

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077597702**

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

RE: Colorado Financial Service Corporation (Respondent)
Member Firm
CRD No. 104343

Pursuant to FINRA Rule 9216, Respondent Colorado Financial Service Corporation 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

Colorado Financial has been a FINRA member since December 2000. The firm is headquartered in Centennial, Colorado, and employs 35 registered representatives at 13 branch locations. The firm's primary lines of business are investment banking, private placement of securities, and the sale of equities, mutual funds, variable life insurance and annuities.¹

OVERVIEW

Closed-end funds (CEFs) offer investment advantages such as access to specialized or illiquid assets. They may, however, present unique risks based on their complexity, illiquidity, leverage, and/or investment in speculative assets. From March 2021 to at least February 2023, Colorado Financial failed to reasonably supervise and have reasonably designed policies and procedures regarding recommendations to purchase CEFs investing in high-yield, below-investment-grade debt securities, some of which were leveraged and all of which were inconsistent with customers' investment profiles. Therefore, the firm violated Exchange Act Rule 15c-1(a)(i) (Regulation BI), and FINRA Rules 3110 and 2010. The firm is censured, fined \$45,000, and ordered to pay restitution of \$29,049, plus pre-judgment interest.

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 a 2023 examination.

A. Applicable Rules

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. Rule 15c-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer. A recommendation may not be in the best interest of a customer if it creates a risk of loss inconsistent with the customer's investment profile, which would be exacerbated by a high concentration in a particular security or category of securities.

Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(iv), requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. Reg BI's Adopting Release provides that broker-dealers should consider the nature of that firm's operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.²

Prior to June 30, 2020, FINRA Rule 2111 required members and associated persons to have a reasonable basis to believe that a recommendation of a transaction or investment strategy involving a security or securities to any customer is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. FINRA Rule 2111 is still in effect, but as of June 30, 2020, it no longer applies to recommendations to retail customers.

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. Rule 3110 also requires firms to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

² *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33397 (July 12, 2019).

In Regulatory Notice 22-08, FINRA reminded firms to apply heightened supervision to recommendations of products with features that may make it difficult for a retail investor to understand the essential characteristics of the product and its risks.

A violation of Reg BI or FINRA Rule 3110 is also a violation of FINRA Rule 2010, which requires member firms to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

B. Colorado Financial failed to establish and maintain a supervisory system, including written policies and procedures, reasonably designed to achieve compliance with SEC and FINRA rules regarding high-risk CEFs.

CEFs are a type of investment company that pools money from investors to buy securities, including stocks, bonds or other investments. CEFs provide a variety of investing strategies and risk levels. A CEF that invests in high-yield, below-investment-grade debt securities carries elevated credit risk, price volatility, and potential for significant loss associated with those underlying assets. In addition, a CEF that uses leverage to achieve its goals, is exposed to additional price volatility and potential loss.

From March 2021 through at least February 2023, Colorado Financial permitted registered representatives to recommend that retail and non-retail customers purchase CEFs that invested in high-yield, below-investment-grade debt securities, some of which used leverage to achieve their goals. During that time, however, the firm failed to establish, maintain and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI and FINRA Rule 2111 regarding such products. For example, the firm’s written policies and procedures did not reasonably describe a process for determining when and how heightened supervision should apply to a product with complex or high-risk features like a CEF that invests in speculative securities that use leverage. Further, the firm’s written supervisory procedures did not address what supervisors should do to supervise such products, including how often they should conduct supervisory reviews, or what factors to consider when doing these reviews. During that time, the firm relied on a manual review of representatives’ trading activity that did not reasonably alert supervisors when recommendations to invest in high-risk CEFs may be inconsistent with a retail customer’s profile. The firm also did not provide training regarding supervising complex, high-risk features like CEFs that invest in speculative securities or that employ leverage.

In addition, the firm failed to detect or respond to red flags of CEF recommendations that were not in the best interest of a retail customer or suitable for a non-retail customer. From March 2021 through February 2023, a former registered representative of Colorado Financial recommended that a moderate-risk tolerance, low-income, senior retail customer make a series of investments in seven different CEFs that invested in below-investment grade securities and were described as high-risk or speculative in their

prospectuses.³ This representative recommended that the retail customer invest 100% of her stated net worth in such CEFs, resulting in losses of \$29,049. The firm did not detect the red flags of the representative's misconduct, including inconsistency between the customer's reported risk tolerances and the CEFs' stated risk levels and high concentration in high-risk investments.

Also during this period, the representative recommended that a non-retail customer with low risk tolerance, a trust for an educational entity, invest 100% of its stated net worth in one of the high-risk CEFs. The trust's new account form indicated that the CEF position was 100% of its assets. The firm did not detect the red flags of unsuitable high concentration in the trust's account, and inconsistency between the trust's risk tolerance and the CEF's stated risk level.

Therefore, Colorado Financial violated Exchange Rule 15c-1(a)(1), and FINRA Rules 3110 and 2010.

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

- a censure;
- a \$45,000 fine; and
- restitution of \$29,049, plus pre-judgment interest.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. FINRA's Finance Department will contact Respondent regarding payment. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Restitution is ordered to be paid to the customer listed on Attachment A to this AWC (Eligible Customer) in the total amount of \$29,049, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2), from February 21, 2023, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (specifying the date and amount paid to the Eligible Customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after the date of the notice of acceptance of the AWC.

³ FINRA fined and suspended this representative from associating with any FINRA member firm, among other sanctions, for making CEF recommendations to customers that were not suitable or in their best interest.

The restitution amount plus interest to be paid to the Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay the Eligible Customer within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above the identity of the unpaid Eligible Customer and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for the Eligible Customer.

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 sanctions imposed in this matter.

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

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

The sanctions imposed in this AWC shall become 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 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 understands and acknowledges that it is permitted to retain an attorney at its expense to review and provide legal advice regarding the AWC before agreeing to the language and signing the AWC; that FINRA does not represent or advise it and Respondent cannot rely on FINRA for legal advice; 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.

09/08/2026

Date

Jack Thon

Colorado Financial Service Corporation
Respondent

Print Name: Jameson Thon

Title: President

Accepted by FINRA:

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

09/09/2026

Date

John Sheehan

John Sheehan
Senior Counsel
FINRA
Department of Enforcement
100 Pine Street, Suite 1800
San Francisco, CA 94111

ATTACHMENT A

Colorado Financial Service Corporation

AWC No. 2023077597702

Customer	Account No.	Restitution Amount
Customer A	XXXX0463	\$29,049