

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011027611101**

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

RE: StockCross Financial Services, Inc., Respondent
CRD No. 6670

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, StockCross Financial Services, Inc. ("StockCross" 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 the Firm 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

StockCross has been registered as a broker-dealer with FINRA since May 1972 and as an investment advisor with the state of California since October 2009. The Firm operates a retail brokerage business and engages in market-making activities. Its main office is in Beverly Hills, California. It has 11 branch offices, located in Beverly Hills and elsewhere in southern California, Boston, Omaha, Jersey City, Philadelphia, Houston, Dallas and Orlando. The Firm employs 82 registered representatives and 13 nonregistered employees.

RELEVANT DISCIPLINARY HISTORY

The Firm has the following FINRA disciplinary history:

In January 2012, the Firm consented to AWCs in two matters.

In connection with AWC No. 2009020924701, the Firm consented to sanctions of a censure, \$22,500 fine and restitution to customers in the amount of \$925.38, plus interest, and findings that it violated SEC Rule 10b-10, FINRA Rules 2010 and 7450 and NASD Rules 2111(A) and 2320. The Firm failed to provide certain written disclosures to customers in transactions in which it acted as principal for its own account, transmitted reports to the Order Audit Trail System (OATS) that contained inaccurate, incomplete or improperly formatted data and failed to perform best execution of customer orders.

In connection with AWC No. 2008013630401, the Firm consented to sanctions of a censure, a \$65,000 fine and restitution to customers in the amount of \$19,134.34, plus interest, and to findings that it violated MSRB Rules G-17 and G-30(a), NASD Rule 2110/FINRA Rule 2010 and NASD Rules 2111(a) and 2320. The Firm purchased municipal securities for its own account from a customer and/or sold municipal securities for its own account to a customer, at an aggregate price that was not fair and reasonable and failed to perform best execution of customer orders.

In February 2009, in connection with AWC No. 200700946790, the Firm consented to sanctions of a censure and a \$60,000 fine and to findings that it violated Exchange Act Rules 17a-3 and 17a-4 and NASD Rules 2110, 3010(b) and 3110. The Firm failed to preserve all employee electronic communications; establish, maintain and enforce written procedures to supervise and review employee electronic communications and employee communications sent by facsimile; and make, retain and provide required records related to customer accounts.

OVERVIEW

The Firm failed to take required deductions against net capital on concentrated positions it held in certificates of deposits ("CDs") with nine banks in amounts that exceeded 30% of the Firm's tentative net capital. This resulted in a deficiency of approximately \$4.7 million in the Firm's net capital as of July 30, 2010. The Firm had ongoing deficiencies in net capital through January 20, 2011. The Firm operated a securities business while it was net capital-deficient and filed inaccurate financial reports for the months of July, August, September, October and November 2010.

By virtue of this conduct, the Firm violated Rules 15c3-1 and 17a-5 under the Securities and Exchange Act of 1934 ("Exchange Act Rules") and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Applicable Rules

Exchange Act Rule 15c3-1 (the "net capital rule") requires broker-dealers to maintain a minimum amount of net capital and to compute their net capital in accordance with specified formulas. The net capital rule is an investor protection rule designed to ensure that a firm has enough liquid assets on hand at all times to cover its current indebtedness. The Securities and Exchange Commission ("SEC") has issued interpretations of financial and operational rules, including the net capital rule, to assist firms in complying with those rules. Exchange Act Rule Interpretation 15c3-1(c)(2)(vii)/09, concerning "Marketability of Money Market Instruments," is applicable to this matter. It states:

If a broker-dealer holds a combined position consisting of negotiable or non-negotiable certificates of deposit . . . issued or unconditionally guaranteed as to principal and interest, or accepted as to principal and interest by (i) a single bank as defined in section 3(a)(6) of the Exchange Act, or (ii) a single building and loan or savings and loan institution, or (iii) a single foreign commercial bank, which combined position is in the proprietary or other account of a broker-dealer for more than five business days, there shall be a deduction from net worth equal to 100% of the carrying value of that position exceeding 30% of the broker-dealer's net capital before the application of the adjustment set forth in subparagraph (c)(2)(vi) and Appendices A and B of SEA Rule 15c3-1.

Exchange Act Rule 17a-5 requires a registered broker or dealer to file monthly or quarterly Financial and Operational Combined Uniform Single Reports ("FOCUS Report"), which must be accurate.

FINRA Rule 2010 requires that a FINRA member firm adhere to "high standards of commercial honor and just and equitable principles of trade."

Failure to Take Deduction for Concentrated CD Positions, Conduct of Securities Business While in Net Capital Deficiency and Filing of Inaccurate FOCUS Reports

On August 24, 2010, the Firm filed a FOCUS Report with the SEC and FINRA for the month of July 2010. Part II of the FOCUS Report contained the Firm's computation of its monthly net capital and stated that as of July 30, 2010, the Firm had net capital of \$16,173,033. As a market maker, the Firm was subject to a \$1 million net capital requirement. The Firm, therefore, calculated its excess net capital to be \$15,173,033.

In fall 2010, FINRA's Department of Risk Oversight and Operational Regulation ("ROOR") conducted a financial/operational and sales practice examination of the Firm. ROOR reviewed the Firm's compliance with the net capital rule and related rules for July 2010.

On January 26, 2011, ROOR issued its examination report, noting the Firm's noncompliance with Exchange Act Rule 15c3-1 as of July 30, 2010. The Firm held approximately \$85 million in CDs at 12 banks as of July 30, 2010. However, the Firm failed to take a required concentration deduction on the aggregate value of CD positions it held at nine banks that exceeded 30% of the Firm's tentative net capital of \$5,811,390. The Firm should have deducted \$19,872,425 from its net capital, but did not. As a result, the Firm had a net capital deficiency of \$4,699,392 as of July 30, 2010, rather than excess net capital as it had reported in its July 2010 FOCUS Report.

The Firm also failed to take deductions against net capital for its CD positions that exceeded 30% of its tentative net capital for the months of August 2010, September 2010, October 2010 and November 2010, which resulted in net capital deficiencies during those months. Furthermore, the Firm filed inaccurate FOCUS Reports for the months of August 2010, September 2010, October 2010 and November 2010 because those reports did not reflect the net capital deficiencies that resulted from the failure to take the required deductions.

On the same date that FINRA issued its examination report, the Firm notified the SEC and FINRA of the deficiency in its net capital for the period July 31, 2010 to January 20, 2011, as required by Exchange Act Rule 17a-11, and that it had operated a securities business during that period. Simultaneously, the Firm filed an amended FOCUS Report for July 2010, taking the appropriate charge against its bank CD positions and also filed its FOCUS Report for December 2010 with the correct net capital computation. In its notification to the SEC, the Firm stated that it may not have been in capital compliance prior and subsequent to the review period for FINRA's 2010 examination.

By reason of the foregoing, the Firm violated Exchange Rules 15c3-1 and 17a-5 and FINRA Rule 2010.

- B. StockCross also consents to the imposition of the following sanctions:

A Censure and fine of \$100,000.

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

The Firm specifically and voluntarily waives 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

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

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

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

StockCross 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 the Firm; 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 response to public inquiries about the Firm's 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. 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 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 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.

11/30/2012
Date

[Signature]
StockCross Financial Services Inc.

By: EDMOND SANTOS EXEC V.P.

Reviewed by:

[Signature]
Martin Kaplan, Esq.
Counsel for Respondent
Gusrae Kaplan Nusbaum PLLC
120 Wall Street
New York, NY 10005
(212) 269-1400

Accepted by FINRA:

12/31/12
Date

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

[Signature]
Susan Light
Chief Counsel & Senior Vice President
FINRA Department of Enforcement
One World Financial Center, 200 Liberty Street
New York, NY 10281-1003
Tel. No. (646) 315-7417
Fax No. (646) 315-7441