Boustead Securities, LLC

Anti-Money Laundering Independent Test 2019

Introduction

Firm Name:	Boustead Capital Securities, LLC
CEO, AML CO:	Keith Moore
CCO:	Joanne Park
Examiner:	Lisa Roth, President, Monahan & Roth, LLC
Date:	Remotely performed field work from February 12, 2020 March 24, 2020. It is noted that all reviews were performed remotely due to travel and other complications resulting from the COVID-19 pandemic outbreak.

AML Compliance Program

Section 352 of the US Patriot Act required all financial institutions to develop and implement AML compliance programs on or before April 24, 2002. Section 352 requires the compliance programs, at a minimum, to establish (1) the development of internal policies, procedures, and controls, (2) the designation of a compliance officer with responsibility for a Firm's anti-money laundering program, (3) an ongoing employee training program, and (4) an independent audit function to test the effectiveness of the anti-money laundering compliance program. Subsequently to the effective date of the rules, FINRA has issued guidance to broker-dealers to reinforce their compliance programs. The following report summarizes the results of an independent test performed to assess the compliance of the Firm's AML program with the governing laws, rules, regulations and guidance.

For ease of review the examiner's notes are identified as OBSERVATIONS or RECOMMENDATIONS.

AML Compliance Program Review Summary

Boustead Capital Securities, LLC ("Boustead") has in place written policies and procedures, and the AML CO demonstrates that periodic amendments, enhancements and additions have been made to the policies and procedures to best ensure compliance among its sales and operations personnel.

Boustead's AML policies and procedures are incorporated into its overall Written Supervisory Procedures manual as Section 10. Boustead's CEO/AML CO Joanne Park has approved and implemented the procedures.

2019: The Firm has institutional clients and retail client accounts. It has 45 Registered Representatives operating and supervised from a corporate office in Irvine, CA. There are no branch offices, and there have been no material changes in business lines or senior management since the most recent AML Independent Test.

AML Compliance Program Review Table

The following table reports certain specific observations made in connection with the review of the WSP Section 10, however please note that other recommendations relative to procedures are provided in specific sections of the report that follows.

Chapter or Category	Excerpt or Description of Policy	Observation or Recommendation
Anti-Money Laundering Contacts	*Please see separate attachment for individual names associated with titles for further details on the designated AML Contact Person who is responsible for all relevant AML compliance monitoring and supervision.*	2019 OBSERVATION: The list provided accurately reflects the assigned principals, and the individuals named are appropriately qualified to perform their supervisory duties.
Receipt and Review of Stock Certificates	[Entire Section]	2019 RECOMMENDATION: Since the Firm no longer processes physical certificates, this section can be amended to add "not currently a business practice" or removed altogether.
Fund Transfers and Transmittals	*All broker-dealer effecting transmittals must… Each broker-dealer must properly verify the identity of transmittals and recipients that are not established customers…*	2019 RECOMMENDATION: Clarify the scope, related documents and responsibility party relative to this policy. For instance, note whether there is a required form or steps taken to verify the identity and/or are there limitations or restrictions on certain types of requests such as third party requests. Alternatively, clarify that the firm does not transmit customer wires.
Due Diligence for Customers and Potential	According to its procedures, "*The Firm will perform FINCEN, OFAC, BrokerCheck, CIP related Documentary/Non-documentary*	2019 RECOMMENDATION: Review this policy to ensure that it is accurate, reflecting only

Chapter or Category	Excerpt or Description of Policy	Observation or Recommendation
Customers (Disclosure Events)	*Methods of Verification and Google searches, and the firms clearing agent will perform searches including Bridge XG searches (which includes the National Crime Information Center (NCIC) and Financial Action Task Force (FATF) databases) and daily Equifax alerts (notifying the clearing firm of accountholders that have had either recent or past regulatory actions or litigations) to search for regulatory history, past regulatory actions (i.e. FINRA/SEC barred individuals, SEC cease and desist actions, etc.) and any other customer events or inconsistent, unverifiable or incomplete information obtained including name(s), addresses, places of employment, references, etc. (collectively "Search") during the account opening process and on a weekly and bi-weekly basis or for items or transactions which warrant additional scrutiny, including third party transfers, foreign wires, penny stock receipts and activity, foreign entity accounts, and accounts in higher risk countries*	those specific systems that are in current use and assigning responsibility for oversight to a qualified, licensed principal.
Due Diligence for Customers and Potential Customers (Disclosure Events)	[Pre-onboarding review] *that requires additional review ("Events"), the AML CCO, or designee (which may or may not be a principal), will review the facts and circumstances of the Events to determine whether such Events would prevent the Firm from opening an account or allowing a certain transaction with the customer or potential customer, or whether such Events would permit an account opening but with restrictions and/or ongoing monitoring. Each such review and analysis will include the AML CCO's, or designee's (which may or may not be a principal), initials and date of*	2019 RECOMMENDATION: Amend the procedure to require that a qualified, licensed principal is assigned to perform final account approval.

Chapter or Category	Excerpt or Description of Policy	Observation or Recommendation
	review.	
General	Use of "a broker dealer should," "every broker-dealer must" or similar language	2019 RECOMMENDATION: Wherever possible, replace this with the Firm will, or other affirmative language to verify that the Firm complies with the relevant requirement.
General Due Diligence When Opening an Account	*For purposes of the CIP rule, an "account" is defined as a formal relationship with a broker-dealer established to effect transactions in securities, including, but not limited to, the purchase or sale of securities, securities loan and borrowing activity, and the holding of securities or other assets for safekeeping or as collateral.*	2019 RECOMMENDATION: If appropriate, clarify that the firm does not currently open customer accounts.

Risk Assessment

FINRA guidance recommends a risk-based approach in establishing and implementing a Firm's AML program. That means that the program's AML policies, procedures and internal controls should be designed to address the risk of money laundering specific to the Firm. Under the leadership of the AML Compliance Officer (AML CO), the Firm can identify risk by looking at the type of customers it serves, where its customers are located, and the types of services it offers. FINRA suggests that it is a good practice to develop a written analysis of the Firm's money laundering and terrorist financing risk and how the Firm's AML procedures manage that risk, to ensure that the AML program is properly tailored.

***2019 OBSERVATION**: Boustead describes its risk-based customer review program in its AML policies and procedures. Since the firm no longer conducts retail business in the traditional sense and has ceased processing of certificates, its risk profile continues to be relatively low.*

***2019 RECOMMENDATION:** It is recommended that the firm conduct a risk assessment to establish a baseline or metric for measuring risk across its business lines.*

Account Opening and Maintenance

Broker-dealers are required to implement reasonable procedures for identifying customers and verifying their information. The information required under NASD and FINRA Rules regarding suitability is the starting point for AML customer identification procedures, and the Money Laundering Abatement Act imposes additional customer identification requirements on broker-dealers.

Customer Identification Programs (CIP)

The Firm must establish, document, and maintain a written CIP. This program must be appropriate for the Firm's size and business, be part of the Firm's anti-money laundering compliance program, and, at a minimum, must contain procedures for the following: identity verification, recordkeeping, comparison with government lists, and providing customer notice.

Required Customer Information

A broker-dealer's CIP must contain procedures for opening an account that specifies the identifying information that will be obtained from each customer. The minimum identifying information that must be obtained from each customer prior to opening an account is:

- A name;
- A date of birth, for an individual;
- An address:
    - For an individual, a residential or business street address;
    - For an individual who does not have a residential or business street address, an Army Post Office (APO) or Fleet Post Office (FPO) box number, or the residential or business street address of a next of kin or another contact individual; or
    - For a person other than an individual (such as a corporation, partnership, or trust), a principal place of business, local office, or other physical location; and
- An identification number, which will be:
    - For a U.S. person, a taxpayer identification number; or
    - For a non-U.S. person, one or more of the following:
        - a taxpayer identification number;
        - a passport number and country of issuance;
        - an alien identification card number; or

- the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.

Importantly, whatever identifying information the Firm does accept must enable it to form a reasonable belief that it knows the true identity of a customer.

2019 OBSERVATION: When onboarding a new client, the Firm utilizes a document titled "Investor Presentation and Suitability Questionnaire."

The firm's procedures for "General Due Diligence When Opening an Account" require that it perform inquiries and maintain certain records that do not conform to the questions asked on its Suitability Questionnaire including:

Inquire about the source of the customer's assets and income so that the firm can determine if the inflow and outflow of money and securities is consistent with the customer's financial status;

Gain an understanding of what the customer's likely trading patterns will be, so that any deviations from the patterns can be detected;

Maintain records that identify the owners of accounts and their respective citizenship;

Require customers to provide street addresses to open an account, and not simply post office addresses, or "mail drop" addresses;

Periodically contact businesses to verify the accuracy of addresses, the place of business, the telephone, and other identifying information; and

Periodic credit history and criminal background checks through vendor databases.

2019 RECOMMENDATION:
The relevance and scope of the Investor Presentation and Suitability Questionnaire is appropriate to the Firm's business and conforms to FINRA suitability rules including 2211 and 4512, but does not conform to the Firm's written procedures as noted above. The consultant recommends an amendment to the procedures to more closely reflect the requirements of the Investor Presentation and Suitability Questionnaire.

Identity Verification Procedures

A CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable the Firm to form a reasonable belief that it knows the true identity of each customer. The procedures must be based on the broker-dealer's assessment of the relevant risks, including those presented by the:

- types of accounts maintained by the broker-dealer;
- methods of opening accounts provided by the broker-dealer;
- types of identifying information available; and
- broker-dealer's size, location, and customer base.

> *2019 OBSERVATION: As noted above, the Firm no longer opens retail accounts.*

Customer Verification

A CIP must contain procedures for verifying the identity of each customer within a reasonable time before or after the customer's account is opened.

A broker-dealer's CIP is required to include procedures that describe when the broker-dealer will use documentary methods, non-documentary methods, or a combination of both methods to verify customers' identities. For example, depending on the type of customer, the method of opening an account, and the type of identifying information available, it may be more appropriate to use either documentary or non-documentary methods, and in some cases it may be appropriate to use both methods. These procedures should be based on the Firm's assessment of the relevant risk factors.

> *2019 OBSERVATION: As noted above, the Firm no longer opens retail accounts.*
>
> *2019 RECOMMENDATION:*
> *The consultant recommends that the Firm continue to review its procedures for accuracy relative to its existing business lines, and to tailor them accordingly.*

Verification through Documents

A CIP must contain procedures that describe the documents the broker-dealer will use for verification, based on its own risk-based analysis of the types of documents that it believes will enable it to verify the true identities of customers. Examples of documents that Firms may use for verification include the following, which are generally accepted as reliable:

- For an individual, an unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar safeguard, such as a driver's license or passport; and
- For a person other than an individual (such as a corporation, partnership, or trust), documents showing the existence of the entity, such as certified articles of incorporation,
- A government-issued business license, a partnership agreement, or a trust instrument.

> *2019 OBSERVATION: Boustead's CIP requires documentary evidence at the time of account opening. Its procedures in this regard are adequate to meet the requirements, and are applied to its institutional client base with particular instructions for the type of evidence collected and the scope of individual (authorized persons, beneficial owners, etc. who may be pertinent for CIP review.*
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> *The Firm uses MIS (McDonald Information Systems) to perform OFAC reviews. It also conducts SEC, GOOGLE and Broker-Check reviews when appropriate to support its CIP.*
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> *The Firm performs a similar review for each investor.*

Verification through Non-Documentary Methods

A CIP must contain procedures that describe the non-documentary methods the broker-dealer will use for verification. Due to the prevalence of identity theft and because identification documents may be obtained illegally and be fraudulent, Firms are encouraged by regulators and government agencies to use non-documentary methods even when a customer has provided identification documents.

Examples of non-documentary methods of verification include:

- Contacting a customer;
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;
- Checking references with other financial institutions; or
- Obtaining a financial statement.

Regulators and government agencies have recommended that Firms analyze whether there is a logical consistency between the identifying information provided, such as the customer's name, street address, zip code, telephone number (if provided), date of birth, and Social Security number (e.g., zip code and city/state are consistent).

The final rule requires that a broker-dealer's CIP address the following circumstances where non-documentary procedures must be used:

- An individual is unable to present an unexpired government-issued identification document that bears a photograph or similar safeguard;
- The broker-dealer is not familiar with the documents presented;
- The account is opened without obtaining documents;
- The customer opens the account without appearing in person at the broker-dealer; and
- Where the broker-dealer is otherwise presented with circumstances that increase the risk that the broker-dealer will be unable to verify the true identity of a customer through documents.

The risk that a Firm may not know the customer's true identity may be heightened for certain types of accounts, such as an account opened in the name of a corporation, partnership, or trust that is created or conducts substantial business in a jurisdiction that has been designated by the U.S. as a primary money laundering concern or has been designated as non-cooperative by an international body. Regulators and government agencies emphasize that a Firm must take further steps to identify customers that pose a heightened risk of not being properly identified. A Firm's CIP must prescribe additional measures that may be used to obtain information about the identity of the individuals associated with the customer when standard documentary methods prove to be insufficient.

The CIP must address situations where, based on the broker-dealer's risk assessment of a new account opened by a customer that is not an individual, the broker-dealer will obtain information about individuals with authority or control over such account. This verification method applies only when the broker-dealer cannot verify the customer's true identity using documentary and non-documentary verification methods.

> *2019 OBSERVATION: The Firm performs customer ID and verification for all investors in the deals it underwrites, except for those introduced by a Selling Dealer. (see Reliance on Third Parties, below.) The AML CO represents that files contain a signed Investor Questionnaire and Subscription document and copies of photo ID in addition to evidence of OFAC and other verification as applicable.*

Lack of Verification

A 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. These procedures should describe:

- When the broker-dealer should not open an account;
- The terms under which a customer may conduct transactions while the broker-dealer attempts to verify the customer's identity;

- When the broker-dealer should close an account after attempts to verify a customer's identity fail; and
- When the broker-dealer should file a Suspicious Activity Report (Form SAR-SF) in accordance with applicable law and regulation.

> *2019 OBSERVATION: The Firm continues to have a consistent and adequate routine in place for addressing lack of verification regarding its institutional/investment banking client base.*

Required records

A CIP must include procedures for making and maintaining a record of all information obtained to verify a customer's identity. At a minimum, the record must include all identifying information about a customer obtained to verify a customer's identity.

With regard to verification, a Firm's records must contain a description of any document that was relied on to verify the customer's identity, noting the type of document, any identification number contained in the document, the place of issuance, and, if any, the date of issuance and expiration date.

With respect to non-documentary verification, Firms are required to retain records containing a description of the methods and the results of any measures undertaken to verify the identity of a customer.

With respect to any method of verification chosen, Firms must retain a description of the resolution of each substantive discrepancy discovered when verifying the identifying information obtained.

> *2019 OBSERVATION: Boustead's procedures state that the AML CO will ensure all records, reports, working papers and other applicable documents required will be maintained in accordance with the Bank Secrecy Act and SEC Rule 17a-8. The Firm's recordkeeping is maintained in compliance with its procedures.*

Retention of records

A broker-dealer must retain records of all of the identification information obtained from the customer for five years after the account is closed. SARs must be retained for 5 years. In addition, records made about information that verifies a customer's identity only have to be retained for five years after the record is made. In all other respects, the records must be maintained pursuant to the provisions of SEC Rule 17a-4.

> *2019 OBSERVATION: As required, Boustead's policies include requirements for retaining information obtained from its clients for five years. In addition, the*

procedures include a 5-year retention requirement for other related records, such as records of any rejected transaction. Boustead's recordkeeping practices are in compliance with its procedures.

Notifying Federal Law Enforcement

In the course of performing due diligence or during the opening of an account, Firms should immediately contact Federal law enforcement by telephone in appropriate emergency situations as described below:

- a customer is listed on the OFAC List;
- a customer's legal or beneficial account owner is listed on the OFAC List;
- a customer attempts to use bribery, coercion, undue influence, or other inappropriate means to induce a broker-dealer to open an account or proceed with a suspicious or unlawful activity or transaction; and
- any other situation that a Firm reasonably determines requires immediate government intervention.

2019 OBSERVATION: Boustead's procedures for notifying law enforcement include current provisions for immediate notification of the AML CO so that can file appropriate reports. There have been no incidents in the review period that triggered the requirement to contact law enforcement personnel.

Account Maintenance and Monitoring

"Correspondent Accounts"

Broker-dealers are prohibited from establishing, maintaining, administering, or managing a "correspondent account" for an unregulated foreign shell bank. Firms must have procedures in place to ensure that this does not occur and should immediately terminate such accounts if they have any. The broker-dealer's AML compliance personnel should be notified upon discovery or suspicion that the Firm may be maintaining or establishing a "correspondent account" in the United States for a foreign shell bank.

Boustead's policies and procedures adequately address these requirements. As of the date of the AML Independent Test, the Firm had no such accounts.

The Money Laundering Abatement Act requires broker-dealers to maintain records identifying the owners of foreign banks that maintain "correspondent accounts" in the United States and the name and address of an agent residing in the United States authorized to accept service of legal process for such banks. Broker-dealers must require their foreign bank account holders to complete model certifications issued by Treasury to the extent possible. U.S. depository institutions and broker-dealers can send the certification forms to their foreign bank account holders for completion. The certification forms generally

ask the foreign banks to confirm that they are not shell banks and to provide the necessary ownership and agent information. Use of the certification forms enables compliance with requirements concerning "correspondent accounts" with foreign banks and can provide a safe harbor for purposes of complying with such requirements. Firms are required to recertify (if relying on the certification forms) or otherwise verify any information provided by each foreign bank, or otherwise relied upon, at least every two years or at any time the Firm has reason to believe that the information is no longer accurate.

> *2019 OBSERVATION: Boustead has no accounts requiring certification. Its policies and procedures are adequate to detect any attempt to open such an account.*

Broker-dealers are required under Section 312 of the Money Laundering Abatement Act to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering for any "correspondent account" established, maintained, administered, or managed for a foreign bank. *At a minimum*, in the case of foreign banks licensed by certain high-risk jurisdictions or operating under an offshore banking license, broker-dealers are required to take reasonable steps:

- to determine the ownership of the foreign bank;
- to conduct enhanced scrutiny of the account to detect and report suspicious activity; and
- to determine whether the foreign bank maintains "correspondent accounts" for any other bank, and if so, the identity of those banks.

> ***2019 OBSERVATION:*** *Boustead prohibits establishing, maintaining, administering, or managing a "correspondent account" in the United States for an unregulated foreign shell bank. Based on a review of client records, it appears that Boustead complies with its prohibition.*

The Money Laundering Abatement Act requires broker-dealers to take reasonable steps to determine the identity of the nominal and beneficial account holders of, and the source of funds deposited into, a private banking account maintained by or on behalf of a non-U.S. citizen, and to conduct enhanced scrutiny of accounts requested or maintained by, or on behalf of, a senior foreign political figure, or any immediate family member or close associate of a senior foreign political figure. A private bank account is an account (or combination of accounts) that requires an aggregate deposit of funds or other assets of more than $1,000,000 established on behalf of one or more individuals who have a direct or beneficial ownership interest in the account, and is assigned to, or administered by, in whole or in part, an officer.

2019 OBSERVATION: *Boustead does not accept private banking accounts held by or on behalf of non-U.S. citizens. Based on a review of client records, it appears that Boustead complies with its prohibition.*

2019 RECOMMENDATION:

The section number 10.07 states "Firms must have a due diligence program…" This is an example of a statement that should be amended to replace "Firms must have" with The Firm has."

Monitoring Account Activity

The Money Laundering Abatement Act requires BDs to monitor account activities, including but not limited to, trading and the flow of money into and out of the account, the types, amount, and frequency of different financial instruments deposited into and withdrawn from the account, and the origin of such deposits and the destination of withdrawals.

Wire Review Summary

In connection with transaction reviews, the Firm's wire reports for months April through August 2016, representative sample exception report log sheets and year-to-date client revenue records were reviewed.

2019 OBSERVATION: *As for the prior year test, the AML CO explained that the Firm's wire activity was limited to operational transactions (accounts payable) or fees for placement, advisory or consulting services. No customer wires were received or sent. The Firm provided a spreadsheet of all wires transacted year to date in 2018. The spreadsheet was found to be consistent with the AML CO's description.*

As recorded in the wire logs, the Firm appears to exert diligence in ensuring consistency between the sender and recipient of the wire transfers. Notably, the Firm no longer processes wire transactions on behalf of customers.

Procedures for Filing Reports in Response to Certain Activity

Suspicious Activity Report (SAR)

Treasury rules require broker-dealers to file SARs in response to any transaction conducted or attempted by, at or through a broker-dealer involving (separately or in the aggregate) funds or assets of $5,000 or more for which:

- the broker-dealer detects any known or suspected federal criminal violation involving the broker-dealer, or
- the broker-dealer knows, suspects, or has reason to suspect that the transaction:

- involves funds related to illegal activity, is designed to evade the regulations, or
- has no business or apparent lawful purpose and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

Although the reporting threshold begins at $5,000, FINRA and other guidance suggests that broker-dealer should focus on a risk-based approach to developing compliance procedures that can be reasonably expected to promote the detection and reporting of suspicious activity. Specifically, a compliance program that allows for the review of only those transactions that are above a set threshold, regardless of whether transactions at a lower dollar threshold may involve money laundering or other risks, is not a satisfactory program. Therefore, broker-dealers should file a SAR and in some circumstances notify law enforcement authorities of all transactions that arouse articulable suspicion that proceeds of criminal, terrorist, or corrupt activities may be involved.

***2019 OBSERVATION**: BSL's procedures state, "Because there is no clear regulatory definition as to what constitutes "suspicious activity," the Firm shall centralize its review process by selecting the Chief Compliance Officer to be responsible for determining whether a particular transaction, or account activity, including indicators of suspicious activities as noted below, warrants further investigation and for making the final determination for filing a Suspicious Activity Report (SAR) by the Securities and Futures Industry (SAR-SF). Any/all documentation, records and communications related to any reported transaction are to be copied and maintained at the Firm's principal place of business. All Suspicious Activity Reports are strictly confidential and may not be disclosed to any person, including the customer, involved in the transaction for which an SAR-SF is filed.*

2019 RECOMMENDATION:
The firm should consider replacing Chief Compliance Officer with AML-CO or adding "in consultation with the AML-CO" to ensure that the AML-CO is involved in reporting SARS.

The firm should consider adding clarifying terms for maintaining confidentiality among firm employees, limiting disclosure of the SARS and related records to only those individuals so authorized by the AML-CO.

Currency Transaction Report (CTR)

Broker-dealers are required to file CTRs with FinCEN for transactions involving currency that exceed $10,000. Because structuring is prohibited, multiple transactions are treated as a single transaction if they total more than $10,000 during any single business day.

Currency and Monetary Instrument Transportation Report (CMIR)

Any person who physically transports, mails, or ships currency or other monetary instruments into or out of the United States, in aggregated amounts exceeding $10,000 at one time, must report the event on a CMIR with the Commissioner of Customs. Any person who receives any transport, mail, or shipment of currency, or other monetary instrument from outside the United States in an aggregate amount exceeding $10,000 at one time also must report the receipt.

Report of Foreign Bank and Financial Accounts (FBAR)

Any person having a financial interest in, or signature or other authority over, financial accounts in a foreign country is required to report the relationship if the aggregate value of the accounts exceeds $10,000 by filing a FBAR with FinCEN.

Funds Transfers and Transmittals

Broker-dealers effecting transmittals or transfers of funds, including wire fund transfers, of $3,000 or more must collect, retain and record on the transmittal order certain information regarding the transfer, including the name and address of the transmitter and recipient, the amount of the transmittal order, the identity of the recipient's financial institution, and the account number of the recipient. Broker-dealers also must verify the identity of transmitters and recipients that are not established customers.

> *2018 OBSERVATION: Boustead's AML CO reported that no relevant filings have occurred year to date in 2018. The Firm's procedures adequately address the relevant electronic filings that are required should a triggering instance occur.*

Monitoring for, Detecting, and Responding to "Red Flags"

FINRA guidance suggests that broker-dealers should develop administrative procedures concerning SARs. The procedures should address the process for filing SARs and reviewing SAR filings and the frequency of filings for continuous suspicious activity. Further, FINRA advises that a broker-dealer should consider requiring that all of its SAR filings be reported periodically to its Board of Directors and/or to senior management. In the event of a high-risk situation, broker-dealers should require that a report be made immediately to the Board of Directors and/or senior management.

Comparison with Government Lists

A CIP must include procedures for determining whether a customer appears on any list of known or suspected terrorists or terrorist organizations issued by any Federal government agency and designated as such by Treasury in consultation with the Federal functional regulators. The procedures must require that the broker-dealer make such a determination within a reasonable period of time after the account is opened, or earlier if required by another Federal law or regulation or Federal directive issued in connection with the applicable list. The procedures also must require that the broker-dealer follow all Federal directives issued in connection with such lists.

In addition, broker-dealers have obligations under other laws to screen their customer against government lists. For example, compliance with the OFAC rules prohibit transactions with certain

foreign countries and nationals. Firms must check the OFAC List to ensure that potential customers and existing customers, on an ongoing basis, are not prohibited persons or entities and are not from embargoed countries or regions before transacting any business with them. Because the lists change, Firms must be alert to directives, and must respond with effective account reviews.

> *2019 OBSERVATION: The Firm continues to use a third party vendor (MIS) to perform ID verification and OFAC reviews.*

Customer Notice

A broker-dealer's AML compliance program must include requirements for providing customers with adequate notice that the broker-dealer is requesting information to verify their identities. Notice must occur before the account is opened. Notice is adequate if the broker-dealer generally describes the identification requirements of the final rule and provides such notice in a manner reasonably designed to ensure that a customer is able to view the notice, or otherwise given notice, before opening an account. For example, depending upon the manner in which the account is opened, a broker-dealer may post a notice in the lobby or on its website, include the notice on its account applications, or use any other form of oral or written notice.

> ***2019 OBSERVATION:*** *Because it does not perform customer-related investment services, Boustead is not subject to this requirement. The Firm's business practices regarding customer DD (beneficial owners) met/exceeded the new CDD rule prior to its effective date in May 2018. The Firm has incorporated CDD procedures into its written AML Compliance Program to reflect the new rule. For instance, the Firm's procedures require that, at the time of opening an account for a legal entity customer, the responsible principal will identify any individual that is a beneficial owner of the legal entity customer by identifying any individuals who directly or indirectly own 25% or more of the equity interests of the legal entity customer, and any individual with significant responsibility to control, manage, or direct a legal entity customer. The following information will be collected for each beneficial owner.*
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> ***2019 RECOMMENDATION****:*
> *As for an earlier section, the consultant recommends that the firm's procedures clarify when or if it will invoke this procedure relative to the existing business lines.*

Reliance on Another Financial Institution

A broker-dealers AML compliance program may include procedures specifying when the broker-dealer will rely on the performance by another financial institution (including an affiliate) of any procedures of the broker-dealer's CIP, with respect to any customer of the broker-dealer that is opening an account or

has established an account or similar business relationship with the other financial institution to provide or engage in services, dealings, or other financial transactions.

In order for a broker-dealer to rely on another financial institution, the following requirements must be met:

- Reliance must be reasonable under the circumstances;
- The other financial institution must be subject to a rule implementing the anti-money laundering compliance program requirements of the PATRIOT Act and be regulated by a Federal functional regulator; and
- The other financial institution must enter into a contract requiring it to certify annually to the broker-dealer that it has implemented its anti-money laundering program, and that it will perform (or its agent will perform) specified requirements of the broker-dealer's CIP.

> ***2019 OBSERVATION**: The Firm's Advisory Agreement states, "Neither the Company, nor any of its directors, officers or stockholders, should, in any way rely on BSL to perform any due diligence with respect to the Company. It is expressly understood and agreed that the Participants will conduct their own due diligence on the Company and the opportunity."*
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> ***2019 RECOMMENDATION**: The consultant recommends that the Firm consider amendment to this condition that will permit the BSL access to any and all information that would permit it to perform ID verification and OFAC reviews relative to the Company's beneficial owners.*

Responding to Regulatory Requests for AML Information

FINRA requires broker-dealers to provide contact information for the individual or individuals responsible for implementing the day- to-day operations and internal controls of the member's anti-money laundering program.

> ***2019 OBSERVATION:** The CCO represented that Boustead's Firm Notification is current and up to date including the name of the AML CO. According to its Organization Chart, the Firm does not currently have in place an AML Alternate.*

Under authority granted in Section 314 of the USA Patriot Act, the Treasury established a process through which law enforcement can communicate with financial institutions, including broker-dealers, in order to request information regarding those suspected of engaging in money laundering or terrorist activities so that any accounts and transactions involving these individuals or entities can be promptly located. Although participation in the mechanism is voluntary, Firms that opt in to the program are required to annually certify to their participation and comply with the reporting requirements.

2019 OBSERVATION: *Boustead is a voluntary participant in the 314(a) program. The Firm demonstrated compliance by providing several examples of the retained logs which showed that the reports were reviewed by the AML CO or the CCO on a timely basis.*

Qualifications and Responsibilities of Officers, Employees

AML Compliance Officer

Every broker-dealer compliance program must designate an AML Compliance Officer to help administer the Firm's AML compliance program efforts. Broker-dealers must vest this person with full responsibility and authority to make and enforce the Firm's policies and procedures related to money laundering. Whomever the Firm designates as its AML Compliance Officer must have the authority, knowledge, and training to carry out the duties and responsibilities of his or her position.

The AML Compliance Officer should monitor compliance with the Firm's AML program and help to develop communication and training tools for employees. The AML Compliance Officer should also regularly assist in helping to resolve or address heightened due diligence and "red flag" issues.

To the extent applicable, the AML Compliance Officer should report to a member of the Board of Directors (or other high level executive officer) on AML compliance issues. This senior officer or director should communicate with Firm employees on AML issues to further demonstrate the Firm's commitment to AML compliance. The Firm's senior management should work with the AML Compliance Officer to help ensure that the Firm's AML policies, procedures, and programs meet all applicable government standards and that they are effective in detecting, deterring, and punishing or correcting AML misconduct. The Firm's senior management also should work with the AML Compliance Officer to ensure that the AML compliance policies, procedures, and programs are updated and reflect current requirements.

2019 OBSERVATION: Boustead's AML CO is Keith Moore. Mr. Moore is adequately licensed and experienced to perform the duties of the AML CO.

Monitoring Employee Activity

FINRA has advised that Firms:

- establish controls and monitor employees' trading and financial activity
- ensure that AML compliance programs contain a mechanism or process for the Firm's employees to report suspected violations of the Firm's AML compliance program procedures and policies to management confidentially, and without fear of retaliation

- separate the duties of employees where feasible to ensure a system of checks and balances (for example, Firms may want to ensure that persons who handle cash do not open accounts or file CTRs);

> *2019 OBSERVATION: Consistent with its established practices, Boustead requires all employees to request duplicate copies of personal brokerage statements be provided to the Compliance department. This includes outside accounts for which RR's have a financial interest or direct the trading as well as accounts owned by immediate family members.*
>
> *Prior approval by the CCO is required for all accounts held outside Boustead. The CCO reviews these accounts for money-laundering in the same manner as for customer accounts.*
>
> *Employees are vetted at the time of hiring using a background check program and OFAC screening. Annually thereafter, employees are required to re-certify to their acknowledgement of the Firm's compliance procedures.*

AML Training Program

The Money Laundering Abatement Act requires Firms to develop ongoing employee training programs on AML issues. The AML employee training should be developed under the leadership of the AML Compliance Officer or senior management. Educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos are all appropriate training vehicles for AML training. The training may vary based on the type of Firm and its size, its customer base, and its resources. FINRA urges its members to instruct their employees about the following topics, at a minimum:

- how to identify "red flags" and possible signs of money laundering that could arise during the course of their duties;
- what to do once the risk is identified;
- what their roles are in the Firm's compliance efforts;
- how to perform their roles;
- the Firm's record retention policy; and
- disciplinary consequences, including civil and criminal penalties for non-compliance with the Money Laundering Abatement Act.

FINRA has advised, *at a minimum*, that broker-dealers should implement AML training on an annual basis, and that Firms should update their training materials, as necessary, to reflect new developments in the law. The regulator has suggested that money laundering compliance training be incorporated into continuing education programs for both registered representatives and supervisors.

A broker-dealer should scrutinize its operations to determine if there are certain employees who may need additional or specialized training due to their duties and responsibilities. For example, employees in Compliance, Margin, and Corporate Security may need more comprehensive training. The Firm should train these employees or have these employees receive the appropriate instruction to ensure compliance with the Money Laundering Abatement Act.

> ***2019 OBSERVATION:*** *The AML CO delivered AML training in connection with its Annual Compliance Meeting in September 2019. In the meeting, she dedicated approximately 1/3 of the training scope and materials to AML topics. Included were red flags, prohibited clients, the Firm's Customer ID Verification strategy, and a flowchart for demonstrating the Customer ID process, among other relevant materials and information. The presentation allowed for attendees to ask questions.*

AML Independent Test

Requirements for testing of Boustead's AML-Compliance program include, at a minimum: (1) evaluating the overall integrity and effectiveness of a broker-dealer's AML-Compliance program; (2) evaluating its procedures for BSA reporting and recordkeeping requirements; (3) evaluating the implementation and maintenance of its CIP; (4) evaluating the broker-dealer's customer due diligence requirements; (5) evaluating its transactions, with an emphasis on high-risk areas; (6) evaluating the adequacy of a its staff training program; (7) evaluating its systems, whether automated or manual, for identifying suspicious activity; (8) evaluating its policies and procedures for reporting suspicious activity; and (9) evaluating a broker-dealer's response to previously identified deficiencies.

> *2019 OBSERVATION:*
> *The 2018 AML Independent Test was performed by Lisa Roth of Monahan & Roth, LLC who:*
> * *is not the AML-CO,*
> * *has a solid working knowledge of the Bank Secrecy Act and related rules, regulations and policies,*
> * *does not perform any of the functions being tested,*

* *does not report to any persons whose job performance, role, responsibility and/or function is being tested*

Conclusions

Observations and findings not withstanding, the results of the 2017 AML Independent Test reported herein can be interpreted to conclude that Boustead has in place adequate policies and procedures to address its responsibilities under the US Patriot Act, and relevant regulatory requirements.

The consultant recommends that the report be presented to members of Senior Management for review and consideration. The consultant further advises that a record be retained of steps taken in response to the report.

Joanne Park, AML CO: _____ Date: _____