

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022076211301**

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

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

and

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 since 1983. The firm, which is headquartered in Red Bank, New Jersey, has 13 branch offices and approximately 90 registered representatives.

In 2020, Network 1 entered into an AWC in which the firm consented to findings that, in violation of FINRA Rules 3310(a) and 2010, its anti-money laundering (AML) program was not reasonably designed to detect suspicious trading by known insiders and, as a result, the firm did not detect a series of suspicious trades by an individual the firm knew to be an insider of the company whose shares he was trading. The AWC included a \$60,000 fine and an undertaking for the firm to review and revise its written AML program.

Molinaro first registered with FINRA in 1993. Since February 2014, Molinaro has been registered as a General Securities Representative and General Securities Principal, among

other registrations, through an association with Network 1. Since July 2017, Molinaro has served as Network 1's anti-money laundering compliance officer (AMLCO).

In 2023, Molinaro entered into an AWC in which he consented to findings that he violated FINRA Rule 3110 by failing to 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 Best Interest) as they pertain to excessive trading. The AWC fined Molinaro \$5,000 and suspended him from association with any FINRA member firm in any principal capacity for three months.

In 2015, Molinaro entered into an AWC in which he consented to findings, including that he did not enforce a reasonably designed supervisory system with respect to private placement transactions 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.¹

OVERVIEW

From October 2019 through the present (Relevant Period), the firm and Molinaro developed and implemented an AML compliance program (AMLCP) that was not reasonably designed to achieve compliance with the requirements of the Bank Secrecy Act (BSA) and its implementing regulations. Specifically, the firm's Customer Identification Program (CIP) was not reasonably designed to verify the identity of foreign customers opening accounts at Network 1 who did not appear in person at the firm or to reasonably verify the identity of many customers who opened accounts to invest in initial public offerings (IPOs) for small-cap issuers, in violation of FINRA Rules 3310(b) and 2010. Network 1 and Molinaro also did not establish and implement policies and procedures that could be reasonably expected to detect and cause the reporting of suspicious transactions concerning the firm's investment banking business, in violation of FINRA Rules 3310(a), 3310(f), and 2010.

Additionally, between October 2019 and October 2022, Network 1 did not reasonably supervise or preserve its registered representatives' business-related communications on

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

non-firm communications platforms, in violation of Exchange Act § 17(a), Exchange Act Rule 17a-4, and FINRA Rules 3110, 4511, and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA cycle examination of Network 1.

A. Network 1 and Molinaro Developed and Implemented an AML Program that Was Not Reasonably Designed to Achieve Compliance with the Bank Secrecy Act.

FINRA Rule 3310 requires that “[e]ach member shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member’s compliance with the requirements of the [BSA] (31 U.S.C. 5311, *et seq.*) and the implementing regulations promulgated thereunder by the Department of the Treasury.”

FINRA Rule 3310(a) requires each member firm to “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder.” The implementing regulation, 31 CFR. § 1023.320, requires broker-dealers, under specified circumstances, to file with the Financial Crimes Enforcement Network “a report of any suspicious transaction relevant to a possible violation of law or regulation.” FINRA Rule 3310(f), which restates 31 C.F.R. § 1023.210(b)(5), requires that a member firm’s AML program include appropriate risk-based procedures for conducting ongoing customer due diligence, including “(i) [u]nderstanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and (ii) [c]onducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.”

FINRA Rule 3310(b) requires each member firm to “[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the [BSA] and the implementing regulations thereunder.” One of the U.S. Treasury Department’s implementing regulations, 31 C.F.R. § 1023.220, requires every broker-dealer, as part of its AMLCP, to establish, document, and maintain a written CIP that is appropriate for its size and business. The CIP must include risk-based procedures for verifying customers’ identities that are reasonably designed to enable the broker-dealer to form a reasonable belief that it knows the true identity of each customer. These procedures must be based on the broker-dealer’s assessment of the relevant risks, including those presented by the broker-dealer’s size, location, customer base, account types, and account opening methods. These procedures must also describe when the broker-dealer will use documents, non-documentary methods, or a combination to verify customers’ identities. The broker-dealer’s non-documentary procedures must address situations “where the broker-dealer is otherwise presented with circumstances that

increase the risk that the broker-dealer will be unable to verify the true identity of a customer through documents.” The CIP also must include procedures for responding to circumstances in which the broker-dealer cannot form a reasonable belief that it knows the true identity of a customer, including when the firm should not open an account.

In FINRA Regulatory Notice 19-18 (RN 19-18), issued in May 2019, FINRA reminded all broker-dealers of their obligations to develop and implement a written AML program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the BSA and its implementing regulations, and to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under the BSA and its implementing regulations. RN 19-18 provided broker-dealers with a non-exhaustive list of money-laundering “red flags” potentially indicative of suspicious activity. RN 19-18 further explained that “[u]pon detection of red flags through monitoring, firms should consider whether additional investigation, customer due diligence measures or a SAR filing may be warranted.”

A violation of FINRA Rule 3310 also is 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.

i. Network 1 and Molinaro Established and Implemented an Unreasonable Customer Identification Program for its Investment Banking Business.

From October 2019 through the present, Network 1’s investment banking department was a significant part of the firm’s business. The firm’s investment banking activities included convertible debt offerings and other private placements, as well as acting as an underwriter for IPOs and up-listings for small-cap issuers, many of them based in China. Between January 2021 and August 2022, for example, Network 1 acted as underwriter for five China-based IPOs for which the firm received over \$5 million in compensation. In connection with its work as underwriter for these IPOs, Network 1 frequently opened new accounts for customers living in China so that they could invest in the IPO.

During the Relevant Period, Molinaro was responsible for the firm’s CIP. Additionally, as the firm’s AMLCO, Molinaro was required to review and approve the opening of all accounts domiciled in high-risk jurisdictions, including China.

Network 1 and Molinaro established and implemented a CIP for its investment banking business that did not reasonably verify the identity of hundreds of China-based, issuer-sourced customers who acquired shares in IPOs underwritten by the firm. Network 1 and Molinaro did not assess the identity verification risks posed by opening accounts for China-based, issuer-sourced customers, and they established only generic CIP procedures.

During the Relevant Period, for at least five IPOs, Network 1 opened new accounts for customers that were referred by the issuers for the purpose of investing in the IPOs. No one from Network 1 had ever met or spoken with many of those customers, many of whom were individuals living in China. Instead, the account opening method for many of these customers was that issuers provided to Network 1 completed new account forms, along with additional documentation for some customers, circumstances that increased the risk that Network 1 would be unable to verify the true identity of the customer through documents. While Network 1 conducted negative news and sanction screenings for these customers, it did not utilize the information it retrieved to verify the customers' true identities. The completed new account forms provided by the issuers often were written in identical electronic fonts and contained discrepancies (*e.g.*, incorrect date of birth; income greater than stated net worth). Despite these discrepancies, Network 1 and Molinaro—who approved the opening of all such accounts—did not take reasonable steps to verify the customers' true identities.

As a result, Network 1 and Molinaro violated FINRA Rules 3310(b) and 2010.

ii. The Firm's AML Compliance Program Was Not Reasonably Designed to Detect and Cause Reporting of Suspicious Transactions Related to the Firm's Investment Banking Business.

The firm's AMLCP procedures contained only a generic list of red flags and did not include red flags identified in RN 19-18 that were relevant to Network 1's business or address how to detect and report suspicious transactions related to that portion of the firm's business. The written AMLCP did not address the risks of opening issuer-sourced accounts in connection with those IPOs. Further, the firm's AMLCP procedures did not address how the firm would identify, investigate, or report AML red flags: during the account opening process; during IPOs and aftermarket trading; or during private placement offerings. Network 1's AMLCP also did not include risk-based procedures for conducting ongoing customer due diligence.

As a result of these deficiencies, Network 1 did not detect or reasonably investigate AML red flags across multiple areas of its investment banking business. For example, Network 1 and Molinaro did not detect certain red flags in new accounts for customers that the China-based issuers referred to Network 1 for the purpose of investing in their respective IPOs. Many of these were accounts for individuals living in China who no one from Network 1 had ever met or spoken with. The account opening documents for many such customers contained discrepancies, as noted above. Several issuer-sourced, China-based customers received IPO allocations nearly as great or greater than the net worth stated on their account opening forms. Network 1 and Molinaro also did not detect red flags of potentially manipulative aftermarket trading by certain China-based customers.

Throughout the Relevant Period, Molinaro was designated as Network 1's AMLCO. As AMLCO, Molinaro was responsible for all aspects of Network 1's AML program. The firm's written AMLCP, which Molinaro wrote and for which Molinaro was responsible for updating, made him responsible for "[e]valuating and investigating customer account activity" and for SAR filing. Molinaro also: reviewed trade blotters; signed new account forms; and decided whether to file SARs. Molinaro, however, never tailored the firm's AMLCP to the AML risks posed by its investment banking business. And despite having knowledge of each of the AML red flags discussed above, Molinaro never conducted an AML investigation concerning any of this activity.

In November 2024, the firm updated its WSPs related to fund transfers and transmittals and customer due diligence.

Therefore, Network 1 and Molinaro violated FINRA Rules 3310(a), 3310(f), and 2010.

B. Network 1 Did Not Preserve and Reasonably Supervise its Employees' Off-Channel, Business-Related Electronic Communications.

FINRA Rule 4511 requires member firms to "make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules." Under Exchange Act § 17(a) and Exchange Act Rule 17a-4(b)(4), member firms are required to preserve for a period of at least three years the originals of all communications received, and copies of all communications sent, relating to the member firm's business, including emails and other electronic messages.

FINRA Rule 3110 requires that a member firm establish and maintain a system, including WSPs, 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. The duty of supervision includes a responsibility to reasonably investigate red flags of rule violations and make a reasonable supervisory response to misconduct once uncovered.

A violation of Exchange Act § 17(a), Exchange Act Rule 17a-4, FINRA Rule 4511, and FINRA Rule 3110 also is a violation of FINRA Rule 2010.

Between October 2019 and October 2022, Network 1 did not establish, maintain, and enforce a supervisory system reasonably designed to review and retain electronic communications of its registered representatives, including off-channel communications such as personal text messages or messages sent through third-party applications. As a result, the firm did not preserve certain business-related off-channel communications.

Although Network 1's WSPs required that business-related electronic communications be accessed and transmitted only through firm-sponsored systems, Network 1 did not have reasonable systems to supervise whether its registered persons abstained from using off-

channel business-related communications, and to achieve compliance with the firm's recordkeeping and supervisory obligations concerning those communications. Network 1 did not take any supervisory steps to check whether its registered persons might be using off-channel communications for business purposes.

Moreover, Network 1 did not respond to red flags that its registered persons were using unapproved, off-channel communications. Despite Network 1 supervisors either having been provided copies of certain of those communications or, in some instances, copied on business-related emails that firm representatives sent from their personal email addresses, the firm did not take steps to preserve or review its employees' off-channel communications so it could reasonably supervise them and did not take corrective action to prevent further use of off-channel communications.

As a result, Network 1 did not review or retain at least hundreds of business-related communications sent by firm representatives on unapproved, off-channel communication platforms. The unretained and unsupervised communications included communications with firm customers about: requests to transfer shares out of the firm; private investments in public equity (PIPE) deals; and financial advice about IPO investments.

As of October 2022, Network 1 engaged a third-party enterprise platform to collect and retain messages sent through third-party applications by the firm's registered representatives. Network 1 also revised the firm's WSPs to allow for the use of those applications to assist with servicing foreign customers.

In November 2024, the firm updated its WSPs related to its associated persons' use of text messages.

Therefore, Network 1 violated Exchange Act § 17(a), Exchange Act Rule 17a-4, and FINRA Rules 3110, 4511, and 2010.

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

For Network 1:

- a censure;
- a \$400,000 fine; and
- an undertaking to retain an independent consultant as described below.

Network 1 agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Network 1 has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Network 1 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.

1. Network 1 has undertaken to do the following:
 - a. Continue to retain at its own expense the Third-Party Consultant² to conclude a comprehensive review of the adequacy of Network 1's compliance with FINRA Rules 3310(a), (b), and (f), and to recommend procedural and systemic changes relating to the same;
 - b. Cooperate with the Third-Party Consultant in all respects, including providing the Third-Party Consultant with access to Network 1's files, books, records, and personnel, as reasonably requested for the above-mentioned review. Network 1 shall require the Third-Party Consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the independent consultant's communications with FINRA. Further, upon request, Network 1 shall make available to FINRA any and all communications between the Third-Party Consultant and Network 1 and documents examined by the Third-Party Consultant in connection with this review;
 - c. Refrain from terminating the relationship with the Third-Party Consultant without FINRA's written approval. Network 1 shall not be in and shall not have an attorney-client relationship with the Third-Party Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Third-Party Consultant from transmitting any information, reports, or documents to FINRA;
 - d. Require the Third-Party Consultant to submit an initial written report to Network 1 and FINRA at the conclusion of the Third-Party Consultant's review, which shall be no more than 120 days after the date of the notice of acceptance of this AWC. The initial report shall, at a minimum, (i) evaluate and address the adequacy of Network 1's compliance with FINRA Rules 3310(a), (b), and (f); (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Network 1 should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to FINRA Rules 3310(a), (b), and (f); and
 - (i) Within 60 days after delivery of the initial report, Network 1 shall adopt and implement the recommendations of the Third-Party

² Network 1 has already engaged a third-party outside consultant not unacceptable to FINRA (the Third-Party Consultant) to review and recommend changes to Network 1's AML program as it relates to FINRA Rules 3310(a), (b), and (f).

Consultant or, if Network 1 considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the Third-Party Consultant designed to achieve the same objective. Network 1 shall submit such proposed alternative procedures in writing simultaneously to the Third-Party Consultant and FINRA.

- (ii) Network 1 shall require the Third-Party Consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the Third-Party Consultant's original recommendation and (B) provide Network 1 and FINRA with a written report reflecting its evaluation and determination within 30 days of submission of any Network 1's proposed alternative procedures. In the event the Third-Party Consultant and Network 1 are unable to agree, Network 1 must abide by the Third-Party Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Third-Party Consultant.
- (iii) Within 30 days after the issuance of the later of the Third-Party Consultant's initial report or any written report regarding proposed alternative procedures, Network 1 shall provide the Third-Party Consultant and FINRA with a written implementation report, certified by an officer of Network 1, attesting to, containing documentation of, and setting forth the details of Network 1's implementation of the Third-Party Consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Network 1 agrees to provide such evidence.

- e. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.

For Molinaro:

- a three-month suspension from association with any FINRA member in all principal capacities and as an AMLCO.

Molinaro has submitted a statement of financial condition and demonstrated an inability to pay. In light of Molinaro's financial status, no monetary sanctions have been imposed.

Molinaro understands that if he is barred or suspended from associating with any FINRA member in a limited capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section

3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Molinaro may not be associated with any FINRA member in a suspended capacity, during the period of the bar or suspension. *See* FINRA Rules 8310 and 8311. Furthermore, because Molinaro is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

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 National Adjudicatory Council (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 record 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' rights 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 Network 1'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.

2/3/25
Date

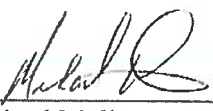

Network 1 Financial Securities, Inc.
Respondent

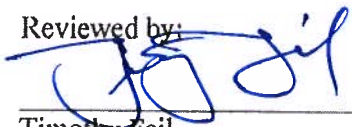
Print Name: Demetrius O. Testaverde

Title: Chairman

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.

1/31/2025
Date


Michael Molinaro
Respondent

Reviewed by: 

Timothy Feil
Counsel for Respondents
Gusrae Kaplan Nusbaum PLLC
425 Broadhollow Road, Suite 300
Melville, NY 11747

Accepted by FINRA:

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

March 4, 2025

Date

Tricia Lyons

Tricia Lyons
Counsel
FINRA
Department of Enforcement
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