

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20120303692-01

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

RE: International Strategy & Investment Group LLC, Respondent
Member Firm
BD No. 28195

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent International Strategy & Investment Group LLC ("ISI" or the "Firm") 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 ISI alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. ISI hereby accepts and consents, 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

ISI has been a FINRA member firm since May 10, 1991. ISI employs approximately 179 registered representatives operating out of five branch offices. The Firm's principal place of business is in New York, New York. Its primary business line is the production and distribution of macro and fundamental research reports to institutional clients.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history with the Securities and Exchange Commission, any state securities agency, FINRA or any other self-regulatory organization.

OVERVIEW

From May 3, 2010 through July 9, 2012, ISI failed to adopt and implement written supervisory procedures ("WSPs") that were reasonably designed to ensure that the Firm and its employees complied with the provisions of NASD Rule 2711 related to research analysts and research reports and NASD Rules 2211(b)(1)(B) related to institutional sales materials.

Between April 1, 2012 and June 30, 2012, ISI issued over 100 research reports that lacked required disclosures and eleven research reports that lacked required price charts. Further, five research reports contained an inaccurate and misleading disclosure stating that "No person(s) preparing this report or a member of his/her household have a financial interest in the subject companies of this Report" when the research analyst who authored the five reports held stock in the subject companies of the reports. During that same period, three of ISI's research analysts failed to adhere to limitations on research analyst activities relating to personal and household trading. ISI also failed to maintain records of 35 research analyst public appearances and supervisory review of those appearances.

The foregoing conduct violated NASD Rules 2711, 2211 and 2210 and NASD IM-2210-1 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

ISI's primary business line is the production and distribution of macro and fundamental research reports to institutional clients. Despite this business focus, the Firm, from May 3, 2010 through July 9, 2012 failed to adopt and implement WSPs related to the review and supervision of research reports and institutional sales material and the trading of its research analysts and their households. As a result, the Firm's research reports and institutional sales material violated various FINRA Rules governing the content of those reports. In addition, three of the Firm's research analysts violated FINRA Rules establishing trading prohibitions governing research analysts.

1. NASD Rule 2711(i) requires member firms to adopt and implement WSPs reasonably designed to ensure that the member and its employees comply with the rules related to research analysts and research reports.

NASD Rule 2211(b)(1)(B) required firms to establish WSPs governing the review by a registered principal of institutional sales material used by the member and its registered representatives. The Rule required the WSPs to be in writing and be reasonably designed to supervise each registered representative. In those instances where the WSPs did not require the review of all institutional sales material prior to use or distribution, the WSPs were required to include provision for the education and training of associated persons as to the firm's procedures governing institutional sales material,

documentation of such education and training and surveillance and follow-up to ensure that such procedures are implemented and adhered to.

From May 3, 2010 through July 9, 2012, the Firm failed to adopt and implement WSPs that were reasonably designed to ensure that the Firm and its employees comply with the provisions of NASD Rule 2711 related to research analysts and research reports and NASD Rule 2211(b)(1)(B) related to institutional sales materials. For example, ISI had no WSPs in place establishing what quantity or percentage of the Firm's research reports and institutional sales materials would be reviewed, what criteria the reviews would consider, how often the reviews would be conducted, who would conduct them, how the reviews and approvals would be documented, or how ISI would ensure that research reports and institutional sales materials were properly submitted for review. Additionally, with respect to the review and approval of public appearances, the Firm had WSPs in place related to that area, but failed to implement those procedures. Although the Firm did not have WSPs requiring the review of all institutional sales material prior to use or distribution, the Firm's WSPs did not require education and training to registered representatives regarding institutional sales material, documentation of such education and training or surveillance and follow-up to ensure that such procedures were implemented and adhered to.

By failing to establish WSPs regarding the review and approval of research reports, ISI violated NASD Rule 2711(i) and FINRA Rule 2010.

By failing to establish WSPs regarding the review and approval of institutional sales material, ISI violated NASD Rule 2211(b)(1)(B) and FINRA Rule 2010.

2. NASD Rule 2711(h)(1)(A) requires members to disclose in research reports if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company and the nature of the financial interest.

From April 1, 2012 through June 30, 2012, two of ISI's research analysts together published over 100 research reports and participated in 3 public appearances that failed to disclose their ownership of common stock in companies that were the subject of their research reports and/or public appearances.

At least five of the reports from one analyst contained the following inaccurate and misleading disclosure: "No person(s) preparing this report or a member of his/her household have a financial interest in the subject companies of this Report."

By reason of the foregoing, ISI violated NASD Rule 2711(h)(1)(A) and FINRA Rule 2010.

3. NASD Rule 2711(g)(2) prohibits research analysts from purchasing and selling securities issued by a company that the research analyst follows for a period beginning 30 calendar days before and ending five calendar days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities. The Firm failed to prevent a research analyst from purchasing on August 9, 2011, shares of two companies he covered in a research report published on August 7, 2011.

By reason of the foregoing, ISI violated NASD Rule 2711(g)(2) and FINRA Rule 2010.

4. NASD Rule 2711(g)(3) prohibits research analyst accounts from purchasing or selling securities in a manner inconsistent with the research analyst's recommendation as reflected in the most recent research report published by the member. NASD Rule 2711(a)(7) defines "research analyst account" to mean, in relevant part, "any account in which a research analyst or a member of the research analyst's household has a financial interest, or over which such analyst has discretion or control." On June 26, 2012, the Firm failed to prevent an account belonging to a member of a research analyst's household from purchasing shares of a security when that transaction was inconsistent with the research analyst's current hold recommendation on that security.

By reason of the foregoing, ISI violated NASD Rule 2711(g)(3) and FINRA Rule 2010.

5. NASD Rule 2711(h)(12) requires members to maintain records of public appearances by research analysts sufficient to demonstrate compliance by those research analysts with the applicable disclosure requirements in the research rules. The records must be maintained for three years from the date of the public appearance.

From April 1, 2012 through June 30, 2012, eleven of the Firm's research analysts engaged in 35 public appearances. The Firm failed to maintain records of those public appearances sufficient to demonstrate compliance by those research analysts with applicable disclosure requirements. Although the Firm established written supervisory procedures requiring pre and post reviews of public appearance materials, the Firm lacked evidence that the reviews were conducted.

By reason of the foregoing, ISI violated NASD Rule 2711(h)(12) and FINRA Rule 2010.

6. NASD Rule 2210(d)(1)(A) required all member communications with the public to be based on principles of fair dealing and good faith. The communications also were required to be fair and balanced and provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry or service. The Rule prohibited members from omitting any material fact or qualification if the omission, in light of the context of the material presented, would cause the communication to be misleading. IM-2210-1(2) instructed Firms to consider the nature of the audience to which the communication would be directed. It explained that different levels of explanation or detail could be necessary depending on the audience to which a communication was directed. IM-2210-1(3) stated that member communications had to be clear. A statement made in an unclear manner could cause a misunderstanding. Further, the IM noted that complex or overly technical explanations could be more confusing than too little information.

From April 1, 2012 through June 30, 2012, the Firm's publicly available research reports, which were posted on its website, contained complex and overly technical explanations and valuation methods or charts that could have misled and confused unsophisticated investors.

By reason of the foregoing, ISI violated NASD Rule 2210(d)(1), NASD IM-2210-1 and FINRA Rule 2010.

7. When research reports contain a price target, NASD Rule 2711(h)(7) requires the price target to have a reasonable basis, and it must be accompanied by a disclosure concerning the risks that may impede achievement of the price target. NASD Rule 2210(d)(1)(A) required all member communications with the public to be based on principles of fair dealing and good faith, and to be fair and balanced, and to provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry or service.

In four research reports published on the Firm's website and dated August 7, 2011, January 9, 2012, February 27, 2012 and July 9, 2012, the Firm failed to include disclosures regarding the risks that may impede achievement of price targets included in each report.

By reason of the foregoing, ISI violated NASD Rule 2711(h)(7), NASD Rule 2210(d)(1)(A) and FINRA Rule 2010.

8. When a research report contains either a rating or a price target, and the member has assigned a rating or price target to the subject company's securities rating for at least one year, NASD Rule 2711(h)(6) requires Firms to include a line graph of the subject security's daily closing prices for the period that the member has assigned any rating or price target or for a three-year period,

whichever is shorter. From April 1, 2012 through June 30, 2012, the Firm omitted price charts in eleven research reports that required them.

By reason of the foregoing, ISI violated NASD Rule 2711(h)(6) and FINRA Rule 2010.

9. NASD Rule 2711(h)(10) requires disclosures required by NASD Rule 2711(h) to be presented on the front page of research reports or the front page must refer to the page on which disclosures are found. In addition, all disclosures and references to disclosures must be clear, comprehensive and prominent.

From April 1, 2012 through June 30, 2012, ISI distributed 25 research reports without disclosures on the front page or a reference to the specific page on which the required disclosures were located. The Firm also used in the reports conditional or indefinite language.

By reason of the foregoing, ISI violated NASD Rule 2711(h)(10) and FINRA Rule 2010.

10. NASD Rule 2711(h)(2)(A) requires Firms to disclose in research reports if a research analyst or the member has received compensation from the subject company. The Firm also must disclose whether the subject company was a client of the Firm during the 12 month period preceding the publication date of the research report, and if so, what services the client received, *i.e.*, investment banking services, non-investment banking securities-related services, or non-securities services.

From April 1, 2012 through June 30, 2012, ISI failed to ensure that its research report disclosures specified from which subject company the Firm or its associated persons received compensation when more than one company was covered in a report. The Firm also failed properly to describe the types of services provided to the subject company with one of the required descriptions, *i.e.*, as investment banking services, non-investment banking securities-related services, or non-securities services.

By reason of the foregoing, ISI violated NASD Rule 2711(h)(2)(A) and FINRA Rule 2010.

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

- A censure, and
- A fine in the amount of \$95,000

ISI agrees to pay the monetary sanction upon notice that this AWC has been accepted and

that such payment is due and payable. ISI has submitted an Election of Payment form showing the method by which ISI proposes to pay the fine imposed.

ISI specifically and voluntarily waives any right to claim that ISI is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

ISI 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, ISI specifically and voluntarily waives 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.

ISI 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

ISI 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 ISI; and
- C. If accepted:
 - 1. this AWC will become part of ISI's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against ISI;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about ISI's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. ISI 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. ISI 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 ISI's: (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. ISI may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. ISI 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 or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its 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 ISI has 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 the Firm to submit it.

01/08/2014
Date (mm/dd/yyyy)

Respondent International Strategy & Investment
Group LLC

By: 
VINAYAK SINGH

Title: PRESIDENT + CCO

Accepted by FINRA:

2/11/2014
Date

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


Elissa Meth Kestin
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