

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011030254901**

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

RE: Matrix Capital Group, Inc., Respondent
Broker-Dealer
CRD 33364

Christopher Anci
Registered Principal and Representative
CRD 2747555

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Matrix Capital Group, Inc. ("Matrix") and Christopher Anci 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 Matrix and Anci alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents Matrix Capital Group, Inc. and Christopher Anci hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Matrix Capital Group, Inc. (Matrix) has been a member of FINRA (and its predecessor, NASD) since December 17, 1993. At the time of the violations described below, Matrix's primary business involved equity agency transactions, mostly for institutional customers and high net worth individuals. The firm employs independent contractors who work from non-registered branch locations.

Christopher Anci has been in the securities industry since joining Matrix Capital Group in 1996. He was dually registered with three other firms at various times while registered with Matrix Capital Group. Anci had been President and a director of Matrix Capital Group since 2004. He has held other titles as well, including Senior Vice President, Chief Operating Officer, Chief Compliance Officer (from December 1998 until November 2010), and Chief Financial Officer. He holds Series 4 (Options Principal), 7

(General Securities Representative), 24 (General Securities Principal), 28 (Introducing Broker/Dealer Financial and Operations Principal), 53 (Municipal Securities Principal) and 63 (State Law) licenses, all obtained while at Matrix.

As President of the firm, Anci had overall supervisory responsibility for the firm's operations, including all compliance matters, the activities of its registered representatives and employees, all sales, financial & operations matters and the firm's recordkeeping requirements. During the time he served as Chief Compliance Officer (until November 2010), he was specifically designated in the firm's written supervisory procedures as the person responsible for reviewing and approving variable annuity sales and exchanges. After Matrix hired a new Chief Compliance Officer, Anci remained responsible for the supervision and review of variable annuity transactions.

RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

FACTS AND VIOLATIVE CONDUCT

Variable Annuity Transactions at Issue

Prior to May 2010, Matrix did almost no business involving variable annuity products. At or about that time, a registered representative who concentrated in variable annuities became registered with Matrix, and remained with the firm until April 2011.¹

During that one year period, the representative recommended that 17 customers surrender their variable annuities and replace them with another annuity. In each case, the old annuity was exchanged for the same new annuity as that purchased by the other customers, and a surrender charge of at least \$1,000 was paid by the customer. Each of the customers accepted the recommendation and engaged in the transaction. The total surrender charges caused by these transactions were more than \$70,000. In addition, 16 of the 17 customers forfeited significant death and/or living benefits in the surrendered contract.

The customers varied widely in age (from 40 to 80 years old), net worth (from \$400-500,000 to \$10,000,000), and liquid net worth (from \$200,000 to over \$1,000,000). Notwithstanding this, the representative recommended that all 17 customers replace their pre-existing variable annuities with the exact same product and recommended that each select the same optional living benefit rider and the same underlying subaccount selection. In addition, he recommended that each customer purchase a 6% bonus option.

The representative provided Matrix with "switch forms" for each of the 17 transactions. On each of the 17 switch forms, the representative wrote the same three reasons for the recommended exchange: (1) to obtain a guaranteed income benefit, (2) to obtain tax deferral, and (3) to lock in gains daily instead of annually. However, these reasons did

¹ The findings herein are not binding on any other person or entity.

not provide justification for the exchanges and did not explain why the customers should incur substantial surrender charges to purchase the new variable annuity. Moreover, the reasons were at times untrue. First, the new product did not offer a guaranteed income benefit; it offered a guaranteed withdrawal benefit, which is a different feature. Second, the tax treatment on the new product did not differ from the tax treatment for the surrendered product, so that the tax deferral did not justify the switch. Third, the new product locked in the gains on a quarterly basis, not a daily basis. Moreover, the fact that the representative wrote the same three justifications for 17 transactions involving different customers with differing financial situations and objectives suggests that he was not tailoring his recommendations to each customer's financial situation and investment objectives.

Inadequate Supervision by Matrix and Anci

NASD Rule 3010 requires each member firm to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the types of business in which it engages and to supervise the activities of registered representatives and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with FINRA's rules. In Notice to Members 99-35, NASD, FINRA's predecessor, addressed the supervisory obligations applicable to variable annuity transactions, including exchanges. The notice reminds firms of the need to consider product enhancements, cost structures, and surrender charges when considering exchanges, as well as the need to document the benefits of any replacement.

Matrix and Anci failed to exercise reasonable supervision over the variable annuity exchanges recommended by the representative. They failed to recognize or address the fact that the representative was selling the same product with the same features to a divergent group of customers. In addition, they failed to recognize or address the representative's use of the same justifications for all of these exchanges, and his use of justifications that were not consistent with the actual product he was recommending. The Respondents also failed to ascertain whether the registered representative was conducting or documenting any quantitative or substantive analysis of the differences between the surrendered and acquired variable annuities, including an analysis of the benefits being surrendered, that might justify the recommended transactions.

In addition, Anci reviewed the switch forms provided by the registered representative only for completeness. He did not review the purported basis for the recommended exchanges or whether the exchanges were suitable for each customer.

Moreover, NASD Rule 3010(a)(6) provides that as part of a firm's supervisory system the firm engage in "[r]easonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities." Matrix did not engage in reasonable efforts to determine that it had supervisors or compliance personnel reviewing the exchanges initiated by the representative who had adequate experience with or knowledge of variable annuities. Anci had no experience

selling, reviewing or supervising variable annuity sales prior to the time the representative joined Matrix. In fact, Anci took his first training course related to variable annuity suitability near the end of 2010, approximately nine months after he started supervising the representative variable annuity transactions. Although Matrix hired a Chief Compliance Officer in November 2010 with experience in variable annuities, it did not assign this person to supervise representative's variable annuity transactions, but instead continued to allow Anci to perform this function.

By virtue of their failure to reasonably supervise the variable annuity exchanges described above, Matrix and Anci violated NASD Rule 3010. In addition, by doing so, they also violated FINRA Rule 2010.

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

1. Matrix:

- a. a censure;
- b. a \$30,000 fine;
- c. a suspension from executing any variable annuity transactions for one year, with the exception of liquidating transactions for existing customers; and
- d. before beginning to execute non-liquidating variable annuity transactions for customers, Matrix agrees to retain an Independent Consultant, not unacceptable to FINRA, to review and make recommendations concerning the adequacy of its supervisory and operating procedures (written and otherwise) as they relate to the matters described in this AWC, including the adequacy of its supervisory procedures relating to review of variable annuity exchanges. If Matrix decides to resume executing variable annuity transactions, it will notify the Department of Enforcement and the FINRA District Office for District 10 before doing so.

The Consultant will provide an initial report to Matrix and to FINRA containing recommendations, if appropriate, for the adoption of procedures by the Firm with respect to the matters described in this AWC. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures and training relating to the matters described in this AWC; (ii) a description of the review performed and the conclusions reached; and (iii) the Independent Consultant's recommendations for modifications and additions to Matrix's policies, systems, procedures and training.

Within thirty days after delivery of the report, Matrix shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. Matrix shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and the FINRA staff. Within thirty days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide Matrix with a written decision reflecting his or her determination. Matrix will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.

Within thirty days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Matrix shall provide the FINRA staff with a written implementation report, certified by an officer of Matrix, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.

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

Matrix shall exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant.

Matrix will cooperate with the Independent Consultant in all respects, including by providing staff support. Matrix shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and Matrix and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Matrix shall not terminate the relationship with the Independent Consultant without the FINRA staff's written approval; Matrix shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA.

Matrix will require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Matrix, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of the FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Matrix or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

2. Anci:

- a. a suspension from acting in any principal capacity for one month; and
- b. a \$20,000 fine.

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

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Respondent Anci understands that if he is suspended from associating with any FINRA member in a principal 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, he may not be associated with any FINRA member in any principal capacity during the period of the suspension (see FINRA Rules 8310 and 8311). Furthermore, because he 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.

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 General Counsel, 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 acceptance or rejection of this AWC.

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 them; and
- C. If accepted:
 - 1. this AWC will become part of their permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about their disciplinary records;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof 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. They 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 their: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- 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 or its staff.

Respondents certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce them to submit it.

12/10/2013

Date



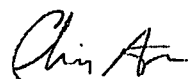
Matrix Capital Group, Inc.

By: Christopher Anci

Its President

12/10/2013

Date

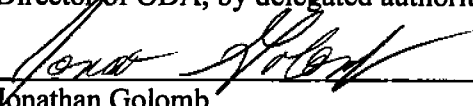


Christopher Anci

Accepted by FINRA:

Dec. 31, 2013
Date

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



Jonathan Golomb
Senior Special Counsel
FINRA Department of Enforcement
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Rockville, MD 20850