

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021073201301**

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

RE: Ceros Financial Services, Inc. (Respondent)
Member Firm
CRD No. 37869

Pursuant to FINRA Rule 9216, Respondent Ceros Financial Services, 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.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

Ceros has been a FINRA member since 1995. The firm employs 116 registered representatives and maintains 18 branch offices. Ceros conducts a general securities business.¹

OVERVIEW

From January 2018 through June 2021, Ceros failed to reasonably supervise the use of personal email for business-related communications and failed to retain certain business-related email communications. As a result, Ceros violated Section 17(a) of the Securities Exchange Act of 1934, Exchange Act Rule 17a-4, and FINRA Rules 4511, 3110, and 2010.

During the same period, Ceros failed to adopt written policies and procedures to safeguard customer records and information in violation of Rule 30(a) of Regulation S-P of the Exchange Act and FINRA Rule 2010. From January 2018 through the present, Ceros also failed to develop and implement a written identity theft prevention program designed to detect, prevent, and mitigate identity theft in violation of Regulation S-ID of the Exchange Act and FINRA Rule 2010.

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

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2021 examination of Ceros.

Ceros failed to reasonably supervise the use of external email for business-related communications and failed to preserve such communications.

FINRA Rule 4511 requires each FINRA member to make and preserve books and records as required under FINRA Rules, the Exchange Act, and the applicable Exchange Act rules. Exchange Act Rule 17a-4(b)(4) requires member firms to preserve originals of all communications received and copies of all communications sent relating to its business for a period of not less than three years.

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. FINRA Rule 3110(b)(4) requires each member to review incoming and outgoing written correspondence and internal communications relating to its securities business. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

Violations of FINRA Rules 4511, 3110, and Exchange Act provisions are also violations of FINRA Rule 2010, which requires a member, in the conduct of its business, to "observe high standards of commercial honor and just and equitable principles of trade."

From January 2018 through June 2021, Ceros did not have a reasonable supervisory system for business-related communications. Ceros's written supervisory procedures prohibited registered representatives from communicating with customers from their personal email addresses. FINRA notified Ceros by March 2018 that at least one of its registered representatives was regularly using personal email for business-related communications. Despite this notice, the primary system the firm implemented to prevent its associated persons from using external email for business-related communications was to create a list of employee personal email addresses and send automated warning emails when incoming emails to the firm's system were sent from emails on that list. The employee personal email list contained 16 email addresses of the firm's 88 associated individuals as of June 2021. If an email was sent from the firm system to an email on the personal email address list, no automated warning was sent. This process was not documented in any written procedures.

During the relevant period, Ceros sent at least 67 automated warnings to individuals, with some individuals receiving repeated warnings. However, the firm did not review communications sent from or to emails on the employee personal email list unless those emails happened to meet other firm supervisory email review criteria. The firm also did not treat those communications as red flags that other external business-related communications might not be captured by the firm's system. Other than automated warning emails, and one warning letter sent as a result of routine email review, the firm did not take steps to prevent associated persons from using external email. Nor did the firm take reasonable steps to ensure all business-related communications were preserved and retained.

From January 2018 through June 2021, several business-related emails were not preserved and retained by Ceros because the correspondence was directly between a representative's personal email and a customer. Because these emails did not include a Ceros email address recipient, the firm cannot quantify how many business-related emails were not preserved and retained. Given its failure to identify or preserve these communications, Ceros also did not conduct supervisory reviews of this business-related correspondence.

Ceros has now implemented a firm-wide list of personal email addresses and blocks all communications to or from emails on the list.

As a result of its failure to reasonably supervise the use of external email for business-related communications and failure to preserve such communications, Ceros violated Exchange Act Section 17(a), Exchange Act Rule 17a-4, and FINRA Rules 4511, 3110, and 2010.

Ceros failed to adopt policies and procedures to safeguard customer information and failed to develop an identity theft program.

Rule 30(a) of Regulation S-P requires that firms "adopt written policies and procedures that address...safeguards for the protection of customer records and information." These written policies and procedures must be reasonably designed to, among other things, insure the security and confidentiality of customer records and information.

Regulation S-ID (also known as the Identity Theft Red Flags Rule) requires firms to "develop and implement a written Identity Theft Prevention Program...that is designed to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account."² A firm's identity theft program must include reasonable policies and procedures to, among others, identify red flags of identity theft, detect those red flags, and respond appropriately to any red flags detected.

Violations of Exchange Act provisions are also violations of FINRA Rule 2010.

² A covered account includes an account offered or maintained primarily for personal, family, or household purposes that involves or is designed to permit multiple payments or transactions. 17 C.F.R. §248.201(b)(3)(i).

From January 2018 through June 2021, Ceros failed to adopt written policies and procedures reasonably designed to ensure the security and confidentiality of customer records and information. The firm did not have a reasonable process to prevent employees from sending customer information to unsecure locations outside of the firm's system. The firm also did not have procedures for reviewing emails sent to or from employee personal email addresses for purposes of safeguarding customer information even though over 10,000 emails were sent between known employee personal email addresses and a Ceros email address during the relevant period.

One employee sent customer information for at least 256 customers from Ceros's email system to the employee's personal email address during the relevant period. This information included account numbers, account names, account addresses, margin call information, available balances, and account statements. A supervisor sent to their personal email address trade blotters that included 516 customer account numbers, names, addresses, and trade information. Another employee sent an email containing approximately 500 account numbers, names, and average daily balances to their personal email address. Once this customer information was outside of the firm's system, Ceros could no longer monitor or protect the security of that information.

The firm also failed to develop and implement a program designed to detect, prevent, and mitigate identity theft. Ceros was required to be in compliance with Regulation S-ID as of November 2013, including the requirement for a written identity theft prevention program. Despite this, the firm has no such program. Instead, the firm relies on its privacy policy. However, this policy lacks any detail as to the steps Ceros would take to identify red flags of identity theft, detect those red flags, and respond appropriately to any red flags detected.

Ceros has now implemented an application that encrypts emails containing personal identifiable information. The firm has also revised its email review protocol to include a search for personal identifiable information as a part of its supervisory reviews of electronic communications.

As a result of its failure to adopt policies and procedures to safeguard customer information and to develop an identity theft program, Ceros violated Regulation S-P and Regulation S-ID of the Exchange Act, and FINRA Rule 2010.

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

- a censure;
- a \$75,000 fine; and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the Regulation S-ID issues identified in this AWC and developed and implemented a written Identity Theft Prevention Program. The

certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Josephine Vella, Principal Counsel, FINRA Department of Enforcement, Brookfield Place, 200 Liberty Street, 11th Floor, New York, NY 10281 (Josephine.Vella@finra.org), with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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.

Date 01/31/2024

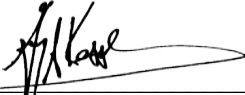


Ceros Financial Services, Inc.
Respondent

Print Name: Angela Holland

Title: Chief Compliance Officer

Reviewed by:



Gary Kessler
Counsel for Respondent
Kessler Collins
500 N Akard., Ste 3700
Dallas, TX 75201

Accepted by FINRA:

February 14, 2024
Date

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



Josephine M. Vella
Principal Counsel
FINRA
Department of Enforcement
200 Liberty Street, 11th Floor
New York, NY 10281