customers' identities that are reasonably designed to enable the broker-dealer to form a reasonable belief that it knows the true identity of each customer. Absent an exception, broker-dealers must obtain, at a minimum, the following information prior to opening an account: name; date of birth for an individual; address; and an identification number (*e.g.*, a tax identification number for a U.S. person or a passport number for a non-U.S. person). These procedures must be based on the broker-dealer's assessment of the relevant risks, including those presented by the broker-dealer's size, location, customer base, account types, and account opening methods. The CIP must also contain procedures for verifying the identity of its customers and must describe when the broker-dealer will use documentary, non-documentary methods, or a combination to verify customers' identities. Finally, the broker-dealer's CIP must include procedures for responding to circumstances in which the broker-dealer cannot form a reasonable belief that it knows the true identity of a customer.

FINRA Rule 3310(c) requires member firms that execute transactions for customers, hold customer accounts, or act as an introducing broker with respect to customer accounts to provide for independent testing of their AML program each calendar year.

A violation of FINRA Rule 3310 is also a violation of FINRA Rule 2010, which requires FINRA members to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

Sanctuary Securities failed to develop and implement a reasonably designed AML program.

During the relevant period, Sanctuary Securities did not have an AML program that was approved by senior management as required by Rule 3310. While the firm maintained Written Supervisory Procedures (WSPs) that included policies and procedures related to AML, these policies and procedures were not tailored to the firm's size, business model, and customer base and were not reasonably designed to achieve and monitor the firm's compliance with the requirements of the BSA. As a result, Sanctuary Securities failed to comply with FINRA Rule 3310 in the following respects.[2]

[2] In May 2023, Sanctuary Securities began to supplement the portions of its WSPs pertaining to AML and then retained an outside consultant to assist with the development of an AML program. In July 2024, Sanctuary Securities adopted a new AML program, which the firm's senior management approved in writing.

A. Sanctuary Securities failed to establish and implement reasonably designed policies and procedures to detect and cause the reporting of suspicious transactions.

The portions of Sanctuary Securities' WSPs concerning the detection and reporting of suspicious transactions were not reasonably designed. The WSPs provided that suspicious activity should be brought to the attention of the AML compliance officer and that the AML compliance officer should report suspicious activity. These procedures, however, were not tailored to the firm's business. During the relevant period, the WSPs did not identify red flags of suspicious activity or provide reasonable guidance regarding how to detect suspicious activity or how to conduct or document a review of an identified red flag. Additionally, the firm's WSPs did not provide written guidance regarding what exception reports or other tools the firm would use to detect suspicious transactions, who should review those exception reports, and how and for what purposes those exception reports should be reviewed. This lack of guidance was not reasonable given the firm's size and customer base, which included primarily domestic retail investors, and its independent contractor model. For example, from April 2022 through April 2023, firm customers effected more than 40,000 funds and securities transmittals to or from their accounts at the firm, but the firm's procedures did not provide for a reasonable process for reviewing those funds and securities transmittals in order to detect suspicious transactions.

During the relevant period, Sanctuary Securities did not take reasonable steps to detect and cause the reporting of suspicious transactions. The firm received various types of exception reports from its clearing firm. For example, the firm received reports from its clearing firm flagging certain money movements as potentially suspicious, including transfers to or from jurisdictions that present a heightened money laundering risk. However, the firm's review of those exception reports was not reasonable. Lacking reasonable written guidance concerning how to review the exception reports, the firm cleared many transfers identified by the reports without a reasonably documented evaluation of whether the transfers raised red flags of suspicious activity. For example, in a sample of approximately 40 money movements identified on exception reports received by the firm during the relevant period, firm personnel cleared more than 90 percent based on the documented rationale that the customer confirmed the transfer of funds and a letter of authorization was maintained on file. This included transfers by two accounts owned by seemingly unrelated foreign customers that both made seven-figure wires to the same third-party legal entity domiciled in a bank-secrecy haven. The firm also did not take reasonable steps to detect 17 inactive accounts with wire transfer activity to third parties that did not engage in securities trading during the relevant period.

In addition, during the relevant period, the firm did not establish and implement appropriate risk-based procedures for conducting ongoing customer due diligence, including understanding the nature and purpose of customer relationships in order to develop a customer risk profile. Lacking such appropriate risk-based procedures, the firm failed to conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information, and also failed to develop

customer risk profiles. As a result, for example, although the firm identified two of its account holders as politically exposed persons (PEPs) from a jurisdiction of AML concern, it failed to adopt appropriate risk-based procedures for developing a customer risk profile and conducting ongoing due diligence for those accounts or other potentially high-risk accounts. Similarly, the firm did not develop risk profiles based on an understanding of the nature and purpose of customer accounts that regularly sent and received third-party wires but did not engage in securities transactions.

Therefore, Sanctuary Securities violated FINRA Rules 3310(a), 3310(f), and 2010.

B. Sanctuary Securities failed to establish and implement a reasonably designed Customer Identification Program.

Sanctuary Securities did not have a reasonably designed CIP in place during the relevant period. The firm's WSPs required the firm to collect certain "essential facts" about its customers at account opening including name, date of birth, and address. However, the WSPs did not require the firm to collect an identification number from new customers, did not provide reasonable procedures for the verification of the identities of its customers, and did not address how the firm would respond to circumstances where it could not form a reasonable belief that it knew the true identity of a customer.

Therefore, Sanctuary Securities violated FINRA Rules 3310(b) and 2010.

C. Sanctuary Securities failed to conduct a reasonably designed independent test of the firm's AML program in 2022.

Sanctuary Securities is required to perform an independent AML test each calendar year, as it acts as an introducing broker for customer accounts. In 2022, Sanctuary Securities retained an outside consultant to conduct an independent test of the firm's AML program for that year. However, Sanctuary's 2022 AML test failed to address material aspects of the firm's AML program—including that the firm's revised written AML program was only in draft form and had not been approved by firm management, facts which the consultant had not been informed of—and accordingly, the test was not reasonably designed.

Therefore, Sanctuary Securities violated FINRA Rules 3310(c) and 2010.

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

- a censure;
- a $150,000 fine; and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a

supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with FINRA Rule 3310 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Karen Daly, Senior Counsel, at karen.daly@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction or sanctions imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 action brought by FINRA or any other regulator against Respondent;

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 its subject matter 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

March 7, 2025

Date

Sanctuary Securities, Inc.
Respondent

Name: Kevin Miller

Title: Chief Legal Officer

Reviewed by:

Michael Watling

Michael Watling, Esq.
Counsel for Respondent
SEWARD & KISSEL LLP
One Battery Park Plaza
New York, NY 10004

Accepted by FINRA:

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

March 11, 2025

Date

Karen C. Daly

Karen C. Daly
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FINRA
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