FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Caldwell International Securities Corp. [CRD No. 104323], Greg Caldwell [CRD No. 2816295], Lennie Freiman [CRD No. 1007506], Paul Jacobs [CRD No. 4658235], Alain Florestan [CRD No. 2818942], Alex Etter [CRD No. 2981742], Lucas Lichtman [CRD No. 5542092], Richard Lim [CRD No. 4949289], and Richard Lee [CRD No. 2768039], Respondents.	DISCIPLINARY PROCEEDING NO. 2014039091903 Hearing Officer – LOM **ORDER ACCEPTING OFFER OF SETTLEMENT** Date: August 25, 2016

INTRODUCTION

Disciplinary Proceeding No. 2014039091903 was filed on December 31, 2015, by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA" or "Complainant"). Respondent Lennie Freiman ("Freiman") submitted an Offer of Settlement ("Offer") to Complainant dated July 21, 2016. 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, Respondent has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer of Settlement), 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, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer of Settlement), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Freiman has been in the securities industry since June 1981. He was associated with five FINRA member firms before associating with Caldwell International Securities Corp. ("CISC") on August 2, 2000, the date on which CISC filed a Form U4 for Freiman. He has obtained Series 7, 24, 28, 52, 53 and 63 licenses.

Since August 2000, Freiman has served as CISC's President; and from August 2000 through March 2014, Freiman also served as CISC's Chief Compliance Officer ("CCO") and was listed as the AML Chief Officer through March 2014. During the Relevant Period, he worked in CISC's home office in Fischer, Texas, which was also his home. On March 31, 2016, a Form U5 was filed terminating Freiman's association with CISC and registration with FINRA.

Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Freiman because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

On November 14, 1983, NASD issued an AWC (No. NEW-364-AWC) in which Freiman was censured and fined $1,000 for selling two corporate bonds to two customers without being registered in violation of Article I, Section 2, Schedule C, Part II of the Association's By-Laws.

FINDINGS AND CONCLUSIONS

The findings herein are pursuant to Respondent Freiman's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding. It has been determined that the Offer be accepted and that findings be made as follows:

ACTS OR PRACTICES AND VIOLATIONS BY RESPONDENT FREIMAN

As alleged in the Complaint (as amended by the Offer of Settlement), Respondent Freiman engaged in the following acts, or failed to act as follows:

1. For approximately four and a half years, Respondent CISC, by and through one or more of its registered representatives and principals, put profits before customers, growth before compliance, and subterfuge before transparency. CISC's compliance failures during this time period led to serious sales practice, supervisory, and reporting violations at its home office and multiple branches.

2. Starting in 2011, CISC began rapidly expanding the number of Offices of Supervisory Jurisdiction ("OSJs") and registered representatives at the firm. Many of the new representatives focused their business on speculative equity trading, often for international customers. CISC's growth and expansion into these business lines was a systemic shift in the firm's historical business model, which traditionally focused on moderate or conservative equity (stock) trading for domestic individuals.

3. From December 1, 2010 through April 30, 2015 (the "Relevant Period"), CISC, by and through one or more of its principals, Respondents Greg Caldwell ("Caldwell"), Freiman, and Paul Jacobs ("Jacobs"), failed to develop, maintain and enforce a supervisory system, including written supervisory procedures, reasonably tailored to its business model, allowing many of its registered representatives to recommend an unsuitable active trading investment strategy that the representatives did not understand and which caused significant financial losses to customers while generating substantial profits for the Respondents. Other representatives were allowed to engage in trading with discretion without authorization, and trading that exceeded the benchmarks for excessive trading and churning without any meaningful supervision of this activity. CISC and its principals were aware of virtually all of this misconduct, yet they took no meaningful steps to curtail and supervise it because doing so would reduce the commissions and fees being generated from their customers. Not surprisingly, CISC and its representatives received numerous customer complaints that went unreported to FINRA. CISC and certain principals and registered representatives committed other reporting and compliance violations during the Relevant Period, including failing to timely update Forms U4, failing to comply with anti-money laundering requirements, and failing to properly disclose commissions masquerading as "miscellaneous fees."

4. Specifically, during the Relevant Period, CISC's formerly registered representatives, Rasheed (Richard) Adams,[1] James Starks (a/k/a Jim Star),[2] Ricardo Francois,[3] and Respondents Alain Florestan,[4] Alex Etter, Richard Lee, Lucas Lichtman and Richard Lim,[5] recommended that their customers engage in an unsuitable active trading investment strategy, despite the fact these representatives failed to understand the risks of the investment strategy being recommended, or the impact the staggering commissions and fees generated by this active trading investment strategy would have on their customers' accounts. These representatives had no reasonable basis to recommend such a strategy to their customers. As a result of the recommendation of an unsuitable active investment trading strategy, 15 customer accounts paid over $1 million in commissions and fees. The annualized cost-to-equity ratios for the accounts engaged in this unsuitable active investment strategy ranged from 17.98% to 121.05% and had annualized turnover rates of 3.61 to 29.84.

5. In addition, CISC, acting by and through its formerly registered representatives Marat (Matt) Zeltser[6] and Honetta Kao,[7] violated FINRA Rules 2111 (for conduct on or after July 9, 2012) and 2010 by making unsuitable recommendations involving two inverse and/or leveraged exchange traded funds ("ETFs") without a reasonable basis for believing these

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[1] Adams was barred from associating with any FINRA member in any capacity pursuant to AWC No. 2015045911001 (August 6, 2015).
[2] Starks was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2015043464601 (October 30, 2015).
[3] Francois was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2015043464602 (October 30, 2015)
[4] Adams, Starks, Francois and Florestan are collectively referred to herein as the "AWM Group."
[5] Etter, Lee, Lichtman and Lim are collectively referred to herein as "EGC."
[6] Zeltser was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2014039091902 (November 9, 2015).
[7] Kao was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2014039091901 (November 9, 2015).

investments were suitable for their customers during the Relevant Period (Second Cause of Action).[8]

6. CISC principals, Respondents Caldwell, Freiman and Jacobs, were responsible for supervising one or more of these relevant registered representatives during the Relevant Period. Caldwell, Freiman, and Jacobs were each aware of the extraordinarily high level of trading in customer accounts at the AWM Group, EGC, East Meadow Group[9] and ZK Group branches. However, Caldwell, Freiman and Jacobs did not take meaningful steps to supervise the high level of trading activity. Nor did they adequately monitor for excessive trading or churning other than to review each trade at the firm in isolation on a daily basis. Once possible excessive trading and churning was identified, Caldwell, Freiman and Jacobs did not adequately respond to investigate and, if necessary, stop this misconduct. Moreover, Caldwell, Freiman and Jacobs knew accounts at the AWM Group and EGC branches were being traded under an active trading investment strategy, but made no effort to determine if the representatives understood the risks of the strategy or had a reasonable basis to recommend the strategy. As a result of their failure to adequately supervise the activity of the AWM Group, EGC, East Meadow Group, and ZK Group, CISC and Freiman violated NASD Rule 3010(a) and FINRA Rule 2010 (Third Cause of Action).

7. CISC and Freiman separately violated NASD Rule 3010(a) and FINRA Rule 2010 by: (1) failing to ensure that several of the registered representatives in the AWM, EGC, East Meadow and ZK Groups were placed on heightened supervision in compliance with the firm's written supervisory procedures ("WSPs"); (2) failing to ensure that electronic

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[8] Zeltser and Kao are collectively referred to herein as the "ZK Group."

[9] The "East Meadow Group" was comprised of former registered representatives, KT and Dimitrios Koutsoubos (against whom the SEC issued an industry bar, a cease-and-desist order, imposed third-tier penalties, and ordered disgorgement plus prejudgment interest.in Admin. Proc File No. 3-15015, 2015 SEC LEXIS 2175 (May 29, 2015)).

correspondence at these branches was being reviewed in compliance with the firm's WSPs, and as a result, failing to report 36 customer complaints; and (3) failing to offer customers mutual fund right of reinvestment/reinstatement waived or reduced sales charges, resulting in customers being overcharged $107,367.08 (Third Cause of Action). CISC's failure to timely report the 36 customer complaints also violated FINRA Rules 4530(d) and 2010 (Fifth Cause of Action).

8. During the Relevant Period, CISC, by and through Freiman, also failed to establish, maintain, and enforce a system, including WSPs, reasonably designed to supervise the core activity in which many of its brokers engaged—active and aggressive trading. Specifically, CISC failed to create and maintain procedures to monitor for, detect, and prevent churning, excessive trading, and unsuitable active trading investment strategy recommendations. As a result, CISC and Freiman violated NASD Rule 3010(b) and FINRA Rule 2010 (Fourth Cause of Action).

9. Likewise, CISC's supervisory deficiencies led to Anti-Money Laundering ("AML") failures. From December 1, 2010 through August 20, 2013, CISC, acting by and through Freiman, violated FINRA Rules 3310(b) and 2010 for failing to log into the FinCEN system and conduct any of the required searches of its accounts and systems to determine whether it maintained any accounts for persons appearing on FinCEN's 314(a) request list (Seventh Cause of Action).

RESPONDENTS AND JURISDICTION

Caldwell International Securities Corp.

10. CISC is a FINRA member and has been since March 2001. CISC is an introducing broker-dealer that generates most of its revenue from commissions charged to its retail accounts on equity (stocks) and options transactions. During the Relevant Period, CISC

maintained its principal place of business in Fischer, Texas in the personal residence of Respondent Lennie Freiman; and had nine branches employing 20 registered persons throughout the United States, including New York, New Jersey, Illinois, Texas, Florida and Nevada.

11. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over CISC because: (a) the firm currently is a FINRA member; and (b) the Complaint charges the firm with misconduct committed while it was a FINRA member.

Greg Caldwell

12. Caldwell has been in the securities industry since October 1996. He was associated with two FINRA member firms before associating with CISC on August 2, 2000, the date on which CISC filed a Form U4 for Caldwell. He has obtained Series 4, 7, 24, 26, 63 and 65 licenses.

13. Caldwell founded CISC in August 2000 and has owned the company from its inception. At all relevant times, Caldwell has been the 100% owner of CISC.

14. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Caldwell because: (a) he currently is associated with a FINRA member and registered with FINRA; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Lennie Freiman

15. Freiman has been in the securities industry since June 1981. He was associated with five FINRA member firms before associating with CISC on August 2, 2000, the date on which CISC filed a Form U4 for Freiman. He has obtained Series 7, 24, 28, 52, 53 and 63 licenses.

16. Since August 2000, Freiman has served as CISC's President; and from August 2000 through March 2014, Freiman also served as CISC's CCO and was listed as the AML Chief Officer through March 2014. During the Relevant Period, he worked in CISC's home office in Fischer, Texas, which was also his home. On March 31, 2016, a Form U5 was filed terminating Freiman's association with CISC and registration with FINRA.

17. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Freiman because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Paul Jacobs

18. Jacobs has been in the securities industry since June 2003. He was associated with seven FINRA member firms before associating with CISC on September 26, 2013, the date on which CISC filed a Form U4 for Jacobs. He has obtained Series 7, 24 and 66 licenses.

19. Since March 2014, Jacobs has served as CISC's CCO. He works from his home in Austin, Texas.

20. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Jacobs because: (a) he currently is associated with a FINRA member and registered with FINRA; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Alain Florestan

21. Florestan began his career in the securities industry in September 1996. He was associated with sixteen FINRA member firms before associating with CISC on April 27, 2012, the date on which CISC filed a Form U4 for Florestan. He has obtained Series 7 and 63 licenses.

22. On May 18, 2015, CISC filed a Form U5 terminating Florestan's association with the firm. Prior to his termination, Florestan was located at the AWM branch in New York, New York. Florestan is not currently associated with any member firm.

23. Although Florestan is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely May 18, 2015; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Alex Etter

24. Etter began his career in the securities industry in November 1997. He was associated with four FINRA member firms before associating with CISC on April 8, 2011, the date on which CISC filed a Form U4 for Etter. He has obtained Series 7 and 63 licenses.

25. Etter created the Etter Group Corporation ("EGC") in 2002. Etter is the 100% owner of EGC. In April 2011, EGC became a CISC branch office in Englewood Cliffs, New Jersey. On May 16, 2016, a Form U5 was filed terminating Etter's association with CISC and registration with FINRA.

26. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Etter because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Lucas Lichtman

27. Lichtman began his career in the securities industry in June 2008. He was associated with two FINRA member firms before associating with CISC on April 15, 2011, the date on which CISC filed a Form U4 for Lichtman. Lichtman was located at the EGC branch. He has obtained Series 7 and 63 licenses. On May 16, 2016, a Form U5 was filed terminating Lichtman's association with CISC and registration with FINRA.

28. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Lichtman because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Richard Lim

29. Lim began his career in the securities industry in April 2005. He was associated with seven FINRA member firms before associating with CISC on April 15, 2011, the date on which CISC filed a Form U4 for Lim. Lim was located at the EGC branch. He has obtained Series 7 and 63 licenses. On May 16, 2016, a Form U5 was filed terminating Lim's association with CISC and registration with FINRA.

30. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Lim because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Richard Lee

31. Lee began his career in the securities industry in April 2001. He was associated with four FINRA member firms before associating with CISC on July 5, 2013, the date on which

CISC filed a Form U4 for Lee. He has obtained Series 7, 63, 65, and 66 licenses.

32. On June 3, 2015, CISC filed a Form U5 terminating Lee's association with the firm. Prior to his termination, Lee was located at the EGC branch. Lee is not currently associated with any member firm.

33. Although Lee is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely June 3, 2015; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Relevant Non-Respondents: Koutsoubos, KT, Adams, Starks, Francois, Zeltser and Kao

East Meadow Group Branch

34. KT was a registered representative at CISC's East Meadow Group branch on Long Island in East Meadow, New York. KT was associated with CISC from February 22, 2007, the date on which CISC filed a Form U4 for KT, until March 4, 2014, the date on which CISC filed a Form U5 terminating KT's association with the firm. KT first associated with a member firm in February 1996, and prior to his association with CISC, KT was associated with seven FINRA member firms. He is currently associated with another member firm.

35. Prior to and immediately after KT joined CISC, five customers at prior FINRA member firms filed complaints against KT about activity in their accounts, including allegations of churning, excessive trading, and unauthorized trading.

36. The East Meadow Group branch eventually expanded to employ five registered representatives, including Dimitrios Koutsoubos. Koutsoubos was associated with two FINRA

member firms prior to his association with CISC on June 1, 2011, the date on which CISC filed a Form U4 for Koutsoubos. CISC filed a Form U5 terminating Koutsoubos' association with CISC on May 7, 2014.

37. The East Meadow Group branch was closed in March 2014 upon the departure of KT. Koutsoubos was briefly associated with another CISC branch before he departed CISC in May 2014. Koutsoubos associated with another member firm from May 8, 2014 until May 2015.

38. In May 2015, Koutsoubos was barred from the securities industry by the SEC for churning and excessively trading a customer's account in 2009 at another FINRA member firm. CISC learned of the SEC's cease and desist order alleging that Koutsoubos had engaged in churning customers' accounts not later than June 16, 2011 – just two weeks after Koutsoubos joined CISC.

Adams Wealth Management Group Branch

39. In June 2011, as part of CISC's expansion, AWM Group became a CISC branch in New York, New York. Adams founded and owned 100% of AWM. At this time Adams, Starks and Francois became associated with CISC. During the majority of the Relevant Period, AWM Group employed 13 registered representatives, each of whom were independent contractors. CISC closed AWM Group as a branch in May 2015.

40. On August 6, 2015, FINRA issued its acceptance of a Letter of Acceptance, Waiver and Consent permanently barring Adams from the securities industry based on FINRA's findings that, from July 1, 2013 to June 30, 2014, while exercising de facto control over customer AdD's account and customer PVDK's account at CISC, and while acting with the requisite scienter, Adams excessively and unsuitably traded and churned AdD's account and PVDK's account in a manner that was inconsistent with those customers' investment objectives,

financial situations, and needs.[10] As a result of this misconduct, FINRA found that Adams willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and also violated FINRA Rules 2020, 2111, and 2010.

41. Starks was associated with CISC from June 21, 2011, the date on which CISC filed a Form U4 for him, through April 12, 2015, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Starks was located at the AWM branch.

42. Starks was barred from associating with any FINRA member in any capacity on October 30, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

43. Francois was associated with CISC from June 21, 2011, the date on which CISC filed a Form U4 for him, through April 27, 2015, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Francois was located at the AWM branch.

44. Francois was barred from associating with any FINRA member in any capacity on October 30, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

ZK Group Branch

45. Zeltser was associated with CISC from January 8, 2013, the date on which CISC filed a Form U4 for him, through November 11, 2014, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Zeltser was located in the ZK Group branch in New York, New York.

[10] In the AWC, customer AdD is referred to as "AD" and customer PDVK is referred to as "PV".

46. Zeltser was barred from associating with any FINRA member in any capacity on November 9, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

47. Kao was associated with CISC from January 9, 2013, the date on which CISC filed a Form U4 for him, through November 11, 2014, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Kao was located in the ZK Group branch.

48. Kao was barred from associating with any FINRA member in any capacity on November 9, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

STATEMENT OF FACTS RELEVANT TO CAUSES OF ACTION ONE TO SEVEN

CISC's Rapid Business Expansion in 2011 and 2012

49. CISC was a small regional broker dealer with four offices and approximately 20 representatives. In early 2011, CISC began to rapidly expand– more than doubling the number of associated persons (from 20 to 40) and branches (from 4 to 8) by the end of 2012.

50. The newly associated individuals' primary business lines included the solicitation of investors via cold calling, the solicitation of investors outside of the United States, and speculative equity trading, all of which were new business lines at CISC.

51. CISC's growth and expansion into new business lines was a systemic shift in the firm's historical business model, which traditionally focused on moderate or conservative equity (stock) trading for domestic individuals.

52. Despite this shift in business models, CISC's supervisory systems and procedures did not evolve with the increased risks associated with the firm's new methods of doing business.

53. As a result of the gap between CISC's supervisory systems and procedures and its business, registered representatives at four of the firm's new branches were allowed to make unsuitable active trading strategy recommendations to their clients, engage in discretionary trading without written authorization and engage in trading that exceeded the benchmarks for excessive trading and churning in client accounts.

The AWM Group Recommended an Unsuitable Active Investment Trading Strategy

54. During the Relevant Period, Adams supervised the AWM Group branch and its representatives, along with Freiman (until February 2014) and Jacobs (after February 2014). Adams, Starks, Francois and Florestan were registered representatives in the AWM Group branch during the Relevant Period.

55. All of the AWM Group representatives were paid exclusively by commission, and only when they executed securities transactions in their own customers' accounts. Specifically, CISC paid Adams through AWM Group approximately 90% of the commissions generated by the AWM Group representatives. Adams and AWM Group had agreements with each representative to pay the representative a portion of that commission, which ranged from 55% to 67.5% of the 90% received by Adams.

56. Each AWM Group representative was responsible for generating his own clients.

57. The AWM Group branch's primary business model was to use lead lists to cold-call prospective international customers who AWM Group representatives believed were interested in speculating in the U.S. markets. This business model was not previously a focus for CISC.

58. Once a prospect expressed an interest in investing in the U.S. markets, the AWM Group representative would obtain information from the prospect over the phone. Subsequently,

the representative would typically complete the new account form with information purportedly obtained during the telephone conversation. The prospect was then sent the already completed new account form to execute and return to the AWM Group. After the AWM Group received it, the form was forwarded to the CISC home office for review and approval by either Freiman or Caldwell.

59. CISC's AWM Group representatives focused their business model on recruiting customers who they believed would agree to indicate that they were interested in speculative trading. The AWM Group representatives typically only accepted customers who would agree to select "speculation" as their investment objective.

60. Adams, Starks, Francois and Florestan, however, did not explain to these customers the risks and costs of a "speculation" investment objective.

61. The AWM group representatives' failure to disclose the risks and costs of a speculative investment objective is unsurprising because the AWM Group representatives did not themselves understand the meaning of this investment objective. Adams, the supervisor of the AWM Group, believed it was appropriate to convince all clients to select "speculation" as an overall investment objective because "any time you buy stock it's speculative."

62. Once they had convinced their customers to open accounts with "speculation" as their investment objective, it was time for the AWM Group representatives to make their recommendations. The AWM Group representatives all worked in one room around one of two tables, each with their own phone. All sales pitches occurred in this room.

63. While each representative contacted their own customers and recommended their own securities transactions, Adams, Starks, Francois and Florestan shared their stock

recommendations and ideas. Not surprisingly, most of the CISC customers from the AWM Group bought and sold the same stocks during the same time periods.

64. In addition to recommending many of the same securities to their customers, the AWM Group representatives recommended a similar "active trading" investment strategy to their new customers. This active trading strategy centered around investing in a single security that has a potential for growth and where, according to the AWM Group representative making the pitch, there is reason to expect the company will experience some catalyst or event within three to six months. Uniformly, after that catalyst or event occurred – or, more often, when the AWM Group representative decided the catalyst would not occur – the AWM Group representative would recommend that their customer sell the first security and purchase a new security. The new security supposedly also was expected to experience some catalyst or event within three to six months.

65. The frequency of trading in certain customer accounts opened at the AWM Group of CISC (which are listed in attached Amended Schedule A) escalated quickly after the account opened and remained excessive for the duration that these accounts were open with CISC.

66. From July 2012 through July 2014, in each of the accounts at issue, Adams, Starks, Francois and Florestan recommended that their customers engage in an active trading investment strategy. Each of these accounts bought and sold multiple single securities each month.

67. In addition to actively trading their customer accounts, Adams, Starks, Francois and Florestan charged their customers a 4% to 4.5% commission on *each* buy and sell trade that they recommended as part of their active trading investment strategy.

68. The AWM Group representatives did not inform the customer whether the commissions charged on the purchase and sale of a security negated any profit or gain on the trade or caused the customer to experience a net loss on the transaction even where the security was sold for a higher price than the purchase price. The only disclosure of commission to the customer was the dollar amount reflected on the confirmation for each trade.

69. As a result of the active trading investment strategy employed at AWM Group by Adams, Starks, Francois and Florestan during the Relevant Period, the annualized turnover rates for seven customer accounts ranged from 8.68 to 29.84, and the annualized cost-to-equity ratio for these accounts ranged from 36.09% to 121.05%, as shown in the chart below and on Amended Schedule A.

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	AWM Reg. Reps.
8435	DM	7/9/2012-7/31/2014	35	($16,725.27)	$22,476.15	75.18%	36.09%	8.68	Starks
8890	CI	7/9/2012-7/31/2014	154	($128,712.16)	$133,782.97	78.20%	37.54%	12.81	Adams, Starks
2284	PVDK	7/9/2012-6/30/2014	76	($38,742.96)	$23,144.60	127.79%	63.90%	16.01	Adams, Florestan
1247	AdD	7/9/2012-6/30/2014	72	($131,536.59)	$61,824.86	130.97%	65.48%	16.33	Adams, Starks
4352	TW	7/9/2012-5/30/2014	29	($3,427.35)	$5,458.42	195.63%	102.07%	11.19	Adams, Francois
6047	CDF	7/9/2012-7/31/2014	107	($60,275.02)	$130,725.45	252.18%	121.05%	29.84	Adams, Francois
3481	RT, Ltd.	1/1/13-7/31/14	75	($212,248.20)	$97,758.08	83.20%	52.54%	18.11	Starks

70. Each of these customers realized a loss and paid staggering costs given the amount invested in their account.

71. The AWM Group, including Florestan, did not have a reasonable basis to recommend an active trading investment strategy to any of their customers. The AWM Group did not conduct any due diligence on the active trading investment strategy they were

recommending to customers, either generally or for any specific customer. They did not consider the strategy's risks, volatility, or likely performance in a variety of market and economic conditions.

72. The AWM Group did not perform any analysis to determine how the costs – commissions and trading fees – of the active trading investment strategy were cumulatively affecting each customer's account. Also, the AWM Group did not perform any analysis to determine how each transaction, including any losses, costs and fees, impacted the broader active trading investment strategy for that customer.

73. Prior to FINRA's 2013 cycle examination of the firm, *none* of the AWM Group representatives could explain turnover rates (the rate at which an account's holdings have been "turned over" or replaced with other holdings in a given year), commission-to-equity ratios (the percentage of the total commissions paid compared to the total equity in an account), or cost-to-equity ratios (the percentage of the total costs paid compared to the total equity in an account). None of the AWM Group representatives had an understanding of how these rates and ratios could be used to measure the suitability of the active trading investment strategy for a particular customer's account. Not surprisingly, Adams, Starks, Francois and Florestan did not make any of these calculations for their customer accounts during the Relevant Period.

74. Therefore, the AWM Group representatives did not understand the risks or costs associated with recommending the active trading investment strategy that they were, in fact, recommending to their customers. In failing to understand the active trading strategy that they were recommending to customers, Adams, Starks, Francois and Florestan did not have a reasonable basis to recommend that strategy to any customers.

75. In many cases, although the AWM Group representatives were aware that the customers at issue were experiencing significant losses in their accounts, they made no effort to determine how much of these losses were a result of the costs associated with the active trading strategy they were recommending to their customers.

November 2012 Outside Consultant Report Regarding AWM Group

76. CISC and its principals, Caldwell and Freiman, were aware that an active trading investment strategy was being used at AWM Group – and adversely impacting customers – as far back as 2011.

77. In 2011, President and then-CCO, Freiman, who was responsible for monitoring all trading activity for the AWM Group representatives at that time, noticed the level of trading activity in AWM customer accounts. Freiman provided the following investigative testimony:

> In 2011, I saw this happening. It was with [AWM] Group. I brought in an outside consultant. I thought it was being overtraded. Actually, I was right, it was being overtraded.... I brought in an outside consultant to look at these particular accounts. He said he had a system to run it on, which would determine whether, you know, it would meet all the requirements of commission versus equity and all that sort of thing. So he did and he confirmed what I already seen [sic].

78. On November 1, 2012, Freiman received a report from BF, a compliance consultant that Freiman retained to review the potential over trading at AWM Group. CISC, by and through Freiman, asked BF to review the trading in the AWM Group branch from April 1, 2012 through September 30, 2012.

79. BF concluded that AWM Group representatives engaged in conduct that potentially constituted excessive trading or churning. More specifically, BF informed CISC that:

> I am deeply concerned about some of the violations to stated firm policy in the commissions charged on straight trades and proceeds trades. I also noted potential violations to FINRA regulations concerning suitability and excessive trading (churning). Several of the representatives appeared to be generating the majority of their

> commissions by frequently trading in one to three client accounts... When I was a regulator, these were exactly the kind of people I tried to keep away from other people's money.

80. Freiman forwarded BF's report to Caldwell, the 100% owner of CISC then and now. Freiman informed Caldwell that it presented a "problem ... from a regulatory standpoint."

81. After reviewing and discussing BF's report, Freiman chose to take no action because it would be too expensive to implement supervisory procedures to monitor the trading activity at AWM Group. Freiman and CISC also did not take any meaningful steps to supervise, modify or stop the type of trading activity identified in BF's report because they feared losing the AWM Group and the revenue that it was generating for CISC through its active trading investment strategy.[11]

82. BF continued to review AWM Group's operations after issuing his report. On November 26, 2012, BF sent a follow-up email to Freiman stating, "the more I am finding out about [AWM Group's] operation, the less I am liking it. It really is starting to sound like and look like [sic] a chop shop...."

83. Despite receiving these findings from an independent consultant that CISC retained specifically to look at suspected overtraded accounts at the AWM Group branch, neither Freiman nor Caldwell took any meaningful action to supervise, investigate, modify or stop the trading activity identified by BF.

84. Instead, on December 31, 2012, Freiman sent an email to Caldwell asking for a pay raise, which included a request for a bonus based, in part, on gross commissions generated by the AWM Group. Shortly after, Freiman also sent emails to AWM Group representatives commending them for generating large revenues for CISC.

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[11] The AWM accounts at issue in this Complaint generated close to $500,000 in commissions during the Relevant Period. The consultant reviewed additional accounts as well as part of his analysis.

CISC's Failed Response to Unsuitable Active Trading Strategy in January 2014

85. CISC representatives, including the AWM Group representatives, continued to recommend an active trading investment strategy to many of their customers throughout 2012 and 2013. In late 2013, FINRA Staff began investigating CISC and reviewing the commissions and active trading recommended by CISC representatives.

86. In response to FINRA's investigation, in January 2014, CISC, at the directive of Caldwell and Freiman, created and began requiring the customers to whom CISC representatives had recommended an active trading investment strategy to "affirm" their acceptance of this strategy in writing.

87. The "Active Account Suitability Agreement/Affirmation" (the "Affirmations") that CISC created and sent to many of its customers for execution in early 2014 stated, in part:

> Due to the nature of short term or ***active trading strategies***, higher degrees of risk are associated with these types of activities. Active trading in securities markets is not suitable for all investors. Accordingly, it should only be undertaken by investors who understand the nature of the risk involved and are financially capable to sustain a loss of part, or all, of their investment capital.
>
> ***
>
> I am specifically aware of the liabilities which may be incurred through active trading. I acknowledge that all transactions initiated by me are affirmatively accepted by me as suitable for my personal and financial situation as well as consistent with my investment objectives which include speculation. I also wish to confirm that I have given the order to initiate all of the transactions in my account by placing the order with my representative. Cognizant of these facts, I declare that an ***active trading strategy*** is indeed consistent with my personal faculties, financial capabilities and investment objectives.

88. Prior to early 2014, CISC did not ask their customers to execute any document acknowledging the risks and costs of an active trading investment strategy. The Affirmations were not developed until months, and in some cases years, after (1) the accounts were opened;

(2) significant commissions and fees had already been generated in the customers' accounts from an unsuitable active trading strategy; (3) many customers had sustained substantial investment losses; and (4) many customers had paid staggering costs to CISC, in their accounts.

89. The Affirmations were not sent to all customers that were part of an active trading investment strategy. Instead, AWM Group representatives and CISC principals sent the Affirmations only to the customers who had been the subject of questions during sworn testimony with FINRA, as well as customers who had exceeded a 20% cost-to-equity ratio.

90. The AWM Group representatives did not explain to customers that received the Affirmations for execution why they were being asked to sign the Affirmations, nor were they told of the commissions that had been generated by the active trading investment strategy being utilized in their accounts or how the commissions impacted the performance of their accounts. Customers were not informed of turnover or cost-to-equity ratios for their accounts. Customers were not told that the reason they were receiving the Affirmations for their signature is that the trading in their account had exceeded a 20% cost-to-equity ratio, that FINRA was investigating trading in their accounts, or that a cost-to-equity ratio in excess of 20% is generally indicative of an account that has been excessively traded.

The EGC Representatives Recommended an Unsuitable Active Investment Trading Strategy

91. A few months before AWM Group became a branch of CISC, in April 2011, EGC became a branch of CISC. Etter owned the EGC branch. He also was a joint representative on most of the customer accounts in that branch.

92. During the Relevant Period, EGC employed four registered representatives, including Etter, Lichtman, Lim and Lee, each of whom was an independent contractor. The

EGC representatives were paid only a commission, and they were only compensated when they executed securities transactions in their customers' accounts.

93. As was true for the AWM Group, EGC representatives Etter, Lichtman, Lim, and Lee generated new customers by cold calling individuals. EGC mainly targeted individuals who resided overseas or in Canada.

94. Like AWM Group, Etter, Lichtman, Lim, and Lee generally targeted customers who would agree to speculation as their investment objective. They believed that once a customer selected "speculation," *any* investment strategy or trade was suitable. They considered the funds in their customer's accounts to be "gambling money" that the customer could afford to lose.

95. Like AWM Group, the EGC representatives recommended an active trading investment strategy for their customers. The active trading investment strategy employed at EGC involved Etter, Lichtman, Lim, and Lee purporting to identify securities with a short term catalyst event and then purchasing those securities in their customers' accounts. They would then wait for the catalyst event to occur – or sometimes decide that it would not occur – before selling those securities. They would then invest the proceeds from that sale into another security with a purported catalyst that was expected to occur in the next three to six months, and repeat this strategy throughout the life of the customer's account. Etter characterized EGC's "entire business model" as "impulsive buying."

96. From July 2012 through July 2014, Etter, Lichtman, Lim and Lee recommended that their customers engage in an unsuitable active trading investment strategy. These accounts bought and sold multiple single securities each month.

97. Etter, Lichtman, Lim and Lee charged their customers 4% to 4.5% commission on *each* buy and sell trade that they recommended as part of their active trading investment strategy.

98. They did not inform the customer whether the commissions charged on the purchase and sale of a security negated any profit or gain on the trade or caused the customer to experience a net loss on the transaction even where the security was sold for a higher price than the purchase price. The only disclosure of commission to the customer was the dollar amount reflected on the confirmation for each trade.

99. As a result of the active trading investment strategy employed by the EGC Group during the Relevant Period, the annualized turnover rates for eight customer accounts ranged from 3.61 to 10, and the annualized cost-to-equity ratio for these accounts ranged from 17.98% to 81.21%, as reflected in the chart below.

Acct. No.	Customer	Review Period	Total No. of Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	EGC Reg. Rep.
4761	BM	7/9/2012-7/31/2014	38	$34,102.62	37.46%	17.98%	4.26	Lim, Etter
6132	YM	7/9/2012-6/30/2014	24	$7,562.56	38.78%	19.39%	3.61	Lim, Etter
8841	GiC	7/9/2012-7/31/2014	48	$60,139.14	75.77%	36.37%	6.37	Lim, Etter
9512	AnD	7/9/2012-7/31/2014	47	$107,404.47	132.12%	63.42%	7.64	Etter, Lichtman
3660	JPD	7/9/2012-7/31/2014	25	$14,281.99	134.65%	64.63%	8.80	Lim, Etter
3409	AnC	7/9/2012-7/31/2014	46	$93,124.08	155.10%	74.45%	9.54	Etter
6540	NH Ltd	7/9/2012-7/31/2014	58	$110,076.67	169.20%	81.21%	10.00	Etter
2759	CVO	10/1/13-7/31/14	83	$159,380.64	31.96%	38.35%	9.32	Lee

100. EGC did not have a reasonable basis to recommend an active trading investment strategy to any of their customers. EGC did not conduct any due diligence on the active trading investment strategy they were recommending to customers, either generally or for any specific

customer. They did not consider the strategy's risks, volatility, or likely performance in a variety of market and economic conditions.

101. EGC did not perform any analysis to determine how the costs – commissions and trading fees – of the active trading investment strategy were cumulatively affecting each customer's account. Also, EGC did not perform any analysis to determine how each transaction, including any losses, costs and fees, impacted the broader active trading investment strategy for that customer.

102. Etter failed to understand his duty to recommend only suitable investments to his customers. As but one example of his misunderstanding of suitability, Etter equated suitability with whether the next transaction made up any prior losses. Specifically, Etter provided the following investigative testimony:

> Q: It appears that SFY, when you recommend that he sell it three weeks after he purchased it, that that actually resulted in a loss of $3,000 to Mr. Cameron as a result of the $4,800 in commissions you charged.
>
> ETTER: Okay. What is your question?
>
> Q: Was it a suitable recommendation to recommend that he sell it when he sold it?
>
> ETTER: It would be suitable if the next stock went up the percentage that I needed it to in order to make him that money.

103. When customers did complain, Etter did not report these complaints, and instead tried to hide his behavior by reducing sales charges. As one example, when customer YM expressed concerns about the poor performance and excessive commissions in his account, Etter offered to cease charging commissions to the customer for the next ten trades instead of reporting the complaint.

104. In another instance, customer CV sent an email to Lee stating: "stop trading. I am very disappointed in you. You have abused my trust." Rather than report this customer

complaint to CISC, Etter agreed to cease charging CV "commission until the account [was] even."

105. Prior to FINRA's 2014 cycle examination of the firm, *none* of the EGC representatives could explain turnover rates, commission-to-equity ratios, or cost-to-equity ratios. Etter had no idea what a cost-to-equity ratio of 70% meant. None of the EGC representatives had an understanding of how these rates and ratios could be used to measure the suitability of the active trading investment strategy for a particular customer's account. Not surprisingly, Etter, Lichtman, Lim and Lee did not make any of these calculations for their customer accounts during the Relevant Period.

106. Therefore, the EGC representatives did not understand the risks or costs associated with recommending the active trading investment strategy that they were, in fact, recommending to their customers. In failing to understand the active trading strategy that they were recommending to customers, Etter, Lichtman, Lim and Lee did not have a reasonable basis to recommend the strategy to any customers.

107. In many cases, although the EGC representatives were aware that the customers at issue were experiencing significant losses on many of the trades in their accounts, they made no effort to determine how much of these losses were a result of the costs associated with the active trading strategy they were recommending to their customers.

108. CISC and Freiman did not send the Affirmations to any of the EGC customers until approximately August or September 2014.

The East Meadow Branch Engaged in Active Trading That Raised Red Flags of Potentially Excessive Trading

109. CISC also had a branch office on Long Island in East Meadow, New York from February 2007 through March 2014. KT and Koutsoubos were registered representatives in this branch.

110. During the Relevant Period, the level of active trading in three of KT and Koutsoubos's accounts, listed here and in the attached Amended Schedule A should have raised red flags of potentially excessive trading:

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	East Meadow Reg. Rep.
2737	AC	1/1/2012-3/31/2014	169	($33,152.82)	$34,456.68	128.02%	56.90%	21.03	KT
5446	CM	1/1/2012-6/30/2014	103	($29,388.10)	$53,544.92	516.69%	206.68%	43.18	KT, Koutsoubos
4854	RJ	1/1/2012-4/30/2014	645	($348,621.67)	$334,566.20	409.51%	175.50%	48.21	KT

111. Freiman and Caldwell were aware of the high levels of trading occurring in the East Meadow branch. In fact, Freiman brought the trading in the East Meadow branch to Caldwell's attention in a March 2013 email, stating:

> That whole office comes from brokerage firms that are on either the SEC or FINRA's bad list. They have received training that is deviant at best and we are trying to put controls on what they do.... They should not have small accounts anyway the customer cannot win in that endeavor. [spelling and grammatical errors in original]

112. In response, Caldwell failed to take any action to address the excessive trading and the losses mounting in customer accounts, instead focusing on the fact that the Firm's policy was not to "do trades for less than $50 commission. On very small trades this means the commission is going to be higher than 5%."

The ZK Group Engaged in Excessive Trading

113. Zeltser and Kao opened a branch of CISC in Brooklyn, New York in January 2013.

114. During the 19 months they were associated with CISC, Zeltser and Kao opened 40 accounts for 37 customers. Of these accounts, 14 were accounts opened under their joint representative number; 11 accounts were opened under Zeltser's representative number; and 15 accounts were opened under Kao's representative number. All but six of the account opening forms indicated that the customer's investment objective was "speculation – high."

115. Zeltser and Kao both believed that once a customer selected "speculative" as the investment objective, any security was suitable for the customer.

116. The majority of the ZK Group's customers held only one position at a time in their accounts, which means that the current holding was sold before the next security was purchased. Zeltser and Kao would generally recommend the same security to all of their customers.

117. During the Relevant Period, the ZK Group actively traded securities in their customers' accounts.

118. Zeltser and Kao did not understand or consider a customer's cost-to-equity ratios or turnover rates before recommending a trade. Zeltser and Kao could not explain turnover rates, commission-to-equity ratios or cost-to-equity ratios. Neither of them had an understanding of how these rates and ratios affected the customer's account or the suitability of the trading in a particular customer's account. Although they were aware of the mounting losses in certain customer's accounts, they made no effort to determine how much of these losses were a result of the costs associated with trading in their customer's accounts.

119. Zeltser and Kao did not perform any analysis to determine how the costs of the trading in their customer accounts were cumulatively affecting each customer's account. Also, Zeltser and Kao did not perform any analysis for each individual transaction to determine how the costs affected each recommended transaction.

120. For the time period July 2013 through July 2014, the level of active trading in six of the ZK Group's customer accounts (listed here and in the attached Amended Schedule A) should have raised red flags of potentially excessive trading:

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	ZK Reg. Rep.
4301	JD	1/1/2013-7/31/2014	41	($57,915.56)	$19,466.29	55.55%	35.09%	8.22	Zeltser
6882	CrF	7/1/2013-7/31/2014	16	($1,548.82)	$2,503.10	68.67%	63.39%	8.99	Zeltser, Kao
5509	RK	3/1/2013-7/31/2014	44	($18,601.36)	$7,052.80	73.20%	51.67%	4.62	Zeltser, Kao
7101	RV	7/1/2013-7/31/2014	18	($20,976.97)	$3,070.90	38.24%	35.30%	6.14	Zeltser
6487	RV	7/1/2013-7/31/2014	21	$4,032.23	$5,534.19	65.47%	60.44%	10.96	Zeltser
3689	RV	7/1/2013-7/31/2014	34	($3,618.21)	$15,146.98	60.24%	55.61%	12.87	Zeltser

121. Almost all of the ZK Group customers had given Zeltser and Kao verbal discretion to trade their accounts. In fact, Zeltser and Kao stated they conducted approximately 90% of their trades without first speaking with their customers. Neither, however, had such authorization to exercise discretion in writing. Moreover, CISC prohibited discretionary trading in any accounts.

122. In total, Zeltser and Kao identified 15 customers whose accounts they traded with discretion and without written authorization or firm approval. While Zeltser and Kao contend

that they concealed the discretionary trading from their supervisors because they knew they were violating firm policy, given the lack of supervision of the ZK Group by CISC and its principals, such concealment was not difficult. Freiman, the assigned supervisor for the ZK Group, admitted that he did not monitor whether they were making discretionary trades in their accounts without written authorization.

The ZK Group Recommended Unsuitable Investments in Leveraged ETFs

123. In addition, Zeltser and Kao made unsuitable investment recommendations of two leveraged Exchange Traded Funds ("ETFs") – Direxion Daily Gold Miners Bull 3x Shares ETF (NUGT), and Direxion Daily Junior Gold Miners Bull 3x Shares (JNUG) – for the accounts of customers JC, JD, CrF, AK, LP, DP, RV, and AV.[12]

124. Zeltser and Kao did not consider the difference between leveraged ETFs and speculative stocks in determining whether the ETFs were suitable for their customers. They believed that as long as a customer had indicated that his or her investment objective was speculation, any speculative investment was appropriate.

125. Furthermore, neither Zeltser nor Kao understood NUGT or JNUG at the time they recommended these investments to their customers. Neither Zeltser nor Kao had even read the prospectus for NUGT or JNUG prior to recommending these investments to their customers.

126. Accordingly, at the time they recommended these ETFs, they were not aware that the prospectuses indicated that these investments were not suitable for holding periods longer than one day.

127. During the Relevant Period, Zeltser and Kao recommended 32 purchases of shares of NUGT and JNUG in the accounts of customers JC, JD, CrF, AK, LP, DP, RV, and AV

[12] These customers and the transactions are identified in Schedule B attached to the Complaint and incorporated herein.

for a total value of approximately $708,000. However, Zeltser and Kao only recommended that the shares of NUGT and JNUG be sold within one day in two of the 32 instances. The remaining 30 positions were held longer than one day – and in most instances, longer than two months.

128. Only after the value of these investments began to decline did Zeltser begin to review the prospectuses and understand the complex nature of leveraged ETFs and the appropriate holding period for these investments.

129. Thus, at the time they recommended the purchase of these securities, neither Zeltser nor Kao had a reasonable basis to believe that an investment in NUGT or JNUG was suitable for their customers.

130. During the Relevant Period, CISC did not have any policies or procedures in place to monitor the holding period of leveraged ETFs.

131. As a result of their unsuitable recommendations of NUGT and JNUG, a total of seven customers lost over $63,000 in these two leveraged ETFs.

The Firm's Supervision Failures

132. During the Relevant Period, CISC acted by and through Freiman as well as its registered representatives.

133. As the founder and 100% owner of CISC, Caldwell was responsible for making and made all major decisions for CISC. He controlled the operations of CISC and its registered representatives, including the hiring and firing of registered representatives. He possessed the ultimate power to direct the policies, procedures, and personnel of CISC.

134. As CISC's President during the entire Relevant Period, and its CCO from August 2000 to March 2014, Freiman was responsible for ensuring that CISC established, maintained, and enforced a system to supervise the activities of its registered and associated persons in a

manner reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. Pursuant to the Firm's WSPs in effect from at least March 2012 through on or about June 10, 2014, Freiman was designated as the principal responsible for "reviewing the supervisory system, procedures, and implemented inspection system and will be responsible for taking action, or recommending action to senior management, which will be reasonably designed to achieve compliance." The Firm's WSPs further provided that CISC, by and through Freiman, would annually review each business CISC engaged in, including a "periodic examination of customer accounts to detect and prevent irregularities or abuses."

135. Although the WSPs allowed for some supervisory tasks to be delegated to other individuals such as Adams, the WSPs in effect from March 2012 until June 10, 2014 stated: "Due to the daily analysis of trades by the firm's principals it is felt best that *all registered representatives will be the responsibility of Lennie S. Freiman and Greg A. Caldwell.*" (emphasis added).

136. Likewise, as CCO since March 2014, Jacobs was responsible for ensuring that CISC established, maintained, and enforced a system to supervise the activities of its registered and associated persons in a manner reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

137. Prior to Jacobs' appointment as CCO in March 2014, Freiman and Caldwell shared responsibility for reviewing and approving every trade placed by the representatives they were designated to supervise at CISC. Since his appointment as CCO in March 2014, Jacobs has been responsible for reviewing the trade blotter daily and for approving trades. After he completes his review, Jacobs provides an approved copy of the trade blotter to Freiman for his review.

138. Freiman was the designated supervisor for reviewing the trading activity of the AWM Group until February 10, 2014. After that time, Jacobs was designated as the AWM Group supervising principal. Contrary to the actual supervisory structure, the registered representatives in the AWM Group, other than Adams, understood that Adams was their only supervisor because they rarely, if ever, had any dealings with any other principal, and the supervisory structure was so poorly communicated.

139. Caldwell was assigned to supervise EGC until November 2, 2013. After that time, Jacobs was designated as the EGC branch supervising principal. Contrary to the actual supervisory structure, the EGC branch representatives, including Etter, believed Freiman was their assigned supervisor until Jacobs joined CISC, because they rarely, if ever, had any dealings with Caldwell, and the supervisory structure was so poorly communicated.

140. Freiman was the principal assigned to supervise the ZK Group at all times they were associated with CISC. Contrary to the actual supervisory structure, the ZK Group understood that Caldwell and later, Jacobs, was their supervisor because the supervisory structure was so poorly communicated.

141. Prior to March 2014, all branch inspections were conducted by Freiman or Caldwell. After March 2014, Freiman split the branch inspection responsibilities with Jacobs.

Failure to Supervise Branch Activities

142. CISC, acting through Freiman, failed to tailor its supervisory systems to its business operations in order to ensure compliance with applicable laws, rules, and regulations. Without adequate supervisory systems, the firm had no effective way to ensure that its registered representatives were complying with applicable laws, rules and regulations.

143. Caldwell, despite being the designated supervisor for the EGC branch until November 2, 2013, failed to perform any supervision of the activities of this branch, other than reviewing daily trades to determine whether they subjected *the firm* – not customers – to unacceptable levels of risk. Although Freiman was the designated supervisor of Zeltser, Kao, Adams and the AWM branch, he too failed to perform adequate supervision of the ZK and AWM branch activities. Likewise, Jacobs, as the designated supervisor of the EGC branch after February 2014, failed to perform adequate supervision of the EGC branch activities.

144. Specifically, neither CISC, nor any of its principals, reviewed trading activity over a period of time to determine if there were patterns of trading that were potential red flags that would require further investigation. In fact, Jacobs did not even know if it was possible for him to review a representative's historical trading to determine if the representative had a pattern of trading that would raise red flags.

145. Caldwell, Freiman and Jacob's branch inspections during the Relevant Period were likewise inadequate. Caldwell's branch examinations were merely a "check the box" process that was not tailored to address the pattern of recommending an active trading investment strategy that was occurring in these branches.

Failure to Properly Review for Unsuitable Transactions and Investment Strategies

146. Despite knowing of the active trading investment strategy being utilized in numerous CISC customer accounts since at least 2011, none of CISC's principals made any effort to confirm whether the registered representatives understood the strategy, did any due diligence to understand the risks and benefits of the strategy, or otherwise had a reasonable basis for recommending an active trading investment strategy to customers.

147. Caldwell, Freiman and Jacobs did not review every trade for suitability purposes. Specifically, Mr. Freiman testified:

> Q: Sounds like the answer is no, you weren't doing anything to ascertain whether securities being recommended by the brokers were suitable for the customers.
>
> Mr. Freiman: I think you are right.

148. Similarly, Jacobs did not review all trades assigned to him to determine if such trades were suitable, nor did he review historical account activity to determine whether a trade was suitable for that account.

Failure to Review for and Meaningfully Address Excessive Trading and Churning

149. CISC and Freiman ignored multiple red flags that CISC representatives were engaged in violative conduct, including potential excessive trading and churning, for years before finally acknowledging the issue in 2014.

150. In November 2012, the consultant that CISC hired to review the AWM Group branch determined that AWM Group representatives were trading securities in a manner that could constitute churning or could be quantitatively unsuitable. These findings were shared with Caldwell and Freiman at that time.

151. While Freiman initially recommended terminating certain brokers identified in the consultant's report because they were churning customer accounts, Caldwell refused to take any action. Instead, Caldwell and Freiman chose to ignore the report, and took no meaningful steps to address the serious red flags and end illegal conduct uncovered by their own consultant.

152. Freiman failed to supervise, modify or stop excessive trading and churning in customer accounts even though he knew that commissions charged to some of CISC's customers were so high that the customer could not realistically make money in the account, regardless of the returns on investment. In March 2013, Freiman sent an email to Caldwell that criticized the

East Meadow branch as being the worst violator of the Firm's commission policy, stating that due to the high commissions charged, that branch should not be allowed to have "small accounts" because the "customer cannot win in that endeavor" and that "fees they want to charge never allow the customer to make any money."

153. Caldwell not only ignored the complaint being raised, but he insisted that the representatives be allowed to operate under their current commission structure and practices. Freiman then resumed ignoring the excessive commissions being charged by the East Meadow branch.

154. Freiman likewise failed to supervise the activities at the ZK Group branch for excessive trading or discretionary trading. Freiman's supervision of Zeltser and Kao consisted solely of reviewing account applications, commissions and account activity. Freiman did not call any of the ZK Group customers, did not review the branch's phone records, did not ask how often they spoke to their customers, and did not review the branch communication logs. In fact, Freiman never visited the ZK Group branch office or met the representatives in person; the only in person branch exam was conducted by Jacobs in or about August 2014. As a result of the lack of supervision by Freiman, Zeltser and Kao were able to engage in discretionary trading without written authorization in at least 15 customer accounts over most of the time period these representatives were employed by CISC, generating excessive levels of commissions and fees.

155. CISC did not implement a system to monitor trades for excessive trading and churning. CISC believed such a system would be expensive and would severely diminish CISC's revenues.

156. By failing to implement adequate supervisory procedures, CISC and Freiman allowed CISC representatives to excessively trade and churn customer accounts, recommend unsuitable investment strategies, and exercise discretionary trading without written authorization.

CISC's 2014 Response to Excessive Trading was Inadequate

157. In late 2013, FINRA began taking on the record testimony of Caldwell, Freiman, and CISC representatives relating to FINRA staff's findings that the cost-to-equity ratios and turnover rates were excessively high in several customer accounts in multiple branches.

158. In December 2013, FINRA staff issued its findings for the 2013 exam, citing the firm for failing to comply with SEC Rule 10b-5, FINRA Rules 2010, 2020, 2111 and NASD Rule 3010 for potential churning and excessive trading in accounts of AWM Group and East Meadow Group customers, among other violations.

159. In addition to the Affirmations that CISC obtained in response to the exam findings in early 2014, on August 19, 2014, Jacobs announced to the firm's representatives that when a customer's account reached a turnover rate of six or a 20% cost-to-equity ratio, the firm would require a call with the customer, the account representative and the CCO. The customer would then be required to sign an Active Account Suitability Agreement/Affirmation within seven days or the account would be frozen. If an account reached 40% cost-to-equity, the account's commissions would be set at a maximum 1%, unless otherwise approved by the CCO.

160. During the phone calls with the customers whose accounts had exceeded the turnover rate or cost-to-equity ratios, Jacobs had a list of specific questions to ask the customers, most of which were directed to issues of general account handling. Only two questions touched on the commissions being charged to the account and the client's intention to have a speculative investment objective:

- "Are you aware that commissions may be charged on each trade and that by trading actively you may accumulate additional commissions over time which could affect whether or not the account is profitable?"
- "Would you say that speculation is your objective or one of your objectives for this account? If yes, then would you say that you are 'willing to accept maximum risk to your initial principal to aggressively see maximum returns, and understand that you could lose most, or all of the money instead?'"

161. At no point during the phone call with the customer did anyone from CISC inform the customer of the reason for the phone call; namely, that his or her account had *already* reached a 20% cost-to-equity ratio and/or a turnover rate of six or greater, and what that meant in layman's terms. In addition, no one from CISC told the customer the total commissions that had *already* been charged to the customer, or the impact that the commissions had on the account's value. Indeed, CISC portrayed the call as little more than a call from the compliance department to "make sure the customer was happy with their account."

162. After these telephone calls, CISC required that the representative sign the list of questions, and then have the customer sign and affirm that the customer had participated in the conference call and that the responses were accurate.

163. The representatives generally obtained the client's signatures by fax or email, not with an in person meeting.

164. Customers who were part of the active trading investment strategy at one of CISC's branches, but who had not yet hit the 20% cost-to-equity ratio or six turnover rate thresholds were *not* called or provided with the Affirmation form, even though they were part of the same active trading investment strategy. Freiman made no efforts to supervise or address the

active trading investment strategy being utilized in these customers' accounts other than to continue to review the trades on an isolated basis.

165. During the most recent cycle exam of CISC in 2015, the firm confirmed that the calculation of the 20% cost-to-equity ratio and turnover rate of six were reset at the beginning of 2015, rather than cumulatively looking at these numbers on a rolling annual basis. As a result, even if an account had come close to or exceeded 20% cost-to-equity by December 31, 2014, starting on January 1, 2015, the firm looked only at trades for the year 2015, thus resetting these numbers at zero.

166. CISC's inadequate system and procedure for the review of cost-to-equity and turnover rates remained in place at least through the end of the Relevant Period, April 2015. As a result, six additional CISC customer accounts in other branch locations had cost-to-equity ratios between 27.13% and 136.06% and turnover rates of 6.76 to 18.52 during the time period of August 2014 through April 2015, but these accounts were not identified by CISC as exceeding the 20% cost-to-equity ratio, and CISC conducted no additional review of the active trading in these accounts.

Heightened Supervision Failures

167. CISC's WSPs in effect during the Relevant Period required the firm to put a broker on heightened supervision when he or she had "three or more customer complaints alleging sales practice abuse within the past two years;... and employment with three or more broker-dealers in the past five years." The WSP's designated Freiman as the principal responsible for instituting heightened supervision.

168. CISC and Freiman, however, failed to enforce the firm's WSPs and place eight brokers on heightened supervision.

169. During the Relevant Period, five customers complained about Adams; four customers complained about Starks; and three customers complained about Etter.

170. In addition, within five years of the time of their employment with CISC, Adams had been employed with three firms; Florestan had been employed with five firms; Francois had been employed with four firms; Zeltser had been employed with five firms; Kao had been employed with three firms; Etter had been employed with three firms; and Lim had been employed with three firms.

171. Accordingly, because Adams, Starks, Florestan, Francois, Zeltser, Kao, Etter and Lim had the requisite number of customer complaints and/or previous employers, pursuant to the CISC's WSPs, they should have each been placed on heightened supervision.

172. Moreover, CISC and Freiman failed to implement an adequate heightened supervision program for monitoring the activities conducted by representatives in the EGC branch. In 2014, CISC and Freiman placed the ECG branch on heightened supervision but did not, in fact, conduct heightened supervision of the representatives at that branch location. Instead, the supervision of the EGC branch did not differ from the day-to-day supervision of CISC's other branches from August 1, 2014 through at least April 20, 2015.

Email Review Failures

173. In his capacity as President and CCO of CISC, Freiman was responsible for ensuring that the supervisory duties or functions that he delegated were being appropriately exercised.

174. CISC's WSPs required that *all* incoming and outgoing email correspondence be reviewed by a firm principal.

175. From January 2, 2012 to April 11, 2012, CISC, acting through Freiman, had inadequate supervisory systems to review email correspondence, and failed to enforce its WSPs regarding the review of email correspondence.

176. During the January 2, 2012 to April 11, 2012 time period, the firm's representatives sent and received approximately 33,334 emails. However, only approximately 1.4%, or 462, of those emails were reviewed by CISC principals.

177. In addition, from the time that AWM Group began its association with CISC until May 2013, Adams was responsible for reviewing emails for the AWM Group branch. Adams used keywords to review emails, but did not take any action when he found emails that contained the keywords. As a result, there were numerous customer complaints that were not timely disclosed to FINRA.

178. In May 2013, Adams delegated email review responsibility at AWM Group to ND. ND also used a keyword system to review emails, but did not take any action when he found emails that contained the keywords. As a result, CISC failed to disclose and address customer complaints.

179. CISC did not have adequate procedures in place for Freiman to supervise Adams and ND's email review, and to ensure that customer complaints found during email reviews were appropriately handled.

180. As a result, from March 2012 through October 2013, CISC, acting through Freiman, Adams, and ND, failed to identify and timely report 28 complaints[13] from customers of the AWM Group received through email.

[13] These unreported customer complaints are identified in Schedule C attached to the Complaint and incorporated herein.

181. Jacobs was assigned as the supervisor responsible for reviewing the emails of the EGC branch effective November 2, 2013 and the AWM branch during the period February 10, 2014 through the remainder of the Relevant Period.

182. In addition to the above listed emails, from October 2013 through July 2014, CISC, acting through Freiman and Jacobs, failed to identify and timely report eight additional customer complaints for the AWM branch, EGC branch and ZK Group branch received through email and fax.

Failure to Establish, Maintain and Enforce WSPs to Prevent Excessive Trading, Churning and Unsuitable Investment Strategy Recommendations

183. CISC and Freiman failed to establish, maintain, and enforce WSPs to adequately supervise CISC's business, including its active and aggressive trading investment strategy business, and its registered and associated persons, that were reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

184. CISC's WSPs during the Relevant Period were deficient in several key areas relative to its business. They failed:

- to define excessive trading or any of the metrics typically used to monitor whether an account is being excessively traded;
- to provide guidance on how the firm or its principals and representatives would monitor for excessive trading and churning;
- to provide for any training relating to excessive trading or churning;
- to define which customers would receive "affirmation" letters regarding the activity in their accounts, and when and why such letters would be sent to customers;

- to provide guidance on how the firm or its principals and representatives would monitor for qualitatively unsuitable recommendations; and
- to provide guidance to ensure a representative understood the risks and rewards of investment strategies being recommended by CISC representatives, including but not limited to active trading investment strategies.

CHARGING ALLEGATIONS AGAINST RESPONDENT FREIMAN

THIRD CAUSE OF ACTION
Supervision—Failure to Supervise
(NASD Rule 3010(a) and FINRA Rules 3110(a) and 2010)

185. NASD Rule 3010(a) and FINRA Rule 3110(a) requires each member to establish and maintain a system to supervise the activities of its registered and associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. "Final responsibility for proper supervision shall rest with the member."

186. As alleged above, during the Relevant Period, the Firm's WSPs designated Freiman as one of the principals responsible for reviewing the business in which the Firm was engaged and ensuring that the Firm had systems and procedures designed to detect and prevent violations of, and achieving compliance with, securities laws and regulations.

187. Freiman, however, failed to establish and maintain a system to supervise the activities alleged above that was reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

188. As alleged above, Freiman failed to monitor for, detect and, when detected, investigate multiple instances of potential misconduct by the firm's brokers involving unsuitable active trading investment strategies, unsuitable ETFs, discretionary trading without written

authorization and excessive trading/churning in multiple customer accounts across multiple branches of CISC.

189. During the Relevant Period, Freiman took no meaningful steps to monitor for excessive trading or churning, other than to review a limited number of trades in isolation on a daily basis through order tickets and trade blotters. CISC did not have or receive any report to monitor for patterns of excessive trading or churning, and it consciously made a decision not to implement any such monitoring system because the cost would cut into CISC's profits.

190. Even when faced with findings contained in a retained consultant's report identifying specific instances of misconduct in 2012, Freiman failed to act to address such practices until January 2014 when they finally began calculating the cost-to-equity ratios and turnover rates in accounts. As alleged above, however, Freiman's response in early 2014 was inadequate and the firm continued to fail to reasonably monitor for and detect excessive trading.

191. In addition, Freiman failed to implement a reasonable supervisory system to adequately review trades for unsuitable recommendations, such as ETFs.

192. Freiman similarly failed to implement a reasonable supervisory system to adequately monitor whether its representatives understood the risks and benefits of the active trading investment strategy they were recommending, nor did CISC monitor whether the representatives had done any due diligence on the recommended active trading investment strategy.

193. As a result of the grossly inadequate supervisory system established by Freiman, CISC's brokers made unsuitable recommendations to customers to purchase and hold ETFs, engaged in discretionary trading without written authorization, excessively traded and churned

accounts, and made unsuitable recommendations to customers to engage in an active trading investment strategy.

194. This misconduct, in turn, resulted in many CISC customers suffering significant losses and paying staggering commissions and fees during the Relevant Period.

195. In addition to the supervisory failures involving the sales practices alleged above, Freiman failed to establish and maintain a system to supervise the activities detailed above that was reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules and/or the firm's WSPs in multiple other ways. Freiman failed to:

- Place eight representatives on heightened supervision;
- Adequately implement a heightened supervision plan for the representatives placed on heighted supervision;
- Review all electronic correspondence to and from customers;
- Identify and report a total of 36 customer complaints that the firm received through electronic correspondence; and
- Apply right of reinvestment/right of reinstatement fee waivers, resulting in overcharges of $107,367.08 to 31 customer accounts.

196. For these reasons, Freiman violated NASD Rules 3010(a) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) (for misconduct on and after December 1, 2014) and 2010.

FOURTH CAUSE OF ACTION
Supervision—Deficient WSPs
(NASD Rule 3010(b) and FINRA Rules 3110(b) and 2010)

197. NASD Rule 3010(b) and FINRA Rule 3110(b) requires each member to "establish, maintain, and enforce written procedures to supervise the types of business in which it

engages," and to supervise the activities of its registered and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

198. As detailed above, Freiman failed to establish, maintain, and enforce WSPs to supervise CISC's business that were reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. CISC did not establish, maintain and enforce written procedures to supervise its representatives' recommendation of active and aggressive trading investment strategies to many of its customers in multiple branches.

199. As a result of the foregoing, Freiman violated NASD Rules 3010(b) (for misconduct before December 1, 2014) and FINRA Rules 3110(b) (for misconduct on and after December 1, 2014) and 2010.

SEVENTH CAUSE OF ACTION
AML Failure
(FINRA Rules 3310(b) and 2010)

200. FINRA Rule 3310(b) requires member firms to "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder."

201. As such, CISC was subject to the requirements imposed by 31 CFR §1010.520(b)(3), which requires financial institutions to have a process to respond to inquiries by law enforcement through Financial Crimes Enforcement Network ("FinCEN") 314(a) requests.

202. FinCEN provides notice to member firms that it must log onto the FinCEN website, generate a new list of account name requests, and perform a search of its systems for any possible matches within 14 days of the request.

203. In order to obtain the names/accounts to be searched, the firm must log into the FinCEN website. FinCEN keeps a history log of firm's access to the system.

204. CISC's WSPs state that for a request made by FinCEN pursuant to Section 314(a) of the United States Patriot Act, the Firm will immediately search its accounts/transactions to determine whether any accounts match FinCEN's request. The WSPs designated Freiman as the firm principal responsible for AML compliance during the time period of December 1, 2010 through August 20, 2013.

205. Freiman, however, failed to log into the FinCEN system for the entire time period of December 1, 2010 through August 20, 2013.

206. During this time, Freiman failed to conduct any of the required searches of its accounts/systems to determine whether it maintained any accounts for persons/entities appearing on FinCEN's 314(a) request list.

As a result of the foregoing, Freiman violated FINRA Rules and 3310(b) and 2010.

Based on the foregoing, Respondent Freiman violated NASD Rules 3310(b), 3010(a) and (b) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) and (b) (for misconduct on and after December 1, 2014) and 2010.

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 Freiman 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 Respondent be barred from associating with any FINRA member in a principal capacity and fined $75,000.

The fine shall be due and payable either immediately upon re-association with a member firm, 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 sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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

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FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Caldwell International Securities Corp. [CRD No. 104323], Greg Caldwell [CRD No. 2816295], Lennie Freiman [CRD No. 1007506], Paul Jacobs [CRD No. 4658235], Alain Florestan [CRD No. 2818942], Alex Etter [CRD No. 2981742], Lucas Lichtman [CRD No. 5542092], Richard Lim [CRD No. 4949289], and Richard Lee [CRD No. 2768039], Respondents.	DISCIPLINARY PROCEEDING NO. 2014039091903 Hearing Officer – LOM **ORDER ACCEPTING OFFER OF SETTLEMENT** Date: August 25, 2016

INTRODUCTION

Disciplinary Proceeding No. 2014039091903 was filed on December 31, 2015, by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA" or "Complainant"). Respondents Caldwell International Securities Corp. ("CISC), Greg Caldwell ("Caldwell"), and Paul Jacobs ("Jacobs") submitted an Offer of Settlement ("Offer") to Complainant. CISC and Jacobs executed the Offer on August 18, 2016, and Caldwell executed the Offer on August 22, 2016. 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, Respondents have consented, without admitting or denying the allegations of the Complaint (as amended by the Offer of Settlement), 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, to the entry of findings and violations consistent with the allegations of the Complaint (as amended by the Offer of Settlement), and to the imposition of the sanctions set forth below, and fully understand that this Order will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA.

BACKGROUND

Caldwell International Securities Corp.

CISC was a FINRA member from March 2001 through July 29, 2016. CISC was an introducing broker-dealer that generated most of its revenue from commissions charged to its

retail accounts on equity (stocks) and options transactions. During the Relevant Period, CISC maintained its principal place of business in Fischer, Texas in the personal residence of Lennie Freiman; and had nine branches employing 20 registered persons throughout the United States, including New York, New Jersey, Illinois, Texas, Florida and Nevada. On July 29, 2016, FINRA terminated CISC's registration.

Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over CISC because: (a) it was a FINRA member at the time the Complaint was filed; and (b) the Complaint charges the firm with misconduct committed while it was a FINRA member.

On July 8, 2005, NASD issued an AWC (No. 06050020) wherein CISC was fined $5,000 for failing to implement a reasonable AML program in violation of NASD Rules 2110 and 3011(B)(C)(D) and (E).

Greg Caldwell

Caldwell was in the securities industry from October 1996 through July 29, 2016. He was associated with two FINRA member firms before associating with CISC on August 2, 2000, the date on which CISC filed a Form U4 for Caldwell. He has obtained Series 4, 7, 24, 26, 63 and 65 licenses.

Caldwell founded CISC in August 2000 and has owned the company from its inception. At all relevant times, Caldwell was the 100% owner of CISC. On July 29, 2016, Caldwell's association with CISC and registration with FINRA was terminated.

Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Caldwell because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Paul Jacobs

Jacobs was in the securities industry from June 2003 through July 29, 2016. He was associated with seven FINRA member firms before associating with CISC on September 26, 2013, the date on which CISC filed a Form U4 for Jacobs. He has obtained Series 7, 24 and 66 licenses.

From March 2014 through July 29, 2016, Jacobs served as CISC's CCO and worked from his home in Austin, Texas. On July 29, 2016, Jacob's association with CISC and registration with FINRA was terminated.

Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Jacobs because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

FINDINGS AND CONCLUSIONS

The findings herein are pursuant to Respondents CISC, Caldwell and Jacobs's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding. It has been determined that the Offer be accepted and that findings be made as follows:

ALLEGED ACTS OR PRACTICES AND VIOLATIONS BY RESPONDENTS CISC, CALDWELL AND JACOBS

As alleged in the Complaint (as amended by the Offer of Settlement), Respondents CISC, Caldwell, and Jacobs engaged in the following acts, or failed to act as follows:

1. For approximately four and a half years, Respondent CISC, by and through one or more of its registered representatives and principals, put profits before customers, growth before

compliance, and subterfuge before transparency. CISC's compliance failures during this time period led to serious sales practice, supervisory, and reporting violations at its home office and multiple branches.

2. Starting in 2011, CISC began rapidly expanding the number of OSJs and registered representatives at the firm. Many of the new representatives focused their business on speculative equity trading, often for international customers. CISC's growth and expansion into these business lines was a systemic shift in the firm's historical business model, which traditionally focused on moderate or conservative equity (stock) trading for domestic individuals.

3. From December 1, 2010 through April 30, 2015 (the "Relevant Period"), CISC, by and through one or more of its principals, Respondents Greg Caldwell, Lennie Freiman,[1] and Paul Jacobs (from March 2014), failed to develop, maintain and enforce a supervisory system, including written supervisory procedures, reasonably tailored to its business model, allowing many of its registered representatives to recommend an unsuitable active trading investment strategy that the representatives did not understand and which caused significant financial losses to customers while generating substantial profits for the Respondents. Other representatives were allowed to engage in trading with discretion without authorization, and trading which exceeded the benchmarks for excessive trading and churning without any meaningful supervision of this activity. CISC and its principals were aware of virtually all of this misconduct, yet they took no meaningful steps to curtail and supervise it because doing so would reduce the commissions and fees being generated from their customers. Not surprisingly, CISC and its representatives received numerous customer complaints that went unreported to FINRA. CISC and certain principals and registered representatives committed other reporting and

[1] Freiman resolved the matters against him with an Offer of Settlement. The Order Accepting Freiman's Offer is being issued contemporaneously with this Order.

compliance violations during the Relevant Period, including failing to timely update Forms U4, failing to comply with anti-money laundering requirements, and failing to properly disclose commissions masquerading as "miscellaneous fees."

4. Specifically, during the Relevant Period, CISC's formerly registered representatives, Rasheed (Richard) Adams,[2] James Starks (a/k/a Jim Star),[3] Ricardo Francois,[4] and Respondents Alain Florestan,[5] Alex Etter, Richard Lee, Lucas Lichtman and Richard Lim,[6] recommended that their customers engage in an unsuitable active trading investment strategy, despite the fact these representatives failed to understand the risks of the investment strategy being recommended, or the impact the staggering commissions and fees generated by this active trading investment strategy would have on their customers' accounts. These representatives had no reasonable basis to recommend such a strategy to their customers. As a result of the recommendation of an unsuitable active investment trading strategy, 15 customer accounts paid over $1 million in commissions and fees. The annualized cost-to-equity ratios for the accounts engaged in this unsuitable active investment strategy ranged from 17.98% to 121.05% and had annualized turnover rates of 3.61 to 29.84. As a result of this misconduct, CISC violated FINRA Rule 2111 (for conduct on or after July 9, 2012) and FINRA Rule 2010 (First Cause of Action).

5. In addition, CISC, acting by and through its formerly registered representatives Marat (Matt) Zeltser[7] and Honetta Kao,[8] violated FINRA Rules 2111 (for conduct on or after

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[2] Adams was barred from associating with any FINRA member in any capacity pursuant to AWC No. 2015045911001 (August 6, 2015).
[3] Starks was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2015043464601 (October 30, 2015).
[4] Francois was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2015043464602 (October 30, 2015)
[5] Adams, Starks, Francois and Florestan are collectively referred to herein as the "AWM Group."
[6] Etter, Lee, Lichtman and Lim are collectively referred to herein as "EGC."
[7] Zeltser was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2014039091902 (November 9, 2015).

July 9, 2012) and 2010 by making unsuitable recommendations involving two inverse and/or leveraged exchange traded funds ("ETFs") without a reasonable basis for believing these investments were suitable for their customers during the Relevant Period (Second Cause of Action).

6. CISC's principals, Respondents Greg Caldwell, Lennie Freiman and Paul Jacobs, were responsible for supervising one or more of these relevant registered representatives during the Relevant Period. Caldwell, Freiman, and Jacobs were each aware of the extraordinarily high level of trading in customer accounts at the AWM Group, EGC, East Meadow Group[9] and ZK Group branches. However, Caldwell, Freiman and Jacobs did not take meaningful steps to supervise the high level of trading activity. Nor did they adequately monitor for excessive trading or churning other than to review each trade at the firm in isolation on a daily basis. Once possible excessive trading and churning was identified, Caldwell, Freiman and Jacobs did not adequately respond to investigate and, if necessary, stop this misconduct. Moreover, Caldwell, Freiman and Jacobs knew accounts at the AWM Group and EGC branches were being traded under an active trading investment strategy, but made no effort to determine if the representatives understood the risks of the strategy or had a reasonable basis to recommend the strategy. As a result of their failure to adequately supervise the activity of the AWM Group, EGC, East Meadow Group, and ZK Group, CISC, Caldwell, and Jacobs violated NASD Rule 3010(a) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) (for misconduct on and after December 1, 2014) and 2010 (Third Cause of Action).

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[8] Kao was barred from associating with any FINRA member in any capacity pursuant to FINRA Rule 9552 in Matter No. 2014039091901 (November 9, 2015). Zeltser and Kao are collectively referred to herein as the "ZK Group."

[9] The "East Meadow Group" was comprised of former registered representatives, KT and Dimitrios Koutsoubos (against whom the SEC issued an industry bar, a cease-and-desist order, imposed third-tier penalties, and ordered disgorgement plus prejudgment interest.in Admin. Proc File No. 3-15015, 2015 SEC LEXIS 2175 (May 29, 2015)).

7. CISC separately violated NASD Rule 3010(a) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) (for misconduct on and after December 1, 2014) and 2010 by: (1) failing to ensure that several of the registered representatives in the AWM, EGC, East Meadow and ZK Groups were placed on heightened supervision in compliance with the firm's written supervisory procedures ("WSPs"); (2) failing to ensure that electronic correspondence at these branches was being reviewed in compliance with the firm's WSPs, and as a result, failing to report 36 customer complaints; and (3) failing to offer customers mutual fund right of reinvestment/reinstatement waived or reduced sales charges, resulting in customers being overcharged $107,367.08 (Third Cause of Action). CISC's failure to timely report the 36 customer complaints also violated FINRA Rules 4530(d) and 2010 (Fifth Cause of Action).

8. During the Relevant Period, CISC, by and through Caldwell and Jacobs, also failed to establish, maintain, and enforce a system, including WSPs, reasonably designed to supervise the core activity in which many of its brokers engaged—active and aggressive trading. Specifically, CISC failed to create and maintain procedures to monitor for, detect, and prevent churning, excessive trading, and unsuitable active trading investment strategy recommendations. As a result, CISC, Caldwell, and Jacobs violated NASD Rule 3010(b) (for misconduct before December 1, 2014) and FINRA Rules 3110(b) (for misconduct on and after December 1, 2014) and 2010 (Fourth Cause of Action).

9. CISC's supervisory deficiencies also led to discriminatory fees. Specifically, from December 2011 through January 2012, CISC willfully violated Section 10(b) of the Exchange Act and Rule 10b-10 thereunder and violated NASD Rule 2430 and FINRA 2010, by charging customers misleading and/or discriminatory miscellaneous fees in 687 transactions (Sixth Cause of Action).

10. Likewise, the supervisory deficiencies led to Anti-Money Laundering ("AML") failures. From December 1, 2010 through August 20, 2013, CISC violated FINRA Rules 3310(b) and 2010 for failing to log into the FinCEN system and conduct any of the required searches of its accounts and systems to determine whether it maintained any accounts for persons appearing on FinCEN's 314(a) request list (Seventh Cause of Action).

RESPONDENTS AND JURISDICTION

Caldwell International Securities Corp.

11. CISC was a FINRA member from March 2001 through July 29, 2016. CISC was an introducing broker-dealer that generated most of its revenue from commissions charged to its retail accounts on equity (stocks) and options transactions. During the Relevant Period, CISC maintained its principal place of business in Fischer, Texas in the personal residence of Lennie Freiman; and had nine branches employing 20 registered persons throughout the United States, including New York, New Jersey, Illinois, Texas, Florida and Nevada. On July 29, 2016, FINRA terminated CISC's registration.

12. Under Article IV of the FINRA By-Laws, FINRA possesses jurisdiction over CISC because: (a) it was a FINRA member at the time the Complaint was filed; and (b) the Complaint charges the firm with misconduct committed while it was a FINRA member.

Greg Caldwell

13. Caldwell was in the securities industry from October 1996 through July 29, 2016. He was associated with two FINRA member firms before associating with CISC on August 2, 2000, the date on which CISC filed a Form U4 for Caldwell. He has obtained Series 4, 7, 24, 26, 63 and 65 licenses.

14. Caldwell founded CISC in August 2000 and has owned the company from its inception. At all relevant times, Caldwell was the 100% owner of CISC. On July 29, 2016, Caldwell's association with CISC and registration with FINRA was terminated.

15. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Caldwell because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Lennie Freiman

16. Freiman has been in the securities industry since June 1981. He was associated with five FINRA member firms before associating with CISC on August 2, 2000, the date on which CISC filed a Form U4 for Freiman. He has obtained Series 7, 24, 28, 52, 53 and 63 licenses.

17. Since August 2000, Freiman has served as CISC's President; and from August 2000 through March 2014, Freiman also served as CISC's Chief Compliance Officer ("CCO") and was listed as the AML Chief Officer through March 2014. During the Relevant Period, he worked in CISC's home office in Fischer, Texas, which was also his home. On March 31, 2016, a Form U5 was filed terminating Freiman's association with CISC and registration with FINRA.

18. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Freiman because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Paul Jacobs

19. Jacobs was in the securities industry from June 2003 through July 29, 2016. He was associated with seven FINRA member firms before associating with CISC on September 26, 2013, the date on which CISC filed a Form U4 for Jacobs. He has obtained Series 7, 24 and 66 licenses.

20. From March 2014 through July 29, 2016, Jacobs served as CISC's CCO and worked from his home in Austin, Texas. On July 29, 2016, Jacob's association with CISC and registration with FINRA was terminated.

21. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Jacobs because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Alain Florestan

22. Florestan began his career in the securities industry in September 1996. He was associated with sixteen FINRA member firms before associating with CISC on April 27, 2012, the date on which CISC filed a Form U4 for Florestan. He has obtained Series 7 and 63 licenses.

23. On May 18, 2015, CISC filed a Form U5 terminating Florestan's association with the firm. Prior to his termination, Florestan was located at the AWM branch in New York, New York. Florestan is not currently associated with any member firm.

24. Although Florestan is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely May 18, 2015;

and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Alex Etter

25. Etter began his career in the securities industry in November 1997. He was associated with four FINRA member firms before associating with CISC on April 8, 2011, the date on which CISC filed a Form U4 for Etter. He has obtained Series 7 and 63 licenses.

26. Etter created the Etter Group Corporation ("EGC") in 2002. Etter is the 100% owner of EGC. In April 2011, EGC became a CISC branch office in Englewood Cliffs, New Jersey. On May 16, 2016, a Form U5 was filed terminating Etter's association with CISC and registration with FINRA.

27. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Etter because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Lucas Lichtman

28. Lichtman began his career in the securities industry in June 2008. He was associated with two FINRA member firms before associating with CISC on April 15, 2011, the date on which CISC filed a Form U4 for Lichtman. Lichtman was located at the EGC branch. He has obtained Series 7 and 63 licenses. On May 16, 2016, a Form U5 was filed terminating Lichtman's association with CISC and registration with FINRA.

29. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Lichtman because: (a) he was associated with a FINRA member and registered with FINRA at

the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Richard Lim

30. Lim began his career in the securities industry in April 2005. He was associated with seven FINRA member firms before associating with CISC on April 15, 2011, the date on which CISC filed a Form U4 for Lim. Lim was located at the EGC branch. He has obtained Series 7 and 63 licenses. On May 16, 2016, a Form U5 was filed terminating Lim's association with CISC and registration with FINRA.

31. Under Article V of the FINRA By-Laws, FINRA possesses jurisdiction over Lim because: (a) he was associated with a FINRA member and registered with FINRA at the time the Complaint was filed; and (b) the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Richard Lee

32. Lee began his career in the securities industry in April 2001. He was associated with four FINRA member firms before associating with CISC on July 5, 2013, the date on which CISC filed a Form U4 for Lee. He has obtained Series 7, 63, 65, and 66 licenses.

33. On June 3, 2015, CISC filed a Form U5 terminating Lee's association with the firm. Prior to his termination, Lee was located at the EGC branch. Lee is not currently associated with any member firm.

34. Although Lee is no longer registered or associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because: (a) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely June 3, 2015; and (b)

the Complaint charges him with misconduct committed while he was associated with a FINRA member and registered with FINRA.

Relevant Non-Respondents: Koutsoubos, KT, Adams, Starks, Francois, Zeltser and Kao

East Meadow Group Branch

35. KT was a registered representative at CISC's East Meadow Group branch on Long Island in East Meadow, New York. KT was associated with CISC from February 22, 2007, the date on which CISC filed a Form U4 for KT, until March 4, 2014, the date on which CISC filed a Form U5 terminating KT's association with the firm. KT first associated with a member firm in February 1996, and prior to his association with CISC, KT was associated with seven FINRA member firms. He is currently associated with another member firm.

36. Prior to and immediately after KT joined CISC, five customers at prior FINRA member firms filed complaints against KT about activity in their accounts, including allegations of churning, excessive trading, and unauthorized trading.

37. The East Meadow Group branch eventually expanded to employ five registered representatives, including Dimitrios Koutsoubos. Koutsoubos was associated with two FINRA member firms prior to his association with CISC on June 1, 2011, the date on which CISC filed a Form U4 for Koutsoubos. CISC filed a Form U5 terminating Koutsoubos' association with CISC on May 7, 2014.

38. The East Meadow Group branch was closed in March 2014 upon the departure of KT. Koutsoubos was briefly associated with another CISC branch before he departed CISC in May 2014. Koutsoubos associated with another member firm from May 8, 2014 until May 2015.

39. In May 2015, Koutsoubos was barred from the securities industry by the SEC for churning and excessively trading a customer's account in 2009 at another FINRA member firm.

CISC learned of the SEC's cease and desist order alleging that Koutsoubos had engaged in churning customers' accounts not later than June 16, 2011 – just two weeks after Koutsoubos joined CISC.

Adams Wealth Management Group Branch

40. In June 2011, as part of CISC's expansion, AWM Group became a CISC branch in New York, New York. Adams founded and owned 100% of AWM. At this time Adams, Starks and Francois became associated with CISC. During the majority of the Relevant Period, AWM Group employed 13 registered representatives, each of whom were independent contractors. CISC closed AWM Group as branch in May 2015.

41. On August 6, 2015, FINRA issued its acceptance of a Letter of Acceptance, Waiver and Consent permanently barring Adams from the securities industry based on FINRA's findings that, from July 1, 2013 to June 30, 2014, while exercising de facto control over customer AdD's account and customer PVDK's account at CISC, and while acting with the requisite scienter, Adams excessively and unsuitably traded and churned AdD's account and PVDK's account in a manner that was inconsistent with those customers' investment objectives, financial situations, and needs.[10] As a result of this misconduct, FINRA found that Adams willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and also violated FINRA Rules 2020, 2111, and 2010.

42. Starks was associated with CISC from June 21, 2011, the date on which CISC filed a Form U4 for him, through April 12, 2015, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Starks was located at the AWM branch.

[10] In the AWC, customer AdD is referred to as "AD" and customer PDVK is referred to as "PV".

43. Starks was barred from associating with any FINRA member in any capacity on October 30, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

44. Francois was associated with CISC from June 21, 2011, the date on which CISC filed a Form U4 for him, through April 27, 2015, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Francois was located at the AWM branch.

45. Francois was barred from associating with any FINRA member in any capacity on October 30, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

ZK Group Branch

46. Zeltser was associated with CISC from January 8, 2013, the date on which CISC filed a Form U4 for him, through November 11, 2014, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Zeltser was located in the ZK Group branch in New York, New York.

47. Zeltser was barred from associating with any FINRA member in any capacity on November 9, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

48. Kao was associated with CISC from January 9, 2013, the date on which CISC filed a Form U4 for him, through November 11, 2014, the date on which CISC filed a Form U5 terminating his association with the firm. While associated with CISC, Kao was located in the ZK Group branch.

49. Kao was barred from associating with any FINRA member in any capacity on November 9, 2015 pursuant to FINRA Rule 9552(h) as a result of his failure to respond to requests for documents and information made pursuant to FINRA Rule 8210.

STATEMENT OF FACTS RELEVANT TO CAUSES OF ACTION ONE TO SEVEN

CISC's Rapid Business Expansion in 2011 and 2012

50. CISC was a small regional broker dealer with four offices and approximately 20 representatives. In early 2011, CISC began to rapidly expand– more than doubling the number of associated persons (from 20 to 40) and branches (from 4 to 8) by the end of 2012.

51. The newly associated individuals' primary business lines included the solicitation of investors via cold calling, the solicitation of investors outside of the United States, and speculative equity trading, all of which were new business lines at CISC.

52. CISC's growth and expansion into new business lines was a systemic shift in the firm's historical business model, which traditionally focused on moderate or conservative equity (stock) trading for domestic individuals.

53. Despite this shift in business models, CISC's supervisory systems and procedures did not evolve with the increased risks associated with the firm's new methods of doing business.

54. As a result of the gap between CISC's supervisory systems and procedures and its business, registered representatives at four of the firm's new branches were allowed to make unsuitable active trading strategy recommendations to their clients, engage in discretionary trading without written authorization and engage in trading that exceeded the benchmarks for excessive trading and churning in client accounts.

The AWM Group Recommended an Unsuitable Active Investment Trading Strategy

55. During the Relevant Period, Adams supervised the AWM Group branch and its representatives, along with Freiman (until February 2014) and Jacobs (after February 2014). Adams, Starks, Francois and Florestan were registered representatives in the AWM Group branch during the Relevant Period.

56. All of the AWM Group representatives were paid exclusively by commission, and only when they executed securities transactions in their own customers' accounts. Specifically, CISC paid Adams through AWM Group approximately 90% of the commissions generated by the AWM Group representatives. Adams and AWM Group had agreements with each representative to pay the representative a portion of that commission, which ranged from 55% to 67.5% of the 90% received by Adams.

57. Each AWM Group representative was responsible for generating his own clients.

58. The AWM Group branch's primary business model was to use lead lists to cold-call prospective international customers who AWM Group representatives believed were interested in speculating in the U.S. markets. This business model was not previously a focus for CISC.

59. Once a prospect expressed an interest in investing in the U.S. markets, the AWM Group representative would obtain information from the prospect over the phone. Subsequently, the representative would typically complete the new account form with information purportedly obtained during the telephone conversation. The prospect was then sent the already completed new account form to execute and return to the AWM Group. After the AWM Group received it, the form was forwarded to the CISC home office for review and approval by either Freiman or Caldwell.

60. CISC's AWM Group representatives focused their business model on recruiting customers who they believed would agree to indicate that they were interested in speculative trading. The AWM Group representatives typically only accepted customers who would agree to select "speculation" as their investment objective.

61. Adams, Starks, Francois and Florestan, however, did not explain to these customers the risks and costs of a "speculation" investment objective.

62. The AWM group representatives' failure to disclose the risks and costs of a speculative investment objective is unsurprising because the AWM Group representatives did not themselves understand the meaning of this investment objective. Adams, the supervisor of the AWM Group, believed it was appropriate to convince all clients to select "speculation" as an overall investment objective because "any time you buy stock it's speculative."

63. Once they had convinced their customers to open accounts with "speculation" as their investment objective, it was time for the AWM Group representatives to make their recommendations. The AWM Group representatives all worked in one room around one of two tables, each with their own phone. All sales pitches occurred in this room.

64. While each representative contacted their own customers and recommended their own securities transactions, Adams, Starks, Francois and Florestan shared their stock recommendations and ideas. Not surprisingly, most of the CISC customers from the AWM Group bought and sold the same stocks during the same time periods.

65. In addition to recommending many of the same securities to their customers, the AWM Group representatives recommended a similar "active trading" investment strategy to their new customers. This active trading strategy centered around investing in a single security that has a potential for growth and where, according to the AWM Group representative making

the pitch, there is reason to expect the company will experience some catalyst or event within three to six months. Uniformly, after that catalyst or event occurred – or, more often, when the AWM Group representative decided the catalyst would not occur – the AWM Group representative would recommend that their customer sell the first security and purchase a new security. The new security supposedly also was expected to experience some catalyst or event within three to six months.

66. The frequency of trading in certain customer accounts opened at the AWM Group of CISC (which are listed in attached Amended Schedule A) escalated quickly after the account opened and remained excessive for the duration that these accounts were open with CISC.

67. From July 2012 through July 2014, in each of the accounts at issue, Adams, Starks, Francois and Florestan recommended that their customers engage in an active trading investment strategy. Each of these accounts bought and sold multiple single securities each month.

68. In addition to actively trading their customer accounts, Adams, Starks, Francois and Florestan charged their customers a 4% to 4.5% commission on *each* buy and sell trade that they recommended as part of their active trading investment strategy.

69. The AWM Group representatives did not inform the customer whether the commissions charged on the purchase and sale of a security negated any profit or gain on the trade or caused the customer to experience a net loss on the transaction even where the security was sold for a higher price than the purchase price. The only disclosure of commission to the customer was the dollar amount reflected on the confirmation for each trade.

70. As a result of the active trading investment strategy employed at AWM Group by Adams, Starks, Francois and Florestan during the Relevant Period, the annualized turnover rates

for seven customer accounts ranged from 8.68 to 29.84, and the annualized cost-to-equity ratio for these accounts ranged from 36.09% to 121.05%, as shown in the chart below and on Amended Schedule A.

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	AWM Reg. Reps.
8435	DM	7/9/2012-7/31/2014	35	($16,725.27)	$22,476.15	75.18%	36.09%	8.68	Starks
8890	CI	7/9/2012-7/31/2014	154	($128,712.16)	$133,782.97	78.20%	37.54%	12.81	Adams, Starks
2284	PVDK	7/9/2012-6/30/2014	76	($38,742.96)	$23,144.60	127.79%	63.90%	16.01	Adams, Florestan
1247	AdD	7/9/2012-6/30/2014	72	($131,536.59)	$61,824.86	130.97%	65.48%	16.33	Adams, Starks
4352	TW	7/9/2012-5/30/2014	29	($3,427.35)	$5,458.42	195.63%	102.07%	11.19	Adams, Francois
6047	CDF	7/9/2012-7/31/2014	107	($60,275.02)	$130,725.45	252.18%	121.05%	29.84	Adams, Francois
3481	RT, Ltd.	1/1/13-7/31/14	75	($212,248.20)	$97,758.08	83.20%	52.54%	18.11	Starks

71. Each of these customers realized a loss and paid staggering costs given the amount invested in their account.

72. The AWM Group, including Florestan, did not have a reasonable basis to recommend an active trading investment strategy to any of their customers. The AWM Group did not conduct any due diligence on the active trading investment strategy they were recommending to customers, either generally or for any specific customer. They did not consider the strategy's risks, volatility, or likely performance in a variety of market and economic conditions.

73. The AWM Group did not perform any analysis to determine how the costs – commissions and trading fees – of the active trading investment strategy were cumulatively affecting each customer's account. Also, the AWM Group did not perform any analysis to

determine how each transaction, including any losses, costs and fees, impacted the broader active trading investment strategy for that customer.

74. Prior to FINRA's 2013 cycle examination of the firm, *none* of the AWM Group representatives could explain turnover rates (the rate at which an account's holdings have been "turned over" or replaced with other holdings in a given year), commission-to-equity ratios (the percentage of the total commissions paid compared to the total equity in an account), or cost-to-equity ratios (the percentage of the total costs paid compared to the total equity in an account). None of the AWM Group representatives had an understanding of how these rates and ratios could be used to measure the suitability of the active trading investment strategy for a particular customer's account. Not surprisingly, Adams, Starks, Francois and Florestan did not make any of these calculations for their customer accounts during the Relevant Period.

75. Therefore, the AWM Group representatives did not understand the risks or costs associated with recommending the active trading investment strategy that they were, in fact, recommending to their customers. In failing to understand the active trading strategy that they were recommending to customers, Adams, Starks, Francois and Florestan did not have a reasonable basis to recommend that strategy to any customers.

76. In many cases, although the AWM Group representatives were aware that the customers at issue were experiencing significant losses in their accounts, they made no effort to determine how much of these losses were a result of the costs associated with the active trading strategy they were recommending to their customers.

November 2012 Outside Consultant Report Regarding AWM Group

77. CISC and its principals, Caldwell and Freiman, were aware that an active trading investment strategy was being used at AWM Group – and adversely impacting customers – as far back as 2011.

78. In 2011, President and then-CCO, Freiman, who was responsible for monitoring all trading activity for the AWM Group representatives at that time, noticed the level of trading activity in AWM customer accounts. Freiman provided the following investigative testimony:

> In 2011, I saw this happening. It was with [AWM] Group. I brought in an outside consultant. I thought it was being overtraded. Actually, I was right, it was being overtraded.... I brought in an outside consultant to look at these particular accounts. He said he had a system to run it on, which would determine whether, you know, it would meet all the requirements of commission versus equity and all that sort of thing. So he did and he confirmed what I already seen [sic].

79. On November 1, 2012, Freiman received a report from BF, a compliance consultant that Freiman retained to review the potential over trading at AWM Group. CISC, by and through Freiman, asked BF to review the trading in the AWM Group branch from April 1, 2012 through September 30, 2012.

80. BF concluded that AWM Group representatives engaged in conduct that potentially constituted excessive trading or churning. More specifically, BF informed CISC that:

> I am deeply concerned about some of the violations to stated firm policy in the commissions charged on straight trades and proceeds trades. I also noted potential violations to FINRA regulations concerning suitability and excessive trading (churning). Several of the representatives appeared to be generating the majority of their commissions by frequently trading in one to three client accounts... When I was a regulator, these were exactly the kind of people I tried to keep away from other people's money.

81. Freiman forwarded BF's report to Caldwell, the 100% owner of CISC then and now. Freiman informed Caldwell that it presented a "problem ... from a regulatory standpoint."

82. After reviewing and discussing BF's report, Freiman and Caldwell chose to take no action because it would be too expensive to implement supervisory procedures to monitor the trading activity at AWM Group. Caldwell, Freiman and CISC also did not take any meaningful steps to supervise, modify or stop the type of trading activity identified in BF's report because they feared losing the AWM Group and the revenue that it was generating for CISC through its active trading investment strategy.[11]

83. BF continued to review AWM Group's operations after issuing his report. On November 26, 2012, BF sent a follow-up email to Freiman stating, "the more I am finding out about [AWM Group's] operation, the less I am liking it. It really is starting to sound like and look like [sic] a chop shop...."

84. Despite receiving these findings from an independent consultant that CISC retained specifically to look at suspected overtraded accounts at the AWM Group branch, neither Freiman nor Caldwell took any meaningful action to supervise, investigate, modify or stop the trading activity identified by BF.

85. Instead, on December 31, 2012, Freiman sent an email to Caldwell asking for a pay raise, which included a request for a bonus based, in part, on gross commissions generated by the AWM Group. Shortly after, Freiman also sent emails to AWM Group representatives commending them for generating large revenues for CISC.

CISC's Failed Response to Unsuitable Active Trading Strategy in January 2014

86. CISC representatives, including the AWM Group representatives, continued to recommend an active trading investment strategy to many of their customers throughout 2012

[11] The AWM accounts at issue in this Complaint generated close to $500,000 in commissions during the Relevant Period. The consultant reviewed additional accounts as well as part of his analysis.

and 2013. In late 2013, FINRA Staff began investigating CISC and reviewing the commissions and active trading recommended by CISC representatives.

87. In response to FINRA's investigation, in January 2014, CISC, at the directive of Caldwell and Freiman, created and began requiring the customers to whom CISC representatives had recommended an active trading investment strategy to "affirm" their acceptance of this strategy in writing.

88. The "Active Account Suitability Agreement/Affirmation" (the "Affirmations") that CISC created and sent to many of its customers for execution in early 2014 stated, in part:

> Due to the nature of short term or ***active trading strategies***, higher degrees of risk are associated with these types of activities. Active trading in securities markets is not suitable for all investors. Accordingly, it should only be undertaken by investors who understand the nature of the risk involved and are financially capable to sustain a loss of part, or all, of their investment capital.
>
> ***
>
> I am specifically aware of the liabilities which may be incurred through active trading. I acknowledge that all transactions initiated by me are affirmatively accepted by me as suitable for my personal and financial situation as well as consistent with my investment objectives which include speculation. I also wish to confirm that I have given the order to initiate all of the transactions in my account by placing the order with my representative. Cognizant of these facts, I declare that an ***active trading strategy*** is indeed consistent with my personal faculties, financial capabilities and investment objectives.

89. Prior to early 2014, CISC did not ask their customers to execute any document acknowledging the risks and costs of an active trading investment strategy. The Affirmations were not developed until months, and in some cases years, after (1) the accounts were opened; (2) significant commissions and fees had already been generated in the customers' accounts from an unsuitable active trading strategy; (3) many customers had sustained substantial investment losses; and (4) many customers had paid staggering costs to CISC, in their accounts.

90. The Affirmations were not sent to all customers that were part of an active trading investment strategy. Instead, AWM Group representatives and CISC principals sent the Affirmations only to the customers who had been the subject of questions during sworn testimony with FINRA, as well as customers who had exceeded a 20% cost-to-equity ratio.

91. The AWM Group representatives did not explain to customers that received the Affirmations for execution why they were being asked to sign the Affirmations, nor were they told of the commissions that had been generated by the active trading investment strategy being utilized in their accounts or how the commissions impacted the performance of their accounts. Customers were not informed of turnover or cost-to-equity ratios for their accounts. Customers were not told that the reason they were receiving the Affirmations for their signature is that the trading in their account had exceeded a 20% cost-to-equity ratio, that FINRA was investigating trading in their accounts, or that a cost-to-equity ratio in excess of 20% is generally indicative of an account that has been excessively traded.

The EGC Representatives Recommended an Unsuitable Active Investment Trading Strategy

92. A few months before AWM Group became a branch of CISC, in April 2011, EGC became a branch of CISC. Etter owned the EGC branch. He also was a joint representative on most of the customer accounts in that branch.

93. During the Relevant Period, EGC employed four registered representatives, including Etter, Lichtman, Lim and Lee, each of whom was an independent contractor. The EGC representatives were paid only a commission, and they were only compensated when they executed securities transactions in their customers' accounts.

94. As was true for the AWM Group, EGC representatives Etter, Lichtman, Lim, and Lee generated new customers by cold calling individuals. EGC mainly targeted individuals who resided overseas or in Canada.

95. Like AWM Group, Etter, Lichtman, Lim, and Lee generally targeted customers who would agree to speculation as their investment objective. They believed that once a customer selected "speculation," *any* investment strategy or trade was suitable. They considered the funds in their customer's accounts to be "gambling money" that the customer could afford to lose.

96. Like AWM Group, the EGC representatives recommended an active trading investment strategy for their customers. The active trading investment strategy employed at EGC involved Etter, Lichtman, Lim, and Lee purporting to identify securities with a short term catalyst event and then purchasing those securities in their customers' accounts. They would then wait for the catalyst event to occur – or sometimes decide that it would not occur – before selling those securities. They would then invest the proceeds from that sale into another security with a purported catalyst that was expected to occur in the next three to six months, and repeat this strategy throughout the life of the customer's account. Etter characterized EGC's "entire business model" as "impulsive buying."

97. From July 2012 through July 2014, Etter, Lichtman, Lim and Lee recommended that their customers engage in an unsuitable active trading investment strategy. These accounts bought and sold multiple single securities each month.

98. Etter, Lichtman, Lim and Lee charged their customers 4% to 4.5% commission on *each* buy and sell trade that they recommended as part of their active trading investment strategy.

99. They did not inform the customer whether the commissions charged on the purchase and sale of a security negated any profit or gain on the trade or caused the customer to experience a net loss on the transaction even where the security was sold for a higher price than the purchase price. The only disclosure of commission to the customer was the dollar amount reflected on the confirmation for each trade.

100. As a result of the active trading investment strategy employed by the EGC Group during the Relevant Period, the annualized turnover rates for eight customer accounts ranged from 3.61 to 10, and the annualized cost-to-equity ratio for these accounts ranged from 17.98% to 81.21%, as reflected in the chart below.

Acct. No.	Customer	Review Period	Total No. of Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	EGC Reg. Rep.
4761	BM	7/9/2012-7/31/2014	38	$34,102.62	37.46%	17.98%	4.26	Lim, Etter
6132	YM	7/9/2012-6/30/2014	24	$7,562.56	38.78%	19.39%	3.61	Lim, Etter
8841	GiC	7/9/2012-7/31/2014	48	$60,139.14	75.77%	36.37%	6.37	Lim, Etter
9512	AnD	7/9/2012-7/31/2014	47	$107,404.47	132.12%	63.42%	7.64	Etter, Lichtman
3660	JPD	7/9/2012-7/31/2014	25	$14,281.99	134.65%	64.63%	8.80	Lim, Etter
3409	AnC	7/9/2012-7/31/2014	46	$93,124.08	155.10%	74.45%	9.54	Etter
6540	NH Ltd	7/9/2012-7/31/2014	58	$110,076.67	169.20%	81.21%	10.00	Etter
2759	CVO	10/1/13-7/31/14	83	$159,380.64	31.96%	38.35%	9.32	Lee

101. EGC did not have a reasonable basis to recommend an active trading investment strategy to any of their customers. EGC did not conduct any due diligence on the active trading investment strategy they were recommending to customers, either generally or for any specific customer. They did not consider the strategy's risks, volatility, or likely performance in a variety of market and economic conditions.

102. EGC did not perform any analysis to determine how the costs – commissions and trading fees – of the active trading investment strategy were cumulatively affecting each customer's account. Also, EGC did not perform any analysis to determine how each transaction, including any losses, costs and fees, impacted the broader active trading investment strategy for that customer.

103. Etter failed to understand his duty to recommend only suitable investments to his customers. As but one example of his misunderstanding of suitability, Etter equated suitability with whether the next transaction made up any prior losses. Specifically, Etter provided the following investigative testimony:

> Q: It appears that SFY, when you recommend that he sell it three weeks after he purchased it, that that actually resulted in a loss of $3,000 to Mr. Cameron as a result of the $4,800 in commissions you charged.
>
> ETTER: Okay. What is your question?
>
> Q: Was it a suitable recommendation to recommend that he sell it when he sold it?
>
> ETTER: It would be suitable if the next stock went up the percentage that I needed it to in order to make him that money.

104. When customers did complain, Etter did not report these complaints, and instead tried to hide his behavior by reducing sales charges. As one example, when customer YM expressed concerns about the poor performance and excessive commissions in his account, Etter offered to cease charging commissions to the customer for the next ten trades instead of reporting the complaint.

105. In another instance, customer CV sent an email to Lee stating: "stop trading. I am very disappointed in you. You have abused my trust." Rather than report this customer complaint to CISC, Etter agreed to cease charging CV "commission until the account [was] even."

106. Prior to FINRA's 2014 cycle examination of the firm, *none* of the EGC representatives could explain turnover rates, commission-to-equity ratios, or cost-to-equity ratios. Etter had no idea what a cost-to-equity ratio of 70% meant. None of the EGC representatives had an understanding of how these rates and ratios could be used to measure the suitability of the active trading investment strategy for a particular customer's account. Not surprisingly, Etter, Lichtman, Lim and Lee did not make any of these calculations for their customer accounts during the Relevant Period.

107. Therefore, the EGC representatives did not understand the risks or costs associated with recommending the active trading investment strategy that they were, in fact, recommending to their customers. In failing to understand the active trading strategy that they were recommending to customers, Etter, Lichtman, Lim and Lee did not have a reasonable basis to recommend the strategy to any customers.

108. In many cases, although the EGC representatives were aware that the customers at issue were experiencing significant losses on many of the trades in their accounts, they made no effort to determine how much of these losses were a result of the costs associated with the active trading strategy they were recommending to their customers.

109. CISC, Caldwell, Freiman and Jacobs did not send the Affirmations to any of the EGC customers until approximately August or September 2014.

The East Meadow Branch Engaged in Active Trading That Raised Red Flags of Potentially Excessive Trading

110. CISC also had a branch office on Long Island in East Meadow, New York from February 2007 through March 2014. KT and Koutsoubos were registered representatives in this branch.

111. During the Relevant Period, the level of active trading in three of KT and Koutsoubos's accounts, listed here and in the attached Amended Schedule A should have raised red flags of potentially excessive trading:

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	East Meadow Reg. Rep.
2737	AC	1/1/2012-3/31/2014	169	($33,152.82)	$34,456.68	128.02%	56.90%	21.03	KT
5446	CM	1/1/2012-6/30/2014	103	($29,388.10)	$53,544.92	516.69%	206.68%	43.18	KT, Koutsoubos
4854	RJ	1/1/2012-4/30/2014	645	($348,621.67)	$334,566.20	409.51%	175.50%	48.21	KT

112. Freiman and Caldwell were aware of the high levels of trading occurring in the East Meadow branch. In fact, Freiman brought the trading in the East Meadow branch to Caldwell's attention in a March 2013 email, stating:

> That whole office comes from brokerage firms that are on either the SEC or FINRA's bad list. They have received training that is deviant at best and we are trying to put controls on what they do.... They should not have small accounts anyway the customer cannot win in that endeavor. [spelling and grammatical errors in original]

113. In response, Caldwell failed to take any action to address the excessive trading and the losses mounting in customer accounts, instead focusing on the fact that the Firm's policy was not to "do trades for less than $50 commission. On very small trades this means the commission is going to be higher than 5%."

The ZK Group Engaged in Excessive Trading

114. Zeltser and Kao opened a branch of CISC in Brooklyn, New York in January 2013.

115. During the 19 months they were associated with CISC, Zeltser and Kao opened 40 accounts for 37 customers. Of these accounts, 14 were accounts opened under their joint representative number; 11 accounts were opened under Zeltser's representative number; and 15

accounts were opened under Kao's representative number. All but six of the account opening forms indicated that the customer's investment objective was "speculation – high."

116. Zeltser and Kao both believed that once a customer selected "speculative" as the investment objective, any security was suitable for the customer.

117. The majority of the ZK Group's customers held only one position at a time in their accounts, which means that the current holding was sold before the next security was purchased. Zeltser and Kao would generally recommend the same security to all of their customers.

118. During the Relevant Period, the ZK Group actively traded securities in their customers' accounts.

119. Zeltser and Kao did not understand or consider a customer's cost-to-equity ratios or turnover rates before recommending a trade. Zeltser and Kao could not explain turnover rates, commission-to-equity ratios or cost-to-equity ratios. Neither of them had an understanding of how these rates and ratios affected the customer's account or the suitability of the trading in a particular customer's account. Although they were aware of the mounting losses in certain customer's accounts, they made no effort to determine how much of these losses were a result of the costs associated with trading in their customer's accounts.

120. Zeltser and Kao did not perform any analysis to determine how the costs of the trading in their customer accounts were cumulatively affecting each customer's account. Also, Zeltser and Kao did not perform any analysis for each individual transaction to determine how the costs affected each recommended transaction.

121. For the time period July 2013 through July 2014, the level of active trading in six of the ZK Group's customer accounts (listed here and in the attached Amended Schedule A) should have raised red flags of potentially excessive trading:

Acct. No.	Customer	Review Period	Total No. of Trades	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost-to-Equity	Annualized Turnover	ZK Reg. Rep.
4301	JD	1/1/2013-7/31/2014	41	($57,915.56)	$19,466.29	55.55%	35.09%	8.22	Zeltser
6882	CrF	7/1/2013-7/31/2014	16	($1,548.82)	$2,503.10	68.67%	63.39%	8.99	Zeltser, Kao
5509	RK	3/1/2013-7/31/2014	44	($18,601.36)	$7,052.80	73.20%	51.67%	4.62	Zeltser, Kao
7101	RV	7/1/2013-7/31/2014	18	($20,976.97)	$3,070.90	38.24%	35.30%	6.14	Zeltser
6487	RV	7/1/2013-7/31/2014	21	$4,032.23	$5,534.19	65.47%	60.44%	10.96	Zeltser
3689	RV	7/1/2013-7/31/2014	34	($3,618.21)	$15,146.98	60.24%	55.61%	12.87	Zeltser

122. Almost all of the ZK Group customers had given Zeltser and Kao verbal discretion to trade their accounts. In fact, Zeltser and Kao stated they conducted approximately 90% of their trades without first speaking with their customers. Neither, however, had such authorization to exercise discretion in writing. Moreover, CISC prohibited discretionary trading in any accounts.

123. In total, Zeltser and Kao identified 15 customers whose accounts they traded with discretion and without written authorization or firm approval. While Zeltser and Kao contend that they concealed the discretionary trading from their supervisors because they knew they were violating firm policy, given the lack of supervision of the ZK Group by CISC and its principals, such concealment was not difficult. Freiman, the assigned supervisor for the ZK Group, admitted that he did not monitor whether they were making discretionary trades in their accounts without written authorization.

The ZK Group Recommended Unsuitable Investments in Leveraged ETFs

124. In addition, Zeltser and Kao made unsuitable investment recommendations of two leveraged ETFs – Direxion Daily Gold Miners Bull 3x Shares ETF (NUGT), and Direxion Daily Junior Gold Miners Bull 3x Shares (JNUG) – for the accounts of customers JC, JD, CrF, AK, LP, DP, RV, and AV.[12]

125. Zeltser and Kao did not consider the difference between leveraged ETFs and speculative stocks in determining whether the ETFs were suitable for their customers. They believed that as long as a customer had indicated that his or her investment objective was speculation, any speculative investment was appropriate.

126. Furthermore, neither Zeltser nor Kao understood NUGT or JNUG at the time they recommended these investments to their customers. Neither Zeltser nor Kao had even read the prospectus for NUGT or JNUG prior to recommending these investments to their customers.

127. Accordingly, at the time they recommended these ETFs, they were not aware that the prospectuses indicated that these investments were not suitable for holding periods longer than one day.

128. During the Relevant Period, Zeltser and Kao recommended 32 purchases of shares of NUGT and JNUG in the accounts of customers JC, JD, CrF, AK, LP, DP, RV, and AV for a total value of approximately $708,000. However, Zeltser and Kao only recommended that the shares of NUGT and JNUG be sold within one day in two of the 32 instances. The remaining 30 positions were held longer than one day – and in most instances, longer than two months.

129. Only after the value of these investments began to decline did Zeltser begin to review the prospectuses and understand the complex nature of leveraged ETFs and the appropriate holding period for these investments.

[12] These customers and the transactions are identified in Schedule B.

130. Thus, at the time they recommended the purchase of these securities, neither Zeltser nor Kao had a reasonable basis to believe that an investment in NUGT or JNUG was suitable for their customers.

131. During the Relevant Period, CISC did not have any policies or procedures in place to monitor the holding period of leveraged ETFs.

132. As a result of their unsuitable recommendations of NUGT and JNUG, a total of seven customers lost over $63,000 in these two leveraged ETFs.

The Firm's Supervision Failures

133. During the Relevant Period, CISC acted by and through Caldwell, Freiman and Jacobs, as well as its registered representatives.

134. As the founder and 100% owner of CISC, Caldwell participated with Freiman in making all major decisions for CISC. He controlled the operations of CISC and its registered representatives, including the hiring and firing of registered representatives. He possessed the ultimate power to direct the policies, procedures, and personnel of CISC.

135. As CISC's President during the entire Relevant Period, and its CCO from August 2000 to March 2014, Freiman was responsible for ensuring that CISC established, maintained, and enforced a system to supervise the activities of its registered and associated persons in a manner reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. Pursuant to the Firm's WSPs in effect from at least March 2012 through on or about June 10, 2014, Freiman was designated as the principal responsible for "reviewing the supervisory system, procedures, and implemented inspection system and will be responsible for taking action, or recommending action to senior management, which will be reasonably designed to achieve compliance." The Firm's WSPs further provided that CISC, by

and through Freiman, would annually review each business CISC engaged in, including a "periodic examination of customer accounts to detect and prevent irregularities or abuses."

136. Although the WSPs allowed for some supervisory tasks to be delegated to other individuals such as Adams, the WSPs in effect from March 2012 until June 10, 2014 stated: "Due to the daily analysis of trades by the firm's principals it is felt best that *all registered representatives will be the responsibility of Lennie S. Freiman and Greg A. Caldwell.*" (emphasis added).

137. Likewise, as CCO since March 2014, Jacobs was responsible for ensuring that CISC established, maintained, and enforced a system to supervise the activities of its registered and associated persons in a manner reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

138. Prior to Jacobs' appointment as CCO in March 2014, Freiman and Caldwell shared responsibility for reviewing and approving every trade placed by the representatives they were designated to supervise at CISC. Since his appointment as CCO in March 2014, Jacobs has been responsible for reviewing the trade blotter daily and for approving trades. After he completes his review, Jacobs provides an approved copy of the trade blotter to Freiman for his review.

139. Freiman was the designated supervisor for reviewing the trading activity of the AWM Group until February 10, 2014. After that time, Jacobs was designated as the AWM Group supervising principal. Contrary to the actual supervisory structure, the registered representatives in the AWM Group, other than Adams, understood that Adams was their only supervisor because they rarely, if ever, had any dealings with any other principal, and the supervisory structure was so poorly communicated.

140. Caldwell was assigned to supervise EGC until November 2, 2013. After that time, Jacobs was designated as the EGC branch supervising principal. Contrary to the actual supervisory structure, the EGC branch representatives, including Etter, believed Freiman was their assigned supervisor until Jacobs joined CISC, because they rarely, if ever, had any dealings with Caldwell, and the supervisory structure was so poorly communicated.

141. Freiman was the principal assigned to supervise the ZK Group at all times they were associated with CISC. Contrary to the actual supervisory structure, the ZK Group understood that Caldwell and later, Jacobs, was their supervisor because the supervisory structure was so poorly communicated.

142. Prior to March 2014, all branch inspections were conducted by Freiman or Caldwell. After March 2014, Freiman split the branch inspection responsibilities with Jacobs.

Failure to Supervise Branch Activities

143. CISC, acting through Caldwell, Freiman and Jacobs, failed to tailor its supervisory systems to its business operations in order to ensure compliance with applicable laws, rules, and regulations. Without adequate supervisory systems, the firm had no effective way to ensure that its registered representatives were complying with applicable laws, rules and regulations.

144. Caldwell, despite being the designated supervisor for the EGC branch until November 2, 2013, failed to perform any supervision of the activities of this branch, other than reviewing daily trades to determine whether they subjected *the firm* – not customers – to unacceptable levels of risk. Although Freiman was the designated supervisor of Zeltser, Kao, Adams and the AWM branch, he too failed to perform adequate supervision of the ZK and

AWM branch activities. Likewise, Jacobs, as the designated supervisor of the EGC branch after February 2014, failed to perform adequate supervision of the EGC branch activities.

145. Specifically, neither CISC, nor any of its principals, reviewed trading activity over a period of time to determine if there were patterns of trading that were potential red flags that would require further investigation. In fact, Jacobs did not even know if it was possible for him to review a representative's historical trading to determine if the representative had a pattern of trading that would raise red flags.

146. Caldwell, Freiman and Jacob's branch inspections during the Relevant Period were likewise inadequate. Caldwell's branch examinations were merely a "check the box" process that was not tailored to address the pattern of recommending an active trading investment strategy that was occurring in these branches.

Failure to Properly Review for Unsuitable Transactions and Investment Strategies

147. Despite knowing of the active trading investment strategy being utilized in numerous CISC customer accounts since at least 2011, none of CISC's principals made any effort to confirm whether the registered representatives understood the strategy, did any due diligence to understand the risks and benefits of the strategy, or otherwise had a reasonable basis for recommending an active trading investment strategy to customers.

148. Caldwell, Freiman and Jacobs did not review every trade for suitability purposes. Specifically, Mr. Freiman testified:

> Q: Sounds like the answer is no, you weren't doing anything to ascertain whether securities being recommended by the brokers were suitable for the customers.
>
> Mr. Freiman: I think you are right.

149. Similarly, Jacobs did not review all trades assigned to him to determine if such trades were suitable, nor did he review historical account activity to determine whether a trade was suitable for that account.

Failure to Review for and Meaningfully Address Excessive Trading and Churning

150. CISC, Caldwell and Freiman ignored multiple red flags that CISC representatives were engaged in violative conduct, including potential excessive trading and churning, for years before finally acknowledging the issue in 2014.

151. In November 2012, the consultant that CISC hired to review the AWM Group branch determined that AWM Group representatives were trading securities in a manner that could constitute churning or could be quantitatively unsuitable. These findings were shared with Caldwell and Freiman at that time.

152. While Freiman initially recommended terminating certain brokers identified in the consultant's report because they were churning customer accounts, Caldwell refused to take any action. Instead, Caldwell and Freiman chose to ignore the report, and took no meaningful steps to address the serious red flags and end illegal conduct uncovered by their own consultant.

153. Freiman failed to supervise, modify or stop excessive trading and churning in customer accounts even though he knew that commissions charged to some of CISC's customers were so high that the customer could not realistically make money in the account, regardless of the returns on investment. In March 2013, Freiman sent an email to Caldwell that criticized the East Meadow branch as being the worst violator of the Firm's commission policy, stating that due to the high commissions charged, that branch should not be allowed to have "small accounts" because the "customer cannot win in that endeavor" and that "fees they want to charge never allow the customer to make any money."

154. Caldwell not only ignored the complaint being raised, but he insisted that the representatives be allowed to operate under their current commission structure and practices. Freiman then resumed ignoring the excessive commissions being charged by the East Meadow branch.

155. Freiman likewise failed to supervise the activities at the ZK Group branch for excessive trading or discretionary trading. Freiman's supervision of Zeltser and Kao consisted solely of reviewing account applications, commissions and account activity. Freiman did not call any of the ZK Group customers, did not review the branch's phone records, did not ask how often they spoke to their customers, and did not review the branch communication logs. In fact, Freiman never visited the ZK Group branch office or met the representatives in person; the only in person branch exam was conducted by Jacobs in or about August 2014. As a result of the lack of supervision by Freiman, Zeltser and Kao were able to engage in discretionary trading without written authorization in at least 15 customer accounts over most of the time period these representatives were employed by CISC, generating excessive levels of commissions and fees.

156. CISC did not implement a system to monitor trades for excessive trading and churning. CISC believed such a system would be expensive and would severely diminish CISC's revenues.

157. By failing to implement adequate supervisory procedures, CISC, Caldwell and Freiman allowed CISC representatives to excessively trade and churn customer accounts, recommend unsuitable investment strategies, and exercise discretionary trading without written authorization.

CISC's 2014 Response to Excessive Trading was Inadequate

158. In late 2013, FINRA began taking on the record testimony of Caldwell, Freiman, and CISC representatives relating to FINRA staff's findings that the cost-to-equity ratios and turnover rates were excessively high in several customer accounts in multiple branches.

159. In December 2013, FINRA staff issued its findings for the 2013 exam, citing the firm for failing to comply with SEC Rule 10b-5, FINRA Rules 2010, 2020, 2111 and NASD Rule 3010 for potential churning and excessive trading in accounts of AWM Group and East Meadow Group customers, among other violations.

160. In addition to the Affirmations that CISC obtained in response to the exam findings in early 2014, on August 19, 2014, Jacobs announced to the firm's representatives that when a customer's account reached a turnover rate of six or a 20% cost-to-equity ratio, the firm would require a call with the customer, the account representative and the CCO. The customer would then be required to sign an Active Account Suitability Agreement/Affirmation within seven days or the account would be frozen. If an account reached 40% cost-to-equity, the account's commissions would be set at a maximum 1%, unless otherwise approved by the CCO.

161. During the phone calls with the customers whose accounts had exceeded the turnover rate or cost-to-equity ratios, Jacobs had a list of specific questions to ask the customers, most of which were directed to issues of general account handling. Only two questions touched on the commissions being charged to the account and the client's intention to have a speculative investment objective:

- "Are you aware that commissions may be charged on each trade and that by trading actively you may accumulate additional commissions over time which could affect whether or not the account is profitable?"

- "Would you say that speculation is your objective or one of your objectives for this account? If yes, then would you say that you are 'willing to accept maximum risk to your initial principal to aggressively see maximum returns, and understand that you could lose most, or all of the money instead?'"

162. At no point during the phone call with the customer did anyone from CISC inform the customer of the reason for the phone call; namely, that his or her account had *already* reached a 20% cost-to-equity ratio and/or a turnover rate of six or greater, and what that meant in layman's terms. In addition, no one from CISC told the customer the total commissions that had *already* been charged to the customer, or the impact that the commissions had on the account's value. Indeed, CISC portrayed the call as little more than a call from the compliance department to "make sure the customer was happy with their account."

163. After these telephone calls, CISC required that the representative sign the list of questions, and then have the customer sign and affirm that the customer had participated in the conference call and that the responses were accurate.

164. The representatives generally obtained the client's signatures by fax or email, not with an in person meeting.

165. Customers who were part of the active trading investment strategy at one of CISC's branches, but who had not yet hit the 20% cost-to-equity ratio or six turnover rate thresholds were *not* called or provided with the Affirmation form, even though they were part of the same active trading investment strategy. Caldwell, Freiman and Jacobs made no efforts to supervise or address the active trading investment strategy being utilized in these customers' accounts other than to continue to review the trades on an isolated basis.

166. During the most recent cycle exam of CISC in 2015, the firm confirmed that the calculation of the 20% cost-to-equity ratio and turnover rate of six were reset at the beginning of 2015, rather than cumulatively looking at these numbers on a rolling annual basis. As a result, even if an account had come close to or exceeded 20% cost-to-equity by December 31, 2014, starting on January 1, 2015, the firm looked only at trades for the year 2015, thus resetting these numbers at zero.

167. CISC's inadequate system and procedure for the review of cost-to-equity and turnover rates remained in place at least through the end of the Relevant Period, April 2015. As a result, six additional CISC customer accounts in other branch locations had cost-to-equity ratios between 27.13% and 136.06% and turnover rates of 6.76 to 18.52 during the time period of August 2014 through April 2015, but these accounts were not identified by CISC as exceeding the 20% cost-to-equity ratio, and CISC conducted no additional review of the active trading in these accounts.

Heightened Supervision Failures

168. CISC's WSPs in effect during the Relevant Period required the firm to put a broker on heightened supervision when he or she had "three or more customer complaints alleging sales practice abuse within the past two years;... and employment with three or more broker-dealers in the past five years." The WSP's designated Freiman as the principal responsible for instituting heightened supervision.

169. CISC and Freiman, however, failed to enforce the firm's WSPs and place eight brokers on heightened supervision.

170. During the Relevant Period, five customers complained about Adams; four customers complained about Starks; and three customers complained about Etter.

171. In addition, within five years of the time of their employment with CISC, Adams had been employed with three firms; Florestan had been employed with five firms; Francois had been employed with four firms; Zeltser had been employed with five firms; Kao had been employed with three firms; Etter had been employed with three firms; and Lim had been employed with three firms.

172. Accordingly, because Adams, Starks, Florestan, Francois, Zeltser, Kao, Etter and Lim had the requisite number of customer complaints and/or previous employers, pursuant to the CISC's WSPs, they should have each been placed on heightened supervision.

173. Moreover, CISC and Freiman failed to implement an adequate heightened supervision program for monitoring the activities conducted by representatives in the EGC branch. In 2014, CISC and Freiman placed the ECG branch on heightened supervision but did not, in fact, conduct heightened supervision of the representatives at that branch location. Instead, the supervision of the EGC branch did not differ from the day-to-day supervision of CISC's other branches from August 1, 2014 through at least April 20, 2015.

Email Review Failures

174. In his capacity as President and CCO of CISC, Freiman was responsible for ensuring that the supervisory duties or functions that he delegated were being appropriately exercised.

175. CISC's WSPs required that *all* incoming and outgoing email correspondence be reviewed by a firm principal.

176. From January 2, 2012 to April 11, 2012, CISC, acting through Freiman, had inadequate supervisory systems to review email correspondence, and failed to enforce its WSPs regarding the review of email correspondence.

177. During the January 2, 2012 to April 11, 2012 time period, the firm's representatives sent and received approximately 33,334 emails. However, only approximately 1.4%, or 462, of those emails were reviewed by CISC principals.

178. In addition, from the time that AWM Group began its association with CISC until May 2013, Adams was responsible for reviewing emails for the AWM Group branch. Adams used keywords to review emails, but did not take any action when he found emails that contained the keywords. As a result, there were numerous customer complaints that were not timely disclosed to FINRA.

179. In May 2013, Adams delegated email review responsibility at AWM Group to ND. ND also used a keyword system to review emails, but did not take any action when he found emails that contained the keywords. As a result, CISC failed to disclose and address customer complaints.

180. CISC did not have adequate procedures in place for Freiman to supervise Adams and ND's email review, and to ensure that customer complaints found during email reviews were appropriately handled.

181. As a result, from March 2012 through October 2013, CISC, acting through Freiman, Adams, and ND, failed to identify and timely report 28 complaints[13] from customers of the AWM Group received through email.

182. Jacobs was assigned as the supervisor responsible for reviewing the emails of the EGC branch effective November 2, 2013 and the AWM branch during the period February 10, 2014 through the remainder of the Relevant Period.

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[13] These unreported customer complaints are identified in Schedule C attached to the Complaint and incorporated herein.

183. In addition to the above listed emails, from October 2013 through July 2014, CISC, acting through Freiman and Jacobs, failed to identify and timely report eight additional customer complaints for the AWM branch, EGC branch and ZK Group branch received through email and fax.

Failure to Establish, Maintain and Enforce WSPs to Prevent Excessive Trading, Churning and Unsuitable Investment Strategy Recommendations

184. CISC, Caldwell, and Jacobs failed to establish, maintain, and enforce WSPs to adequately supervise CISC's business, including its active and aggressive trading investment strategy business, and its registered and associated persons, that were reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

185. CISC's WSPs during the Relevant Period were deficient in several key areas relative to its business. They failed:

- to define excessive trading or any of the metrics typically used to monitor whether an account is being excessively traded;
- to provide guidance on how the firm or its principals and representatives would monitor for excessive trading and churning;
- to provide for any training relating to excessive trading or churning;
- to define which customers would receive "affirmation" letters regarding the activity in their accounts, and when and why such letters would be sent to customers;
- to provide guidance on how the firm or its principals and representatives would monitor for qualitatively unsuitable recommendations; and

- to provide guidance to ensure a representative understood the risks and rewards of investment strategies being recommended by CISC representatives, including but not limited to active trading investment strategies.

Failure to Apply Right of Reinvestment/Right of Reinstatement Waived Or Reduced Sales Charges

186. From January 22, 2010 through June 12, 2013, former CISC registered representative, BP, engaged in mutual fund transactions for CISC customers. Caldwell directly supervised these transactions.

187. BP actively traded these products, and would frequently switch mutual funds in and out of customer accounts. Often, after selling out of one fund family, BP would subsequently purchase back into the same fund family. This strategy would allow, under certain circumstances set forth in the mutual fund's prospectus, the customer to be eligible for waived or reduced sales charges resulting from rights of reinvestment/reinstatement.

188. CISC, however, did not apply these waived or reduced sales charges to these transactions.

189. From January 22, 2010 through June 12, 2013, CISC enacted transactions in approximately 31 accounts that were eligible to receive a waived or reduced sales charge as part of the clients' right of reinvestment/reinstatement provisions in the applicable fund's prospectus.

190. CISC's failure to offer the rights of reinvestment/reinstatement caused its customers to be overcharged $107,367.08 in sales charges that should not have been charged.

191. During the January 22, 2010 through June 12, 2013 time period, CISC had no supervisory systems or WSPs in place to ensure that reduced sales charges were applied for mutual fund rights of reinvestment/reinstatement.

192. CISC has not provided restitution to its customers for these overcharges.

CHARGING ALLEGATIONS AGAINST RESPONDENTS CISC, CALDWELL AND JACOBS

FIRST CAUSE OF ACTION
Unsuitable Investment Strategy Recommendations/Reasonable Basis Suitability (FINRA Rules 2111 and 2010) CISC

193. FINRA Rule 2111, which became effective July 9, 2012, requires, in part, that a broker-dealer or associated person "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 [firm] or associated person to ascertain the customer's investment profile." (Emphasis added.) As explained in the Supplementary Material found at Rule 2111.05:

> Rule 2111 is composed of three main obligations: reasonable-basis suitability, customer-specific suitability, and quantitative suitability. ... The reasonable-basis obligation 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. .... **A member's or associated person's reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.** (Emphasis added.)

194. In Regulatory Notice ("RN") 11-25, FINRA emphasized that the term "strategy should be interpreted broadly." RN 11-25 also clarified that FINRA Rule 2111 "would cover a recommended investment strategy regardless of whether the recommendation results in a securities transaction or even references a specific security or securities."

195. In RN 12-25, FINRA detailed again a representative's reasonable basis obligations, stating:

> The reasonable-basis obligation has two components: a broker must (1) perform reasonable diligence to understand the nature of the

> recommended security or investment strategy involving a security or securities, as well as the potential risks and rewards, and (2) determine whether the recommendation is suitable for at least some investors based on that understanding. A broker must adhere to both components of reasonable-basis suitability. A broker could violate the obligation if he or she did not understand the recommended security or investment strategy, even if the security or investment strategy is suitable for at least some investors. A broker must understand the securities and investment strategies involving a security or securities that he or she recommends to customers.

196. As alleged, Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee each recommended an active trading investment strategy to their customers during the Relevant Period.

197. Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee, however, did not have a reasonable basis for recommending an active trading investment strategy to their customers. They did not understand the investment strategy they were each recommending.

198. Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee did not know how to calculate or even understand cost-to-equity ratios and turnover rates, which are standard industry metrics used to measure whether an account is being excessively traded. Therefore, they did not understand the impact of trading and costs on their customers' accounts and on the specific transactions recommended as part of an investment strategy.

199. Likewise, Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee did not conduct any due diligence into the active trading investment strategy they were recommending. They routinely recommended this active trading strategy to their customers despite the fact none of them ever reviewed their customers' accounts, either individually or collectively, to determine if the active trading investment strategy was successful or suitable for their customers. Indeed, none of these representatives reviewed the results of that strategy over

any particular period of time, assessed the impact of commissions on account performance, or modified their recommended strategy in the face of mounting losses and costs.

200. Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee did not make any inquiry into the commissions and fees their active trading investment strategy generated in particular transactions or overall in an account. They had no idea of the strategy's "break-even point" when they continued to recommend an active trading investment strategy to their customers.

201. Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee failed to perform any analysis of the active trading investment strategy's costs, risks, potential benefits, volatility, or likely performance in a variety of market and economic conditions.

202. The active trading investment strategy recommended by Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim and Lee was not in the best interest of the clients whose accounts are at issue. Many of these accounts suffered substantial losses while generating significant commissions and fees from the level of active trading in the accounts.

203. Accordingly, Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee made unsuitable recommendations of an active trading investment strategy to their customers during the Relevant Period.

204. CISC is liable for the unsuitable recommendations of an active trading investment strategy made by Adams, Starks, Francois, Florestan, Etter, Lichtman, Lim, and Lee under the doctrine of *respondeat superior* because each representative was an agent of CISC acting within the scope of his duties when he engaged in this misconduct.

205. As a result of the foregoing, CISC violated FINRA Rule 2111 (from July 9, 2012 through April 30, 2015). By violating FINRA Rule 2111, CISC also violated FINRA Rule 2010.

SECOND CAUSE OF ACTION
Unsuitable ETF Recommendations/Reasonable Basis Suitability
(Violations of FINRA Rules 2111 and 2010)
CISC

206. FINRA Rule 2111, effective July 9, 2012, requires, in part, that a broker-dealer or associated person "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 [firm] or associated person to ascertain the customer's investment profile."

207. Rule 2111's "reasonable basis" requirement goes beyond whether a recommended security is suitable for the specific customer. As explained in the Supplementary Material found at Rule 2111.05:

> Rule 2111 is composed of three main obligations: reasonable-basis suitability, customer-specific suitability, and quantitative suitability. ... The reasonable-basis obligation 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. .... **A member's or associated person's reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.** (Emphasis added.)

208. FINRA Rule 2111 also requires a broker to educate clients about the risks associated with any recommendations.

209. Zeltser and Kao did not have an understanding of the potential risks and rewards of recommending NGUT and JNUG to customers JC, JD, CrF, AK, LP, DP, RV, and AV in 2013 and 2014 in a total of 32 transactions. They did not read the prospectuses of either NGUT or JNUG prior to making the recommendations to their customers.

210. Zeltser and Kao did not have a reasonable basis to believe that these risky and speculative securities were suitable for customers JC, JD, CrF, AK, LP, DP, RV, and AV. Because Zeltser and Kao did not understand these two ETFs, they certainly did not educate their customers about the risks associated with purchasing and holding these securities.

211. Zeltser and Kao did not conduct adequate due diligence on these two ETFs to understand the risks and benefits of these risky products. Therefore, they did not have reasonable bases to recommend them to any customers.

212. CISC is liable for these unsuitable investment recommendations under the doctrine of *respondeat superior* because Zeltser and Kao were agents of CISC acting within the scope of their duties when they engaged in this misconduct.

213. As a result of the foregoing conduct, Respondent CISC violated FINRA Rules 2111 and 2010.

THIRD CAUSE OF ACTION
Supervision—Failure to Supervise
(NASD Rule 3010(a) and FINRA Rules 3110(a) and 2010)
CISC, Caldwell and Jacobs

214. NASD Rule 3010(a) and FINRA Rule 3110(a) require each member to establish and maintain a system to supervise the activities of its registered and associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. "Final responsibility for proper supervision shall rest with the member."

215. As alleged above, during the Relevant Period, the Firm's WSPs designated Caldwell as one of the principals responsible for reviewing the business in which the Firm was engaged and ensuring that the Firm had systems and procedures designed to detect and prevent violations of, and achieving compliance with, securities laws and regulations. After Jacobs became the Firm's CCO in March 2014, he too was designated as having such responsibilities.

216. CISC, Caldwell, and Jacobs, however, failed to establish and maintain a system to supervise the activities alleged above that was reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

217. As alleged above, CISC and Caldwell, from January 2012 through April 2015, and Jacobs, from March 2014 through April 2015, failed to monitor for, detect and, when detected, investigate multiple instances of potential misconduct by the firm's brokers involving unsuitable active trading investment strategies, unsuitable ETFs, discretionary trading without written authorization and excessive trading/churning in multiple customer accounts across multiple branches of CISC.

218. CISC and Caldwell, from January 2012 through July 2014, and Jacobs, from March 2014 through July 2014, took no meaningful steps to monitor for excessive trading or churning, other than to review a limited number of trades in isolation on a daily basis through order tickets and trade blotters. CISC did not have or receive any report to monitor for patterns of excessive trading or churning, and it consciously made a decision not to implement any such monitoring system because the cost would cut into CISC's profits.

219. Even when faced with findings contained in a retained consultant's report identifying specific instances of misconduct in 2012, CISC and Caldwell failed to act to address such practices until January 2014 when they finally began calculating the cost-to-equity ratios and turnover rates in accounts. As alleged above, however, CISC and Caldwell's response in early 2014 was inadequate and the firm continued to fail to reasonably monitor for and detect excessive trading through April 2015.

220. In addition, CISC and Caldwell, from January 2012 through July 2014, and Jacobs, from March 2014 through July 2014, failed to implement a reasonable supervisory system to adequately review trades for unsuitable recommendations, such as ETFs.

221. CISC and Caldwell, from January 2012 through July 2014, and Jacobs, from March 2014 through April 2015, similarly failed to implement a reasonable supervisory system to adequately monitor whether its representatives understood the risks and benefits of the active trading investment strategy they were recommending, nor did CISC monitor whether the representatives had done any due diligence on the recommended active trading investment strategy.

222. As a result of the grossly inadequate supervisory system established by CISC, Caldwell, and Jacobs, CISC's brokers made unsuitable recommendations to customers to purchase and hold ETFs, engaged in discretionary trading without written authorization, excessively traded and churned accounts, and made unsuitable recommendations to customers to engage in an active trading investment strategy.

223. This misconduct, in turn, resulted in many CISC customers suffering significant losses and paying staggering commissions and fees during the Relevant Period.

224. In addition to the supervisory failures involving the sales practices alleged above, CISC and Caldwell failed to establish and maintain a system to supervise the activities detailed above that was reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules and/or the firm's WSPs in multiple other ways. CISC and Caldwell failed to:

- Place eight representatives on heightened supervision;

- Adequately implement a heightened supervision plan for the representatives placed on heighted supervision;
- Review all electronic correspondence to and from customers;
- Identify and report a total of 36 customer complaints that the firm received through electronic correspondence; and
- Apply right of reinvestment/right of reinstatement fee waivers, resulting in overcharges of $107,367.08 to 31 customer accounts.

225. For these reasons, CISC, Caldwell, and Jacobs violated NASD Rules 3010(a) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) (for misconduct on and after December 1, 2014) and 2010.

FOURTH CAUSE OF ACTION
Supervision—Deficient WSPs
(NASD Rule 3010(b) and FINRA Rules 3110(b) and 2010)
CISC, Caldwell and Jacobs

226. NASD Rule 3010(b) and FINRA Rule 3110(b) require each member to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages," and to supervise the activities of its registered and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules.

227. As detailed above, CISC and Caldwell, from January 2012 through July 2014, and Jacobs, from March 2014 through April 2015, failed to establish, maintain, and enforce WSPs to supervise its business, that were reasonably designed to achieve compliance with applicable securities laws and regulations and NASD/FINRA Rules. CISC did not establish, maintain and enforce written procedures to supervise its representatives' recommendation of active and aggressive trading investment strategies to many of its customers in multiple branches.

228. In addition, CISC, from January 22, 2010 through June 12, 2013, failed to establish, maintain and enforce written procedures to ensure that reduced sales charges were applied for mutual funds where applicable in accordance with the fund's right of reinvestment/right of reinstatement provisions.

229. CISC, from August 2014 through April 2015, also failed to implement an adequate heightened supervision program for monitoring the activities conducted by representatives of the EGC branch.

230. As a result of the foregoing, CISC, Caldwell, and Jacobs violated NASD Rules 3010(b) (for misconduct before December 1, 2014) and FINRA Rules 3110(b) (for misconduct on and after December 1, 2014) and 2010.

FIFTH CAUSE OF ACTION
Failure to Report and Timely Report Events Under FINRA Rule 4530
(FINRA Rules 4530 and 2010)
CISC

231. FINRA Rule 4530(d) requires "each member shall report to FINRA statistical and summary information regarding written customer complaints in such detail as FINRA shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member."

232. Under Supplementary Material .08, "the member must report any written grievance by such person involving the member or a person associated with the member."

233. CISC's WSPs define a "complaint" as "any verbal or written statement by a client or any person acting on behalf of a client which alleges a grievance against the firm or anyone associated with it in connection with the solicitation or execution of any securities transaction or the disposition of securities or the funds of that client."

234. From March 2012 through October 2013, the AWM Group branch had received 28 complaints from customers through email. (*See* Schedule C hereto for a list of these complaints).

235. None of these complaints were identified as customer complaints.

236. In addition, from December 2013 through April 2014, CISC received eight complaints from customers through email and fax. (*See* Schedule C hereto for a list of these complaints).

237. CISC, failed to identify these eight customer complaints.

238. None of these complaints were reported to FINRA in accordance with Rule 4530(d).

239. As detailed in Schedule C, which was attached to the Complaint and is incorporated herein, from March 2012 to July 2014, CISC failed to report to FINRA statistical and summary information regarding 36 written customer complaints from three branches as required by FINRA Rule 4530(d).

240. For those complaints that were ultimately reported, they ranged from 93 to 550 days late.

241. As of the time of the filing of the Complaint, CISC had failed to report 15 of these complaints.

242. As a result of the forgoing, CISC violated FINRA Rules 4530(d) and 2010.

SIXTH CAUSE OF ACTION
Unlawful Miscellaneous Fees
(Willful Violations of Section 10(b) of the Exchange Act and Rule 10b-10 thereunder; and violations of NASD Conduct Rule 2430 and FINRA 2010)
CISC

243. NASD Rule 2430 requires charges, if any, for services performed, including miscellaneous services such as collection of moneys due for principal, dividends or interest; exchange or transfer of securities; appraisal, safe-keeping or custody of securities, and other services, shall be reasonable and not unfairly discriminatory between customers.

244. Section 10(b) of the Exchange Act and Rule 10b-10 thereunder requires broker-dealers to disclose specified information in writing to customers at or before the completion of a transaction. Pursuant to Rule 10b-10, it shall be unlawful for any broker or dealer to effect for or with an account of a customer any transaction in, or to induce the purchase or sale by such customer of, any security (other than U.S. Savings Bonds or municipal securities) unless such broker or dealer, at or before completion of such transaction, gives or sends to such customer written notification disclosing, among other things, if the broker or dealer is acting as agent for such customer, for some other person, or for both such customer and some other person, the source and amount of any other remuneration received or to be received by the broker in connection with the transaction.

245. From December 1, 2010 to April 6, 2012, in addition to a commission, CISC charged a separate "miscellaneous" fee on customer confirmations ranging from $40 to $83.25 per trade in 537 transactions. In another 150 transactions, CISC charged a "miscellaneous" fee of less than $40 per trade.

246. The amount of the fee was determined in each individual transaction by the representatives who solicited or accepted the customer orders.

247. The firm provided no disclosure on the confirmations explaining the purpose or nature of the miscellaneous fee.

248. Although CISC claims it used the miscellaneous fee to generate additional revenue "to pay for costs associated with the processing of the trade" as well as "costs associated with running [a] brokerage firm," the firm provided no separate service to the customers that correlated to this additional fee.

249. The fee was designed primarily to serve as a source of additional transaction-based remuneration or revenue to the firm, in the same manner as a commission.

250. By designating the charge as a miscellaneous fee on customer trade confirmations instead of a commission, CISC understated the amount of the total commissions charged by the firm.

251. In all, CISC generated $72,772.75 in miscellaneous fees from December 1, 2010 to April 6, 2012.

252. By charging a higher miscellaneous fee to customers in CISC's New York branches than it charged to customers in other branches, the fees were unfairly discriminatory to CISC's customers in its New York branches.

253. As a result of the foregoing, CISC willfully violated Section 10(b) of the Exchange Act and Rule 10b-10 thereunder; and violated NASD Rule 2430 and FINRA Rule 2010.

SEVENTH CAUSE OF ACTION
AML Failure
(FINRA Rules 3310(b) and 2010)
CISC

254. FINRA Rule 3310(b) requires member firms to "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder."

255. As such, CISC was subject to the requirements imposed by 31 CFR §1010.520(b)(3), which requires financial institutions to have a process to respond to inquiries by law enforcement through Financial Crimes Enforcement Network ("FinCEN") 314(a) requests.

256. FinCEN provides notice to member firms that it must log onto the FinCEN website, generate a new list of account name requests, and perform a search of its systems for any possible matches within 14 days of the request.

257. In order to obtain the names/accounts to be searched, the firm must log into the FinCEN website. FinCEN keeps a history log of firm's access to the system.

258. CISC's WSPs state that for a request made by FinCEN pursuant to Section 314(a) of the United States Patriot Act, the Firm will immediately search its accounts/transactions to determine whether any accounts match FinCEN's request. The WSPs designated Freiman as the firm principal responsible for AML compliance during the time period of December 1, 2010 through August 20, 2013.

259. CISC, however, failed to log into the FinCEN system for the entire time period of December 1, 2010 through August 20, 2013.

260. During this time, CISC failed to conduct any of the required searches of its accounts/systems to determine whether it maintained any accounts for persons/entities appearing on FinCEN's 314(a) request list.

261. As a result of the foregoing, CISC violated FINRA Rules 3310(b) and 2010.

Based on the foregoing, Respondent CISC willfully violated Section 10(b) of the Exchange Act and Rule 10b-10 thereunder; and violated NASD Rules 2430, 3010(a) and (b) (for misconduct before December 1, 2014), and FINRA Rules 2111, 3110(a) and (b) (for misconduct on and after December 1, 2014), 3310(b), 4530(d), and 2010.

Based on the foregoing Respondent Caldwell violated NASD Rules 3010(a) and (b) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) and (b) (for misconduct on and after December 1, 2014), and 2010.

Based on the foregoing Respondent Jacobs violated NASD Rules 3010(a) and (b) (for misconduct before December 1, 2014) and FINRA Rules 3110(a) and (b) (for misconduct on and after December 1, 2014), and 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents CISC, Caldwell and Jacobs 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 Respondent CISC be censured, fined $1,000,000, and ordered to pay restitution in the amount of $1,026,089.48.

It is further ordered that Respondent Caldwell be barred from associating with any FINRA member in a principal capacity and fined $50,000.

It is further ordered that Respondent Jacobs be suspended for six months in all principal capacities from associating with any FINRA member firm.

Respondent CISC agrees to pay the monetary sanctions upon notice that this Offer has been accepted and that such payments are due and payable. Respondent CISC has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed. The fine assessed to Caldwell shall be due and payable either immediately upon re-association with a member firm, 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.

Restitution is ordered to be paid by CISC to the customers listed on Attachment 1 hereto in the total amount of $1,026,089.48. A registered principal on behalf of Respondent CISC shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to Penelope Brobst Blackwell, FINRA Department of Enforcement, 12801 North Central Expressway, Suite 1050 Dallas, Texas 75243, either by letter that identifies Caldwell International Securities Corp. and the case number (2014039091903) or by e-mail from a work-related account of the registered principal of Respondent firm to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the Offer.

If for any reason Respondent CISC cannot locate any customer identified in Attachment 1 after reasonable and documented efforts within 120 days from the date the Offer is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent CISC shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. Respondent CISC shall provide satisfactory proof of such action to the FINRA staff

member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

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.

The sanctions imposed herein shall be effective on a date set by FINRA staff. A bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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

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AMENDED SCHEDULE A

SUMMARY OF TRADING ACTIVITY AWM, EGC, ZK AND EAST MEADOW BRANCHES

Account Number	Customer	Branch	RR	Review Period		Total Number of Trades (Net Cancellations)	Profit/Loss on Realized Trades	Costs Associated with Realized Trades	Cost-to-Equity At End of Review Period	Annualized Cost to Equity	Turnover At End of Review Period	Annualized Turnover
8435	DM	AWM	Starks	7/9/2012	7/31/2014	35	($16,725.27)	$22,476.15	75.18%	36.09%	18.08	8.68
8890	CI	AWM	Adams, Starks	7/9/2012	7/31/2014	154	($128,712.16)	$133,782.97	78.20%	37.54%	26.69	12.81
2284	PVDK	AWM	Adams, Florestan	7/9/2012	6/30/2014	76	($38,742.96)	$23,144.60	127.79%	63.90%	32.03	16.01
1247	AdD	AWM	Adams, Starks	7/9/2012	6/30/2014	72	($131,536.59)	$61,824.86	130.97%	65.48%	32.67	16.33
4352	TW	AWM	Adams, Starks	7/9/2012	5/30/2014	29	($3,427.35)	$5,458.42	195.63%	102.07%	21.44	11.19
6047	CDF	AWM	Adams, Francois	7/9/2012	7/31/2014	107	($60,275.02)	$130,725.45	252.18%	121.05%	62.17	29.84
3481	RT, Ltd.	AWM	Starks	1/1/2013	7/31/2014	75	($212,248.20)	$97,758.08	83.20%	52.54%	28.67	18.11
4761	BM	EGC	Lim, Etter	7/9/2012	7/31/2014	38	$32,606.35	$34,102.62	37.46%	17.98%	8.88	4.26
6132	YM	EGC	Lim, Etter	7/9/2012	6/30/2014	24	($10,141.69)	$7,562.56	38.78%	19.39%	7.23	3.61
8841	GiC	EGC	Lim, Etter	7/9/2012	7/31/2014	48	$39,360.32	$60,139.14	75.77%	36.37%	13.28	6.37
9512	AnD	EGC	Etter, Litchman	7/9/2012	7/31/2014	47	$103,890.18	$107,404.47	132.12%	63.42%	15.92	7.64
3660	JPD	EGC	Lim, Etter	7/9/2012	7/31/2014	25	$9,596.37	$14,281.99	134.65%	64.63%	18.33	8.80
3409	AnC	EGC	Etter	7/9/2012	7/31/2014	46	$24,782.11	$93,124.08	155.10%	74.45%	19.87	9.54
6540	NH, Ltd.	EGC	Etter	7/9/2012	7/31/2014	58	$50,652.77	$110,076.67	169.20%	81.21%	20.83	10.00
2759	CVO	EGC	Lee	10/1/2013	7/31/2014	83	($240,295.80)	$159,380.64	31.96%	38.35%	7.76	9.32
2737	AC	East Meadow	KT	1/1/2012	3/31/2014	169	($33,152.82)	$34,456.68	128.02%	56.90%	47.33	21.03
5446	CM	East Meadow	KT, Koustoubos	1/1/2012	6/30/2014	103	($29,388.10)	$53,544.92	516.69%	206.68%	107.95	43.18
4854	RJ	East Meadow	KT	1/1/2012	4/30/2014	645	($348,621.67)	$334,566.20	409.51%	175.50%	112.48	48.21
4301	JD	ZK	Zeltser	1/1/2013	7/31/2014	41	($57,915.56)	$19,466.29	55.55%	35.09%	13.02	8.22
6882	CrF	ZK	Zeltser, Kao	7/1/2013	7/31/2014	16	($1,548.82)	$2,503.10	68.67%	63.39%	9.73	8.99
5509	RK	ZK	Zeltser, Kao	3/1/2013	7/31/2014	44	($18,601.36)	$7,052.80	73.20%	51.67%	6.55	4.62
7101	RV	ZK	Zeltser	7/1/2013	7/31/2014	18	($20,976.97)	$3,070.90	38.24%	35.30%	6.65	6.14
6487	RV	ZK	Zeltser	7/1/2013	7/31/2014	21	$4,032.23	$5,534.19	65.47%	60.44%	11.87	10.96
3689	RV	ZK	Zeltser	7/1/2013	7/31/2014	34	($3,618.21)	$15,146.98	60.24%	55.61%	13.94	12.87

SOURCE DATA: CUSTOMER STATEMENTS AND TRADE BLOTTERS

Attachment 1:
Department of Enforcement v. Caldwell International Securities Corp., et al. No. 2014039091903

List of Customers for the Payment of Restitution Pursuant to the Offer of Settlement Executed by Caldwell International Securities Corp.

Payments to be Made to Customers for Unsuitable Active Trading Investment Strategy:

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
8435	DM	AWM	Starks	($16,725.27)
8890	CI	AWM	Adams, Starks	($128,712.16)
2284	PVDK	AWM	Adams, Florestan	($38,742.96)
1247	AdD	AWM	Adams, Starks	($131,536.59)
4352	TW	AWM	Adams, Starks	($3,427.35)
6047	CDF	AWM	Adams, Francois	($60,275.02)
3481	RT, Ltd.	AWM	Starks	($212,248.20)
6132	YM	EGC	Lim, Etter	($10,141.69)
2759	CVO	EGC	Lee	($240,295.80)
4301	JD	ZK	Zeltser	($57,915.56)
6882	CrF	ZK	Zeltser, Kao	($1,548.82)
5509	RK	ZK	Zeltser, Kao	($18,601.36)
7101, 6487, 3689	RV	ZK	Zeltser	($20,562.95)
			[redacted]	[redacted]

Payments to Customers for Mutual Fund Fee Waiver Overcharges:

In addition to the amounts listed above, the Firm will repay to the customers listed below a total of $107,367.08 in missed mutual fund fee waivers in the amounts listed below.

Name	Total Amount
BS	$0.88
BB	$165.85
CW	$1,874.23
DB	$26,139.80
DL	$10,729.37
JRo	$166.25
JP	$2,725.12
JEv	$308.95
KP	$1,379.75
LH	$6,639.76
NB	$16,923.56
NLB	$11,554.21
NF	$5,603.18
NG	$1,443.42
PP	$5,288.86
SD	$208.02
SM	$5,660.51
VS	$510.75
WG	$4,145.67
xxxxx8002	$975.03
xxxxx3389	$2,620.74
xxxxx6305	$693.45
xxxxx8358	$1,609.72
Grand Total	$107,367.08