

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016047621801**

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

RE: Corinthian Partners, LLC, Respondent
Member Firm
(BD No. 38912);

Richard Calabrese, Respondent
General Securities Principal
(CRD No. 1549013); and

Mitchell Manoff, Respondent
General Securities Principal and
General Securities Sales Supervisor
(CRD No. 815314).

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Corinthian Partners, LLC ("Corinthian" or the "Firm"), Richard Calabrese and Mitchell Manoff submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against them alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

Corinthian has been a member of FINRA and registered with the Securities and Exchange Commission (SEC) since June 1996. The Firm's principal office is located in New York City. Corinthian is a retail brokerage firm that also engages in investment banking and asset management. The Firm currently employs approximately 27 registered persons at two locations.

Calabrese first registered with FINRA as a General Securities Representative (GS) in August 1986 through a FINRA member firm. In 1996, he and Manoff founded Corinthian. They are majority owners. Calabrese has been registered through Corinthian as a GS and General Securities Principal (GP) since July 1996, and as an Investment Banking Representative (IB) since December 2009. Calabrese has been the Firm's Chairman/President since its inception and Chief Compliance Officer (CCO) since 2004.

Manoff first registered with FINRA as a GS in November 1975 through a FINRA member firm. Through different firms, he first became registered as a General Securities Sales Supervisor (SU) in February 1986, a GP in July 1996, and an IB in December 2009. He has been registered through Corinthian as a GS, GP and SU since July 1996, and as an IB since December 2009. Manoff has been the Firm's Chief Executive Officer (CEO) since its inception.

RELEVANT DISCIPLINARY HISTORY

Corinthian, Calabrese and Manoff have no relevant disciplinary history with the SEC, FINRA, any other self-regulatory organization, or any state securities regulator.

OVERVIEW

From January 2013 to May 2016 (Relevant Period), Corinthian, Calabrese and Manoff failed to establish, maintain and enforce a reasonably designed supervisory system, including written supervisory procedures (WSPs), regarding the sale of Non-Traditional Exchange Traded Products (NT-ETPs) to the Firm's customers.¹ Additionally, the Firm, Calabrese and Manoff failed to reasonably supervise VV, the Firm's sole registered representative who sold NT-ETPs to customers. VV recommended that seven Firm customers invest almost exclusively in NT-ETPs and hold the positions for extended periods. Corinthian, Calabrese and Manoff failed to reasonably supervise to ensure that the products and trading were suitable for the specific customers to whom they were recommended and that VV had a reasonable basis to recommend the products be held for multiple days. Calabrese and Manoff also failed to identify and investigate red flags of unsuitable trading, including: (a) NT-ETP positions held for extended periods, and (b) unusually large orders of particular NT-ETPs (as defined in the WSPs). As a result, Corinthian, Calabrese and Manoff violated NASD Rule 3010 and FINRA Rules 3110 and 2010.²

¹ NT-ETPs include leveraged and inverse exchange-traded notes (ETNs) and funds (ETFs).

² On December 1, 2014, FINRA Rule 3110 replaced NASD Rule 3010. Therefore, the supervisory misconduct occurring prior to that date are violations of NASD Rule 3010, and the conduct on or after that date are violations of FINRA Rule 3110.

FACTS AND VIOLATIVE CONDUCT

NASD Rule 3010(a) and FINRA Rule 3110(a) require that each member firm (and its supervisory personnel) establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.

NASD Rule 3010(b)(1) and FINRA Rule 3110(b)(1) require that each member firm (and its supervisory personnel) establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.

FINRA Rule 2010 requires that member firms and associated persons “observe high standards of commercial honor and just and equitable principles of trade.” A violation of NASD Rule 3010 or FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

Background

Calabrese and Manoff founded Corinthian in 1996. For the Relevant Period, Calabrese and Manoff admitted that they had joint responsibility for establishing, maintaining and enforcing Corinthian’s supervisory system and its WSPs. Calabrese and Manoff also admitted that they were jointly responsible for directly supervising VV.

Non-Traditional ETPs

NT-ETPs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over only the course of one trading session – usually a single day. NT-ETPs typically rebalance their portfolios on a daily basis (also known as the “daily reset”). As a result, due to the effects of compounding of daily returns during the holding period, the performance of NT-ETPs over periods longer than a single trading session “can differ significantly from the performance . . . of their underlying index or benchmark during the same period of time.”³ Because of these risks and the complexity of the products, FINRA has advised broker-dealers that NT-ETPs “are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.”⁴ Prospectuses, summary prospectuses, and related issuer filings with the SEC for the NT-ETPs that VV recommended to

³ FINRA Regulatory Notice 09-31 (addressing NT-ETFs).

⁴ *Id.*

Corinthian customers warned that the products were risky and not suitable for investors who do not understand the risks and do not intend to actively monitor and manage their portfolios.

FINRA Regulatory Notice 09-31 cautioned member firms about the need to establish a reasonable supervisory system “to ensure that their associated persons comply with all applicable FINRA and SEC rules when recommending any product, including leveraged and inverse ETFs,” and implement written supervisory procedures that, among other things, require that associated persons perform appropriate customer-specific suitability reviews.⁵ That Notice provided specific guidance regarding the risks and suitability concerns associated with NT-ETFs, and the need for a supervisory system to address those issues.

A. Corinthian, Calabrese and Manoff Failed to Establish, Maintain and Enforce a Reasonably Designed Supervisory System and WSPs Regarding Non-Traditional ETPs

During the Relevant Period, VV was the only Corinthian representative who solicited customer purchases and sales of NT-ETPs. The solicited transactions included approximately 1,910 purchases and 1,663 sales of NT-ETPs. VV typically purchased and sold the same NT-ETPs for seven customers at or around the same time. The trading involved 60 different leveraged or inverse NT-ETPs, with approximately \$279 million in purchases and \$275 million in sales, and generated approximately \$890,000 in commissions, which represented a significant portion of the Firm’s revenue.

Despite this activity, Corinthian lacked a reasonably-designed supervisory system and WSPs to ensure the suitability of NT-ETP recommendations to its customers. Corinthian failed to have reasonable policies and procedures that provided meaningful customer eligibility standards for NT-ETP recommendations. The WSPs merely stated that recommendations be made only to customers “whose new account documentation will support” a determination that they are suitable to trade NT-ETPs. Moreover, the Firm failed to ensure that new account documentation was complete and accurate. Consequently, certain customer new account forms failed to provide risk tolerance information for suitability determinations. For example, an account for a theological seminary had a new account form that listed its investment objectives as “capital preservation growth and income” with no information about risk tolerance. VV nevertheless recommended that the seminary’s account purchase millions of dollars of NT-ETPs.

Corinthian also lacked a reasonably designed supervisory system and written policies and procedures to ensure that trading in NT-ETPs was suitable for its retail customers, including monitoring the risks particular to NT-ETPs, such as the risk posed by long-term holding of a product that resets daily. For example,

⁵ FINRA Regulatory Notice 09-31.

the Firm did not have any exception reports regarding NT-ETPs, such as reports monitoring for potentially unsuitable holding periods.

By virtue of the foregoing, Corinthian, Calabrese and Manoff violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

B. Corinthian, Calabrese and Manoff Failed to Reasonably Supervise VV's NT-ETP Recommendations

During the Relevant Period, Calabrese and Manoff jointly supervised VV. Contrary to requirements in the WSPs, Calabrese and Manoff failed to ensure that customer files contained letters or emails memorializing that VV discussed the risks and volatility of NT-ETPs with the customers before they invested in NT-ETPs. Calabrese and Manoff also failed to take steps to determine whether VV ever had such discussions with customers before they invested in NT-ETPs. Moreover, neither Calabrese nor Manoff took reasonable steps to ensure that they adequately understood the unique features and risks associated with NT-ETPs that VV recommended, such as the volatility risks associated with underlying derivative investments and compounding risks due to the daily reset feature. Calabrese and Manoff also did not take reasonable steps to adequately understand the basis for VV's NT-ETP recommendations, and they lacked reasonable grounds to believe VV's recommendations were suitable for the customers.

Additionally, neither Manoff nor Calabrese implemented a process for reviewing NT-ETP transactions that reasonably addressed the unique risks of NT-ETPs, including risks associated with leverage, daily rebalancing of the product's components, and compounding of each day's return over time. Instead, they relied on VV's judgment and failed to reasonably monitor holding periods or question VV's recommendations despite red flags that warranted follow-up.

Calabrese and Manoff failed to identify and reasonably respond to the following red flags of potential unsuitable trading:

- **NT-ETPs Held for Extended Periods.** Notwithstanding disclosures in prospectuses and related SEC filings, and FINRA's regulatory notice, about the risks of holding NT-ETPs for longer than one trading session, all NT-ETP positions were held multiple days. The average holding period for the NT-ETPs was 24 days, with the longest holding period 211 days.
- **Unusually Large Orders for Shares of Particular NT-ETPs.** Between February 2014 and January 2016, the theological seminary's account, on 28 occasions, purchased NT-ETPs with principal values over \$1 million (including one over \$2 million). Additionally, between January and April 2014, a joint account of two individuals, on four occasions purchased NT-ETPs with principal amounts over \$300,000. According to Corinthian's WSPs, the sizes of these transactions were red flags of "unusually large orders" that required

supervisory follow-up, including review for “heavy concentration” and personal contact with the customers to verify that the transactions were appropriate. However, Calabrese and Manoff failed to take these supervisory steps.

By virtue of the foregoing, Corinthian, Calabrese and Manoff violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

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

1. Corinthian:
 - a. a censure;
 - b. a fine of \$30,000;⁶ and
 - c. the following undertaking:
 - i. within no later than 90 days of Notice of Acceptance of this AWC, or such additional period as agreed to by a FINRA Enforcement staff member in writing, the Firm’s CEO, on behalf of the Firm, shall submit a written certification to FINRA that the Firm’s policies, systems and procedures (including written procedures) and training, in connection with NT-ETPs, are reasonably designed to achieve compliance with FINRA Rule 2111(a) relating to suitability. The certification must identify Corinthian and Matter No. 20160476218 and be provided to Gary Chodosh, FINRA- Department of Enforcement, Brookfield Place, 200 Liberty Street, New York, NY 10281, either by letter or by email from a work-related account of the Firm to EnforcementNotice@FINRA.org.
2. Calabrese:
 - a. a suspension in all principal capacities for 30 business days; and
 - b. a fine of \$10,000.
3. Manoff:
 - a. a suspension in all principal capacities for 30 business days (including, but not limited to, as a GP and SU)⁷; and
 - b. a fine of \$10,000.

Calabrese and Manoff understand that if they are barred or suspended from associating with any FINRA member in a principal capacity, they each become subject to a statutory disqualification as that term is defined in Article III,

⁶ Pursuant to the General Principles Applicable to all Sanction Determinations contained in the Sanction Guidelines, FINRA imposed a lower fine in this case against Corinthian after it considered, among other things, the Firm’s revenues and financial resources. See Notice to Members 06-55.

⁷ The suspensions of Calabrese and Manoff shall run consecutively. Calabrese’s suspension will commence first. Manoff’s suspension shall commence two business days following the conclusion of Calabrese’s suspension.

Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, neither Calabrese nor Manoff may be associated with any FINRA member in a principal capacity, during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because Calabrese and Manoff are subject to statutory disqualification during the suspension, if Calabrese or Manoff remain associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Each of the Respondents has submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

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

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the 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.

Respondents further specifically and voluntarily waive any right to claim that a person violated

the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

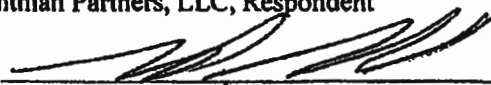
Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against them; and
- C. If accepted:
 - 1. this AWC will become part of the permanent disciplinary record of each of the Respondents and may be considered in any future actions brought by FINRA or any other regulator against each of the Respondents;
 - 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. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondents 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 each of the Respondents: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Each of the Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

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.

Corinthian Partners, LLC, Respondent

2/11/19
Date

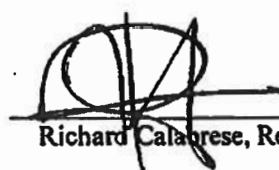
By: 

Name: Mitchell Manoff

Title: CEO

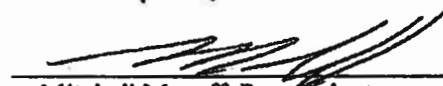
Calabrese and Manoff each certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms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

2-12-19
Date

By: 

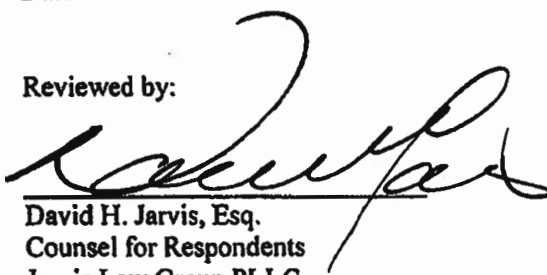
Richard Calabrese, Respondent

 2/11/19
Date

By: 

Mitchell Manoff, Respondent

Reviewed by:


David H. Jarvis, Esq.
Counsel for Respondents
Jarvis Law Group PLLC
7031 Orchard Lake Road, Suite 206
West Bloomfield, MI 48322
(248) 737-2150, ext. 16

March 18, 2019

Date

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


Gary A. Chodosh, Senior Counsel
FINRA Department of Enforcement
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New York, New York 10281
212-858-4771
202-721-6564 (fax)