

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015043159601**

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

RE: The GMS Group, LLC (CRD No. 8000), Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, The GMS Group, LLC ("GMS" or the "Firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against GMS alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. GMS 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**

GMS has been a FINRA member since 1979. GMS is headquartered in Livingston, New Jersey and has approximately 95 registered representatives.

**RELEVANT DISCIPLINARY HISTORY**

In May 2011, GMS entered into an AWC with FINRA relating to the Firm's failure to deliver Official Statements by the settlement date to customers who purchased municipal securities, in violation of Municipal Securities Rulemaking Board ("MSRB") Rules G-17, G-27 and G-32. The Firm was censured and fined \$50,000.

**OVERVIEW**

In 23 transactions between January 2014 and March 2015 (the "Relevant Period"), GMS sold municipal bonds to retail customers in amounts below the minimum denomination. On three occasions, GMS failed to disclose to customers that their purchase was in an amount below the minimum denomination. In addition, during the Relevant Period, GMS sold bonds

restricted to Qualified Institutional Buyers (“QIBs”) to customers who were not QIBs. Finally, GMS failed to adopt and enforce a supervisory system reasonably designed to achieve compliance with the MSRB’s rules regarding minimum denominations and the suitability of recommendations to customers.

As a result of the foregoing conduct, GMS violated MSRB Rules G-15(f), G-17 (for transactions executed before July 5, 2014), G-19, G-47(a) (for transactions executed on or after July 5, 2014) and G-27(b).

### **FACTS AND VIOLATIVE CONDUCT**

MSRB Rule G-15(f) provides that brokers, dealers or municipal securities dealers shall not effect a customer transaction in municipal securities issued after June 1, 2002, in an amount lower than the minimum denomination of the issue, with certain exceptions not applicable to this matter.

MSRB Rule G-17 states that each broker, dealer, municipal securities dealer, and municipal advisor shall deal fairly with all persons in the conduct of municipal securities or municipal advisory activities, and shall not engage in any deceptive, dishonest, or unfair practice. MSRB Notice 2002-05 specifically provides that a dealer’s failure to disclose that a transaction is below the applicable minimum denomination, and to explain how this could impact the liquidity of the customer’s position, generally constitutes a violation of Rule G-17. MSRB Rule G-47, which took effect on July 5, 2014, codifies this interpretative guidance regarding time of trade disclosures. As a result, any exceptions to time of trade disclosures prior to July 5, 2014 are violations of Rule G-17, and any exceptions thereafter violate Rule G-47.

MSRB Rule G-19 provides that a broker, dealer or municipal securities dealer must have a reasonable basis to believe that a recommended transaction or investment strategy involving a municipal security or municipal securities is suitable for the customer, based on reasonable diligence.

MSRB Rule G-27(b) requires brokers, dealers and municipal securities dealers to establish and maintain a system to supervise the municipal securities activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable MSRB rules.

During the Relevant Period, GMS recommended and sold municipal bonds in 23 transactions to retail customers in dollar amounts below the applicable minimum denomination. On three occasions, GMS failed to disclose to the customer at the time of the trade that the amount of the transaction was being effected below the minimum denomination.

Also during the Relevant Period, GMS recommended and sold four bonds in

approximately 200 transactions to customers who were not QIBs, even though the Official Statements for these bonds stated that they were eligible for sale only to QIBs.

Throughout the Relevant Period, GMS's written supervisory procedures prohibited the sale of bonds below the minimum denomination (absent circumstances not present here) and restricted the sale of bonds with a QIB restriction to eligible purchasers. However, GMS did not have adequate systems or controls in place to monitor and prohibit sales below the minimum denomination or to ineligible purchasers.

As a result of the foregoing conduct, GMS violated MSRB Rules G-15(f), G-17 (for transactions executed before July 5, 2014), G-19, G-47 (for transactions executed on or after July 5, 2014) and G-27(b).

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

- A censure; and
- A fine in the amount of \$45,000 (all of which pertains to the violations of the above-listed MSRB Rules).

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

GMS 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 GMS;
- 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, GMS specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person’s or body’s participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

GMS 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 GMS; and
- C. If accepted:
  - 1. This AWC will become part of GMS’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against GMS;
  - 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. GMS 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. GMS 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 GMS'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.

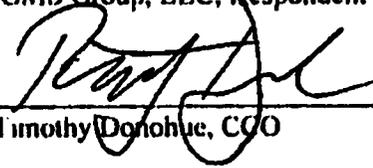
- D. GMS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. GMS understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of GMS, 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 GMS 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 GMS to submit it.

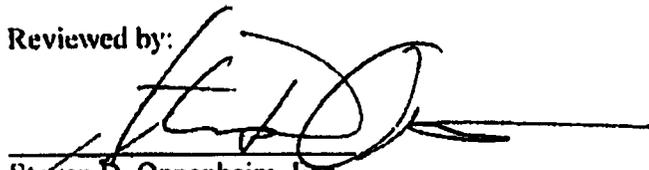
The GMS Group, LLC, Respondent

DECEMBER 27, 2016  
Date

By:

  
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Timothy Donohue, COO

Reviewed by:

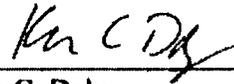
A handwritten signature in black ink, appearing to read 'S. Oppenheim', is written over a horizontal line. The signature is stylized and extends to the right of the line.

Steven D. Oppenheim, Esq.  
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E-mail: [stevenoppenheim@frolaw.com](mailto:stevenoppenheim@frolaw.com)

Accepted by FINRA:

12/28/16  
Date

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



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