

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012030460901**

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

RE: Colorado Financial Service Corporation, Respondent
FINRA Member Firm
CRD No. 104343

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 Respondent 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

Colorado Financial Service Corporation ("CFSC" or "the Respondent"), which is based in Centennial, Colorado, became a FINRA member in December 2000. Approximately 82 persons are registered with CFSC in thirty six branches. The firm's primary lines of business involve investment banking, private placement of securities, general securities, mutual fund retailing and the sale of variable life insurance or annuities. CFSC has no disciplinary history.

OVERVIEW

CFSC violated NASD Conduct Rule 3010, MSRB Rule G-27 and FINRA Rule 2010 by failing to establish, maintain and enforce supervisory systems and procedures reasonably designed to ensure compliance with rules pertaining to the review and supervision of electronic communications and the firm's due diligence review of new private offerings.

FACTS AND VIOLATIVE CONDUCT

CFSC did not establish, maintain and enforce an adequate system and written procedures to supervise and review electronic communications for the period February 2009 to September 2012 in that it, among other things, only manually reviewed between .1% and 1.5% out of a total of approximately 325,900 archived e-mails during the period January 1, 2012 to September 1, 2012. The firms written supervisory procedures relating to electronic communications did not indicate who was responsible for the supervisory review, how the review would be conducted and documented, and what protocol to follow for escalating regulatory issues in e-mails.

In addition, between February 2009 and September 2012, the firm did not establish, maintain and enforce adequate systems and procedures to conduct due diligence into private placements and non-traded REITS. The firm's written supervisory procedures did not describe the steps to be taken or the records to be created to ensure the firm met its due diligence obligations.

As a result of the foregoing conduct, Respondent CFSC violated NASD Conduct Rule 3010, MSRB Rule G-27 and FINRA Rule 2010.

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

A censure and a \$10,000 fine (\$5,000 of which pertains to the violations of MSRB Rule G-27).

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

Respondent 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

The 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, the Respondent 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 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 it; and
- C. If accepted:
 - 1. this AWC will become part of the 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 response to public inquiries about Respondent'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. 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.

- D. The 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 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 Respondent 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 Respondent to submit it.

January 27, 2014
Date

Colorado Financial Service Corporation

By: Chester Hebert
Chester Hebert

Reviewed by:

William D. Nelson

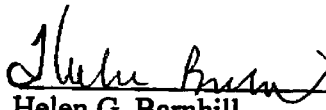
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Accepted by FINRA:

2/19/14
Date

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


Helen G. Barnhill
Senior Regional Counsel
FINRA Department of Enforcement
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Denver, CO 80237
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