

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2019062326101**

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

RE: Griffinest Asia Securities LLC, Respondent
Member Firm
CRD No. 132187

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Griffinest Asia Securities, LLC 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 consent, 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

Griffinest Asia has been a FINRA member since December 2004. The firm's principal office is in Pasadena, California. The firm currently employs approximately 25 registered representatives. Griffinest Asia is an introducing broker-dealer engaged in a general securities business servicing retail and institutional customers.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

Between July 2016 and November 2018, Griffinest Asia failed to establish, maintain, and enforce a supervisory system and written supervisory procedures (WSPs) reasonably

designed to supervise trades in Non-Traditional Exchange Traded Products (ETPs).¹ As a result, Griffinest Asia violated FINRA Rules 3110(a), 3110(b), and 2010.²

FACTS AND VIOLATIVE CONDUCT

Non-Traditional ETPs

Non-traditional ETPs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over only the course of one trading session—usually a single day. Non-traditional-ETPs typically rebalance their portfolios on a daily basis (also known as the “daily reset”). Due to the effects of compounding of daily returns during the holding period, the performance of Non-Traditional ETPs over periods longer than a single trading session can differ significantly from the performance of their underlying index or benchmark during the same period of time. Because of these risks and the complexity of the products, FINRA has advised broker-dealers that Non-Traditional ETPs are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets. Prospectuses, summary prospectuses, and prospectus supplements for the Non-Traditional ETPs that two representatives recommended to Griffinest Asia’s customers also warned that the products were risky and not suitable for investors who do not understand the risks and do not intend to actively monitor and manage their portfolios.

In June 2009, FINRA issued Regulatory Notice 09-31, “FINRA Reminds Firms of Sales Practice Obligations Relating to Leveraged and Inverse Exchange-Traded Funds,” which cautioned member firms about the need to establish a reasonable supervisory system to ensure that their associated persons comply with all applicable FINRA and SEC rules when recommending any product, including leveraged and inverse ETPs, and implement written supervisory procedures that, among other things, require that associated persons perform appropriate customer-specific suitability reviews. Regulatory Notice 09-31 provided specific guidance regarding the risks and suitability concerns associated with Non-Traditional ETPs, and the need for a supervisory system to address those issues. The Notice also reminded firms they must train registered persons about the terms, features and risks of all Not-Traditional ETPs that they sell.

In January 2012, FINRA issued Regulatory Notice 12-03, “Complex Products: Heightened Supervision of Complex Products,” which reminded firms about the supervision of complex products. Regulatory Notice 12-03 stated, among other things, that firms should have formal written procedures to ensure that their registered representatives do not recommend a complex product to a retail investor before the firm has implemented heightened supervisory and compliance procedures. Regulatory Notice 12-03 also reminded firms that registered representatives should be adequately trained to understand not only the manner in which a complex product is expected to perform in normal market conditions, but the risks associated with the product. Further, Regulatory Notice 12-03 stated that firms should monitor the sale of these products in a manner that

¹ Non-Traditional ETPs include leveraged and/or inverse-leveraged Exchange-Traded Funds.

² FINRA Rule 3110 superseded NASD Rule 3010, effective December 1, 2014.

is reasonably designed to ensure that each product is recommended only to a customer who understands the essential features of the product and for whom the product is suitable.

Griffinest Asia's Sales of Non-Traditional ETPs

Between July 2016 and November 2018 (the relevant period), two Griffinest Asia registered representatives exercised discretion in seven retail accounts held by six customers, executing a total of 58 trades in Non-Traditional ETPs—32 purchases and 26 sales—with a total principal value of approximately \$750,000. These positions in Non-Traditional ETPs were held in customer accounts for periods ranging from 41 to 479 days. The transactions generated \$2,982.84 in commissions and fees for Griffinest Asia and resulted in realized losses of \$86,185.65.

Griffinest Asia Failed to Establish, Maintain, and Enforce a Reasonably Designed Supervisory System and WSPs for Non-Traditional ETPs

FINRA Rule 3110(a) requires that “[e]ach member firm establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” FINRA Rule 3110(b)(1) requires that “[e]ach member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” FINRA Rule 2010 requires that member firms and associated persons “observe high standards of commercial honor and just and equitable principles of trade.” A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

During the relevant period, Griffinest Asia failed to establish, maintain, and enforce a supervisory system and WSPs reasonably designed to ensure that sales of Non-Traditional ETPs complied with applicable securities laws and regulations and FINRA rules. Specifically, Griffinest Asia failed to have a supervisory system and WSPs reasonably designed to ensure that trading in Non-Traditional ETPs was suitable for its retail customers. The firm’s supervisory system and WSPs also failed to address monitoring for risks particular to Non-Traditional ETPs, such as the risk posed by long-term holding of a product that resets daily. Although Griffinest Asia’s system and WSPs required supervisors to conduct suitability reviews of products at the time of purchase, the firm failed to establish any system or procedures addressing how supervisors should ensure the suitability of Non-Traditional ETP recommendations made to retail customers given the unique features and risks of these products. Similarly, the firm’s system and procedures failed to address holding periods for Non-Traditional ETPs, nor did it have alerts or exception reports to monitor holding periods. Moreover, the firm failed to provide any formal training regarding Non-Traditional ETPs to its registered

representatives prior to permitting them to sell Non-Traditional ETPs to retail customers. The firm further failed to provide training to its principals prior to having them conduct supervisory reviews and approvals of transactions in Non-Traditional ETPs.

By virtue of the foregoing, Griffinst Asia violated FINRA Rules 3110(a), 3110(b) and 2010.

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

- A censure;
- A \$35,000 fine;
- Disgorgement of commissions and fees in the amount of \$2,982.84, plus interest, as described below; and
- Restitution in the amount of \$86,185.65, plus interest, as described below.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Disgorgement of commissions and fees received is ordered to be paid to FINRA in the amount of \$2,982.94, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621, from November 16, 2018 until the date this AWC is accepted by the National Adjudicatory Council (NAC).

Restitution is ordered to be paid to the customers listed on Attachment A hereto in the total amount of \$86,185.65, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from November 16, 2018, until the date this AWC is accepted by the NAC.

A registered principal on behalf of Respondent Firm shall submit satisfactory proof of payment of restitution and pre-judgment interest (separately specifying the date and amount of each paid to each customer listed on Attachment A) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Respondent Firm. The email must identify the Respondent and the case number and include a copy of the check, money order or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after acceptance of the AWC.

If for any reason Respondent cannot locate any customer identified in Attachment A after reasonable and documented efforts within 120 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. Respondent shall provide satisfactory proof of such action to the

FINRA staff member identified above and in the manner described above, within 14 calendar days of forwarding the undistributed restitution and interest to the appropriate state authority.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA staff, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

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; 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 the subject matter thereof 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: (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.
- 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.

The undersigned, on behalf of the Respondent 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce it to submit it.

Griffinvest Asia Securities, LLC
Respondent

September 3, 2020

Date

By: Victor H. Lin

Print Name: Victor H. Lin

Title: CEO

Reviewed by:

James C. Yong

James C. Yong
Counsel for Respondent
Kaufman Dolowich & Voluck, LLP
135 South LaSalle Street, Suite 2100
Chicago, IL 60603

Accepted by FINRA:

09/17/2020
Date

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

Jill L. Jablonow

Jill L. Jablonow, Senior Counsel
FINRA Department of Enforcement
300 S. Grand Avenue, Suite 1600
Los Angeles, CA 90071

ATTACHMENT A

SCHEDULE OF RESTITUTION

Customer	Account Number	Restitution Amount (Exclusive of Interest)
Customer 1	*7685	\$14,826.60
Customer 2	*2216	\$13,196.46
Customer 3	*0226	\$7,849.94
Customer 4	*1662	\$12,455.41
Customer 5	*6232	\$12,156.83
Customer 6	*8535	\$23,371.78
Customer 7	*2339	\$2,328.63