

# Chief Compliance Officers Beware

June 23, 2017

In recent years, financial regulators have increasingly taken enforcement action against chief compliance officers (CCOs) and others in compliance oversight roles, rather than just against their employers. *In the Matter of Windsor Street Capital, L.P.*, initiated in January of this year, is a case in point. There, the SEC alleged that a broker-dealer firm violated the Securities Act of 1933 by engaging in dozens of non-exempt unregistered penny-stock sale transactions. The SEC further alleged that the firm violated requirements under the Securities Exchange Act of 1934 by failing to file anti-money laundering (AML) suspicious activity reports (SARs) in connection with such transactions and that the firm's CCO aided, abetted, and caused those AML violations. That the SEC charged the CCO with complicity in the AML violations (but not the Securities Act violations) may have been partly because the CCO also served as the AML officer under the firm's AML program and, in that capacity, was directly responsible for monitoring clients' suspicious trading activity and ensuring compliance with SAR reporting requirements. Moreover, the SEC alleged that the firm had strong indicia that its clients' penny-stock sales entailed suspicious trading activity under the firm's AML program, as well as under FINRA and SEC guidance, and that the firm and the CCO ignored these "red flags." This case is consistent with other recent actions where the SEC charged CCOs for gross failure to perform specific responsibilities assigned to them under firm policies. *In the Matter of Susan M. Diamond*, the CCO was sanctioned for misrepresentations in the firm's Form ADV, which falsely claimed three funds advised by the firm underwent annual audits, where the CCO was responsible for preparing and filing the form. The SEC, however, remains less likely to charge CCOs based on compliance failures in which the CCO is less directly and seriously implicated.

## Authored By



Natalie A. Napierala

## Related Practices

[FINRA Enforcement, Arbitration, and Appeals](#)  
[Securities Litigation and Enforcement](#)

## Related Industries

[Life, Annuity, and Retirement Solutions](#)

©2024 Carlton Fields, P.A. Carlton Fields practices law in California through Carlton Fields, LLP. Carlton Fields publications should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information and educational purposes only, and should not be relied on as if it were advice about a particular fact situation. The distribution of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship with Carlton Fields. This publication may not be quoted or referred to in any other publication or proceeding without the prior written consent of the firm, to be given or withheld at our discretion. To request reprint permission for any of our publications, please use our [Contact Us](#) form via the link below. The views set forth herein are the personal views of the author and do not necessarily reflect those of the firm. This site may contain hypertext links to information created and maintained by other entities. Carlton Fields does not control or guarantee the accuracy or completeness of this outside information, nor is the inclusion of a link to be intended as an endorsement of those outside sites.