

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2022074734101**

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

RE: Global Financial Services, L.L.C. (Respondent)  
Member Firm  
CRD No. 35699

Pursuant to FINRA Rule 9216, Respondent Global Financial Services, L.L.C., 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**

Global Financial, a FINRA member since February 1994, is headquartered in Houston, Texas, and employs more than ten registered representatives in one branch office. The firm engages in selling corporate debt on a riskless principal basis, equities, and options.<sup>1</sup>

**OVERVIEW**

From June 2020 to the present, Global Financial failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with Rule 15l-1 of the Securities Exchange Act of 1934 (Regulation Best Interest or Reg BI), and FINRA Rules as they relate to recommendations of complex products like volatility-linked ETPs to retail and non-retail customers and the risk of recommending to retail and non-retail customers a single foreign currency denominated bond at concentration levels inconsistent with the customers' profiles. As a result, Global Financial violated Rule 15l-1 of the Exchange Act and FINRA Rules 3110 and 2010.

For these violations, Global Financial is censured, fined \$50,000, and has undertaken to certify to the remediation of the issues identified in this AWC.

---

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

## FACTS AND VIOLATIVE CONDUCT

This matter originated from an examination of the firm conducted by FINRA.

### **A. Volatility-Linked ETPs**

Volatility-linked ETPs attempt to provide exposure to the Chicago Board Options Exchange Volatility Index (the “VIX”) by tracking or holding investments in VIX futures, although they do not track the VIX on a one-to-one basis. For volatility-linked ETPs to maintain continuous exposure to the VIX, a VIX futures position must be rolled over prior to a contract’s expiration; therefore, a position with an earlier contract maturity date is sold and replaced by a contract with a more distant maturity date. In the market conditions in which these futures contracts have historically traded, a contract with a more distant maturity date has typically been more expensive than one set to expire sooner. The difference between the proceeds from selling a position and the cost of buying a new one to replace it is called the “roll yield.” When an expiring contract is rolled into a more expensive contract, there will be a loss, i.e., a negative roll yield.

In market conditions in which the roll yield is negative, any volatility-linked ETP that is held for a long period of time is highly likely to lose value. Accordingly, given their complexity and risks, volatility-linked ETPs are best viewed as short-term products that should be monitored closely.

In January 2009, the iPath Series B S&P 500 VIX Short-Term Futures ETN (“VXX”) was introduced as the first volatility-linked ETP available to retail investors. Other volatility-linked ETPs subsequently became available. Since their introduction in 2009, volatility-linked ETP sponsors have warned about the risks associated with such securities. By January 2014, the financial media had long discussed such risks, including the risk of holding the products for long periods of time.

In January 2012, FINRA issued Regulatory Notice 12-03. FINRA Regulatory Notice 12-03 provided guidance to firms about the supervision of complex products, which may include, among other things, volatility-linked ETPs. Such products require heightened supervision and scrutiny. According to the Notice, “[a] well-designed system of internal controls should include a process to periodically reassess complex products a firm offers to determine whether their performance and risk profile remain consistent with the manner in which the firm is selling them.” Subsequently, FINRA published Regulatory Notice 17-32 reminding firms of their sales practice obligations in connection with volatility-linked ETPs as discussed more generally in Regulatory Notice 12-03. Specifically, “many volatility-linked ETPs are highly likely to lose value over time. Accordingly, volatility-linked ETPs may be unsuitable for certain retail investors, particularly those who plan to use them as traditional buy-and-hold investments.” Firms must establish reasonable control systems to review complex products like volatility-linked ETPs.

## **B. Applicable Law**

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Reg BI under the Securities Exchange Act of 1934. Rule 15l-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. In adopting Reg BI, the SEC cited Regulatory Notices 12-03 and 17-32 in its discussion of complex products, cautioning that, “when a broker-dealer recommends a potentially high risk product to a retail customer... the broker-dealer should generally apply heightened scrutiny to whether such investments are in a retail customer’s best interest.” Emphasizing the importance of understanding the terms, features, and risks of such products in order to form a reasonable basis to recommend them to retail customers, the SEC further stated that “these products may not be in the best interest of a retail customer absent an identified, short-term, customer specific trading objective.”

Reg BI’s Compliance Obligation, set forth at Exchange Act Rule 15l-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.<sup>2</sup>

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

While Reg BI applies to securities recommendations made to retail customers, FINRA Rule 2111 continues to apply to securities recommendations made to non-retail customers. FINRA Rule 2111 requires members and associated persons to “have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities 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, Supplementary Material .05(a), defines the reasonable-basis suitability obligation embodied in Rule 2111, and requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy and the member's or associated person's familiarity with the security or investment strategy.

---

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

FINRA Rule 3110 requires member firms to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules. A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

**C. Global Financial failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with SEC rules regarding Volatility-Linked ETP recommendations.**

From June 2020 to the present, Global Financial failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Reg BI's Care Obligation or FINRA Rule 2111 as they relate to recommendations of complex products like volatility-linked ETPs. Global Financial's supervisory system and WSPs were not reasonably tailored to address the unique features and risks associated with volatility-linked ETPs, including the risks associated with holding them for extended periods of time. The firm's WSPs required heightened scrutiny of complex products and identified volatility-linked ETPs as a type of complex product. However, the WSPs did not provide any guidance about how to review and evaluate recommendations of volatility-linked ETPs and how to address recommendations that did not appear to be suitable or to comply with Reg BI's Care Obligation, including guidance about escalating and remediating issues once identified. The WSPs did not require supervisors to take any action to determine whether recommendations were consistent with the intended holding periods identified in the prospectuses for the products. In practice, the firm did not establish a supervisory system that facilitated such an assessment until July 2022, after FINRA inquired about its system.

In addition, during the same period, Global Financial failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Reg BI's Care Obligation or with FINRA Rule 2111 as they relate to considering a customer's investment profile when making a recommendation, to purchase a particular security in a particular amount. For example, the firm's WSPs did not discuss whether the concentration of holdings in any security could present suitability concerns under FINRA Rule 2111 or concerns about compliance with Reg BI's Care Obligation and the WSPs did not provide any guidance to its supervisors about reviewing for concentration levels.

As a result of its unreasonable supervisory system and procedures, the firm failed to detect that one registered representative of the firm made recommendations that violated Reg BI's Care Obligation. The representative recommended that three of his retail customers purchase and hold a volatility-linked ETP position for over one year. The registered representative did not understand the unique features and specific risks associated with these products, including the risk of holding the products long-term, and, therefore, lacked a reasonable basis for making the recommendations. In July 2022, the firm contacted these customers concerning their investments. After the firm explained the risks related to their positions, two customers elected to remain in their positions and the other customer elected to sell.

In addition, the firm failed to detect that the same registered representative made three recommendations to the same three retail customers to purchase a foreign currency denominated bond, after its credit rating declined, in amounts that resulted in concentration levels in their accounts that were inconsistent with their investment profiles.<sup>3</sup> The failure resulted in part due to a deficiency in the data feed for bonds denominated in foreign currency, resulting in an error in the firm's automated exception alert system. The firm's chief compliance and operations officers relied upon the alert system but did not review the trade data received via email from the clearing firm. The firm contacted each retail customer to discuss the investment and all but one decided to continue to hold the investment. That customer complained about the investment and the firm resolved the complaint.

Based on the foregoing, Global Financial violated Rule 15l-1 of the Securities Exchange Act of 1934 and FINRA Rule 2010.

**D. Global Financial failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with FINRA rules regarding Volatility-Linked ETP recommendations.**

Further, the firm failed to detect that the same registered representative made unsuitable recommendations to six of his non-retail customers to purchase and hold one volatility-linked ETP position for over one year. The registered representative did not understand the unique features and specific risks associated with these products, including the risk of holding the products long-term and, therefore, lacked a reasonable basis for making the recommendations. In July 2022, the firm contacted these customers concerning their investments. After the firm explained the risks related to their positions, all the customers elected to remain in the position.

In addition, the firm failed to detect that the same registered representative made three unsuitable recommendations to three different non-retail customers to purchase the same foreign currency denominated bond discussed above in amounts that resulted in concentration levels in their accounts that were inconsistent with their investment profiles. The firm contacted each non-retail customer to discuss the investment and all but one decided to continue to hold the investment. That customer complained about the investment and the firm resolved the complaint.

Therefore, Global Financial violated FINRA Rules 3110 and 2010.

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

- a censure;
- a \$50,000 fine; and

---

<sup>3</sup> The bond subsequently defaulted.

- 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 issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Securities Exchange Act of 1934 Rule 15c-1 and FINRA Rule 3110 regarding the issues identified in this AWC. 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 Alex Marinello, Counsel, at alex.marinello@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.

4/23/2025  
Date

William Cathriner  
Global Financial Services, L.L.C.  
Respondent

Print Name: WILLIAM CATHRINER

Title: Chief Compliance Officer

Reviewed by:

Andrew R. Harvin  
Andrew R. Harvin  
Counsel for Respondent  
Doyle, Restrepo, Harvin & Robbins, LLP  
The Lyric Centre  
440 Louisiana, Suite 2300  
Houston, Texas 77002

Accepted by FINRA:

5/8/2025

---

Date

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



---

Alex Marinello  
Principal Counsel  
FINRA  
Department of Enforcement  
Two Jericho Plaza  
Jericho, NY 11753