

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015046575201**

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

RE: Network 1 Financial Securities Inc. (CRD No. 13577)
Respondent

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent Network 1 Financial Securities Inc. (“Network 1” 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 Network 1 alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

Network 1 has been a member of FINRA since December 1983. Network 1 is headquartered in Red Bank, New Jersey, maintains approximately 20 branch offices, and has approximately 94 registered personnel.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

From August 2010 to September 2015 (the “Relevant Period”), Network 1 failed to establish, maintain and enforce a supervisory system and written supervisory procedures (“WSPs”) reasonably designed to supervise representatives’ sales of leveraged, inverse, and inverse-leveraged exchange-traded funds (“Non-

Traditional ETFs”). Based on the foregoing, Network 1 violated NASD Rule 3010 and FINRA Rules 3110 and 2010.¹

FACTS AND VIOLATIVE CONDUCT

1. Non-Traditional ETFs

Non-Traditional ETFs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over the course of one trading session—usually a single day. The performance of Non-Traditional ETFs over periods of time longer than a single trading session “can differ significantly from the performance . . . of their underlying index or benchmark during the same period of time.”² Because of these risks and the inherent complexity of the products, FINRA has advised broker-dealers and their representatives that Non-Traditional ETFs “are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.”³

2. Network 1’s Non-Traditional ETF Business

During the Relevant Period, approximately 29 Network 1 registered representatives traded Non-Traditional ETFs in 167 customer accounts. These representatives executed 645 Non-Traditional ETF transactions totaling approximately \$48 million.

3. Network 1 Failed to Adequately Supervise Representatives’ Sales of Non-Traditional ETFs

During the Relevant Period, Network 1 had inadequate WSPs regarding the suitability and supervision of Non-Traditional ETFs. Specifically, from 2010 through November 21, 2013, Network 1 had no procedures addressing Non-Traditional ETFs. On November 22, 2013, the Firm added a section to its WSPs that included a general description of ETFs. This section mentioned some of the risks inherent in Non-Traditional ETFs, including that the performance of these products “can differ significantly from the underlying index or benchmark during the same time period.” However, this new section did not provide any guidance to the Firm’s supervisors regarding how they should supervise Non-Traditional ETFs in light of the unique features and risks inherent in these products.

Moreover, throughout the Relevant Period, Network 1 did not have an adequate system for the review of Non-Traditional ETF transactions to ensure their

¹ FINRA Rule 3110 superseded NASD Rule 3010 effective December 1, 2014.

² *FINRA Regulatory Notice 09-31*.

³ *Id.*

suitability. For example, the Firm had no exception reports specific to Non-Traditional ETFs, and no automated method of monitoring Non-Traditional ETF holding periods. The Firm did not require supervisors to review open positions in Non-Traditional ETFs held for extended periods or resulting in unrealized losses. Nor did the Firm impose any limitations on trading or holding Non-Traditional ETFs.

Finally, during the Relevant Period, Network 1 failed to provide Non-Traditional ETF training to representatives and their supervisors. Network 1 did not include the topic of Non-Traditional ETFs at its annual compliance meetings, continuing education programs, or in any other type of Firm training. In addition, Network 1 did not require its representatives to complete product-specific training on Non-Traditional ETFs before recommending them to customers.

By virtue of the foregoing, Network 1 violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

B. Network 1 consents to the imposition of the following sanctions:

- a censure; and
- a \$20,000 fine.

In addition, Network 1 agrees to review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the sale of Non-Traditional ETFs. Within 90 business days of issuance of this AWC, the President of the Firm shall certify in writing to Noel Downey, Senior Regional Counsel, at the address listed below, that: (i) the Firm has completed the review described above; and (ii) as of the date of the certification, the Firm has established and implemented systems and policies and procedures (written or otherwise) and training that are reasonably designed to achieve compliance with the applicable rules cited herein. The certification shall describe the specific actions taken by the Firm, including the systems and policies and procedures (written or otherwise) and training that it has developed and implemented.

Network 1 agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Network 1 has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Network 1 has specifically and voluntarily waived 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 it;
- 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, Respondent 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.

Respondent 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 Respondent;

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

09/05/2017
Date (mm/dd/yyyy)

Network 1 Financial Securities Inc.
By: William R. Hunt, Jr.
President

Reviewed by:
Joseph C. Cascarelli
Joseph C. Cascarelli, Esq.
Counsel for Respondent Network 1
Network 1 Financial Securities, Inc.
The Galleria
2 Bridge Avenue - Suite 241
Red Bank, New Jersey 07701
(732) 758-9001

Accepted by FINRA:

10/2/17
Date

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

Noel C. Downey
Noel C. Downey
Senior Regional Counsel
FINRA Department of Enforcement
581 Main Street - Room 710
Woodbridge, NJ 07095
732-596-2042 (telephone)
202-721-6548 (facsimile)
Email: noel.downey@finra.org