

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013039239102**

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

RE: CUSO Financial Services, L.P., Respondent
Member Firm
CRD No. 42132

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, CUSO Financial Services, L.P. (the "Firm" or "CUSO") 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 CUSO alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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

CUSO has been a member of FINRA since 1997. The Firm, headquartered in San Diego, California, conducts a general securities business through its relationships with credit unions. Currently, the Firm has approximately 714 registered representatives and over 950 branch offices located in credit unions across the United States. CUSO does not have any prior disciplinary history.

OVERVIEW

From January 2012 through August 2013 (the "Relevant Period"), CUSO's registered representative MH¹ solicited and sold to Firm customers certain unit investment trusts that invested in closed-end mutual funds that employed leverage (the "UITs"). CUSO, through MH and the two Firm principals who supervised MH and approved his UIT transactions, failed to have a reasonable basis to recommend and approve 76 UIT transactions sold to 50 customers. Those recommendations therefore were unsuitable, in violation of NASD Rule 2310 (for

¹ MH was barred from associating with any FINRA member in any capacity for failing to cooperate with FINRA's investigation into his conduct.

transactions prior to July 9, 2012), FINRA Rule 2111 (for transactions on and after July 9, 2012) and FINRA Rule 2010.

These unsuitable UIT recommendations occurred, in part, because CUSO's supervisory procedures regarding sales of the UITs was deficient, and because the Firm failed to adequately supervise MH's sale of the UITs. As a result, CUSO also violated NASD Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. CUSO recommended unsuitable UIT transactions

During the Relevant Period, CUSO registered representative MH recommended that a number of customers purchase certain UITs. Each of the prospectuses for these UITs stated that the UIT invested in closed-end bond funds, some of which might employ the use of leverage in their portfolios, and that this leverage might subject the funds to increased risks. Nonetheless, neither MH nor the two CUSO principals who approved the UIT transactions (CD and MG) understood the potential risks of the UITs and, in particular, neither understood that the UITs might employ leverage. CUSO, through MH and principals CD and MG, sold these UITs to 50 CUSO customers, including some seniors, in 76 transactions totaling \$4,636,146.

CUSO's customers lost approximately \$443,000 on the UITs that MH sold without a reasonable basis. Some of these customers indicated that they had low risk tolerances, which should have raised questions about the suitability of the UITs for them. In 2013 and 2014, CUSO voluntarily provided restitution totaling approximately \$325,000 to many of the customers who indicated that they had low or medium risk tolerances.

Because CUSO (through MH and principals CD and MG) did not have a reasonable basis to recommend that the 50 Firm customers purchase these UITs, these UIT recommendations were unsuitable. CUSO therefore violated NASD Rule 2310 (for transactions prior to July 9, 2012), FINRA Rule 2111 (for transactions on and after July 9, 2012) and FINRA Rule 2010.

2. CUSO had deficient supervisory procedures regarding sales of the UITs and it failed to adequately supervise MH's UIT transactions.

The suitability violations occurred, at least in part, because of the Firm's lack of reasonable supervision.

First, the Firm's supervisory system was not reasonably designed to ensure that the Firm's solicitations and sales of these UITs were suitable for customers. The Firm's written supervisory procedures ("WSPs") directed certain principals to review the UIT transactions to determine whether the recommended transactions are suitable. However, the Firm's WSPs failed to give concrete guidance to assist its brokers and principals in assessing the suitability of UITs that invest in closed-

end funds and that might use leverage. For example, the WSPs gave no concrete guidance as to how a customer's age, liquid net worth and asset concentration impacted the suitability determination for these riskier UITs.

Second, the Firm failed to reasonably enforce its written supervisory procedures regarding suitability reviews and approval of UIT trades. CUSO's WSPs directed registered representatives to review prospectuses in order to clearly understand the UITs' characteristics, including the use of leverage. However, principal MG did not review the UIT prospectuses or other documents that highlighted the risks and rewards associated with these products, but he nonetheless reviewed and approved MH's recommendation and sale of 70 UITs to 45 CUSO customers.

As a result of these supervisory failures, CUSO violated NASD Rule 3010 FINRA Rule 2010.

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

- A censure;
- A fine in the amount of \$125,000; and,
- Restitution to the customers listed in Attachment A of the balance of their losses, in an amount totaling \$47,510.²

A registered principal on behalf of Respondent CUSO shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to James E. Day, FINRA Enforcement, 15200 Omega Drive, Rockville, MD 20850-3241, either by letter that identifies CUSO Financial Services, L.P. and case number 2013039239102, or by e-mail from a work-related account of the registered principal of CUSO to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the AWC.

If for any reason Respondent CUSO 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 CUSO 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 CUSO shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

² This amount includes interest. As noted above, the Firm has already paid approximately \$325,000 in restitution to affected customers. The payments outlined in Attachment A fully compensate these customers for their UIT losses.

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.

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

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

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against me;
- 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, the Firm 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.

The Firm 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

The Firm 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 me; and
- C. If accepted:
 - 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 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. The Firm 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. The Firm 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 the Firm'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. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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 CUSO, 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 the Firm 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 the Firm to submit it.

11/10/2016
Date (mm/dd/yyyy)

CUSO Financial Services, L.P.

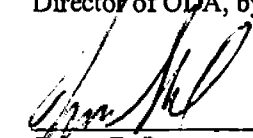
By: 
Peter K. Vonk
Chief Compliance Officer

Reviewed by:

Stefan Dandefles, Esq.
Gregg J. Breitbart, Esq.
Counsel for CUSO Financial Services, L.P.
Kaufman Dolowich Voluck
55 E Monroe Street, Suite 2950
Chicago, IL 60603
Tel: (312) 646-6742

Accepted by FINRA:

11/12/17
Date

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


James E. Day
Vice President and Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
(301) 258-8520 (phone)
(202) 721-8303 (fax)

Attachment A

<u>Customer</u>	<u>Additional Restitution Amount</u>
BD	\$ 1,332.00
GH & DH	\$ 4,849.00
EO & LW	\$ 4,340.00
FP & SP	\$ 1,441.00
KR	\$ 2,303.00
SS	\$ 23,930.00
IS	\$ 9,315.00