

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022099101**

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

RE: Integral Financial LLC, Respondent
(BD No. 120343)

Weiming (Frank) Ho, Respondent
(CRD No. 2692573)

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Integral Financial LLC ("Integral" or the "Firm") and Weiming (Frank) Ho ("Ho") (collectively, "Respondents") submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

Integral has been a FINRA member firm since August 30, 2002 and has no other memberships. The Firm is headquartered in San Jose, California. Integral's primary customer base is the Chinese-American community in the Bay Area. The Firm engages in the business of selling equities, mutual funds, variable annuities, and 529 Plans, as well as structured products. Integral currently has 9 registered representatives.

Ho started his career in the securities industry in January 1996 when he became associated with Sunlogic Securities, Inc. as a General Securities Representative (GSR). Ho voluntarily terminated his association with the firm in July 1996. In April 1997, he became associated with Integrity Securities, Inc. as a GSR and a General Securities Principal (GSP) until he voluntarily terminated his association in October 1997, when he joined Acument Securities, Inc. In July 2000, he

voluntarily terminated his association with the Acument Securities, Inc. (which was then known as Thomas F. White and Co., Inc.) to become associated with White Pacific Securities, Inc. Ho voluntarily terminated his association with White Pacific Securities, Inc. in August 2002. From August 2002 to the present, Ho has been associated with Integral as a direct owner, founder, President, Chief Compliance Officer (CCO), GSR, and GSP. Since 2012, Ho has also served as Integral's principal in charge of marketing. Ho is also a Registered Investment Advisor.

RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

OVERVIEW

During a four-year period from October 27, 2009 through August 2013 (the "Relevant Period"), Integral violated NASD Rule 2210, FINRA Rules 2210¹ and 2220, and FINRA Rule 2010 in connection with approximately 50 public communications. These communications were disseminated in seminars, in radio and television advertisements, in print advertisements, through electronic communications, and on the Firm's website. Integral engaged in an ongoing pattern of using these non-compliant public communications to promote a wide range of complex investment products, including steepener products, to its Chinese-American customer base. Many of these violations occurred despite prior, explicit guidance from FINRA's Advertising Regulation department.

The Firm also failed to establish and maintain a supervisory system reasonably designed to achieve compliance with NASD and FINRA Rules regarding public communications. Additionally, the Firm did not adequately implement its written supervisory procedures during the Relevant Period. As a result, the Firm repeatedly approved public communications that failed to adhere to the content standards set forth in the Firm's written supervisory procedures, applicable advertising rules, and FINRA Review Letters. Such conduct violated NASD Rule 3010 and FINRA Rule 2010.

Ho was ultimately responsible for ensuring that the Firm's communications with the public complied with regulatory rules. However, Ho failed to adequately supervise Integral's public communications during the Relevant Period. Additionally, Ho did not adequately implement the Firm's written supervisory procedures. As a result, Ho repeatedly approved public communications that failed to adhere to the content standards set forth in the Firm's written supervisory procedures, applicable advertising rules, and FINRA Review Letters. Such conduct violated NASD Rule 3010 and FINRA Rule 2010.

¹ FINRA Rule 2210 superseded NASD Rule 2210, effective February 4, 2013. As such, Integral violated NASD Rule 2210 until February 4, 2013 and violated FINRA Rule 2210 from February 4, 2013 through August 2013.

FACTS AND VIOLATIVE CONDUCT

A. Steeptenars

Steeptenars are complex, structured products that allow investors to bet on the shape of the yield curve. The return on this type of product is linked to the spread between longer- and shorter-term interest rates – in other words, the so-called steepness of the curve. Steeptenars can be appealing to investors because these products typically have high initial fixed interest rates. In addition, steeptenars are often principal-protected. However, after the initial period (i.e., the first year), the fixed rates typically convert to floating rates that change in concert with the steepness of the yield curve. As such, investors' returns can vary or decrease over time. Moreover, steeptenars usually have long maturities, which can span 20-30 years. The secondary market for steeptenars may also be illiquid or nonexistent. In addition, steeptenars are often callable, which may be a concern for certain investors. See FINRA Investor Alert, *The Grass Isn't Always Greener—Chasing Return in a Challenging Investment Environment*, November 16, 2011. Steeptenars may also contain embedded derivative features that may be difficult for the average retail investor to understand. See Regulatory Notice 12-03, *Complex Products: Heightened Supervision of Complex Products* (January 2012), at 3-4.

During the Relevant Period, the Firm disseminated approximately 50 public communications regarding steeptener products that failed to comply with applicable advertising rules.

B. Integral's Process for Approving and Supervising Public Communications Was Inadequate

Ho was responsible for ensuring that the Firm's communications with the public complied with regulatory rules, and he took an active role in the Firm's creation, approval, and supervision of public communications. Ho created each of the Firm's public communications during the Relevant Period. During the early part of the Relevant Period, Ho drafted certain advertisements in both Chinese and English ("mixed language advertisements") where the terms of the product were discussed in Chinese or Chinese/English and the risks/disclaimers were discussed in English only. After being advised by Advertising Regulation staff that the Firm's mixed language advertisements were misleading, the Firm ceased publishing mixed language radio, television, and newspaper advertisements in 2011. However, the Firm's continued to disseminate non-compliant public communications on its website and in electronic communications for the remainder of the Relevant Period.

From August 1, 2009 through December 31, 2011, the Firm's Vice President was the principal in charge of Integral's marketing activities. From 2012 through the present, Ho took over this additional supervisory role. Integral's communications

with the public were internally approved by Ho and/or the Vice President. The Firm also typically submitted each public communication to FINRA for review prior to use. Integral routinely submitted its communications to FINRA's Advertising Regulation department for review at the same time that it published such communications with the public. The Firm regularly received Review Letters that identified advertising violations in those public communications. However, the Firm did not incorporate that guidance into those public communications because the Firm's practice was to publish the communications without waiting to receive FINRA's Review Letters. Such practice consistently resulted in advertising violations.

In addition, the Firm did not always incorporate the guidance from the Review Letters into its subsequent public communications because the Vice President did not receive or review FINRA's Review Letters or speak with FINRA Advertising Regulation staff regarding its guidance. Instead, Ho performed this function. As such, the Vice President did not know of FINRA's guidance unless Ho brought it to her attention, which did not always occur. Moreover, when Ho did inform the Vice President of FINRA's guidance, he sometimes relayed incorrect or incomplete guidance to her, due in part to language barriers that prevented him from properly interpreting FINRA's guidance. Neither he nor the Vice President used FINRA's Review Letters as guidance when actually composing or approving Integral's public communications. As a result, despite explicit guidance from FINRA's Advertising Regulation staff, the Firm's public communications throughout the Relevant Period repeated many of the same advertising violations year after year.

Ho was ultimately responsible for supervision of Integral's websites during the Relevant Period. However, Ho was not aware that one of the Firm's websites contained substantive content available to the public. In addition, even as late as July 2013, Ho did not understand that the Firm's websites constituted "retail communications" and/or "advertisements" under advertising rules. As such, no one at Integral reviewed or pre-approved the Firm's ancillary website during the Relevant Period. The Firm also failed to file certain webpages with Advertising Regulation, as required.

**C. Integral's Written Supervisory Procedures
Regarding Public Communications Were Inadequate**

The Firm did not adequately implement its written supervisory procedures regarding public communications. For example, according to Integral's written supervisory procedures in effect throughout the Relevant Period, the Firm's websites constituted advertisements/retail communications that required monitoring by the Firm's designated principal in charge of marketing activities. Nonetheless, during the Relevant Period, nobody at Integral monitored the Firm's ancillary website.

The Firm's policies and procedures during the Relevant Period also required that all communications with the public adhere to the following content standards:

- They shall observe principles of fair dealing and good faith while providing a sound basis for evaluating the particular merits of any security or service offered
- Communications must be fair and balanced and must not be misleading, omit material facts or contain inaccurate statements....
- Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.

The Firm failed to implement these written supervisory procedures, as numerous public communications during the Relevant Period violated the Firm's content standards.

D. Integral's Non-Compliant Public Communications

During the Relevant Period, Integral published approximately 50 non-compliant public communications targeting the Chinese-American community in the Bay Area of California, which included the following:

- 6 seminars and/or advertisements for seminars in the Bay Area;
- 6 radio advertisements on a local Chinese radio station in the Bay Area;
- 1 television advertisement on local Chinese cable stations in the Bay Area;
- 16 print advertisements in a local Chinese newspaper in the Bay Area;
- 19 electronic communications, each of which was distributed to no more than a few individuals; and
- 2 Firm websites.

Many of Integral's public communications during the early part of the Relevant Period were mixed language communications disseminated through local Chinese radio and television stations and in a local Chinese newspaper in the Bay Area. In these communications, Integral typically described the features of steepeners in Chinese (or Chinese and English) while the risk disclosures were only described in English. The bifurcated presentation of these mixed language communications were either nonexistent or misleading and, as such, violated the content standards of NASD Rule 2210(d)(1)(B). The significance of these violations was magnified because steepeners are complex, structured products with risk disclosures that even native English-speakers can have difficulty understanding.

There were also several discernible patterns in the Firm's non-compliant communications. For example, in numerous instances, Advertising Regulation had already notified Integral through correspondence or Review Letters of the reasons the Firm's public communications did not comply with applicable advertising rules. Notwithstanding the Review Letters the Firm received during the Relevant Period, the Firm continued to draft, review, approve, and publish public communications that violated advertising rules in the same way that the Review Letters had previously identified as violative. In each of the following

categories, the Firm published non-compliant public communications despite the existence of prior Review Letters identifying the same types of violations in earlier Firm communications:

Rule	Reason for Non-Compliance
NASD Rule 2210(d)(1)(B)	Communications contained descriptions in Chinese but risk disclosures only in English.
Securities Act Rule 134	Communications contained information that exceeded what was allowed by the rule.
Securities Act Rule 134(b)(2)	Communications failed to identify the name and address of the person from whom to obtain a prospectus.
NASD Rule 2210(d)(1)(A)	Communications contained an unclear description of the product's interest rate.
NASD Rule 2210(d)(1)(A)	Communications omitted material information.
NASD Rule 2210(d)(1)(A)	Communications contained unclear description of variable annuities.
NASD Rule 2210(d)(1)(C)	Communications placed material information in a footnote or legend.
NASD Rule 2210(d)(1)(A)	Communications contained material information that was difficult to read, rendering them unfair and imbalanced.
NASD Rule 2210(d)(1)(A)	Communications contained disclosures that did not relate to the content of the product advertised.

E. Violations of Advertising and Supervisory Rules

FINRA Rule 2210 (formerly NASD Rule 2210) and FINRA Rule 2220 establish standards for communications with the public.

FINRA Rule 2210(a)(5), effective February 4, 2013, defines a "retail communication" as any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period. The definition encompasses a wide range of

communications and includes broadly disseminated communications such as websites, radio advertisements, and television advertisements where a firm has no control over the number of individuals who may encounter it. (Former NASD Rule 2210(a)(1) had defined an "advertisement" as "any material, other than an independently prepared reprint and institutional sales material, that is published, or used in any electronic or other public media, including any Web site, newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, signs or billboards, motion pictures, or telephone directories (other than routine listings).") FINRA Rule 2210(a)(2) defines "correspondence" as any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period.

FINRA Rule 2210(b) (formerly NASD Rule 2210(b)) sets out the approval, review, and recordkeeping requirements for communications; FINRA Rule 2210(c) (formerly NASD Rule 2210(c)) establishes the filing requirements for communications; and FINRA Rule 2210(d) (formerly NASD Rule 2210(d)) articulates the content standards required of all communications.

FINRA Rule 2220 governs the requirements for options communications and, among other things, sets out the approval, review, and content standards for options communications.

Pursuant to Securities Act Rule 134(b)(2), communications that are used pursuant to this section must include the name and address of a person from whom a prospectus can be obtained. Contravention of Securities Act Rule 134 constitutes a violation of FINRA Rule 2010.

Pursuant to FINRA Rule 2010, "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

For the reasons discussed above, Integral violated NASD Rule 2210, FINRA Rules 2210 and 2220, and FINRA Rule 2010¹ in connection with approximately 50 non-compliant public communications disseminated in seminars, in radio and television advertisements, in print advertisements, through electronic communications, and on the Firm's website during the Relevant Period.

NASD Rule 3010(a) states in part that each member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD/FINRA Rules. NASD Rule 3010(b)(1) states in part that each member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered

¹ By contravening Securities Act Rule 134(b)(2), Integral further violated FINRA Rule 2010.

representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable NASD/FINRA Rules. A violation of NASD Rule 3010 is also a violation of FINRA Rule 2010.

There were several reasons for the Firm's lack of compliance with advertising rules during the Relevant Period. The Firm's failed to follow its written supervisory procedures regarding public communications. In addition, Ho did not devote the attention and resources necessary to ensure that the Firm's public communications followed both the guidance in FINRA's Review Letters and also NASD and FINRA advertising rules. Ho was responsible for many duties simultaneously, with advertising compliance often falling short. Ho also did not utilize previous Review Letters while drafting or approving public communications, which caused him to forget to follow certain guidance.

Ho also misunderstood Review Letters, which was doubly problematic because the Vice President never personally reviewed Review Letters; rather, Ho relayed Advertising Regulation's guidance (as he understood it) to her, and she then incorporated that misunderstanding into her review/approval of the Firm's future public communications.

For the reasons discussed above, the Firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with NASD and FINRA Rules regarding public communications; the Firm also failed to adequately implement its written supervisory procedures regarding public communications during the Relevant Period. Ho failed to adequately supervise Integral's public communications and did not adequately implement the Firm's written supervisory procedures regarding public communications during the Relevant Period. As such, the Firm violated NASD Rule 3010 and FINRA Rule 2010, and Ho violated NASD Rule 3010 and FINRA Rule 2010.

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

- A censure;
- A fine of \$50,000;
- For a period of one year, Integral must file with FINRA's Advertising Regulation Department at least 10 business days prior to use all retail communications as defined in FINRA Rule 2210 that the Firm intends to use or distribute (the "filed communications"). The 10-business-day period shall commence on the date of transmission with respect to filed communications that Integral successfully uploads to FINRA's Advertising Regulation Electronic Filing (AREF) system or on the day following shipment with respect to filed communications Integral sends by overnight delivery. After 10 business days, Integral may use the filed communications in the absence of comments from FINRA. However, at any time, upon receipt of comments from FINRA on the filed communications, Integral must take all reasonable

steps to withhold, or cause to be withheld, the material from further use until the changes specified by FINRA have been made, and such material will be revised and re-filed 10 business days prior to any use, unless otherwise agreed to by FINRA staff in writing, at its sole discretion.

- Within 60 days of the acceptance of this AWC, Integral must file with FINRA's Advertising Regulation Department at least 10 business days prior to use any websites and/or webpages that the Firm has used and intends to continue to use (the "filed websites"). The 10-business-day period shall commence on the date of transmission with respect to filed websites that Integral successfully uploads to FINRA's AREF system or on the day following shipment with respect to filed websites Integral sends by overnight delivery. After 10 business days, Integral may use the filed websites in the absence of comments from FINRA. However, at any time, upon receipt of comments from FINRA on the filed websites, Integral must take all reasonable steps to withhold, or cause to be withheld, the material from further use until the changes specified by FINRA have been made, and such material will be revised and re-filed 10 business days prior to any use, unless otherwise agreed to by FINRA staff in writing, at its sole discretion.

Ho also consents to the imposition of the following sanctions:

- A censure;
- A fine of \$10,000; and
- Within one year of the acceptance of this AWC, Ho must complete 6 hours of continuing education not unacceptable to FINRA regarding regulatory requirements for public communications and/or supervision and certify to the Department of Enforcement in writing within 60 days thereof that he has completed such training.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have each submitted an Election of Payment form showing the method by which Respondents propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable 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

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Respondents;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 Respondents; and

C. If accepted:

1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondents 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. Respondents 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 Respondents': (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand 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 he 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.

12/12/2013
Date (mm/dd/yyyy)

Frank Ho
Respondent Integral Financial LLC

By: Frank Ho

Respondent Ho certifies he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

12/12/2013
Date (mm/dd/yyyy)

Frank Ho
Respondent Weiming (Frank) Ho

Accepted by FINRA:

12/17/13
Date

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

Susan Light / by ESK
Susan Light
Senior Vice President and Chief Counsel
FINRA Department of Enforcement
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