

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 53847 / May 22, 2006**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12300**

<p><b>In the Matter of</b></p> <p style="text-align:center"><b>CROWELL, WEEDON &amp; CO.</b></p> <p><b>Respondent.</b></p>
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**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Crowell, Weedon & Co. (“Crowell” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds that:

**A. Respondent**

1. Crowell, Weedon & Co., a California partnership, operates in Southern California and has been registered with the Commission as a broker-dealer (File No. 8-3710) since 1936. It has no prior disciplinary history.

**B. Summary**

2. This matter concerns Respondent's violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder, which require a broker-dealer to comply with the reporting, recordkeeping and record retention requirements in regulations implemented under the Bank Secrecy Act ("BSA"),<sup>1</sup> including the requirements in the customer identification program ("CIP") rule.<sup>2</sup> The BSA rules require a broker-dealer, among other things, to make and keep certain reports and records to facilitate the prevention, detection, and prosecution of international money laundering and the financing of terrorism. In particular, the CIP rule requires a broker-dealer to establish, document, and maintain its procedures for identifying customers and verifying their identities. The rule further requires that these procedures be incorporated into the broker-dealer's overall anti-money laundering ("AML") program that the broker-dealer is required to implement under applicable SRO rules, the BSA, and applicable Treasury regulations.<sup>3</sup>

3. From October 2003 to at least late April 2004, Respondent's written CIP failed to describe accurately the process Respondent used to verify customer identities. Instead, it used procedures that were materially different and weaker than those in the CIP. The written CIP stated that Respondent would use certain documentary (e.g., check government issued identification) and non-documentary (e.g., database search) methods to verify the identity of each customer. Respondent, however, simply relied on its registered representatives to indicate that they had personal knowledge of the customer's identity. By failing to accurately document its customer verification procedures, Respondent violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

**C. Facts**

4. As of October 1, 2003 (the effective date of the CIP rule), Respondent had documented an AML program that consisted of ten pages of procedures. The documented procedures included a section titled "Know Your Customer" and a separate section titled "Customer Identification and Verification." This latter section contained the procedures that made up Respondent's CIP.

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<sup>1</sup> Currency and Foreign Transactions Reporting Act of 1970 (commonly referred to as the Bank Secrecy Act), 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. § 5311-5330.

<sup>2</sup> 31 CFR § 103.122.

<sup>3</sup> See NYSE Rule 445 and NASD Rule 3011. See also 31 U.S.C. 5318(h)(1) and 31 CFR § 103.120.

5. The procedures set forth in the “Know Your Customer” section required the registered representative opening an account for a customer to, among other things: (1) fully and accurately complete the new account application with regard to identifying pieces of information, including the customer’s social security number or tax identification number, occupation, date of birth, citizenship information, and mother’s maiden name; (2) enter information on to the new account application indicating how the customer was introduced to the registered representative; and (3) if the customer was not well known to the registered representative, obtain from the customer additional documentation such as a copy of a driver’s license or passport.

6. The procedures set forth in the CIP specified that Respondent would verify the identity of each new customer using both documentary and non-documentary methods. The documentary methods set forth in the procedures specified that when appropriate documents were available, Respondent would verify a customer’s identity by reviewing the following documents: (1) for an individual—an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver’s license or passport; and (2) for a person other than an individual—documents showing the existence of the entity, such as articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument. The non-documentary methods set forth in the procedures specified that Respondent would verify a customer’s identity by (1) contacting a customer; (2) 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; (3) checking references with other financial institutions; or (4) obtaining a financial statement.

7. The procedures set forth in the CIP further specified that Respondent would generally use “non-documentary methods in every instance as a formal precautionary safeguard” in addition to specific situations where such methods were expressly required. The specific situations identified were: (1) when the customer was unable to present an unexpired government-issued identification document with a photograph or other similar safeguard; (2) when Respondent was unfamiliar with the documents the customer presented for identification verification; (3) when the customer and the firm did not have face-to-face contact; and (4) when there were other circumstances that increased the risk that the firm would be unable to verify the true identity of the customer through documentary means.

8. The procedures set forth in the CIP specified that Respondent would document its verification, including all identifying information provided by the customer, the methods used and results of the verification, and the resolution of any discrepancy in the identifying information. They further specified that Respondent would keep records containing a description of any document that it relied on to verify a 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. Similarly, the procedures specified that, with respect to non-documentary verification, Respondent would retain documents that describe the methods and results of any measures taken to verify a customer’s identity, including downloading verification information from a third-party vendor.

9. Between October 1, 2003 and late April 2004, Respondent opened approximately 2,900 new accounts for customers. However, Respondent did not follow the verification and documentation procedures set forth in the CIP. Specifically, it did not review photo identifications from individuals when available, use the non-documentary methods set forth in the procedures, or document its verification in accordance with its written CIP. Rather, Respondent generally relied on its “Know Your Customer” policy and its registered representatives indicating that they had personnel knowledge of the customer. Typically, the registered representative stated on the new account form that the customer was known to him or her because the customer was a family member or social acquaintance, a referral from an existing customer, or a customer with an existing or previous account.

10. Prior to October 1, 2003, Respondent had contracted with a business partner to verify the identities of its customers by comparing their identifying information with a database. However, the vendor, due to technical problems, was unable to perform this function when the CIP rule went effective. Eventually, Respondent contracted with a different vendor that began verifying the identities of Respondent’s customers through non-documentary means in April of 2004. Respondent also had this vendor verify the identities of the 2,900 customers who opened accounts between October 1, 2003 and April of 2004.

#### **D. Legal Discussion**

11. Section 17(a) of the Exchange Act and Rule 17a-8 thereunder require a broker-dealer to comply with certain reporting, recordkeeping and record retention requirements in the regulations implemented under the BSA. These regulations include the broker-dealer CIP rule (31 CFR § 103.122). The CIP rule, among other things, requires a broker-dealer to establish, document, and maintain procedures for verifying the identities of customers opening new accounts.<sup>4</sup> The rule further requires that the verification procedures use documentary or non-documentary methods or a combination of both.<sup>5</sup>

12. Respondent’s written CIP specified that it would verify the identity of each of its customers using certain documentary and non-documentary procedures, including reviewing a government issued identification, where appropriate, and using a non-documentary method such as a database search. In fact, Respondent’s actual program for verifying customer identities did not use the specified procedures contained in its written CIP. Rather, Respondent relied on its registered representatives to have personal knowledge of the customers opening new accounts, without documenting this process. Accordingly, Respondent did not accurately document its CIP as required pursuant to the CIP rule.

13. Respondent, by failing to accurately document its CIP, did not comply with the recordkeeping and record retention requirements under the CIP Rule and therefore violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

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<sup>4</sup> 31 CFR § 103.122(b)(1).

<sup>5</sup> *Id.*

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Crowell's Offer.

Accordingly, it is hereby ORDERED that:

Respondent Crowell cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

By the Commission.

Nancy M. Morris  
Secretary