

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2012030675901**

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

RE: Comprehensive Asset Management and Servicing, Inc. (BD No. 43814)  
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Comprehensive Asset Management and Servicing, Inc. ("CAMS" or the "Firm") 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 CAMS alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

A. CAMS 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**

CAMS has been a FINRA member since 1998. CAMS, which is also registered with the Municipal Securities Rulemaking Board ("MSRB"), is an introducing brokerage firm headquartered in Parsippany, New Jersey. The Firm has approximately 68 registered branch offices and employs approximately 243 registered representatives.

**RELEVANT DISCIPLINARY HISTORY**

CAMS has no relevant formal disciplinary history.

**OVERVIEW**

At various times between February 2008 and July 2013, CAMS failed to meet its supervisory obligations in numerous areas, including: (1) the review and retention of consolidated reports; (2) the review and retention of email; (3) private securities transactions; and (4) variable annuities.

In addition, the Firm failed to maintain a complete and accurate trade blotter and failed to implement portions of the Firm's Anti-Money Laundering ("AML") program.

As a result, CAMS violated numerous federal securities laws and FINRA and MSRB rules.

### **FACTS AND VIOLATIVE CONDUCT**

#### *1. CAMS Failed to Reasonably Supervise Representatives' Distribution of Consolidated Reports and Failed to Retain Consolidated Reports*

A "consolidated report" is a document provided by a registered representative to a customer that combines account information regarding most or all of a customer's assets. In April 2010, FINRA issued Regulatory Notice 10-19. The Notice made clear that firms are required to supervise the use of consolidated reports by their representatives. It further stated that consolidated reports represent communications with the public and must comply with all applicable FINRA rules and the securities laws. The Notice directed that any firm that chose to provide consolidated reports to customers "must ensure that the size and complexity of the consolidated reporting program does not exceed the firm's ability to supervise the activity and to subject it to a rigorous system of internal controls." The Notice cautioned that if consolidated reports cannot be properly supervised, then the firm must prohibit its representatives from disseminating them to customers.

During the period February 2008 through July 2013, CAMS permitted its representatives to create and distribute consolidated reports to customers of the Firm that reflected, among other things, investments customers held away from CAMS. During this period, the Firm had no procedures specific to consolidated reports, but instead the Firm applied the Firm's general procedures related to customer correspondence. Those procedures required, among other things, that outgoing correspondence be copied, reviewed by a supervising principal (as evidenced by the supervisor's initials and date) and retained for six years. The Firm, however, failed to review or retain consolidated reports in accordance with these procedures.

During the period February 2008 through July 2013, CAMS' representatives used at least five different vendors to create consolidated reports, including Albridge Solutions ("Albridge"). The Firm captured the reports created through Albridge and sporadically reviewed a sample of those reports. The Firm did not, however, retain any records relating to this sample review and, therefore, could not evidence the number or frequency of the reviews conducted or the total number of reports reviewed. The Firm did not capture, review or retain any of the consolidated reports sent through vendors other than Albridge.

By failing to reasonably supervise registered representatives' use of consolidated reports, CAMS violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.<sup>1</sup> By failing to retain consolidated reports sent to customers, CAMS violated Section 17 of the Securities Exchange

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<sup>1</sup> NASD Conduct Rule 2110 was superseded by FINRA Rule 2010 effective December 15, 2008. Accordingly, NASD Conduct Rule 2110 applies to CAMS' conduct on or before December 14, 2008. FINRA Rule 2010 applies to CAMS' conduct beginning on December 15, 2008.

Act of 1934 and SEC Rule 17a-4 thereunder, NASD Conduct Rules 3110 and 2110 and FINRA Rules 4511 and 2010.<sup>1</sup>

## *2. CAMS Failed to Reasonably Supervise Email Communications and Failed to Retain Business-Related Email*

From February 2008 through February 2012, CAMS stored emails on its own computer servers. However, the emails that were stored on the Firm's servers were not maintained in a non-rewritable, non-erasable format. As a result, emails that were "double deleted" were permanently lost.

Also, during the period of February 2008 through February 2012, representatives in 55 CAMS' branch offices used outside email accounts for business-related communications, including communications with CAMS' customers. During this period, however, the Firm did not capture or retain any of these emails.

According to the Firm's written supervisory procedures in place between February 2008 and February 2012, the review of incoming and outgoing electronic correspondence was the responsibility of each registered representative's "Designated Supervising Principal." In addition, the Firm's CCO was to "conduct a quarterly review of internal emails...evidenced by initials and dates."

During FINRA's examination, however, CAMS could not evidence any review of email by the Firm's CCO. Also, given that the Firm (1) failed to capture emails of representatives using outside email domains, (2) did not maintain emails that were "double deleted," and (3) did not maintain any emails in a non-rewritable, non-erasable format, any review of emails, either by a Designated Supervising Principal or by the Firm's CCO, would have been, at best, incomplete.

By failing to establish, maintain and enforce a reasonably-designed supervisory system for the review of email, CAMS violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010. By failing to retain all business-related email, CAMS violated Section 17 of the Securities Exchange Act of 1934 and SEC Rule 17a-4 thereunder, NASD Conduct Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

## *3. CAMS Failed to Reasonably Supervise Private Securities Transactions*

Under NASD Rule 3040, before participating in a private securities transaction, an associated person must provide written notice to his member firm. Rule 3040 defines a "private securities transaction" as "any securities transaction outside the regular course or scope of associated person's employment with member." Rule 3040(c)(2) requires a member that has approved an associated person's participation in a private securities transaction, where the person has

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<sup>1</sup> NASD Conduct Rule 3110 was superseded by FINRA Rule 4511 effective December 5, 2011. Accordingly, NASD Conduct Rule 3110 applies to CAMS' conduct on or before December 4, 2011. FINRA Rule 4511 applies to conduct beginning on December 5, 2011.

received or may receive selling compensation, to record such transaction on its books and records and to supervise the person's participation in the transaction as if the transaction was executed on behalf of the member.

NASD Notice to Members ("NTM") 94-44 and NASD NTM 96-33 clarified that member firms must supervise the securities activity of registered representatives who engage in investment advisory activities away from the firm where those registered representatives participate in the execution of securities transactions on behalf of their investment advisor clients.

During the period from February 2008 through February 2012, nearly 90% of CAMS' registered representatives also functioned as investment advisor representatives and many operated their own investment advisory firms. During this period, the Firm's written supervisory procedures provided that all private securities transactions "be recorded on [CAMS'] books and records" and be "supervised as if the transaction or transactions had been executed on behalf of [CAMS]." During this period, however, the Firm failed to identify securities transactions effected by their registered representatives on behalf of their investment advisory clients as "private securities transactions." As such, the Firm failed to record, review, approve, and supervise those transactions.

As a result, CAMS violated NASD Conduct Rules 3010, 3040 and 2110 and FINRA Rule 2010.

#### *4. CAMS Failed to Reasonably Supervise Representatives' Sale of Variable Annuities*

From approximately February 2008 through February 2012, CAMS failed to establish, maintain and enforce a supervisory system and procedures reasonably designed to supervise variable annuity transactions. The Firm failed to: (1) for certain customers, obtain customer information necessary to conduct an adequate supervisory review of variable annuity transactions (such as customers' ages, investment experience and objectives); (2) implement adequate controls to ensure that variable annuity applications were promptly forwarded to a principal for timely approval; and (3) evidence delivery of prospectuses to variable annuity customers.

As a result, CAMS violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

#### *5. CAMS Failed to Maintain a Complete and Accurate Trade Blotter*

In or about 2005, CAMS began using a new proprietary data management system. The Firm instructed representatives to enter into the new system information relating to the purchase and sale of such products as variable annuities, mutual funds, and real estate investment trusts ("REITs"). The information contained within the data management system was then fed into a database, which, in turn, was used to create the Firm's trade blotters.

CAMS' representatives did not consistently enter the required information into the Firm's data management system. As a result, between January 2011 and February 2012, approximately 2,263 variable annuity transactions and 12 REIT transactions were not reflected on the blotter.

Similarly, between January 2013 and June 2013, approximately 27 mutual fund and variable life transactions were not reflected on the blotter.

As a result, CAMS violated Section 17 of the Securities Exchange Act of 1934, and SEC Rules 17a-3 and 17a-4 thereunder, NASD Conduct Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

#### *6. CAMS Failed to Implement its AML Compliance Program*

##### *a. FinCEN Checks*

The USA PATRIOT Act, which amended the Bank Secrecy Act, requires the development of a system that will allow law enforcement to determine whether persons and entities under investigation for money laundering and/or terrorist financing have accounts at U.S. financial institutions. The Treasury Department's regulations implementing the Bank Secrecy Act (31 CFR 103.100 et seq.) establish a process through which law enforcement agencies investigating money laundering and terrorist financing can communicate with financial institutions. Law enforcement agencies provide the Financial Crimes Enforcement Network ("FinCEN") with the names of individuals and entities under investigation (commonly referred to as the "314(a) List"), and FinCEN makes that information available to financial institutions on an updated basis every two weeks. Financial institutions are required, pursuant to 31 CFR Section 103.100, to compare the 314(a) List with their records of accounts for the prior 12 months and transactions for the prior six months.

CAMS failed to conduct the required FinCEN 314(a) reviews for a total of 22 periods from May 20, 2008 through August 23, 2011 and did not timely review 28 FinCEN 314(a) bi-weekly transmissions during the period March 11, 2008 through January 10, 2012.

##### *b. Customer Identification Program ("CIP")*

During the period from February 2008 through February 2012, CAMS failed to comply with the regulations governing the Customer Identification Program ("CIP") provisions of the Bank Secrecy Act ("BSA"). Specifically, the Firm failed to collect and verify identifying information for approximately 83% of its institutional accounts. In addition, the Firm failed to retain evidence of its use of documentary methods to verify identifying information as required by the Firm's written supervisory procedures ("WSPs") for approximately 71% of the Firm's individual and joint accounts and failed to provide notice to its customers that it was collecting identifying information for approximately 91% of all accounts.

##### *c. Training*

FINRA Rule 3310(e) requires that firms provide "ongoing" AML training for appropriate personnel. The Firm's WSPs in 2010 and 2011, entitled "Anti-Money Laundering (AML)

Program: "Training Programs," required that the Firm provide "formal" AML training "at least annually."

The Staff's review disclosed that 21 registered persons failed to take required AML training in 2010, and that 64 representatives failed to take the training in 2011.

As a result, CAMS violated NASD Conduct Rules 3011(b) and 2110, FINRA Rules 3310(e) and 2010, and MSRB Rule G-41.

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

- A censure; and,
- A fine in the amount of \$475,000 (\$10,000 of which pertains to violations of MSRB Rule G-41.)

The Firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

## II.

### WAIVER OF PROCEDURAL RIGHTS

The Firm 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, the Firm specifically and voluntarily waives any right to claim bias or prejudice 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.

The Firm 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

CAMS understands that:

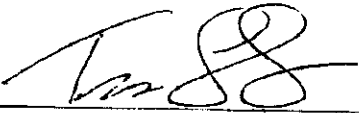
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm;
- C. If accepted:
  - 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
  - 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. the Firm 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. It 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 the Firm'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; and
- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

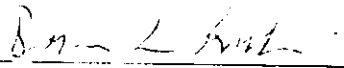
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, 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 the Firm to submit it.

Comprehensive Asset Management and Servicing, Inc.

10/21/15  
Date (mm/dd/yyyy)

By:   
Timothy L. Smith  
President


Reviewed by:

  
Brian L. Rubin, Esq.  
Sutherland Asbill & Brennan  
700 Sixth Street, NW Washington, DC 20001  
Phone: (202) 383-0124

Accepted by FINRA:

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

12/9/15  
Date

  
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