

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the

Continued Membership

of

Integral Financial, LLC
(CRD No. 120343)

Notice Pursuant to
Rule 19h-1 of the
Securities Exchange Act
of 1934

SD-2306

May 23, 2022

I. Introduction

On August 27, 2021, Integral Financial, LLC (“Integral” or “the Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”)¹ to FINRA’s Credentialing Registration, Education and Disclosure (“CRED”) Department. The Application seeks to permit the Firm, a FINRA member subject to statutory disqualification, to continue its membership with FINRA notwithstanding its disqualification.² A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

Integral is subject to statutory disqualification, as defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(E), as the result of an order issued by the Securities Exchange Commission (“SEC Order”) dated July 30, 2021 finding the Firm failed to reasonably supervise the Firm’s registered representatives with a view to preventing and detecting

¹ See MC-400A Application and related materials compiled by FINRA’s CRED, with a cover memorandum dated September 20, 2021, attached as Exhibit 1.

² Weiming “Frank” Ho (CRD #2692573), an associated person, is also subject to a statutory disqualification as defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(E), as the result of the same SEC Order. See *infra* note 3. On September 20, 2021, the Firm filed an application to continue Ho’s association with Integral as a registered representative. Pursuant to FINRA Rule 9522(f), the application included an interim heightened supervision plan. See Ho Interim Heightened Supervision Plan, dated August 27, 2021, attached as Exhibit 2.

their violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act.³ According to the SEC Order, between 2015 through 2017 Integral, through its sole supervisor, Weiming “Frank” Ho (“Ho”), failed to supervise four representatives (“representatives”) who made unsuitable recommendations of variable interest rate structured products (“VRSPs”) to ten retail customers (“customers”).⁴ Many of the customers investing in the VRSPs were approaching or had reached retirement age with conservative or moderate risk tolerances and investment time horizons of less than fifteen years.⁵ The VRSPs that the representatives recommended offered variable interest payments and paid teaser fixed interest rates for one to five years, after which interest payments were not guaranteed.⁶ Investors in the VRSPs were subject to losing some or all of their principal at maturity if the derivative components failed to perform within pre-determined ranges.⁷ As a result, the customers’ accounts held higher concentrations of structured products, including VRSPs, than Integral deemed appropriate, as reflected in its Firm policies.⁸ Notwithstanding the heightened risks identified in the Firm’s policies, Integral, through Ho, as the Firm’s principal and sole supervisor, did not implement the Firm’s procedures nor provide any related training to the representatives.⁹ Moreover, from at least 2015 through 2019, Ho failed to take steps to address whether Integral furnished to customers copies of their account records with appropriate information at the required cadence.¹⁰ The Firm, through Ho, also did not monitor whether representatives documented changes in account investment objectives nor implemented any procedures to address whether the Firm created the required records.¹¹

As a result of its violative conduct, the SEC found the Firm and Ho failed to reasonably supervise the Integral representatives with a view to preventing and detecting violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, arising from unsuitable recommendations.¹² The SEC also found that Integral violated Sections 17(a)(2) and 17(a)(3) of the Securities Act and that Ho caused those violations.¹³ The SEC further found that Integral failed to create certain required records related to customer accounts in violation of Section 17(a)(1) of the Exchange Act and Rules 17a-

³ See SEC Order, *In the Matter of Integral Financial, LLC and Weiming “Frank” Ho*, Administrative Proceeding File No. 20445 (July 30, 2021), attached as Exhibit 3.

⁴ *Id.* at p. 2.

⁵ *Id.* at pp. 2-3.

⁶ *Id.* at p. 4.

⁷ *Id.*

⁸ *Id.* at p. 3.

⁹ *Id.* at p. 6.

¹⁰ *Id.* at pp. 2-3.

¹¹ *Id.* at p. 3.

¹² *Id.* at pp. 3 and 7.

¹³ *Id.* at p. 3.

3(a)(17)(i)(B)(1) and 17a-3(a)(17)(i)(B)(3) promulgated thereunder and that Ho also caused those violations.¹⁴

The Firm, for its part, was ordered to cease and desist from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 17(a) of the Exchange Act and Rules 17a-3(a)(17)(i)(B)(1) and 17a-3(a)(17)(i)(B)(3) thereunder, censured, ordered to pay a \$85,000 civil monetary penalty, and ordered to comply with various undertakings; including, retaining an independent consultant to do a review of the Firm's policies, procedures, and internal controls.¹⁵

III. Background Information

Integral has been a FINRA member since August 30, 2002.¹⁶ According to the Firm's CRD record, the Firm has 2 branches, both Offices of Supervisory Jurisdiction ("OSJ") in Fremont, CA and San Jose, CA.¹⁷ The Firm employs approximately 11 registered individuals, five of which are registered principals, and one non-registered fingerprint individual.¹⁸ The Firm does not employ any statutorily disqualified individuals aside from Ho.¹⁹

¹⁴ *Id.*

¹⁵ *Id.* at pp. 8-11. See Integral Proof of Payment, attached as Exhibit 4. In relation to Ho, "Ho was ordered to not act in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization for six (6) months" and "ordered to pay a \$30,000 civil monetary penalty." See Exhibit 3 at pp. 7 and 11. According to Ho's Central Registration Depository ("CRD") record, Ho served his six-month suspension from July 20, 2021 through January 20, 2022. The Firm provided proof of payment of Ho's civil penalty. See Ho's Proof of Payment, attached as Exhibit 5.

¹⁶ See Integral's CRD Snapshot Record, attached as Exhibit 6.

¹⁷ FINRA confirmed this through an analysis of the Firm's information contained in CRD last performed May 13, 2022.

¹⁸ *Id.*

¹⁹ As noted above, Ho's disqualification arises from findings of failure to supervise with a view to preventing their violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, under Exchange Act Section 3(a)(39)(F), incorporating by reference Exchange Act Sections 15(b)(4)(E). Ho's supervisory sanction has lapsed and he has paid his monetary penalty. See *supra* note 15. Since there are no sanctions in effect for statutory disqualification purposes for Ho, an application to continue Ho's association with the Integral is no longer required under FINRA rules. See also [FINRA Regulatory Notice 09-19](#) (June 15, 2009). Ho is currently registered with the Firm in multiple capacities and is also a direct owner of the Firm. See Ho's CRD Registrations with Current Employers, attached as Exhibit 7. See also Exhibit 6 at p. 5. He is currently classified as a Tier 3 statutorily disqualified individual, permitted to associate without any special supervision.

In terms of FINRA's notice under 19h-1 for Integral's continued association with Ho, notwithstanding his disqualification, it is staff's understanding that the SEC has provided no-action relief if FINRA does not file a notice with the Commission when proposing "to continue in membership or association with a member any subject person if the subject person is subject to a statutory disqualification solely due to a finding that the subject person failed to reasonably supervise, with a view to preventing violations of the federal securities laws or the rules or regulations thereunder....provided that the sanctions related to the findings are no longer in effect with respect to the subject person." See [Gliniecki No Action Letter](#), dated March 17, 2009 at p. 4.

Integral is approved to engage in the following lines of business: a broker or dealer retailing corporate equity securities over-the-counter, broker or dealer selling corporate debt securities, mutual fund retailer, municipal securities broker, broker or dealer selling variable life insurance or annuities, solicitor of time deposits in a financial institution, put and call broker or dealer or option writer, and investment advisory services.²⁰

Integral is not a member of the any self-regulatory organization (“SRO”) aside from FINRA.²¹ Integral is also a member of the Municipal Securities Rulemaking Board (“MSRB”).²²

Recent FINRA Examinations

In the past two years, FINRA completed four non-routine examinations of the Firm. The four non-routine exams did not result in regulatory action nor Cautionary Action findings. In 2021 and 2019, FINRA conducted two routine exams of the Firm which resulted in Cautionary Actions, with 2021 exam including referrals to FINRA’s Department of Enforcement (“DOE”).

A. Routine Examinations

FINRA’s Firm examination completed in March of 2022 resulted in a Cautionary Action for nine exceptions.²³ The exceptions pertained to the Firm’s failures to (1) properly establish written supervisory procedures (“WSPs”) and systems designed to achieve compliance with Regulation Best Interest (“Reg BI”), (2) follow the requirements of Form CRS, (3) properly establish WSPs that addressed the requirements of Form CRS, (4) timely file an amended Form CRS, (5) properly retain records on electronic storage media in such a way where the Firm could evidence that the records were preserved in a non-rewritable, non-erasable format, (6) establish WSPs designed to properly identify and handle incoming customer complaints, (7) establish WSPs designed to ensure that customer confirmations are reviewed for accuracy (included a finding that at least two confirmations contained inaccurate or missing information), (8) establish and implement procedures to address monitoring of money movements, failure to maintain a Checks Forwarded and Received Blotter as required by policy, and failure to establish written supervisory procedures for its use of the Remit Pro System as a replacement for the Checks Received and Forwarded Blotter, and (9) make and keep current a record of the relationship between associated persons and the Firm including compensation agreements as laid out in Firm policy.²⁴ In addition, three exceptions pertaining to the Firm’s failures to (1) collect required customer investment and

²⁰ See CRD Excerpt: Types of Business for Integral, attached as Exhibit 8.

²¹ See CRD Excerpt: Organization Registration Status for Integral, attached as Exhibit 9.

²² Membership in the MSRB was verified by FINRA staff through a search of the public MSRB member directory, last performed May 13, 2022.

²³ See Disposition and Examination Report for Exam No. 20210693465 dated March 17, 2022, and Firm Response dated January 19, 2022, collectively attached as Exhibit 10. Staff confirmed that the referral to FINRA’s DOE is currently an open matter as of the date of this filing. FINRA has redacted customer name and account information from Exhibit 10 for the purposes of this filing.

²⁴ See Disposition Letter and Examination Report at Exhibit 10 pp. 3-10.

financial profile information necessary to make recommendations in compliance with Regulation Best Interest or FINRA Rule 2111, (2) supervise customer accounts for large concentrations of potentially unsuitable transactions, and (3) properly establish WSPs to ensure adequate due diligence on new products were referred to DOE.²⁵

In response to its exceptions resulting in Cautionary Action, the Firm updated its WSPs to cover the applicable exceptions, including its Anti-Money Laundering procedures.²⁶ The Firm also provided an updated draft of its Form CRS and indicated that it would post the updated version on its website as well as distribute to its customers subsequent to its examination.²⁷ The Firm represented that it changed its processes for how certain records were maintained to fully satisfy its record retention responsibilities as well as represented that it is reviewing its search lexicon terms for e-mail reviews related to customer complaints.²⁸ For its finding related to customer confirmations, the Firm also represented that it held a meeting with staff to stress the importance of accuracy in transaction confirmations.²⁹ As part of its response, the Firm also provided a document summarizing the compensation arrangements of its staff.³⁰

FINRA's Firm examination completed in November of 2019 resulted in a Cautionary Action for three exceptions pertaining to (1) failure to properly supervise the collection of accurate customer suitability information and failure to properly supervise customer portfolios for overconcentration; (2) the failure to implement adequate supervision of trade confirmations for corporate debt to ensure compliance with FINRA Rule 2232; and (3) the Firm's use of advertisements of annuities that omitted material information necessary for prospective investors to evaluate the facts with regard to the products discussed.³¹ In response to its exceptions, the Firm represented that, in addition to relying on the clearing firm to collect customer information, it would periodically review customer accounts, periodically review and monitor trades to prevent any incorrect markups and/or markdowns as well as remove the referenced advertisement and indicated that they would close communication with the media to avoid any posting.³²

Regulatory Actions

In the past two years, Integral's only regulatory action is the subject of this notice.

²⁵ *Id.* at p. 1.

²⁶ *See* Firm Response at Exhibit 10 at pp. 15-23.

²⁷ *Id.* at p. 17.

²⁸ *Id.* at pp. 21-22.

²⁹ *Id.* at p. 22.

³⁰ *Id.* at p. 23.

³¹ *See* Disposition and Examination Report for Examination No. 20190607220 dated November 21, 2019, and Firm Response dated August 20, 2019, collectively attached as Exhibit 11.

³² *See* Firm Response at Exhibit 11 at pp. 12-13.

IV. Prior SEA Rule 19h-1 Notices

The Firm has not been subject to prior SEA Rule 19h-1 notices.

V. The Firm’s Proposed Continued Membership with FINRA Plan of Supervision

Integral seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision as a condition of its continued membership with FINRA:³³

1. The Firm must comply with the undertakings specified in the Order Instituting Administrative and Cease-and Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, *In the Matter of Integral Financial, LLC and Weiming “Frank” Ho*, SEC Administrative Proceeding File No. 20445 (July 30, 2021) (“the Order”).
2. The Firm will provide FINRA’s Department of Risk Monitoring with copies of correspondence between the Firm and SEC staff regarding requests to extend the procedural dates relating to the undertakings.
3. The Firm will provide FINRA’s Statutory Disqualification Group with a copy of the certification and all supporting documentation provided to the SEC upon completion of the undertakings as specified in the Order, or other documentation that the undertakings have been either modified or stricken by order of the SEC Order.
4. The Firm will implement a mandatory annual training for all FINRA registered persons. The annual training will cover securities rules and regulations surrounding complex products, including but not limited to VRSPs; how to ensure compliance with Regulation Best Interest when considering recommending complex products to a customer; the nature and risks associated with complex products including VRSPs; how to monitor and prevent overconcentration in customer portfolios; and the proper way to maintain customer account record information in compliance with SEC and FINRA rules as well as Firm policy. New personnel to be involved in sales of structured products must complete this training within one month of hire. The Firm will maintain documentation of the completion of such trainings in a segregated file for ease of review by FINRA staff during FINRA examinations.
5. The Firm will review its portfolio of structured products, including VSRPs, and any proposed new products. The Firm will document its review of the existing portfolio as well as properly documenting its due diligence efforts of new products to reflect the Firm’s

³³ See executed Plan of Heightened Supervision dated April 25, 2022, attached as Exhibit 12.

compliance with all relevant securities rules and regulations.

6. All requested documents and certifications under this Plan of Supervision shall be sent directly to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.
7. The Firm will submit any proposed changes or other requested information under this Plan to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.

VI. Discussion

After carefully reviewing the record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating the Application, Member Supervision assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets.³⁴ Typically, factors that bear on the Department's assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Integral's securities activities. The Firm paid the required fine in full to the SEC,³⁵ and has made progress on additional undertakings required by the SEC including hiring an independent consultant, complying with the independent consultant's review, and obtaining a report of findings from the independent consultant.³⁶

Integral represents that it has incorporated changes in its management structure in such a way to prevent Ho, or any other member of the management staff, from becoming spread too thin as a result of how many duties the individuals are assigned. This shift in management structure will help to mitigate the risk that the Firm will fail to meaningfully supervise its representatives. The Firm anticipates that after Ho's suspension, he will act as the Firm's FINOP and will likely rejoin the Board of Directors.³⁷ The Firm also represents that he will not, however, work as the Firm's primary supervisor, President, nor Chief Compliance Officer. Nancy Fong is expected to remain the Firm's Chief Compliance Officer and Enid Choi will remain the Firm's President.³⁸

³⁴ See FINRA By-Laws, Art. III, Sec. 3(d); cf. Frank Kufrovich, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors").

³⁵ See Exhibit 4.

³⁶ See Independent Consultant's Report, attached as Exhibit 13.

³⁷ See Integral Response to FINRA dated December 3, 2021 at pp. 4-5, attached as Exhibit 14.

³⁸ *Id.*

Member Supervision is further comforted by the controls set in place by the Firm's Plan of Heightened Supervision which is specifically tailored to the misconduct identified in the SEC Order. It bolsters the undertakings outlined in the Order and will continue to provide oversight of the Firm as it moves towards full compliance with its remaining undertakings. Specifically, the Plan calls for annual training for all registered persons on the securities rules and regulations surrounding complex products, including but not limited to VRSPs; how to ensure compliance with Regulation Best Interest when considering recommending complex products to a customer; the nature and risks associated with complex products including VRSPs; how to monitor and prevent overconcentration in customer portfolios; and the proper way to maintain customer account record information in compliance with SEC and FINRA rules as well as Firm policy.

In evaluating the Firm's application, Member Supervision also conducted a review of the Firm's regulatory history and recent disciplinary actions, and found that, as of the date of this Notice, the Firm has a limited regulatory history without any further hinderance to the Firm's ability to continue as a FINRA member. The Department acknowledges the violations noted in the Firm's recent 2021 and 2019 FINRA Exams and notes that as of the time of this filing, the violations have not resulted in formal regulatory action.³⁹ Member Supervision also recognizes the Firm's responsiveness to both Exam findings and its remedial steps to mitigate future violations. Specifically, in 2021, the Firm demonstrated a willingness to bring itself to compliance when it amended its Written Supervisory Procedures and its Form CRS, changed its processes for how certain records were maintained to fully satisfy its record retention responsibilities, committed to reviewing its search lexicon terms for e-mail reviews related to customer complaints, and held a meeting with Firm staff to stress the importance of accuracy in transaction confirmations.⁴⁰ Similarly, in 2019, the Firm committed to reviewing and updating its processes related to collecting customer information, reviewing to prevent markup and/or markdown errors, and committed to closing communication with the media to prevent any advertising-related violations.⁴¹

Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523. Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Plan of Heightened Supervision, that the Firm's continued membership in FINRA does create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves Integral's Application to continue its membership with FINRA. FINRA certifies that the Firm meets all qualification requirements.

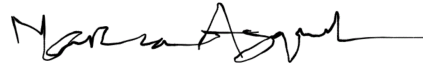
³⁹ See *supra* note 23.

⁴⁰ See Exhibit 10 at pp. 15-23.

⁴¹ See Firm Response at Exhibit 11 at pp. 12-13.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



Marcia E. Asquith
Executive Vice President & Corporate
Secretary

Exhibit List

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1. MC-400A Application and related materials compiled by FINRA's CRED with a cover memorandum dated September 20, 2021.
2. Interim Plan of Heightened Supervision for Weiming "Frank" Ho.
3. SEC Order, *In the Matter of Integral Financial, LLC and Weiming "Frank" Ho*, Administrative Proceeding File No. 20445 (July 30, 2021).
4. Proof of Integral's Payment to the SEC on August 10, 2021.
5. Proof of Ho's Payment to the SEC on August 10, 2021.
6. Integral's Central Registration Depository Snapshot Record.
7. Ho's CRD Registrations with Current Employers.
8. CRD Excerpt: Types of Business for Integral.
9. CRD Excerpt: Organization Registration Status for Integral.
10. Disposition and Examination Report for Examination No. 20210693465 dated March 17, 2022, and Firm Response dated January 19, 2022.
11. Disposition and Examination Report for Examination No. 20190607220 dated November 21, 2019, and Firm Response dated August 20, 2019.
12. Plan of Heightened Supervision dated April 25, 2022.
13. Independent Consultant's Report dated October 21, 2021.
14. Integral Response to FINRA dated December 3, 2021.