FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019062623003

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

RE: Hinman Au (Respondent)
Introducing Broker-Dealer Financial and Operations Principal; General Securities Principal; General Securities Representative; Registered Options Principal; Compliance Officer; Investment Banking Representative; Operations Professional
CRD No. 2243462

Pursuant to FINRA Rule 9216, Respondent Hinman Au submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

Respondent first registered with FINRA in 1992. In September 2016, Au became registered as an Introducing Broker-Dealer Financial and Operations Principal, General Securities Principal, General Securities Representative, and Registered Options Principal through an association with FINRA member MM Global Securities, Inc. (MM Global). In October 2018, Au further became registered as a Compliance Officer, Investment Banking Representative and Operations Professional. Au remains registered through his association with MM Global.[1]

OVERVIEW

From at least January 2019 to June 2020, in his capacity as MM Global's AML Compliance Officer (AMLCO), Respondent failed to establish and implement an anti-money laundering (AML) compliance program reasonably designed to detect and cause the reporting of suspicious activity in violation of FINRA Rules 3310(a) and 2010. During the same period, Respondent failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve

---

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

compliance with federal securities laws and FINRA rules prohibiting market manipulation in violation of FINRA Rules 3110 and 2010.

From at least October 2017 to April 2019, Respondent also failed to implement MM Global's Customer Identification Program (CIP) in violation of FINRA Rules 3310(b) and 2010.

In addition, from November 2018 to August 2019, Respondent used an instant messaging service, WeChat, and a personal email account to send and receive securities-related business communications without providing copies to the firm. Respondent thereby prevented the firm from preserving the communications, as required by Section 17(a) of the Securities Exchange Act of 1934 (the Exchange Act) and Rule 17a-4(b)(4) thereunder. By causing the firm to maintain incomplete books and records, Respondent violated FINRA Rules 4511 and 2010.

FACTS AND VIOLATIVE CONDUCT

1. Broker-dealers are required to establish and implement a reasonable AML program.

FINRA Rule 3310 requires each member firm to develop and implement a written anti-money laundering (AML) program reasonably designed to achieve and monitor the firm's compliance with the requirements of the Bank Secrecy Act (BSA), and implementing regulations promulgated by the Department of the Treasury. FINRA Rule 3310(a) requires each firm to "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under [the BSA] and the implementing regulations."

The implementing regulation issued by the U.S. Department of the Treasury, 31 CFR. § 1023.320, requires broker-dealers to file with the Financial Crimes Enforcement Network "a report of any suspicious transaction relevant to a possible violation of law or regulation."

NASD Notice to Members (NTM) 02-21, issued in April 2002, provided detailed guidance to the industry regarding the obligation of a broker-dealer to detect and cause the reporting of suspicious transactions. In NTM 02-21, the NASD advised each broker-dealer that when developing an AML program, it should tailor the program to fit its business, taking into consideration, among other factors, "the types of transactions in which its customers engage." NTM 02-21 further reminded broker-dealers of their duty to look for "red flags"—i.e., signs of suspicious activity that suggest money laundering or other violative activity—and provided broker-dealers with a non-exhaustive list of such red flags, including, among others, that the customer wishes to engage in transactions that lack business sense or apparent investment strategy. In August 2002, FINRA issued NTM 02-47, which described the suspicious activity reporting rule promulgated by the Department of the Treasury for the securities industry. NTM 02-47 further advised broker-dealers of their duty to file a suspicious activity report (SAR) for any transaction raising suspicions of illegal activity occurring after December 30, 2002. NTM 19-18,

issued in May 2019, provided additional guidance to member firms regarding red flags for firms to consider incorporating into their AML programs, including, among others, that the customer engages in pre-arranged or other non-competitive securities trading, including wash or cross trades, with no apparent business purpose.

Failure to detect and investigate suspicious activity to determine whether it is appropriate to file a SAR violates FINRA Rule 3310(a). A violation of FINRA Rule 3310(a) also constitutes a violation of FINRA Rule 2010, which requires FINRA members and their associated persons, in the conduct of their business, to observe "high standards of commercial honor and just and equitable principles of trade."

2. **Respondent failed to establish and implement an AML program that could reasonably be expected to detect and cause the reporting of suspicious transactions.**

At all relevant times, MM Global was an online introducing broker-dealer that offered its customers low-cost, self-directed trading through a web-based trading platform. The majority of the firm's customers were retail customers located in foreign jurisdictions, including high-risk money laundering jurisdictions. The firm also served institutional customers, one of which was Customer A, a foreign financial institutional with more than 150 individual traders purchasing and selling securities for Customer A's account. Customer A was also from a high-risk jurisdiction and accounted for nearly all the firm's trading activity in 2019. Publicly-available business records reflected that Customer A was affiliated with the two founders of one of MM Global's affiliates, Company A. Respondent also had an ongoing business relationship with Company A and held Company A stock throughout the relevant period.

Respondent was the firm's CEO, CCO, and AMLCO, responsible for establishing and implementing MM Global's AML program and ensuring that the firm was detecting and investigating AML red flags and reporting suspicious activity.

a. Respondent did not reasonably design the firm's AML program.

From January 2019 to June 2020, Respondent did not tailor the firm's AML program to reasonably detect and report suspicious activity in light of the firm's business model.

First, Respondent failed to establish and implement reasonable written AML procedures for the surveillance of suspicious activity. Respondent drafted the firm's written AML procedures and was responsible for updating them. The procedures stated that Respondent would "mak[e] every effort to detect any efforts to manipulate the market." However, Respondent did not identify in the procedures any types of manipulative trading, such as wash trades, matched orders, spoofing, or layering,[2] and he did not

[2] "Wash trades" are purchases and sales of securities that match each other in price, volume, and time of execution, and involve no change in beneficial ownership. "Matched orders" are similar to wash trades but involve a related third person or party who places one side of the trade. "Spoofing" occurs where a party enters a series of sell or buy orders, then executes a trade on the opposite side and cancels all, or most, previously placed orders. "Layering"

describe how the firm would detect manipulative trading. Additionally, the firm's procedures stated that Respondent would create parameters, including for trade review and wire transfers, to determine "whether a transaction lacks financial sense or is suspicious because it is an unusual strategy for that customer." However, Respondent never created any such parameters and the procedures did not describe how any parameters should be set. Although the firm's AML procedures also required the use and review of exception reports to detect unusual transactions, Respondent did not identify any specific exception reports in the procedures, did not describe how supervisors should use any reports, or what activity should trigger further action by supervisors or the firm.

Second, from January 2019 until October 2019, the Respondent did not use any exception reports or automated tools to detect suspicious activity, such as cancelled orders, patterns of trading across accounts or multiple days, coordinated trading, trading resulting in losses that might indicate a lack of rational economic motive, and other indicia of common forms of market manipulation. Instead, Respondent relied almost exclusively on a manual review of the daily trade blotter to identify suspicious trading, which was not reasonable given the volume and complexity of trading by the firms' customers. Moreover, the blotter did not reflect patterns of trading across accounts or across multiple days, which made manual review of the blotter an unreasonable way to identify suspicious activity. In practice, Respondent limited the review of the trade blotter to a determination of whether transactions involving a significant number of shares were consistent with customers' trading histories. This review excluded transactions involving fewer shares, which comprised a significant portion of the firm's business, and did not surveil for wash trades, matched orders, spoofing, or layering.

b. Respondent failed to detect, investigate, and respond to potentially suspicious activities.

As a result of Respondent's failure to implement a reasonably designed AML program, he failed to detect, investigate, and respond to red flags of suspicious activities.

For example, from May 2019 to December 2019, Respondent failed to detect and investigate hundreds of potential matched orders in which customers of the firm, including Customer A, placed buy and sell orders in the same security at the same time for the same limit price. These orders were placed in dozens of securities, including in the stock of Company A.

Respondent also failed to investigate additional suspicious activity, even after that activity was brought to his attention. During 2019, FINRA and the firm's routing broker alerted Respondent to hundreds of instances of potential manipulation by Customer A. Further, Respondent became aware that some of Customer A's trades were rejected by the firm's order entry system as potential wash sales. Nevertheless, Respondent failed to investigate this activity and instead relied unreasonably on unverified representations

---

involves a pattern of entering multiple orders (layering) at various price levels on the buy or sell side of the markets. The layered orders may be entered with the intention of creating a false or misleading appearance of volume in the order book.

from Customer A that the customer would terminate the individual traders responsible for the suspicious activity.

Additionally, Respondent failed to reasonably investigate trading activity that occurred in the stock of Company A during 2020. Twelve firm customers located in China and Hong Kong placed orders to sell Company A's stock on a single day during 2020 and some placed their orders within milliseconds of one another, which suggested coordinated trading activity. Moreover, most of the customers had been referred to the firm by Company A. After the firm's clearing broker contacted Respondent about this activity, Respondent did not take reasonable steps to investigate.

Therefore, Respondent violated FINRA Rules 3310(a) and 2010.

3. **Respondent failed to implement the firm's Customer Identification Program.**

FINRA Rule 3310(b) requires each member to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and its implementing regulations. Under 31 C.F.R. § 1023.220(a)(2), broker-dealers are required to establish a risk-based CIP that is based on the firms' assessment of the relevant risks, including by establishing procedures for verifying the identify of each customer through documents or non-documentary methods. A violation of FINRA Rule 3310(b) also constitutes a violation of FINRA Rule 2010.

A violation of FINRA Rule 3310(b) also constitutes a violation of FINRA Rule 2010.

From at least October 2017 to April 2019, Respondent failed to implement the firm's CIP with respect to retail and institutional customer accounts located in foreign jurisdictions.

Respondent was responsible for establishing and implementing MM Global's AML program, including the firm's CIP. The firm's AML procedures required non-documentary verification of customers' identities under certain circumstances, including whenever: (i) the firm did not meet a retail customer face-to-face, or (ii) the customer opened a corporate account that conducted substantial business in a jurisdiction designated by the U.S. as a primary money laundering haven. According to the Firm's AML procedures, non-documentary methods may include contacting a customer, independently verifying the customer's identity by comparing 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. However, prior to April 2019, Respondent did not enforce this procedure. Rather, Respondent and the firm's other registered representative, whom Respondent supervised, only collected basic information, such as customer name, telephone number, address, and government-issued identification, and conducted an OFAC check when opening accounts.[3] During this period, Respondent failed to

[3] An OFAC check informs a broker-dealer whether a potential customer is on the U.S. Treasury's list of individuals and entities with whom U.S. persons are prohibited from engaging in transactions. However, an OFAC check is not

implement its CIP for at least four individual customers located in China (the earliest of which opened a firm account in October 2017),[4] and for Customer A, which was also located in a jurisdiction that the U.S. designated as a major money laundering jurisdiction.

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

4. **Respondent failed to reasonably supervise for potentially manipulative trading.**

FINRA Rule 3110(a) requires that FINRA members "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) requires that each FINRA member "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 the applicable securities laws and regulations, and with applicable FINRA Rules." The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

Exchange Act § 10(b), Rule 10b-5, and FINRA Rule 2020 prohibit market manipulation and other deceptive techniques intended to convey false information to the market about a stock's actual price and the demand for it. Manipulative conduct includes practices, such as wash trades, matched orders, spoofing, or layering that are intended to mislead investors by artificially affecting market activity.

As discussed above, Respondent was responsible for drafting and updating the firm's procedures, including those related to market manipulation. MM Global's procedures also designated Respondent as responsible for undertaking the appropriate surveillance activities to deter and detect manipulative activity.

From at least January 2019 to June 2020, Respondent failed to implement procedures that were reasonably designed to detect potentially manipulative transactions, including patterns of such transactions over time. For example, the firm's procedures did not describe the factors to consider when performing surveillance for potential market manipulation, including description of the types of market manipulation to detect or information about how surveillance should be documented. Respondent unreasonably relied on a manual review of the daily trade blotter to identify market manipulation,

---

a substitute for non-documentary verification, because an OFAC check is not a tool through which broker-dealers can verify a customer's identity or crosscheck the accuracy of documentary verification that a customer provides to the broker-dealer.

[4] The U.S. Department of State characterizes the People's Republic of China as major money laundering jurisdiction.

which was unreasonable given the volume and complexity of the trading by the firm's customers.

As a result, Respondent failed to detect potential market manipulation by Customer A, including matched orders in Company A's stock, and by the additional twelve customers who sold Company A's stock on a single day during 2020. Additionally, Respondent failed to reasonably address the potential market manipulation that was brought to his attention by FINRA and the firm's routing and clearing broker. This included Respondent unreasonably relying on unverified representations from Customer A about its steps to prevent potential market manipulation in the future.

Therefore, Respondent violated FINRA Rules 3110 and 2010.

5. **Respondent caused the firm to maintain incomplete books and records.**

FINRA Rule 4511(a) requires that each member "make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules." Section 17(a) of the Exchange Act and Exchange Act Rule 17a-4(b)(4) require member firms to maintain, for a period of three years, originals of all communications received and copies of all communications sent relating to the member's business. A registered representative who causes his or her member firm to fail to comply with these recordkeeping obligations violates FINRA Rule 4511. A violation of FINRA Rule 4511 also constitutes a violation of FINRA Rule 2010.

From November 2018 to August 2019, Respondent used WeChat instant messages to communicate regarding securities-related business with another individual associated with the firm. In addition, Respondent used his personal email on at least 25 occasions to communicate with another FINRA member (Firm B) regarding the referral of potential investors in Company A's initial public offering to Firm B. Respondent did not retain copies of these instant messages or emails for his firm to preserve.

Therefore, Respondent violated FINRA Rules 4511 and 2010.

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

- a 45-calendar day suspension from associating with any FINRA member in all capacities, followed by an 18-month suspension from associating with any FINRA member in all principal capacities;
- a $20,000 fine; and
- the requirement to requalify as a principal by passing the requisite examination(s) prior to acting in that capacity with any FINRA member.

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 he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

Respondent understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. See FINRA Rules 8310 and 8311.

Respondent understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent may not be associated with any FINRA member in a principal capacity, during the period of the bar or suspension. See FINRA Rules 8310 and 8311. Furthermore, because Respondent is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a complaint issued specifying the allegations against him;

B. To be notified of the complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and

D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and

C. If accepted:

   1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

   2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;

   3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and

   4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that he 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.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce him to submit this AWC.

September 12, 2022 — Hinman Au

Date

Hinman Au
Respondent

Reviewed by:

David Barclay

David Barclay, Attorney at Law
2743 Fox River Lane
Naperville, Illinois 60565

Accepted by FINRA:

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

November 11, 2022 — Matthew Aglialoro

Date

Matthew Aglialoro
Principal Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, New York 10281