

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040505201**

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

RE: Melville Island, LLC, Respondent
CRD No. 140611

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent, Melville Island, LLC ("Melville", "Firm", or "Respondent"), 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 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

Melville Island, LLC ("Melville" or the "Firm") has been a FINRA-registered firm since October 11, 2006 and is headquartered in Chicago, Illinois. The Firm currently employs six registered representatives and one non-registered individual. The Firm is authorized through its Membership Agreement to sell corporate equity securities over the counter, corporate debt securities, U.S. government securities, to write options, and act as a put and call broker.

RELEVANT DISCIPLINARY HISTORY

Melville has no relevant disciplinary history.

OVERVIEW

Between the final quarter of 2013 and the quarter ending September 30, 2014, Melville engaged in a referral fee business that was not authorized in its Membership Agreement and failed to update its Form BD to disclose the referral fee business. This conduct violated NASD Rule 1017, FINRA By-Laws Article IV Section 1(c), and FINRA Rule 2010.

In addition, Melville failed to establish and maintain adequate supervisory systems and procedures to conduct business as a broker-dealer, in violation of NASD Rules 3010(a) and (b), as evidenced by the following violative conduct:

- Melville failed to implement an appropriate supervisory system for its referral fee business, in violation of NASD Rule 3010 and FINRA Rule 2010;
- Melville failed to conduct AML testing for the years 2011 and 2012, and conducted the test for 2013 late, in violation of FINRA Rules 3310(c) and 2010;
- Melville failed to provide sufficient procedures for notification of its registered representatives' private securities transactions, and failed to provide evidence that it maintained oversight of its registered representatives' private securities transactions, in violation of NASD Rules 3010(b) and 3040, and FINRA Rule 2010;
- Melville failed to provide representations that its electronic media was retained in a non-erasable and non-rewritable format, in violation of SEC Rules 17a-4(f)(2) and 17a-4(f)(3), and FINRA Rule 2010;
- Melville failed to evidence that it reviewed electronic correspondence from January 2013 through April 2013, in violation of NASD Rule 3010(d) and FINRA Rule 2010;
- Melville failed to submit an Annual Certification of Compliance and Supervisory Process for the years 2011 through 2013 and failed to make required 3130 certifications for the years 2011 and 2012, in violation of FINRA Rules 3130(b) and (c) and 2010;
- Melville failed to complete an annual 3012 report in either 2011 or 2012, in violation of NASD Rule 3012(a)(1) and FINRA Rule 2010;
- Melville failed to provide timely yearly notices to FINRA after relying on the Limited Size and Resources exception from 2012 through 2014, in violation of NASD Rule 3012(a)(2)(A) and FINRA Rule 2010; and

- Melville failed to adequately supervise its Producing Managers or have adequate written procedures in place for their supervision, in violation of NASD Rule 3012(a)(2)(B) and FINRA Rule 2010.

Finally, Melville failed to adequately compute its net capital, and subsequently failed to promptly report that its net capital had declined below its \$5,000 minimum net capital requirement for the period of October 1, 2014 through February 28, 2015. This conduct violated SEC Rules 17a-3 and 17a-11, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Member Agreement Violations

1. NASD Rule 1017(a) requires that a FINRA registered firm file an application for approval of a material change in its business operations. Article IV, Section 1(c) of the FINRA By-Laws states that each member shall ensure its membership application is current at all times, and such amendments must be filed no later than 30 days after learning of the facts or circumstances giving rise to the amendment.
2. Melville's Membership Agreement, dated October 27, 2006, did not authorize the Firm to engage in the direct private placement of securities or conduct a referral fee business related to such securities.
3. In March 2012, in response to an inquiry by Melville, FINRA's Membership Application Program ("MAP") advised Melville that the Firm needed to file a Continuing Membership Application ("CMA") to conduct a referral fee business, because the Firm was not approved for this activity in its Membership Agreement.
4. Despite MAPs advice to Melville, the Firm began engaging in a referral fee business prior to submitting a CMA, and received revenues from the referral fee business for the quarters ending December 31, 2013 through September 20, 2014.
5. Melville submitted a CMA requesting approval to engage in a referral fee business related to the private placement of securities on June 9, 2014, but the date was subsequent to the Firm's commencement of a referral fee business, including the receipt of revenues for this business, and the CMA was not approved until January 2015.
6. Based on the above, Melville failed to obtain approval from FINRA prior to engaging in activity that entailed a material change in business, and the Firm failed to update its Form BD to disclose the alteration in its business, in violation of NASD Rule 1017, FINRA By-

Laws Article IV Section 1(c), and FINRA Rule 2010.

Supervisory Systems and Procedures Failures

Failure to Properly Implement AML Compliance Program

7. FINRA Rule 3310(c) requires that member firms provide for annual independent testing for compliance of their anti-money laundering (“AML”) procedures to be conducted by member personnel or by a qualified outside party.
8. Despite such a requirement, Melville did not perform any AML testing for the years 2011 and 2012.
9. Broker-dealers are required to conduct an AML compliance test on an annual, calendar-year basis. Melville, however, performed an AML compliance test in April 2014, which apparently covered the entire period from January 2012 through December 2013.
10. Based on the above, Melville failed to conduct the necessary AML tests for the years 2011 and 2012, and conducted its 2013 test over four months late, in violation of FINRA Rules 3310(c) and 2010.

Failure to Supervise Private Securities Transactions

11. NASD Rule 3010(b) provides that each member shall establish, maintain, and enforce written procedures to supervise the type of business in which it engages and to supervise the activities of registered representatives that are reasonably designed to achieve compliance with applicable securities laws and regulations.
12. NASD Rule 3040(b) provides that, prior to participating in any private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and the person’s role therein.
13. NASD Rule 3040(c) requires that, if a firm approves its registered representative’s transaction, the transaction shall be recorded on the firm’s books and records, and the firm shall supervise the person’s participation in the transaction as if the transaction was executed on behalf of the firm.
14. Melville began engaging in a referral fee business for the private placement of securities in the quarter ending December 31, 2013; however, the Firm did not have any written supervisory procedures in place to oversee a referral fee business until April 2014.

15. Additionally, the written supervisory procedures implemented in April 2014 simply stated that its registered representatives must obtain approval to engage in private securities transactions from the Firm's designated principal. The written procedures did not identify who the designated principal was, did not address how or when such approval should be given, did not address how conflicts of interest would be evaluated and did not address how the Firm would supervise the private securities transactions.
16. On May 30, 2013, one of the Firm's employees began to engage in private securities transactions. However, Melville failed to notify the employee of the requirement that the employee provide written notification of his private securities transactions. Due to the Firm's failure, an internal Melville form disclosing the registered representative's private securities transactions was not completed until May 7, 2014, approximately a year after the private securities transactions commenced.
17. Additionally, despite Melville's admitted awareness of the private securities transactions of its registered representative between May 30, 2013 and May 7, 2014, the Firm was unable to provide any evidence that it supervised the private securities transactions engaged in by its registered representative.
18. Based on the foregoing conduct, Melville violated NASD Rules 3040 and 3010(b) and FINRA Rule 2010.

Failure to Adequately Maintain Electronic Correspondence

19. SEC Rule 17a-4(f)(2)(i) requires that if a member firm uses electronic storage media, the member must represent, or obtain a representation from the storage medium vendor, that the selected storage media meets the conditions set forth by FINRA. Further, SEC Rule 17a-4(f)(3)(v) requires a member to have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved.
20. Melville entered into an electronic storage media agreement with a third party vendor on January 11, 2011. Despite the agreement, neither the vendor nor Melville notified FINRA of the arrangement nor that the storage media met FINRA's required conditions.
21. The agreement between Melville and the third party vendor was subsequently terminated in 2012, and another third party vendor was employed to maintain Melville's electronic media. Again, FINRA was

not notified of the arrangement and no evidence was produced by Melville to prove that its electronic storage media was maintained in the appropriate non-rewritable and non-erasable format.

22. Based on the foregoing, Melville failed to provide a representation to FINRA that its electronic media was being maintained in the appropriate manner, in violation of SEC Rule 17a-4 and FINRA Rule 2010.

Failure to Supervise Electronic Correspondence

23. NASD Rule 3010(d) requires that each member develop written procedures for the review of incoming and outgoing written and electronic correspondence, and must include provisions for surveillance and follow-up.
24. For the time period January 2013 through April 2013, no review of electronic correspondence was conducted by the Firm.
25. Based on the foregoing, Melville violated NASD Rule 3010(d) and FINRA Rule 2010.

Supervisory Failures Concerning Producing Managers

26. NASD Rule 3012(a)(2)(A)(i) provides that a firm's written supervisory control policies and procedures shall require a person who is either senior to, or otherwise independent of, the producing manager to perform supervisory reviews.
27. However, Melville's written supervisory procedures related to the supervision of producing managers were inadequate, in that the procedures did not identify who would be considered a producing manager and did not specify the means by which producing managers would be supervised.
28. NASD Rule 3012(a)(2)(A)(iii) provides that a member relying upon the Limited Size and Resource exception must notify NASD through an electronic process within 30 days of the date on which the member first relies on the exception, and annually thereafter. Melville claimed to rely upon the Limited Size and Resource exception in order to circumvent the aforementioned supervisory requirement, but failed to properly comply with the exception. Melville initially provided FINRA with electronic notice that it was relying on the exception on January 6, 2011. Thereafter, Melville submitted its required annual notices on January 17, 2012, February 12, 2013, and February 12, 2014, which were all filed late, voiding the exception.

29. The conduct described above constitutes violations of NASD Rules 3012(a)(2) and 3010, and FINRA Rule 2010, by Melville.

Failure to Make Necessary Certifications and Reports

30. FINRA Rule 3130 requires that every FINRA member have its chief executive officer annually certify that appropriate procedures are in place and that the chief executive officer has conducted at least one meeting with the member's chief compliance officer in the preceding 12 months to discuss such processes.

31. However, Melville's chief executive officer failed to submit an Annual Certificate of Compliance and Supervisory Process for the years 2011, 2012, and 2013.

32. Further, NASD Rule 3012(a)(1) requires each member to designate at least one principal that will test and verify that the member's supervisory procedures are reasonably designed to achieve compliance with applicable laws and rules. Further, the principal must submit to the member's senior management no less than annually, a report detailing the member's supervisory controls, test results and any additional supervisory procedures created in response to the test results.

33. Despite such a requirement Melville failed to complete an annual 3012 report in either 2011 or 2012.

34. Based on the foregoing, Melville violated NASD Rule 3012(a) and FINRA Rules 3130 and 2010.

Failure to Implement Adequate Supervisory Systems and Procedures

35. Melville failed to establish and maintain adequate supervisory systems and written supervisory procedures, as evidenced by the violative conduct described in paragraphs 7 through 34 above, in violation of NASD Rules 3010(a) and (b).

Net Capital Violations

36. For the period October 1, 2014 through February 28, 2015, Melville failed to accurately accrue expenses on its books and records, such as annual audit expenses, administrative salaries, and monthly rents, that were related to an agreement entered into with another entity.

37. Due to Melville's failure to accurately accrue the expenses noted in

paragraph 36 above, from October 2014 through February 2015, the Firm was operating at a net capital deficiency ranging from \$3,374 to \$19,831. However, at no point in time did Melville notify FINRA of its net capital deficiency.

38. The conduct described above constitutes violations of SEC Rules 17a-3 and 17a-11, and FINRA Rule 2010.

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

- A censure; and
- A fine of \$82,500.

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 that it is unable 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 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;
- C. If accepted:
 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions 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 the subject matter thereof in accordance with FINRA Rule 8313;
 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; and

- 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.

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The undersigned, on behalf of Melville Island, LLC, 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 Melville Island, LLC 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 Respondent to submit it.

12/05/2014
Date

Melville Island, LLC
By: [Signature]
Its: CEO

Reviewed by:

[Signature]
Dexter B. Johnson, Esq.
Counsel for Respondent
Mallon & Johnson
120 North LaSalle Street, Suite 2100
Chicago, IL 60602
(312) 346-8890

Accepted by FINRA:

12/06/2016
Date

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

[Signature]
Dale A. Glanzman
Senior Regional Counsel
FINRA Department of Enforcement
55 West Monroe Street, Suite 2700
Chicago, IL 60603
(312)899-4312

Attachment: Election of Payment Form