

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014039359301**

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

RE: International Strategy & Investment Group LLC (BD No. 28195),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, International Strategy & Investment Group LLC ("ISI Group" or the "Firm" or "Respondent"), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. ISI Group hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

ISI Group had been a FINRA member since May 1991. The Firm filed a termination request on December 31, 2015, which became effective February 25, 2016. ISI Group, which was headquartered in New York, New York, produced and distributed macroeconomic and fundamental research reports to institutional clients. Although the Firm's registration has been terminated, it remains subject to FINRA's jurisdiction for the purposes of this proceeding.

RELEVANT DISCIPLINARY HISTORY

In FINRA Matter No. 2012030369201, ISI Group submitted a Letter of Acceptance, Waiver and Consent pursuant to which the Firm was censured and fined \$95,000 for violations of NASD Conduct Rules 2711(h) and 2711(i), and FINRA Rule 2010, among other rule violations.

OVERVIEW

From June 2012 to September 2014 (the “Relevant Period”), ISI Group violated NASD Conduct Rule 2711 and FINRA Rule 2010 by improperly sending draft research reports that contained opinions, estimates and conclusions to subject companies, by failing to include required disclosures in its research reports, and by failing to adopt and implement written supervisory procedures reasonably designed to ensure compliance with the rules governing research reports.

FACTS AND VIOLATIVE CONDUCT

1. *ISI Group Sent Draft Research Reports Containing Opinions, Estimates and Conclusions to Subject Companies*

NASD Conduct Rule 2711(c)(2)(A) permits a member to submit sections of a research report to the subject company before publication for factual verification, provided that those sections “do not contain the research summary, the research rating or the price target.” Notice to Members 04-18 specifically states that the “[s]ubmission of facts interspersed with opinions, estimates, conclusions and other non-factually based information by the research analyst violates” NASD Conduct Rule 2711(c).

During the Relevant Period, ISI Group sent 13 draft research reports to the subject company, and in 6 of those 13 draft research reports, the Firm failed to remove impermissible opinions, estimates, and conclusions. Accordingly, ISI Group violated NASD Conduct Rule 2711(c)(2)(A) and FINRA Rule 2010.

2. *ISI Group Failed to Disclose Required Information in Research Reports*

NASD Conduct Rule 2711(h)(2)(A) requires firms to disclose in their research reports if a research analyst or the firm has received compensation from the subject company. The Rule also requires firms to disclose whether the subject company was a firm client during the 12-month period preceding the publication date of the research report and, if so, what services the subject company received.

FINRA Member Regulation staff (the “Staff”) reviewed a sample of 16 Firm research reports issued during the Relevant Period. The Staff discovered that ISI Group failed to disclose in 15 of those 16 reports that the Firm received compensation from the subject company and/or that the subject company had been a Firm client in the preceding 12 months.

Additionally, NASD Conduct Rule 2711(h)(6) requires firms to include a line graph of the security’s daily closing prices if the research report includes a rating or a price target, so potential investors can evaluate the subject company’s historical performance and can independently assess the report’s predictions about future performance. The line graph must indicate the dates on which the member assigned or changed each rating or price target.

The Staff reviewed a sample of 15 research reports containing line graphs issued during the Relevant Period, and discovered that in 10 of those 15 reports, ISI Group failed to disclose the specific dates on which the Firm assigned a rating or price target. Moreover, nearly half of the line graphs in those 10 reports failed to identify the specific date a rating or price target changed.

Finally, NASD Conduct Rule 2711(h)(10) requires that, if required Rule 2711(h) disclosures are not presented on the front page of the research report, the front page must refer to the page that contains the disclosures. All disclosures (and references to disclosures) must be "clear, comprehensive and prominent."

The Staff reviewed a sample of 16 research reports issued during the Relevant Period, and discovered that on all 16 reports, the Firm failed to provide clear, comprehensive, and prominent disclosures on the front page or to note on the front page where those disclosures could be found.

Accordingly, ISI Group violated NASD Conduct Rules 2711(h)(2)(A), 2711(h)(6), and 2711(h)(10), and FINRA Rule 2010.

3. *ISI Group Failed to Implement Written Supervisory Procedures Reasonably Designed to Ensure its Compliance with Research Disclosure Rules*

NASD Conduct Rule 2711(i) requires a member to adopt and implement written supervisory procedures reasonably designed to ensure compliance with NASD Conduct Rule 2711.

During the Relevant Period, ISI Group had 13 versions of written supervisory procedures. Across all 13 versions, the procedures were either deficient or not implemented as regards NASD Conduct Rule 2711. For example, the procedures failed to remind registered representatives not to share with subject companies a draft research report that contains opinions, estimates, and conclusions. Also, the procedures required the disclosure of compensation from subject companies, but this procedure was inadequately implemented, as discussed above. Accordingly, ISI Group violated NASD Conduct Rule 2711(i) and FINRA Rule 2010.

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

- a censure; and
- a \$150,000 fine.

ISI Group agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. ISI Group has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

ISI Group specifically and voluntarily waives any right to claim that the Firm is

unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

ISI Group specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, ISI Group specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

ISI Group further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

ISI Group understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
1. this AWC will become part of ISI Group's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. ISI Group may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and
- D. ISI Group may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

International Strategy & Investment Group LLC

3/31/16
Date

:
: By: Charles Myers
: Name: Charles Myers
Title: Senior Managing Director

Accepted by FINRA:

April 21, 2016
Date

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

Matthew M. Ryan
Matthew M. Ryan
Principal Regional Counsel
FINRA Department of Enforcement
1835 Market Street, Suite 1900
Philadelphia, PA 19103-2932
Tel.: 215.209.7094
Fax: 215.496.0434
E-Mail: matthew.ryan@finra.org