

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019060735601**

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

RE: Boustead Securities, LLC (Respondent)
Member Firm
CRD No. 141391

Pursuant to FINRA Rule 9216, Respondent Boustead Securities, LLC 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.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Boustead Securities, LLC is an investment banking firm that focuses on initial public offerings, mergers and acquisitions, capital raises, and restructuring assignments in a variety of industries, geographies, and transaction types. Boustead has been registered with FINRA since 2007. The firm is headquartered in Irvine, California, has two branch offices, and employs 50 registered representatives.¹

OVERVIEW

From March 2018 through March 2020, Boustead's supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with Securities Exchange Act of 1934 (Exchange Act) Rule 17a-3 and FINRA Rules 4512, 2111, and 5110. As a result, Boustead failed to collect certain required account and investment profile information of its customers participating in private placement offerings. Boustead also failed to file or timely file certain required corporate offering filings. Therefore, Boustead violated Exchange Act Rule 17a-3 and FINRA Rules 3110, 4512, 5110, and 2010.

¹ For more information about the firm, visit BrokerCheck® at www.finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2019 and 2020 cycle exams of Boustead.

Failure to Obtain and Preserve Certain Customer Information

FINRA Rule 3110(a) requires a member firm to 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. FINRA Rule 3110(b) requires a member firm to 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.

Exchange Act Rule 17a-3 requires broker-dealers to record, among other things, their customers' birthdate, tax identification number, occupation and employment status, annual income, net worth, and investment objectives. Similarly, FINRA Rule 4512 generally requires broker-dealers to make reasonable efforts to obtain information about, among other things, their customers' age, tax identification number, occupation and employer, and association with any other member of FINRA. FINRA Rule 2111 generally requires broker-dealers to use "reasonable diligence" to ascertain their customers' investment profile, which includes, among other things, their tax status, investment objectives, investment time horizon, and liquidity needs.

From March 2018 through March 2020, Boustead's WSPs required the use of new account forms to collect and record customer and investment profile information, but Boustead did not enforce this procedure with respect to certain customers in certain private placement offerings. In practice, Boustead did not require the use of new account forms for customers participating in private placements. Instead, the firm collected customer information through other methods such as an issuer-specific subscription agreement, the registration process conducted through an affiliated crowd funding portal, or an accredited investor questionnaire. The firm's WSPs did not address the collection of customer information through a crowd funding portal and did not provide any guidance as to the content of subscription agreements or accredited investor questionnaires or require them to solicit any specific customer information. In each sampled private placement transaction for this period, Boustead failed to collect at least one component of the customer and investment profile information required by Exchange Act Rule 17a-3 or FINRA Rules 4512 and 2111.

By failing to supervise the collection and recording of required information about its customers participating in private placement offerings, including not enforcing its WSPs, Boustead violated FINRA Rule 3110. By failing to collect and record required customer information, Boustead violated Exchange Act Rule 17a-3 and FINRA Rule 4512. By violating those rules, Boustead also violated FINRA Rule 2010.

Failure to Comply with Corporate Financing Rule

During the relevant period, FINRA Rule 5110(b)(4)(A)(i) required that a firm that anticipates participating in a public offering of securities that is subject to the rule file with FINRA the documents and information with respect to the offering specified in subparagraphs (b)(5) and (b)(6) of the rule no later than one business day after any such documents are filed with, or submitted to, the SEC, unless the documents and information are filed by the issuer, the managing underwriter, or another member. During the same period, FINRA Rule 5110(b)(5) identified the documents required to be filed through FINRA's electronic filing system.²

From March 2018 through March 2020, Boustead's WSPs acknowledged the firm's obligation to comply with FINRA Rule 5110, but the firm did not establish any procedures to do so.³ For example, there was no reasonable process to ensure the firm made timely filings required by the rule. The firm did not assign an individual to be responsible for compliance with Rule 5110. In addition, although the firm authorized its outside counsel to make the filings required by Rule 5110, the firm did not have a process to ensure that its counsel or others made such filings in accordance with the rule. As a result, Boustead failed to establish and maintain a reasonable supervisory system and procedures for compliance with FINRA Rule 5110. During this period, Boustead also failed to file with FINRA documents required by Rule 5110 on 19 occasions and failed to timely file with FINRA other documents required by Rule 5110 on 51 occasions, in violation of FINRA Rule 5110(b).

By failing to establish and maintain a reasonable supervisory system and procedures for compliance with FINRA Rule 5110, Boustead violated FINRA Rule 3110. By failing to file or timely file documents with FINRA required by FINRA Rule 5110, Boustead violated FINRA Rule 5110(b). By violating those rules, Boustead also violated FINRA Rule 2010.

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

- a censure; and
- a \$35,000 fine.

² During the relevant period, Rule 5110 required filings to be made within one business day. As of March 20, 2020, with the publication of FINRA Regulatory Notice 20-10, the filing time under Rule 5110 was extended such that filings are now required to be made to FINRA "no later than three business days after any such documents are filed with or submitted to: a. the SEC, including confidential filings or submissions; or b. any state securities commission or other similar U.S. regulatory authority." In addition, former Rule 5110(b)(4) now corresponds to Rule 5110(a)(3) while former Rule 5110(b)(5) is now Rule 5110(a)(4).

³ In March 2020, Boustead revised its WSPs and supervisory system to address the requirements of Exchange Act Rule 17a-3 and FINRA Rules 4512, 2111, and 5110.

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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

October 31, 2022

Date

Keith Moore

Boustead Securities, LLC
Respondent

Print Name: Keith Moore

Title: CEO

Reviewed by:

Christopher P. Parrington

Christopher P. Parrington
Counsel for Respondent
Zuber Lawler LLP
100 South Fifth Street, 19th Floor
Minneapolis, Minnesota 55402

Accepted by FINRA:

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

November 14, 2022

Date

Douglas Ramsey

Douglas Ramsey
Senior Director
FINRA
Department of Enforcement
300 South Grand Avenue, 16th Floor
Los Angeles, CA 90071

Boustead Securities

October 31, 2022

Katherine Betcher
Department of Enforcement
FINRA
100 Pine Street
Suite 1800
San Francisco, CA 94111

Re: Corrective Action Statement to Letter of Acceptance, Waiver and Consent
Boustead Securities, LLC, Matter No. 2019060735601

Dear Ms. Betcher:

I am responding on behalf of Boustead Securities, LLC (“Boustead”) to the above-referenced Letter of Acceptance, Waiver and Consent (the “AWC”). The AWC related to two (2) issues: Boustead’s collection of customer information as required by Exchange Act, Rule 17a-3, and FINRA Rules 2111 and 4512; and the filing of certain information associated with public offerings of securities as required by the corporate financing rule, FINRA Rule 5110(b). The findings in the AWC have been addressed and mitigated as explained in this Corrective Action Statement.

This Corrective Action Statement is submitted by Boustead and does not contain factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

In response to the collection of customer information, Boustead has required the use of customer relationship forms to collect and record customer and investment profile information as set forth in Boustead’s WSPs. The form and content of the forms are modeled on the FINRA Account Application Template short format which contains all components of the relevant rules. Boustead has also required that at least one (1) supervisor is responsible for reviewing the account forms to ensure they are complete and provide all the information required by the Exchange Act and FINRA rules.

In response to the corporate financing rule, Boustead revised its WSPs to provide procedures for ensuring that filings for all public offerings with which Boustead is affiliated are filed within the timeframe required by the FINRA rules. Boustead has also assigned a designated principal to be responsible for ensuring that all public offering filings are filed in compliance with FINRA Rule 5110, whether by Boustead directly, or by a duly authorized representative associated with the public offering. In order to address the violations alleged by FINRA during the investigation, Boustead also directly communicated with FINRA representatives about the public filing reports regarding accessibility and requirements for compliance with FINRA Rule 5110, including changes made by FINRA to Rule 5110 thereafter.

The AWC does not allege that customers were harmed. Boustead reviewed all customer-related information related to the violations noted in the AWC and did not identify any customer harm.

Boustead Securities

Therefore, Boustead has not contacted any prior customers to request that they provide their investment profile information on a new profile form, nor has Boustead contacted prior issuers or representatives, but it will continue to monitor customer accounts to determine if any further corrective action is necessary in the event any customer harm is found.

I greatly appreciate your attention to this matter. Please feel free to contact me at any time if you have any questions regarding the corrective actions taken.

Sincerely,



Keith Moore
President, Boustead Securities, LLC

Cc: Christopher P. Parrington, Esq., legal counsel