

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND
CONSENT NO. 2017053083001**

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

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

Pursuant to FINRA Rule 9216, Respondent Network 1 Financial Securities Inc. 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 in this AWC.

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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 became a FINRA member in August 1983. The firm is headquartered in Red Bank, New Jersey. Network 1 is a full-service broker-dealer firm whose clients include high net worth individuals, institutional investors, managed pension funds, and hedge funds. The firm has 21 branch offices and 104 registered individuals.

Network 1 does not have any relevant disciplinary history.

OVERVIEW

From at least 2014 through the present, the firm failed to provide customers complete annual notifications required under Rule 606(b)(2) of Regulation NMS under the Securities Exchange Act of 1934. The firm also failed to establish a supervisory system, including written supervisory procedures, that was reasonably designed to achieve compliance with Rule 606. As a result, Network 1 violated Rule 606, NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rules 3110 (for conduct on and after December 1, 2014), and 2010.

FACTS AND VIOLATIVE CONDUCT

Network 1 failed to comply with the customer notification requirements of Rule 606(b).

1. Prior to January 18, 2019, Rule 606(b)(1) stated: “[e]very broker or dealer shall, on request of a customer, disclose to its customer the identity of the venue to which the customer’s orders were routed for execution in the six months prior to the request, whether the orders were directed orders or nondirected orders, and the time of the transactions, if any, that resulted from such orders.” Rule 606(b)(2) further stated: “[a] broker or dealer shall notify customers in writing at least annually of the availability on request of the information specified in paragraph (b)(1) of this section.”
2. FINRA Rule 2010 provides, “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” A violation of an Exchange Act rule or a FINRA rule constitutes a violation of FINRA Rule 2010.
3. From at least 2014 through the present, Network 1 violated the notification requirements of Rule 606 due to the firm’s lack of understanding of the Rule’s requirements. Network 1’s customers’ account statements included language that the firm will provide, upon customer request, the identity of the venue to which the customer’s individual order was routed. The firm’s notifications, however, failed to comply with the requirements of Rule 606 detailed below.
4. From at least 2014 through May 19, 2019,¹ Network 1 failed to notify customers that they could request (a) the identity of the venue to which the customer’s orders were routed for execution for the six months prior to the request, (b) information on whether orders were directed or nondirected, and (c) the time of the transaction, if any, that resulted from such orders.
5. As of January 2019, Rule 606(b)(1) states: “[e]very broker or dealer shall, on request of a customer, disclose to its customer, for: (i) Orders in NMS stocks that are submitted on a held basis; (ii) Orders in NMS stocks that are submitted on a not held basis and the broker or dealer is not required to provide the customer a report under paragraph (b)(3) of this section; and (iii) Orders in NMS securities that are option contracts, the identity of the venue to which the customer’s orders were routed for execution in the six months prior to the request, whether the orders were directed orders or nondirected orders, and the time of the transactions, if any, that resulted from such orders.” Rule 606(b)(2) further states: “[a] broker or dealer shall notify customers in writing at least annually of the availability on

¹ Rule 606 was amended in 2018 with an effective date of January 18, 2019, and a compliance date of May 20, 2019.

request of the information specified in paragraph (b)(1) of this section."

6. From May 20, 2019 through the present,² Network 1 failed to notify customers that they could request (a) information on whether orders were filled on a held or not held basis and (b) if the order involved options contracts, the identity of the venue to which the customer's orders were routed for execution in the six months prior to the request, whether the orders were directed orders or nondirected orders, and the time of the transactions, if any, that resulted from such orders.
7. Therefore, Network 1 violated Rule 606(b)(2) and FINRA Rule 2010.

Network 1 failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Rule 606.

8. FINRA Rule 3110(a) provides, "[e]ach member shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules." Further, subsection (b) provides: "[e]ach member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."
9. Network 1's supervisory system, including its written supervisory procedures, was not reasonably designed to achieve compliance with Rule 606 customer notification requirements. The firm's supervisory system, including its written supervisory procedures, did not provide for a review to confirm that the annual notification was sent to customers, nor did it include a review for accuracy of the firm's reports required by Rule 606(a).
10. Therefore, Network 1 violated NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rule 3110 (for conduct on and after December 1, 2014), and FINRA Rule 2010.

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

- a censure
- a \$25,000 fine; and
- an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.9. Within 30 days after this AWC becomes final, a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 15200 OMEGA DRIVE,

² The violations discussed in this paragraph cover the time period after the compliance date of the Rule 606 amendments.

SUITE 300, ROCKVILLE, MD 20850-3241, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, acknowledging that the firm revised its written supervisory procedures, and the date the revised procedures were implemented.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. It 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 sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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; and
- C.** If accepted:
 - 1.** this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 testimonial obligations or 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.

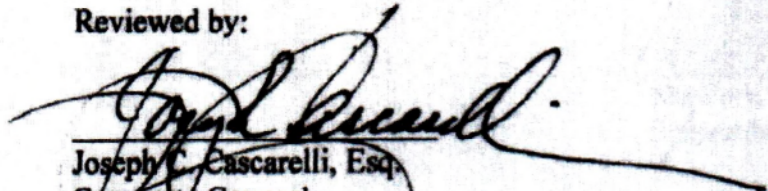
The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

2/1/2021
Date


Network 1 Financial Securities Inc.
Respondent

Print Name: William R. Hunter
Title: PRESIDENT

Reviewed by:


Joseph C. Cascarelli, Esq.
Corporate Counsel
Network 1 Financial Securities, Inc.
The Galleria
2 Bridge Avenue
Suite 241
Red Bank, NJ 07701

Accepted by FINRA:

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



February 17, 2021

Date

Luis A. Prieto
Counsel
FINRA
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850

**Corrective Action Statement of Network 1 Financial Securities, Inc.
Pursuant to Letter of Acceptance, Waiver, and Consent Matter No. 20170530830**

This Corrective Action Statement is submitted by Network 1 Financial Securities, Inc., the Respondent herein. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

The SEC Rule 606 disclosure that is the subject matter of this Acceptance, Waiver and Consent appears below:

Execution Information Disclosure: SEC Rule 605 generally requires * * * Rule 606 generally requires broker-dealers that route customer orders in covered securities to make publicly available quarterly reports that disclose venues to which they route non-directed orders. Axos Clearing provides these reports via a link from its homepage, <https://axosclearing.com/disclosures/>. Rule 606 also requires broker-dealers to disclose the nature of any relationship they have with those venues, including payment for order flow arrangements. Axos Clearing will provide, upon receipt of written request from the customer, the venue to which his or her individual order was routed.

Network 1 Financial Securities, Inc. has updated the aforementioned SEC Rule 606 disclosure, which now reads as follows (“underlines” appear below solely to indicate updated language):

Execution Information Disclosure: SEC Rule 605 generally requires * * * Rule 606 generally requires broker-dealers that route customer orders in covered securities to make publicly available quarterly reports that disclose venues to which they route orders. Network 1 Financial provides these reports via a link from its homepage, www.network1financial.com. Rule 606 also requires broker-dealers to disclose, for orders submitted by customers on a not-held basis, the nature of any relationship they have with those venues, including payment for order flow arrangements. Rule 606 also requires broker-dealers to disclose the identity of the venue for options contracts, whether the orders were directed or non-directed orders, and the time of the transactions. Network 1 Financial will provide to the customer this information upon receipt of written request from the customer.

Network 1 sends this updated SEC Rule 606 disclosure to its customer in addition to the Rule 606 disclosure provided by the clearing firm.