

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Thomas J. Brough (CRD No. 2403390),
Eric R. Elliott (CRD No. 1418906),
Brian J. Falabella (CRD No. 4177162), and
Jonathan J. Sheinkop (CRD No. 2812671),

Respondents.

Disciplinary Proceeding
No. 2007011348301

Hearing Officer - Rochelle S. Hall

**ORDER ACCEPTING OFFER OF
SETTLEMENT OF
JONATHAN J. SHEINKOP**

Date: September 3, 2010

INTRODUCTION

Disciplinary Proceeding No. 2007011348301 was filed on May 28, 2009, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Jonathan J. Sheinkop submitted an Offer of Settlement (Offer) to Complainant dated August 13, 2010. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Sheinkop has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other

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proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Sheinkop's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Sheinkop first became registered with FINRA as a General Securities Representative (GSR) in 1996. From October 4, 2004 through July 3, 2007, he was registered with FINRA through Brookstreet as a GSR. While associated with Brookstreet, Sheinkop worked as a broker from offices in Chicago, Illinois. He was registered as a GSR through another member firm from June 27, 2007 until on or about January 14, 2009, when his employment was terminated. Since his termination on January 14, 2009, Sheinkop has not been associated with a member firm. Pursuant to Article V, Section 4 of FINRA's By-Laws, FINRA retains jurisdiction over Sheinkop as the complaint was filed within two years of the effective date of his termination from a member firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:¹

SUMMARY

From November 2004 through April 2007, Sheinkop while a registered representative of Brookstreet, induced seven customers to invest in complex, illiquid, and risky CMOs. CMOs are mortgage backed securities, collateralized by pools of private home mortgages. Through

¹ The findings herein are pursuant to Respondent Sheinkop's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

misrepresentations and omissions, Sheinkop led customers to believe that through CMO investments they could safely achieve consistently high annual returns, in some cases up to 10%, year after year, regardless of market conditions, with the government backing the investments. The particular CMOs that Sheinkop bought for the customers were generally not government guaranteed, and were subject to price volatility and to uncertain cash flows and maturities, based on changes in interest rates. There was no reasonable basis for the projected returns.

Sheinkop failed to disclose material characteristics of, and risks associated with, different CMOs with substantially different payment structures and interest rate sensitivity.

Sheinkop failed to investigate adequately and understand the CMO products, and did not have reasonable grounds to believe that the individual CMO purchases were suitable for each customer. The CMOs were not suitable investments for these customers, many of whom were retired and/or unsophisticated, and sought income and capital preservation with little or no risk. For some customers, the risk was further magnified through buying CMOs on margin at Sheinkop's recommendation.

Compounding the misconduct, Sheinkop improperly exercised discretionary authority to buy and sell the securities without written authorization from Brookstreet and the customers.

The customers were exposed to significant risks, which they did not understand, and which Sheinkop did not take the time to understand or ignored. Many customers suffered considerable losses to their retirement savings.

By virtue of this misconduct, Sheinkop violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and NASD Conduct Rules 2120, 2310(a), 2510(b) and 2110.

BACKGROUND

At all times, Brookstreet was headquartered in Irvine, California and had approximately 400 offices nationwide.

The CMO Program

Between on or about January 15, 2004 and June 5, 2007, CP, a broker in a Brookstreet branch office in Boca Raton, Florida, ran a firm-wide program to facilitate the purchase and sale of CMOs for retail customers (the "CMO Program"). CP bought large CMO blocks in the marketplace and proposed to Brookstreet brokers, including Sheinkop, the allocation of smaller positions in those bonds to specific retail customer accounts.

Beginning around May 2004, Sheinkop learned of the CMO Program through breakout sessions at Brookstreet annual meetings and through conference calls. During the period May 2004 through May 2005, CP and certain other brokers at Brookstreet presented the CMO Program to Brookstreet's brokers, including Sheinkop, as follows:

- a. The CMO Program offered Brookstreet brokers an opportunity for their retail customers to invest in government backed bonds, which were AAA rated, and was designed to achieve capital preservation and income;
- b. Brokers should expect customers to achieve consistently high annual returns of 8% to 10% in cash accounts and as high as 15% in margin accounts;
- c. CP would purchase institutional CMO blocks from the marketplace at a discount and propose to Brookstreet brokers the allocation of smaller positions in those bonds for sale to retail customers;
- d. The customer positions would later be repackaged into larger blocks for resale at favorable institutional prices;
- e. Customers could sell positions acquired within 90 days; and
- f. Customer portfolios would contain CMO bonds that hedged against interest rate fluctuations to protect principal and generate the projected annual returns.

Without adequately independently investigating the individual products offered, starting in November 2004, Sheinkop recommended that customers invest through Brookstreet in what he represented as government backed bonds, generally stating that customers should expect consistently high annual returns, in some cases up to 10%, with little or no risk to principal. Sheinkop failed to conduct any reasonable inquiry concerning the CMO investments. Had he done so, he would have known that these products, which were high risk and complex, were unsuitable for the customers.

Once the customers agreed to invest, Sheinkop, throughout the course of the CMO Program, advised CP and/or his assistants of cash and margin available in each customer's account, which information Sheinkop understood would be used as a basis for the recommended allocation of CMOs to individual customer accounts.

CP's office sent to Sheinkop recommendation sheets of proposed CMO purchases and sales and Bloomberg CMO Security Descriptions (Bloomberg DES pages), containing certain important information about the proposed CMO purchases, corresponding to bond CUSIP numbers.

Upon receipt of the recommendation sheets, Sheinkop and/or his assistants, throughout the course of the CMO Program, completed and sent order tickets for the purchase and sale of CMOs in the customer accounts to the Boca Raton office. The transactions were executed in the customer accounts without prior communication with Sheinkop's customers.

Sheinkop knew of all trades and had full access to information concerning his customer account portfolios.

The CMOs Purchased

The CMOs purchased for the customers were complex and were highly sensitive to interest rate changes.

Some of the CMOs purchased for Sheinkop's customers included CMOs that were guaranteed by the United States government through Government National Mortgage Association (GNMA or Ginnie Mae). Certain other CMOs were issued by government sponsored entities, Federal National Mortgage Association (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). All of these CMOs are commonly referred to as "agency CMOs."

Sheinkop represented to his customers that the CMOs purchased for their accounts would be backed by the government. In fact, less than 10% of the CMOs purchased for Brookstreet customers were backed by the government through Ginnie Mae. With those purchases, any guarantee as to principal applied only to the par value of the security, and not to any premium paid. Most of the CMOs were issued by government sponsored entities for which there was no explicit government guarantee and, therefore, were subject to credit risk.

Starting as early as March 2005, and contrary to Sheinkop's representations to his customers, non-agency CMOs issued by private entities ("private label CMOs") were also purchased for customers. Private label CMOs carried material credit risks and were often less liquid than CMOs issued by the government and government sponsored entities.

Approximately 23% of the CMOs purchased for the customers were issued by private entities, such as investment banks and financial institutions, with no government backing and additional credit risk.

Cash flows from underlying mortgages included (i) interest, (ii) scheduled principal repayment, and (iii) any payment in excess of the scheduled principal repayment. The CMO prospectuses defined the structure of each CMO and the distribution of the cash flows among different classes (known as “tranches”).

The customers were primarily placed in CMO Inverse Floaters, Interest-Only and Inverse Interest-Only tranches.

CMO Inverse Floater tranches are structured so that interest payments move in the opposite direction of an interest rate index, such as the London Interbank Offered Rate (LIBOR). They are designed to pay interest and principal from underlying mortgage pool payments. Inverse Floaters often have “multipliers” embedded in their coupon formulas (also known as “levers”), which cause the Inverse Floater to react dramatically to changes in the reference interest rate index, and thereby magnify interest rate risks. Rising interest rates generally cause an Inverse Floater’s value and interest payments to drop and may extend receipt of return of principal on the underlying mortgages beyond the anticipated average life of the CMO. Should the investor wish to sell the Inverse Floater in a rising interest rate environment, rather than waiting for the final principal payment, the trading price could be significantly lower than the original purchase price.

CMO Interest-Only tranches are structured to pay interest only from a mortgage pool stream and increase in value when interest rates rise and the rate of prepayment of mortgages decreases. They sell at a discount to their “notional” principal amount (the principal balance used to calculate the amount of interest due). Interest-Only tranches have no face or par value and, as the notional principal amortizes and prepays, the cash flow and market value of the Interest-Only declines. Accordingly, investors in Interest-Only tranches may receive back less

cash than they initially invested. In fact, Interest-Only tranches are at risk of expiring worthless if the related principal balance is paid off prior to the maturity date of the bond.

As early as 1993, FINRA advised that Interest-Only and Inverse Floater tranches, as with other high-risk tranches, are only suitable for "sophisticated investors" with a "high-risk profile." *Members' Obligation to Customers When Selling Collateralized Mortgage Obligations (CMOs)*, NASD Notice to Members 93-73 (1993).

CMO Inverse Interest-Only tranches are also high-risk and are structured so that interest payments move in the opposite direction of an interest rate index, such as LIBOR, and also sell at a discount to their notional principal amount. They have no face or par value and, as the notional principal amortizes and prepays, the cash flow and market value of the Inverse Interest-Only declines. As with Interest-Only tranches, Inverse Interest-Only tranches can expire worthless if the related principal balance is paid off prior to the maturity date of the bond.

Additionally, many of the CMO tranches discussed above, which the customers purchased, were part of support tranches, standing in line behind other bond classes for receipt of cash flow. Support tranches typically expose the investor to the greatest level of risk associated with prepayment of underlying mortgages.

Most of the CMOs purchased for the customers were small, odd-lot positions that were difficult to sell in the marketplace without a substantial discount in price, unless sold as part of a larger block with other customer positions.

CMOs do not trade on an exchange and dealers do not publish daily quotes or bid, ask and closing price information. In this case, CMO tranches were valued by a pricing service using complex theoretical pricing models. The pricing service based its price estimates on institutional round lots and not odd-lot positions in determining estimated values of the customer positions.

The price estimates were reflected on customer account statements. These prices were only estimates of the bond values and often varied substantially from prices obtained through actual market bids or offers.

There was no active retail market for CMOs generally. Consequently, the only reliable way for Brookstreet customers to liquidate small, odd-lot CMO positions without receiving substantially lower prices was for Respondents to instruct the Boca Raton office to place a customer account on “sell only” status, whereby CP would decide when to propose re-constituting and selling blocks of CMOs. Accordingly, customers were left either holding onto their illiquid positions, or trying to sell their small positions at substantial discounts.

Failure to Ensure the Suitability of the CMOs Purchased

As set forth in NASD Notice to Members 93-73, “[i]n light of the complexity and varying risk characteristics of CMOs, . . . associated persons must be conversant in all characteristics of CMOs to assess adequately the suitability of CMOs for their customers. Moreover, they must ensure that their customers understand the characteristics and risks of CMOs.”

Sheinkop did not understand, nor take adequate steps to understand, either how the different CMOs would react to changes in interest rates or, more generally, the risks associated with the bonds in each customer’s portfolio. Consequently, Sheinkop failed to communicate this essential information to his customers.

Sheinkop did not understand and generally did not review or consider the information contained on the Bloomberg DES pages made available to him. The Bloomberg DES pages set forth various material information concerning a bond, including, by way of example:

- a. The issuer;
- b. Basic characteristics of the CMO tranche;

- c. For Inverse Floaters, the interest rate formula (with multiplier);
- d. Information about expected payments and the life of the bond based on various assumptions concerning mortgage prepayment rates;
- e. Ratings for private label bonds;
- f. Volatility information; and
- g. Minimum dollar denomination for trading.

Sheinkop did not review any prospectuses, prospectus supplements or any offering circulars relating to the particular CMO tranches purchased. Those documents provide essential information concerning the bonds, including disclosure of various applicable risk factors that an investor should consider before investing.

Brookstreet advised Sheinkop about, and made available to him, "An Investor's Guide to CMOs" ("Guide to CMOs"), published by the Bond Market Association (now known as the Securities Industry and Financial Markets Association). While the Guide contained material questions that Sheinkop should have posed to his customers before each CMO purchase, he failed to do so. While some customers received the Guide through Sheinkop or Brookstreet, the customers either did not review it or fully understand it.

While it was the obligation of Sheinkop to consider and carefully assess the suitability of every individual CMO purchase in connection with his customer portfolios, he did not do so.

Sheinkop also failed to ensure that his customers understood the characteristics and risks of CMOs.

Sheinkop Failed to Take Into Account Adverse Material Information

During the course of the CMO Program, Sheinkop was made aware of, but failed to adequately take into account, various warning signs indicating that (i) the representations he

made to his customers were untrue, (ii) he had omitted to disclose material facts which were necessary for his customers to make informed decisions about their investments, (iii) the program was unsuitable for his customers, and (iv) the CMO positions allocated to customer accounts exposed his customers to significant, undisclosed risks. Examples are set forth below.

As brokers recommending CMOs to customers, Sheinkop knew, or was reckless in not knowing, that the market for CMOs in the mid-1990s had essentially collapsed and could do so again.

Sheinkop had received SIFMA's Guide to CMOs, which Brookstreet advised him about and made available to him, yet he recklessly failed to take into account basic risks associated with CMOs that were discussed in the brochure.

Sheinkop knew, or was reckless in not knowing, by March 2005 that private label CMOs would be purchased and/or had been acquired for his customers.

Sheinkop knew, or was reckless in not knowing, that the individual CMOs acquired for each customer were likely illiquid and, if marketable at all, would be sold at a substantial discount.

By at least mid-September 2005, Brookstreet's compliance department had alerted Sheinkop to various risks associated with CMOs that must be disclosed to customers, by providing a Brookstreet CMO disclosure form indicating that the CMOs carried far greater risks than CP had initially disclosed to Sheinkop.

In October 2005, the value of CMO positions in Brookstreet customer accounts dropped approximately 10% to 20%, which was a warning sign to Sheinkop of the pricing volatility of the CMOs. CP told Sheinkop that the drop in price was due to a pricing vendor revising its pricing models and these estimates were not reflective of the higher prices at which the bonds would be

sold. At that point, Sheinkop, lacking an understanding of how CMOs were priced, had further reason to question the suitability of the program for his customers.

By November 2005, Sheinkop knew from his review of the performance of his customer accounts, that the CMO Program was far riskier than CP had represented and that customers were adversely impacted.

From November 2005 through June 2007, Sheinkop knew, or was reckless in not knowing, of inconsistent performances and bond allocations among his customer accounts, and during that time frame, Sheinkop had reason to question the suitability of the CMO Program and the investments.

At all relevant times, Sheinkop knew, or was reckless in not knowing, that certain Interest-Only tranches in his customer accounts had expired worthless and that other Interest-Only positions could expire with losses to principal.

At all relevant times, Sheinkop knew, or was reckless in not knowing, that certain Inverse Floaters could be or were redeemed or called, resulting in money invested being returned sooner than anticipated, potentially requiring reinvestment at lower interest rates.

In March 2006, SB, Brookstreet's president, advised Sheinkop that all customers participating in the CMO Program should be accredited and aware of "significant risks, especially on IO [Interest-Only] tranches!" and asked whether Sheinkop was removing conservative customers from the CMO Program.

Sheinkop knew, or was reckless in not knowing, by as early as May 2006, that private label CMOs rated below AAA, had been purchased for certain customers.

By May 2006, Sheinkop knew, or was reckless in not knowing, based on new disclosures appearing on CMO trade confirmations, of the speculative nature of the CMOs purchased, and various risks regarding CMO investments.

By mid-August 2006, Brookstreet's compliance department alerted Sheinkop that, according to Brookstreet policy, all customers in the CMO Program must be accredited investors with investment objectives of growth and income, with an objective of speculation preferred and required in margin accounts.

By February 23, 2007, Brookstreet's compliance department, among other things, encouraged Sheinkop to have existing customers complete a new, detailed CMO disclosure form.

Sheinkop ignored or otherwise failed to respond to these and other warning signs when making statements to his customers about investing in CMOs. Consequently, Sheinkop (i) recklessly made to his customers, and failed to correct, various material misrepresentations and omissions regarding investing in CMOs, and (ii) continued to recommend and cause to be effected unsuitable CMO purchases for his customers. Throughout his participation in the CMO Program, Sheinkop had increasing knowledge and awareness from the above-referenced warning signs and other negative information that he was misrepresenting and omitting to disclose material facts to customers.

The CMO Program Collapsed

In mid-June 2007, Brookstreet discontinued operations after failing to meet margin calls associated with CMOs held in participating customer accounts.

Many customers investing in the CMO Program suffered significant losses and/or were left holding onto their illiquid positions.

FIRST CAUSE OF ACTION

Sheinkop's Material Misrepresentations and Omissions

In connection with the purchase or sale of CMOs, Sheinkop, directly or indirectly, by the use of means or instrumentalities of interstate commerce (including by telephone), or of the mails, recklessly made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, concerning the CMO Program and CMO investments.

From November 2004 through April 2007, Sheinkop recklessly made misrepresentations of material facts, and omitted to disclose material facts, to customers HC, HG, JJ, GL, SM, RPS, and JW, in connection with each customer's CMO investments.

Sheinkop's material misrepresentations included, but were not limited to, the following:

- a. Statements to HC, JJ, and SM that the bonds were a conservative investment with no risk to principal;
- b. Statements to HC, HG, GL (who had trading authorization over the account of ML, his wife), SM, and RPS that the bonds were government backed and AAA rated;
- c. Statements to HC that the expected annual return on the bonds was 10%;
- d. Statements to HG that: (i) The investments were government guaranteed bonds similar to municipal bonds and virtually risk free; and (ii) The expected annual return on the bonds was 7% to 9%;
- e. Statements to JJ that: (i) The investment was a conservative bond fund; (ii) The bonds were safe, government backed and collateralized by non-risky

loans; and (iii) The expected annual income return on the bonds in the fund was 8%, and further that the rate of return would increase to 10% to 11% if margin were used;

- f. Statements to GL that: (i) The bonds were guaranteed by the government, the safest investment available, perfect for retirees, a "can't lose" investment (involving no risk to principal), with guaranteed monthly interest over 30 years, as the bonds were immune from interest rate risk; and (ii) The expected annual return on the bonds was 5% to 8% for 30 years;
- g. Statements to SM that: (i) The investment was a "bond account" similar to a mutual fund; (ii) The bonds were the next safest investment to investing in a certificate of deposit, and the only way he could lose money would be if every homeowner in the investment pool stopped paying their mortgages and were foreclosed upon; (iii) The expected annual return on the bonds was 5% to 6%; and (iv) The bonds could be liquidated within 48 hours;
- h. Statements to RPS that: (i) The bond investment was conservative; (ii) If the bonds were held, RPS would receive interest, and after six to seven years, the return of his principal; (iii) Interest-Only and Principal-Only tranches would hedge the bonds in his portfolio; (iv) The expected annual return on the bonds was 8%; and (v) He could sell individual positions at any time, but needed three months to liquidate his entire CMO portfolio; and
- i. Statements to JW that: (i) The bonds were safe with expected annual returns of 8% to 10%; and (ii) The CMO positions could be liquidated at any time.

Sheinkop's material omissions included, but were not limited to, the following:

- a. Failing to disclose to HG, SM, RPS, and JW that the bonds purchased for their accounts were CMOs;
- b. Failing to disclose to HC, HG, JJ, GL, SM, RPS, and JW the characteristics of, and risks associated with, the CMOs;
- c. Failing to disclose to HC, HG, JJ, GL, SM, RPS, and JW anything about different tranches and how interest rate changes impact performance and risk of the different tranches;
- d. Failing to disclose to HC, HG, JJ, GL, SM, RPS, and JW that private label CMOs would be acquired and the characteristics of, and additional risk associated with, those products;
- e. Failing to disclose to HC, HG, JJ, and GL that high yield CMO (junk) bonds would be acquired and the characteristics of, and additional risk associated with, those products;
- f. Failing to disclose to HC, SM, and JJ that margin would be used to finance CMO purchases and the costs and risks associated with the use of margin, including that margin would materially increase the risk associated with specific types of bonds;
- g. Failing to disclose to HC, HG, JJ, SM, GL, RPS, and JW that smaller CMO positions were illiquid and less marketable than larger positions;
- h. Failing to disclose to JJ, GL, SM, and RPS the potential for delay in liquidating CMO positions; and

- i. Without disclosing that past performance is not indicative of future performance, telling: (i) HC that the people running the CMO program had a great 10-year track record with little to no losses to principal; (ii) GL that other customers in the program were making millions on this investment; (iii) JW that, with the exception of one year, the track record for this investment over 25 years was positive; and (iv) RPS that the bond investments had historical returns of 8% annually.

Additional Material Omissions by Sheinkop

Sheinkop also failed to provide his customers with material information concerning the bonds as contained in prospectuses, prospectus supplements or any offering circulars relating to the particular CMO tranches purchased, which documents disclosed various applicable risk factors that an investor should consider before investing.

Moreover, before October 2005, Sheinkop failed to advise his customers how CMOs were priced and that values reflected on account statements were estimates only.

By reason of the foregoing misrepresentations and omissions, Sheinkop violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and NASD Conduct Rules 2120 and 2110.

THIRD CAUSE OF ACTION

Sheinkop's Unsuitable Recommendations

Sheinkop recommended risky and illiquid CMO positions to his customers without investigating and understanding the products. Sheinkop lacked reasonable grounds to believe that the CMO Program and CMO investments were suitable for his customers as he lacked an

understanding of the material characteristics of, and risks associated with, the CMOs offered, which was necessary to make an affirmative suitability determination.

Moreover, Sheinkop never considered whether individual CMO purchases were suitable for particular customers. Notwithstanding CP's role in proposing allocations to Sheinkop, Sheinkop had an independent, non-delegable duty to determine the suitability of each proposed purchase for each of their customers, but failed to fulfill that duty.

Additionally, Sheinkop did not have reasonable grounds to believe that the use of margin was suitable for customer CMO purchases as he did not fully understand how changes in interest rates would impact the investments, and his customers on margin were unaware of the magnified risks associated with the use of margin.

Even after Sheinkop doubted and/or had reason to doubt the suitability of the CMO Program, he continued to facilitate, approve and/or cause to be effected additional CMO purchases.

Furthermore, Sheinkop lacked reasonable grounds to believe that the CMO Program and CMO investments were suitable for his customers based upon their disclosed investment experience, investment objectives, financial situation and needs. Sheinkop not only recommended that his customers participate in the CMO Program, he also recommended each CMO purchase for his customers by approving, facilitating and/or causing to be effected the CMO purchases.

Customer HC

When recommending CMOs to HC, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for HC, who was 58 years old and divorced with two children when she opened a trust account at Brookstreet for herself and her children, based on HC advising

Sheinkop that she wanted a safe, conservative investment that provided income for her and her children, with no risk to principal, that her liquid net worth was approximately \$175,000.00, and Sheinkop's understanding that safety, capital preservation, and income were among the account's objectives.

Based on Sheinkop's recommendation, in May 2005, HC initially invested approximately \$88,729.51 in CMOs, and ultimately invested a total of approximately \$144,918.85 in CMOs (both amounts exclude margin and any CMO returns that were reinvested), which investments constituted approximately 83% of her stated liquid net worth. From May 2005 through April 2007, there were a total of 37 CMO purchases for HC's account, consisting of 12 Interest-Only positions (including 3 private label positions), 13 Inverse Floaters, 9 Inverse Interest-Only positions (including 2 private label positions), and 3 other CMO bond positions (including one high yield/junk bond, which was a private label position rated BBB-).

Margin was used to finance various CMO purchases in HC's account. Sheinkop did not have reasonable grounds to believe that purchasing CMOs on margin was suitable for HC, as Sheinkop lacked an understanding of how the margin purchases would materially increase the risks associated with specific types of CMO purchased, the use of margin was inconsistent with HC's investment objectives, financial situation and needs, and margin in excess of HC's liquid net worth was used to finance CMO purchases. From June to July 2006, HC's margin debit balance increased from \$44,858.82 to \$239,290.32 (or 533%). Additionally, by March 2007, Sheinkop permitted and facilitated HC's margin account balance to increase to \$441,774.48.

HC was unaware of the characteristics and risks of the CMOs purchased for her account. HC did not want to use margin and was unaware that Sheinkop's recommendations included the use of margin to finance CMO purchases. HC was also unaware of the increased costs and risks

of using margin to finance CMO purchases. Furthermore, HC was also unaware that in some cases, margin was being used to provide her with monthly income needs.

Sheinkop received approximately \$12,669.63 in commissions from the CMO transactions in HC's account. In July 2007, HC realized a total of approximately \$172,519.79 in losses from investing in CMOs through Sheinkop.

Customer HG

When recommending CMOs to HG, who opened his trust account at Brookstreet, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for HG, based on HG advising Sheinkop that he wanted capital appreciation with no risk to principal, and did not want to invest in any security tied to mortgages given the declining housing market.

Based on Sheinkop's recommendation, in March 2006, HG initially invested approximately \$693,332.70 in CMOs, and ultimately invested a total of approximately \$960,696.65 in CMOs (both amounts exclude any CMO returns that were reinvested). From March 2006 through April 2007, there were a total of 24 CMO purchases for HG's account, consisting of 6 Interest-Only positions (including 3 private label positions), 10 Inverse Floaters and 7 Inverse Interest-Only positions (including 4 private label positions), one additional CMO private label position.

While HG understood that purchases would be made for his account, he did not know that the purchases would involve CMO products, and he knew nothing of the characteristics and risks of the bonds purchased.

Sheinkop received approximately \$23,811.94 in commissions from the CMO transactions in HG's account. As of June 30, 2007, HG's losses (realized and unrealized) from investing in CMOs through Sheinkop were approximately \$75,952.85.

Customer JJ

When recommending CMOs to JJ, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for JJ, who was 60 years old and near retirement when he opened his Brookstreet account, based on JJ advising Sheinkop that he wanted safe and conservative investments to grow and generate retirement income, with no risk to principal, and no investments on margin.

Based on Sheinkop's recommendation, in April 2005, JJ initially invested \$102,905.14 in CMOs, and ultimately invested a total of approximately \$175,000.00 in CMOs (both amounts exclude any CMO returns that were reinvested). From April 2005 through March 2007, there were a total of 38 CMO purchases for JJ's account, consisting of 12 Interest-Only positions (including 6 private label positions), 16 Inverse Floaters, 9 Inverse Interest-Only positions (including 4 private label positions), and one additional high yield CMO (junk) bond private label position rated BBB-.

Margin was used to finance various CMO purchases in JJ's account. Sheinkop did not have reasonable grounds to believe that purchasing CMOs on margin was suitable for JJ, as Sheinkop lacked an understanding of how the margin purchases would materially increase the risks associated with specific types of CMO purchased, and the use of margin was inconsistent with JJ's stated investment objectives and instructions, including, but not limited to, JJ's specific instruction that margin not be utilized.

JJ was unaware of the characteristics and risks of the CMOs purchased for his account. JJ did not want to use margin and was unaware that Sheinkop's recommendations included the use of margin to finance CMO purchases. JJ was also unaware of the increased costs and risks of using margin to finance CMO purchases.

Sheinkop received approximately \$9,742.41 in commissions from the CMO transactions in JJ's account. In July 2007, JJ's losses (realized and unrealized) from investing in CMOs through Sheinkop were approximately \$53,783.78.

Customer ML

When recommending CMOs to GL for ML's IRA at Brookstreet, over which GL had trading authorization, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for ML, who was 66 years old, based on GL advising Sheinkop that ML was retired, that the IRA contained her retirement savings, and that she wanted safe and conservative investments with no risk to principal.

Based on Sheinkop's recommendation, in May 2005, ML initially invested approximately \$98,246.79 in CMOs, and ultimately invested a total of approximately \$200,136.86 in CMOs (both amounts exclude any CMO returns that were reinvested). From May 2005 through July 2006, there were a total of 26 CMO purchases for ML's account, consisting of 8 Interest-Only positions (including 4 private label positions), 12 Inverse Floaters, and 6 Inverse Interest-Only positions (including 4 private label positions).

GL and ML were unaware of the characteristics and risks of the CMOs purchased for ML's account.

Sheinkop received approximately \$5,005.64 in commissions from the CMO transactions in ML's account. As of June 30, 2007, ML's losses (realized and unrealized) from investing in CMOs through Sheinkop were approximately \$55,440.04.

Customer SM

When recommending CMOs to SM, who opened a trust account at Brookstreet, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for SM, based on SM

advising Sheinkop that he wanted safe investments to achieve growth and income, with limited risk to principal.

Based on Sheinkop's recommendation, in November 2004, SM initially invested approximately \$283,896.00 in CMOs, and ultimately invested a total of approximately \$996,547.75 in CMOs (both amounts exclude margin and any CMO returns that were reinvested). From November 2004 through April 2007, there were a total of 135 CMO purchases for SM's account, consisting of 42 Interest-Only positions (including 18 private label positions), 48 Inverse Floaters (including 2 private label positions), 41 Inverse Interest-Only positions (including 7 private label positions), and 4 other complex bond positions (including 1 private label position).

Margin was used to finance various CMO purchases in SM's account. Sheinkop did not have reasonable grounds to believe that purchasing CMOs on margin was suitable for SM, as Sheinkop lacked an understanding of how the margin purchases would materially increase the risks associated with specific types of CMO purchased, and the use of margin was inconsistent with SM's stated investment objectives. By October 2006, the margin balance in SM's account reached \$3,299,396.71.

While SM understood that purchases would be made for his account, he did not know that the purchases would involve CMO products, and he knew nothing of the characteristics and risks of the bonds purchased. SM did not want to use margin and was unaware that Sheinkop's recommendations included the use of margin to finance CMO purchases. SM was also unaware of the increased costs and risks of using margin to finance CMO purchases.

Sheinkop received approximately \$109,311.01 in commissions from the CMO transactions in SM's account. In June 2007, SM realized a total of approximately \$644,623.49 in realized losses from investing in CMOs through Sheinkop.

Customer RPS

When recommending CMOs to RPS, who opened an account at Brookstreet, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for RPS, who sought capital appreciation.

Based on Sheinkop's recommendation, in March 2005, RPS initially invested approximately \$119,898.99 in CMOs, and ultimately invested a total of approximately \$122,302.92 in CMOs (both amounts exclude any CMO returns that were reinvested). From March 2005 through September 2006, there were a total of 23 CMO purchases for RPS's account, consisting of 7 Interest-Only positions (including 5 private label positions), 10 Inverse Floaters (including two private label positions), 5 Inverse Interest-Only positions (including one private label position), and an additional CMO position.

RPS was unaware of the characteristics and risks of the CMOs purchased for his account.

Sheinkop received approximately \$3,177.47 in commissions from the CMO transactions in RPS's account. In February 2007, RPS realized a total of approximately \$31,395.00 in losses from investing in CMOs through Sheinkop.

Customer JW

When recommending CMOs to JW, who opened an account at Brookstreet, Sheinkop did not have reasonable grounds to believe that the CMOs were suitable for JW, based on JW advising Sheinkop that his liquid net worth was approximately \$500,000.00, and that he wanted a stable and diversified portfolio for capital appreciation and income, with no risk to principal.

Based on Sheinkop's recommendation, in June 2005, JW initially invested approximately \$177,858.80 in CMOs, and ultimately invested a total of approximately \$212,888.35 in CMOs (both amounts exclude any CMO returns that were reinvested). From June 2005 through April 2007, there were a total of 31 CMO purchases for JW's account, consisting of 10 Interest-Only positions (including 5 private label positions), 15 Inverse Floaters, and 6 Inverse Interest-Only positions (including three private label positions).

JW was unaware of the characteristics and risks of the CMOs purchased for his account.

Sheinkop received approximately \$8,480.77 in commissions from the CMO transactions in JW's account. As of June 30, 2007, JW's losses (realized losses and unrealized gains) from investing in CMOs through Sheinkop were approximately \$50,714.04.

By reason of the foregoing unsuitable recommendations to his customers, Sheinkop violated NASD Conduct Rules 2310(a) and 2110.

FOURTH CAUSE OF ACTION

Sheinkop's Improper Exercise of Discretion

Sheinkop exercised discretionary authority in customer accounts without obtaining prior written authorization from his customers and Brookstreet's prior written acceptance of the accounts as discretionary. During the following periods, Sheinkop exercised discretion in the accounts of seven customers noted below, by facilitating, approving and/or causing to be effected, the following CMO purchase and sale transactions:

	Customers	Time Period	CMO Transactions
a.	HC	05/10/05 – 06/14/07	65
b.	HG	03/03/06 – 06/13/07	41
c.	JJ	04/25/05 – 06/13/07	66
d.	ML	05/17/05 – 05/29/07	45
e.	SM	11/02/04 – 06/14/07	231
f.	RPS	03/07/05 – 02/28/07	43
g.	JW	06/20/05 – 06/14/07	54
			Total = 545

By reason of the foregoing exercise of discretion in his customer accounts, Sheinkop violated NASD Conduct Rules 2510(b) and 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent Falabella from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that:

A. Respondent Sheinkop be suspended from associating with any FINRA member in all capacities for a period of 12 months; and

B. Respondent Sheinkop pay partial restitution in the total amount of \$30,000.00 to the customers listed and in the amounts specified on Attachment A hereto. Restitution amounts ordered, pursuant to this disciplinary action, are due and payable immediately upon reassociation with a member firm following the suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies. If for any reason Sheinkop cannot locate any

customer identified in Attachment A after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Sheinkop shall forward any undistributed restitution to the appropriate escheat, unclaimed property, or abandoned property fund for the state in which the customer is last known to have resided.

Respondent Sheinkop has submitted a sworn financial statement and demonstrated a limited ability to pay. In light of the financial status of Sheinkop, the sanctions do not include a monetary fine.

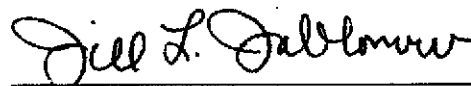
Respondent Sheinkop's limited ability to pay has been considered in connection with the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

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



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