

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013035308801**

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

RE: Oriental Financial Services Corp. ("Oriental"), Respondent
Member Firm
BD No. 29753

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

Oriental has been a FINRA member since 1993. Oriental is a subsidiary of OFG Bancorp. On December 18, 2012, OFG Bancorp acquired BBVA Securities of Puerto Rico, Inc. ("BBVA Securities"). In August 2013, OFG Bancorp merged BBVA Securities (then known as OFS Securities, Inc.) with and into Oriental, with Oriental as the surviving entity. Oriental is headquartered in San Juan, Puerto Rico and engages in a general securities business that focuses on Puerto Rico municipal securities and open and closed-end mutual funds. The Firm has 50 registered representatives located in its 12 branch offices.

RELEVANT DISCIPLINARY HISTORY

Oriental has no relevant formal disciplinary history with the Securities and Exchange Commission, any state securities agency or any self-regulatory organization.

OVERVIEW

From 2000 to August 5, 2013, Oriental failed to disclose the markups/markdowns charged on approximately 2,800 riskless principal transactions in Puerto Rico closed-end funds ("PR CEFs"). In addition, Oriental failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Securities Exchange Act ("SEA") Rule 10b-10. As such, Oriental violated SEA Rule 10b-10(a)(2)(ii)(A), NASD Rules 2230 (for conduct before June 17, 2011), 3010(a), and 2110 (for conduct before December 15, 2008), and FINRA Rules 2232 (for conduct after June 16, 2011) and 2010 (for conduct after December 14, 2008).

In addition, between July 1, 2011, and June 30, 2013, Oriental failed to establish, maintain, and enforce a supervisory system and procedures reasonably designed to identify and review concentrated securities purchases, including Puerto Rico municipal bonds and PR CEFs. As such, Oriental violated NASD Rules 3010(a) and (b) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Background

Puerto Rico Closed-End Funds

PR CEFs are registered under the Puerto Rico Investment Companies Act and are only offered to Puerto Rico residents. PR CEFs issue a fixed number of shares through an initial public offering process and are usually traded, at times with limited liquidity, in a secondary market. The market price of closed-end funds may be higher or lower than the funds' net asset value. PR CEFs are generally required to invest at least 67% of their portfolios in Puerto Rico securities such as Puerto Rico municipal bonds.

Puerto Rico Securities

Puerto Rico securities¹ provide Puerto Rico residents with various tax benefits including exemption from U.S. estate and gift taxes. The Puerto Rican government further incentivized Puerto Rican residents' investments in PR securities by establishing a Puerto Rico estate tax applicable to property held by a Puerto Rico resident outside of Puerto Rico. In addition, the PR securities generally offer a triple tax benefit.

¹ The term Puerto Rico Securities, used herein, includes PR CEFs, Puerto Rico municipal bonds, open-end mutual funds holding a majority of their assets in other Puerto Rico securities, and preferred shares of Puerto Rico companies (e.g., financial institutions) ("PR securities").

In December 2012, Puerto Rico general obligation and related bonds' ratings were downgraded by Moody's Investor Service, Inc. ("Moody's") from Baa1 to Baa3. Approximately six months later, in June 2013, the Puerto Rico Power Authority (PREPA) revenue bonds' ratings were also downgraded by Moody's from Baa2 to Baa3.

*Oriental's Failure to Disclose Markups and Markdowns
Regarding PR CEFs*

Oriental's Failure to Disclose Markups and Markdowns for Riskless Principal Transactions in PR CEFs

SEA Rule 10b-10 requires, in part, that brokers and dealers disclose on customer confirmations the markups and markdowns for principal transactions in equity securities where the broker or dealer is not a market maker in the equity security.

In June 2013, Oriental reported to FINRA on Form 4530 that it had not disclosed on customer confirmations the markups and markdowns for riskless principal transactions in PR CEFs. Between 2000 and August 5, 2013, Oriental effected approximately 2,800 riskless principal transactions involving PR CEFs in approximately 1,000 accounts and failed to disclose approximately \$2.9 million in markups and markdowns on customer trade confirmations. Riskless principal transactions in PR CEFs accounted for 8-10% of Oriental's revenues in 2011-2012.

By reason of the foregoing, Respondent violated SEA Rule 10b-10(a)(2)(ii)(A), NASD Rules 2230 (for conduct before June 17, 2011) and 2110 (for conduct before December 15, 2008), and FINRA Rules 2232 (for conduct after June 16, 2011) and 2010 (for conduct after December 14, 2008).

Oriental's Inadequate Supervisory System Regarding Markups and Markdowns for Riskless Principal Transactions in PR CEFs

Oriental's written supervisory policies and procedures ("WSPs") in effect between 2000 and August 2013 required that the Firm ascertain that confirmations contain adequate disclosures regarding the Firm's capacity and compensation arrangements. However, Oriental's staff did not appropriately classify PR CEFs as equity securities and Oriental's supervisory staff were therefore unaware that the disclosure requirement for riskless principal transactions in equity securities applied to PR CEFs throughout the 13-year time period.

As such, Oriental failed to establish and maintain a supervisory system reasonably designed to achieve compliance with SEA Rule 10b-10. More specifically, the Firm failed to have a system in place to ensure that it disclosed markups and markdowns on riskless principal transactions in PR CEFs because it failed to

appropriately classify those products as equities that required disclosures. As a result, the Firm failed to disclose markups and markdowns on all the approximately 2,800 riskless principal transactions it effected in PR CEFs between 2000 and August 5, 2013.

By reason of the foregoing, Oriental violated NASD Rules 3010(a) and 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 14, 2008).

Oriental's Inadequate Supervisory System and Procedures Regarding Concentrated Securities Purchases

Between July 1, 2011 and June 30, 2013, Oriental solicited concentrated purchases of PR securities. In May 2012, the Firm informed its registered representatives that a report by one of the rating agencies claimed that Puerto Rico municipal bond ratings could be negatively impacted as a result of a ratings agency revised approach to rating covered bonds. The Firm's registered representatives continued soliciting concentrated purchases of PR securities after its May 2012 meeting and after a December 2012 downgrade of the general obligation rating of the Commonwealth of Puerto Rico to Baa3 from Baa1 by Moody's. The Baa3 rating is Moody's Investor Services' lowest investment grade rating.

While the Firm's WSPs required that its registered representatives have reasonable grounds to believe that any purchase or sale recommendation was suitable for a particular customer, the WSP did not outline the steps that the Firm should have taken to review the transactions for concentration.

Between July 2011 and June 2013, Oriental received a report for all solicited customer transactions that also identified the concentration level of that particular purchase as a percentage of the customer's stated net worth. In July 2012, the Firm distributed a guideline that suggested that supervisors "may" consider concentration, which the Firm defined as "one position with > 50% total market value of the account," when reviewing transactions. Despite having implemented the July 2012 guidelines, the Firm did not require that supervisors review for concentrated purchases (i.e., concentration in a single security, substantially similar securities, or securities of a single geographic region), including PR securities, or document their reviews.

Oriental engaged a consultant to perform a self-review through which it identified 6 potentially unsuitable purchases of PR securities.

By reason of the foregoing, Oriental violated NASD Rules 3010(a) and (b) and FINRA Rule 2010.

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

- Censure; and
- A \$245,000 fine.

C. Respondent agrees to complete the following undertakings:

1. Within 30 days of the Notice of Acceptance (the "Effective Date") of this AWC, Oriental will submit to FINRA a proposed methodology of how it will identify, review, and remediate unsuitably concentrated PR securities purchases. At a minimum, the methodology must include the Firm's review of customers' concentrated PR securities purchases effected between December 14, 2012 and June 30, 2013 and a provision explaining how restitution, if any, will be calculated. FINRA will review the methodology submitted by Oriental. If the methodology reasonably complies with the specific requirements set forth in this AWC, and is in keeping with the general purpose of the undertaking, FINRA will not object to the methodology. The date that FINRA notifies the Firm that it does not object to the methodology shall be called the Notice Date.
2. In the event FINRA does object to the methodology, the Firm will have an opportunity to address FINRA's objections and resubmit the methodology within 30 days. FINRA will discuss its objections with the Firm. A failure to resubmit to FINRA a methodology that is reasonably designed to meet the specific requirements and general purpose of the undertaking will be a violation of the terms of this AWC.
3. Oriental shall complete the process, including remediation, if any, within 90 days from the Notice Date.
4. For any customer to whom the Firm provides restitution, Oriental will include interest calculated from the date of purchase through the date the Firm pays the restitution at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code (26 U.S.C. §6621(a)(2)).
5. Within 120 days from the Notice Date, Oriental will submit to FINRA a schedule of all customers identified during the Firm's review as having made concentrated PR securities purchases. The schedule shall include details of the purchases, the concentration analysis, and total dollar amounts of the restitution provided, if any, to each customer. The schedule shall be submitted to Kathryn Wilson at kathryn.wilson@finra.org and to EnforcementNotice@FINRA.org.
6. If any restitution is paid, a registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be

submitted to Kathryn Wilson at kathryn.wilson@finra.org and to EnforcementNotice@FINRA.org and shall include the Firm name and case number. This proof shall be provided to the FINRA staff member listed above no later than 120 days from the Notice Date.

7. If for any reason Respondent cannot locate any customer to whom it provides restitution after reasonable and documented efforts within 120 days from the Notice Date, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.
8. Within 120 days from the Notice Date, Oriental will submit to Kathryn Wilson at kathryn.wilson@finra.org and to EnforcementNotice@FINRA.org, the results of the Firm's implementation of its methodology to identify concentrated PR securities purchases and the restitution, if any, including the amounts and manner of all restitution paid.
9. For good cause shown, and upon receipt of a timely request from Oriental, FINRA may extend any of the procedural dates set forth above.

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 sanctions imposed in this matter.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

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 it; and

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 its: (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. 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 Respondent, 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.

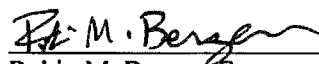
12/9/2014
Date (mm/dd/yyyy)


Respondent Oriental Financial Services Corp.

By: Sean Miles

Title: President

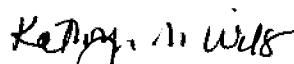
Reviewed by:


Robin M. Bergen, Esq.
Counsel for Respondent
Cleary Gottlieb Steen & Hamilton LLP
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006-1801
(202) 974-1514

Accepted by FINRA:

12/11/14
Date

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


Kathryn M. Wilson
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Authorized House Counsel
Member of NY and CT Bars Only
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