

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2021070851501**

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

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

Michael Molinaro (Respondent)  
General Securities Principal  
CRD No. 2358346

Pursuant to FINRA Rule 9216, Respondents Network 1 Financial Securities, Inc. and Michael Molinaro submit 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 Respondents alleging violations based on the same factual findings described in this AWC.

**I.**

**ACCEPTANCE AND CONSENT**

A. Respondents accept and consent to the following findings by FINRA without admitting or denying them:

**BACKGROUND**

Network 1 has been a FINRA member firm since 1983. The firm, which is headquartered in Red Bank, New Jersey, has 14 branch offices and approximately 100 registered representatives.

Molinaro first registered with FINRA in 1993. In February 2014, Molinaro registered as a General Securities Representative and General Securities Principal, among other registrations, through an association with Network 1. Beginning in July 2017, Molinaro was Network 1's chief compliance officer.

In 2015, Molinaro entered into an AWC in which he consented to findings, including that he failed to enforce a reasonably designed supervisory system with respect to private placements while associated with another broker-dealer. The AWC suspended Molinaro from association with any FINRA member firm in any principal capacity for 45 days.

In 2009, the State of Idaho entered an Order and Agreement finding that Molinaro, while associated with another broker-dealer, had failed to disclose on a Uniform Application

for Securities Industry Registration or Transfer (Form U4) registering another employee in Idaho, an Iowa order establishing heightened supervision for that employee. The Order and Agreement cautioned Molinaro to refrain from violating the Idaho Uniform Securities Act of 2004 and also mandated that in the future he comply with the provisions of the Act.<sup>1</sup>

## **OVERVIEW**

From January 2016 through March 2022, Network 1 did not establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with the suitability requirements of FINRA Rule 2111 and the Care Obligation of Rule 15c-1 of the Securities Exchange Act of 1934 (Regulation BI or Reg BI)<sup>2</sup> as they pertain to excessive trading in violation of FINRA Rules 3110 and 2010. As of June 30, 2020, Network 1 also violated Reg BI's Compliance Obligation by not establishing, maintaining, and enforcing WSPs reasonably designed to achieve compliance with Reg BI.

Additionally, from July 2017 through March 2022, Molinaro violated FINRA Rules 3110 and 2010 by not establishing, maintaining, and enforcing a supervisory system, including WSPs, reasonably designed to achieve compliance with FINRA Rule 2111 and, as of June 30, 2020, Reg BI, as they pertain to excessive trading.

## **FACTS AND VIOLATIVE CONDUCT**

### **A. The Applicable Rules.**

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Reg BI. 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. Reg BI's Care Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest in light of the retail customer's investment profile.

Prior to June 30, 2020, FINRA Rule 2111 required members and associated persons to have a reasonable basis to believe that a recommended transaction or investment strategy

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<sup>1</sup> For more information about the Respondents, including prior regulatory events, visit BrokerCheck® at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

<sup>2</sup> The compliance date for Reg BI was June 30, 2020. Also, effective June 30, 2020, FINRA amended Rule 2111 to state that Rule 2111 will not apply to recommendations subject to Reg BI.

involving a security or securities is suitable for the customer. Under Rule 2111 Supplementary Material .05(c), members and associated persons with actual or *de facto* control over an account were required to have a reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer in light of the customer's investment profile.

No single test defines when trading is excessive, but factors such as the turnover rate, the cost-to-equity ratio, and the use of in-and-out trading in a customer's account are relevant to determining whether a member firm or associated person has excessively traded a customer's account in violation of Reg BI or FINRA Rule 2111. The turnover rate represents the number of times that a portfolio of securities is exchanged for another portfolio of securities. The cost-to-equity ratio measures the amount an account must appreciate just to cover commissions and other expenses. In other words, it is the break-even point where a customer may begin to see a return. A turnover rate of six or a cost-to-equity ratio above 20 percent generally indicates that a series of recommended transactions was excessive and not in the retail customer's best interest.

Additionally, Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(iv), requires broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI, including the Care Obligation. 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.<sup>3</sup>

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. The duty to supervise under Rule 3110 also includes the responsibility for firms and their designated supervisors to reasonably investigate red flags of potential misconduct and to act upon the results of their investigation.

A violation of Exchange Act Rule 15c-1 and FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires that member firms and associated persons "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

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<sup>3</sup> Adopting Release at 33397.

**B. Network 1 and Molinaro did not establish, maintain, and enforce WSPs reasonably designed to achieve compliance with FINRA Rule 2111 and the Care Obligation of Reg BI as they pertain to excessive trading.**

From January 2016 through March 2022, Network 1's WSPs were not reasonably designed to achieve compliance with FINRA Rule 2111 and the Care Obligation of Reg BI as they pertain to trading. Beginning in July 2017, the firm's WSPs designated Molinaro as the principal responsible for developing supervisory procedures for Network 1 with respect to all "products, services, or line functions that need to be the subject of written compliance policies and written supervisory procedures."

Prior to June 30, 2020, the firm's WSPs were not reasonably designed to achieve compliance with the suitability requirements of FINRA Rule 2111 with respect to excessive trading. First, the WSPs did not set forth how the firm's supervisors should apply certain listed factors to identify potentially excessively traded accounts. Significantly, the WSPs did not identify what cost-to-equity ratio or turnover rate was suggestive of excessive trading. Moreover, the WSPs did not provide supervisors with reasonable guidance about what steps they should take after identifying an excessively traded account. For example, the WSPs did not specify when, or in what circumstances, the supervisor should contact customers with actively traded accounts. The WSPs also did not specify whether, or in what circumstances, supervisors should consider restricting the commissions that could be charged in a customer's account.

Network 1's WSPs also were not reasonably designed to achieve compliance with Reg BI. Beginning in 2019, prior to Reg BI's effective date of June 30, 2020, Network 1 developed revised procedures and issued written guidance to the firm's representatives about complying with Reg BI as it was expected to relate to excessive trading. In particular, the firm issued guidance about the level of commissions that could be charged in customers' accounts, and the firm began to restrict the commissions that could be charged in certain accounts. Network 1 and Molinaro also provided trainings in 2019 and 2020 about Reg BI's requirement that registered representatives not place their own interest ahead of those of their customers. But Network 1 and Molinaro did not revise the firm's WSPs to reference Reg BI until March 1, 2021, eight months after Reg BI's effective date. Moreover, even after Molinaro revised the firm's WSPs in March 2021, Network 1's WSPs continued to provide only general background information about Reg BI's component obligations. The revised WSPs provided no guidance about what steps the firm's principals or representatives should take to prevent, detect, or promptly correct violations of Reg BI or to otherwise achieve compliance with Reg BI.

As a result, from January 2016 through March 2022, Network 1 violated FINRA Rules 3110(b) and 2010, and from June 30, 2020 through March 2022, the firm also violated Reg BI's Compliance Obligation. Additionally, from July 2017 through March 2022, Molinaro violated FINRA Rules 3110(b) and 2010.

**C. Network 1 and Molinaro did not establish and maintain a reasonably designed supervisory system and did not identify and respond to red flags of excessive trading.**

Network 1's system for identifying excessively traded accounts was not reasonably designed. Network 1 received exception reports from its clearing firm that were relevant to identifying excessive trading—including a monthly report that flagged accounts with high cost-to-equity ratios. However, from January 2016 through June 2018, the firm did not review those reports. Instead, the firm limited its reviews to an internal report identifying the 100 accounts with the largest year-to-date aggregate commissions. That report, however, excluded smaller accounts that, even if they were not among the 100 accounts with the largest aggregate commissions, had high commission amounts relative to their equity value. For example:

- Network 1 received an active account report dated July 31, 2016, that showed Customer A had been charged more than \$18,000 in commissions in the prior 12 months, resulting in a cost-to-equity ratio of more than 45 percent. Because the firm did not review that report, it did not identify excessive trading in Customer A's account and took no steps to address it. Customer A was charged more than \$20,000 in additional commissions between August 2016 and March 2018, by which time the recommended trades in Customer A's account resulted in an annualized cost-to-equity ratio of more than 52 percent.

Moreover, even when Network 1 identified an excessively traded account, the firm did not take steps to further investigate the excessive trading and to act upon the results of the investigation. Molinaro, who beginning in July 2017 was the designated principal responsible for determining what actions the firm took upon identifying red flags of excessive trading, did not require Network 1 to take any steps, such as restricting the commissions that representatives could charge in accounts, until April 2019. As a result, in some instances, representatives continued charging high commissions even after the firm was on notice that the account was being excessively traded. Moreover, even after Network 1 began restricting the commissions that representatives could charge on individual trades in certain accounts, the restrictions the firm imposed often were not effective because they did not limit the number or frequency of trades or aggregate costs and commissions that could be charged to the affected accounts. As a result, after a restriction was in effect limiting the commissions that could be charged for each individual trade, representatives were not prevented from placing frequent trades in a customer's account, thus earning commissions on a higher number of trades. For example:

- Network 1 received an active account report on February 28, 2021, showing that Customer B had been charged more than \$26,000 in commissions over the prior month, resulting in an annualized cost-to-equity ratio of 20 percent. In response, the firm restricted the commissions that could be charged on individual trades in that account, lifted the commission restriction after only two months, then reimposed it one month later. By November 30, 2021, Customer B had been

charged an additional \$116,865 in commissions, despite the commission restrictions, resulting in an annualized cost-to-equity ratio of 26 percent.

- Network 1 received an active account report on October 31, 2020, showing that Customer C had been charged \$16,805 in commissions over the prior 12 months, resulting in an annualized cost-to-equity ratio of more than 27 percent and an annualized turnover rate of 10. The following month, on November 30, 2021, Network 1 received another active account report showing an additional \$9,485 in commissions charged to Customer C, resulting in an increased annualized cost-to-equity ratio of 34 percent and an annualized turnover rate of 11. Network 1 twice restricted the commissions that could be charged on individual trades in Customer C's account—first limiting individual trade commissions to one and a half percent, then limiting them further to one percent. Nevertheless, over the next 12 months, Customer C was charged more than \$125,000 in commissions. The active account report Network 1 received on November 31, 2021, showed that the annualized cost-to-equity ratio in Customer C's account remained at an excessive rate of 23 percent, and the annualized turnover rate increased to 12.
- Network 1 received an active account report on July 31, 2021, showing that Customer D had been charged \$20,750 in commissions since opening his account on February 11, 2021, resulting in an annualized cost-to-equity ratio of more than 21 percent and an annualized turnover rate of 6. Network 1 restricted the individual trade commissions charged in Customer D's account to one and a half percent but, over the next three months, Customer D was charged an additional \$8,400 in commissions. Notwithstanding the commission restrictions imposed, the account's annualized cost-to-equity ratio increased over that same time to 23 percent and the annualized turnover rate increased to 9.

As a result of these supervisory failures, Network 1 did not identify or address red flags of excessive trading in eight customer accounts. In each account, Network 1's representatives recommended that the customers place frequent trades, and the customers routinely relied on those recommendations. The level of trading in each account, which resulted in a cost-to-equity ratio in excess of 20 percent, and in some cases cost-to-equity ratios in excess of 50 percent, was inconsistent with the customers' investment profiles and was not in the customers' best interest. Collectively, the recommended trading caused these eight customers to pay more than \$533,500 in commissions and trading costs.

Therefore, from January 2016 through March 2022, Network 1 violated FINRA Rules 3110(a) and 2010. In addition, from July 2017 through March 2022, Molinaro violated FINRA Rules 3110(a) and 2010.

B. Respondents also consent to the imposition of the following sanctions:

For Network 1:

- a censure;

- a \$200,000 fine;
- restitution of \$533,587 plus interest as described below; and
- an undertaking that within 90 days of the date of the notice of acceptance of this AWC, a member of Network 1'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 issues identified in this AWC and implemented a supervisory system, including WSPs, reasonably designed to achieve compliance with Reg BI and FINRA Rules 3110 and 2010 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate the firm's remediation and implementation. FINRA staff may request further evidence of the firm's remediation and implementation, and Respondents agree to provide such evidence. Network 1 shall submit the certification to Jena Levin, Counsel, FINRA Department of Enforcement, 55 West Monroe, Suite 2600, Chicago, Illinois 60603 ([jena.levin@finra.org](mailto:jena.levin@finra.org)), with a copy to [EnforcementNotice@finra.org](mailto:EnforcementNotice@finra.org). Upon written request showing good cause, FINRA staff may extend this deadline.

For Molinaro:

- a three-month suspension from association with any FINRA member in all principal capacities; and
- a \$5,000 fine.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. Each Respondent has submitted an Election of Payment form showing the method by which it or he proposes to pay the fine imposed.

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$533,587, 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 March 31, 2022, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Network 1 shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each Eligible Customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to [EnforcementNotice@FINRA.org](mailto: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](mailto:EnforcementNotice@FINRA.org) no later than 120 days after the date of the notice of acceptance of the AWC.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by Network 1 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 Network 1 is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Network 1 shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Network 1's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

Respondents specifically and voluntarily waive 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 be effective on a date set by FINRA.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive 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.



Respondents further specifically and voluntarily waive 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**

Respondents understand 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 Respondents; and
- C. If accepted:
  - 1. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future action brought by FINRA or any other regulator against Respondents;
  - 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. Respondents 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. Respondents 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 Respondents' 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 Respondents' testimonial obligations in any litigation or other legal proceedings.
- D. Respondents may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Network 1, 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 Network 1 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 Network 1 to submit this AWC.

8/8/2023  
Date

William R. Hest Jr.  
Network 1 Financial Securities, Inc.  
Respondent

Print Name: William R. Hest Jr.

Title: president / CEO

Molinaro certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Molinaro has agreed to the AWC's provisions voluntarily; and 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 him to submit this AWC.

8/8/2023  
Date

Michael Molinaro  
Michael Molinaro  
Respondent

Reviewed by:

Timothy Feil  
Timothy Feil, Esq.  
Counsel for Respondents  
Carmel, Milazzo & Feil LLP  
425 Broadhollow Road, Suite 300  
Melville, NY 11747

Accepted by FINRA:

8/31/2023

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Date

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



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Jena Levin  
Counsel  
FINRA  
Department of Enforcement  
55 W. Monroe Street, Suite 2600  
Chicago, IL 60603

## ATTACHMENT A

CUSTOMER	RESTITUTION
Customer A	\$23,283
Customer B	\$103,768
Customer C	\$131,331
Customer D	\$30,688
Customer E	\$28,471
Customer F	\$65,816
Customer G	\$112,065
Customer H	\$38,165
<b>Total</b>	<b>\$533,587</b>

**Acceptance, Waiver, and Consent**  
**Network 1 Financial Securities, Inc., Matter NO. 2021070851501**

**Corrective Action Statement**

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

**Corrective Action Taken by Network 1:**

**In the firm's efforts to align its policies and procedures for trading in accounts that it deems to be "actively traded" with SEC Regulation Best Interest (pp. 297-302), Network 1 amends Section 9 of its Written Supervisory Procedures (WSPs), which Section deals with SEC Regulation Best Interest, incorporating procedures that were developed by the firm in 2019 governing actively traded accounts, which procedures include additional heightened review of those accounts.**