

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Halil Kozi,
(CRD No. 1121714),

Respondent.

Disciplinary Proceeding
No. 2016048921102

Hearing Officer—DDM

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: March 17, 2020

INTRODUCTION

Disciplinary Proceeding No. 2016048921102 was filed on September 17, 2019, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondent Halil Kozi submitted an Offer of Settlement (Offer) to Complainant dated March 13, 2020. 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), 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), 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

Kozi first associated with a FINRA-member firm in 1987 and has been associated with 18 FINRA-member firms.

In March 2013, Kozi registered with FINRA through his association with PHX as a General Securities Representative, General Securities Sales Supervisor, General Securities Principal, and Registered Options Principal.

During the Relevant Period, Kozi was PHX's Registered Options and Securities Futures Principal ("ROSFP"). As ROSFP, Kozi was responsible for reviewing and approving options agreement forms, reviewing and signing options tickets, and reviewing exception runs and automated compliance alerts related to options trading.

Kozi remained associated with PHX until March 2016.

After he left PHX, Kozi was associated with two additional FINRA-member firms, remaining registered with FINRA until September 21, 2017.

Kozi is not currently registered or associated with a FINRA-member firm, but he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws because: (i) the Complaint was filed within two years after the effective date of termination of Kozi's registration with a FINRA-regulated broker-dealer, namely September 21, 2017, and (ii) the Complaint charges Kozi with misconduct committed while he was registered or associated with a FINRA-member firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

From June 2013 through February 2015 (the “Relevant Period”), while associated with FINRA-member PHX Financial, Inc. (“PHX” or the “Firm”), Respondent Halil Kozi excessively traded Customer A’s account. Customer A, an OB/GYN working in a medical clinic in St. Croix, deposited a little over \$200,000 in his account at PHX. Within the span of about a year and half, Kozi recommended approximately 208 equity and options transactions, with a principal value of over \$3 million. The resulting annualized cost-to-equity ratio – the amount the account had to appreciate to break even – was 53%. Kozi’s recommended transactions for Customer A’s account generated gross commissions totaling over \$135,000, of which Kozi himself received over \$87,000, while causing Customer A’s account to incur losses of nearly \$72,000. Commissions from Customer A’s account made up 95% of Kozi’s commission income for the Relevant Period.

By recommending quantitatively unsuitable excessive trading for Customer A’s account, Kozi violated FINRA Rules 2111 and 2010.

Kozi’s recommended transactions were also qualitatively unsuitable: First, 103 of the transactions Kozi recommended during the Relevant Period were qualitatively unsuitable, speculative options transactions in 29 issuers; these transactions were not consistent with Customer A’s lack of options experience, his balanced growth investment objective, his moderate risk profile, or his financial situation and needs.

Second, Kozi over-concentrated Customer A’s account in a single speculative security, Issuer A. Issuer A was a development-stage pharmaceutical company with virtually no revenue. At one point, Issuer A’s stock constituted 85% of Customer A’s account value, and it constituted more than 30% of Customer A’s account value for 11 consecutive months during 18 total months

Customer A held that security during the Relevant Period. These transactions were unsuitable as they were not consistent with Customer A's balanced growth investment objective, moderate risk profile, or his financial situation and needs.

By recommending qualitatively unsuitable investments in Customer A's account, Kozi violated FINRA Rules 2111, 2360(b)(19)(A) and (B), and 2010.

FACTS

Customer A

Kozi cold-called Customer A during the summer of 2013 and convinced Customer A to become his client.

Kozi prepared account-opening paperwork that recorded that Customer A was a 45-year-old doctor working in St. Croix and who had no experience trading equities, bonds, or options and no experience with active short-term trading; a "balanced growth" investment objective and a "moderate" risk tolerance; a net worth, less his home, of \$300,000; a liquid net worth of \$285,000; and an annual income of \$400,000 to \$499,999.

Kozi opened Customer A's account even though several suitability-related fields on Customer A's new account paperwork were not completed, including liquidity needs, and investment time horizon.

Shortly after Customer A opened his account at PHX, Kozi convinced him to engage in options trading.

In July 2013, Customer A signed an "Options Client Agreement and Approval Form" ("Options Agreement") that, among other things, re-confirmed that Customer A's investment objective was "balanced growth," that his risk tolerance was "moderate," and that he had no experience trading stocks, bonds, commodities or options.

The Options Agreement included a “Strategies” section that identified five levels of options transactions that could be approved by the Firm for customers based on their experience and risk tolerance. Despite knowing Customer A had no experience with any kind of options trading, Kozi, as the Firm’s ROSFP, authorized Customer A’s account for “Level 3” options trading, which PHX’s procedures indicated was appropriate for customers not only with experience with covered call writing and cash-backed put writing (Levels 1 and 2), but who also “have extensive experience” with buying puts and calls, and writing puts.

Kozi Excessively Traded Customer A’s Account

At the beginning of the Relevant Period, from June to August 2013, Customer A deposited a little more than \$200,000 into his PHX account.

During the Relevant Period, Kozi executed a total of 208 solicited transactions — 177 options trades and 31 equity trades, with a principal value of over \$3 million.

Kozi exercised de facto control over Customer A’s account and made virtually all trading decisions including which securities to trade, the amount of money Customer A should invest, and when to buy and sell.

Although Kozi called Customer A regularly during much of the Relevant Period, Kozi did not explain to Customer A the risks involved in the recommended transactions and Customer A did not have sufficient understanding of options trading to make an independent evaluation of those risks. Instead, Customer A routinely followed Kozi’s recommendations.

Kozi also used high-pressure sales tactics to convince Customer A to follow his recommendations. Kozi often told Customer A that Customer A would be missing out on a big potential gain if he did not agree to Kozi’s recommended transaction promptly and told him it would be unintelligent not to follow Kozi’s recommendations.

By September 2013, just a few months after Customer A had opened the account, Kozi's trading caused PHX's Chief Compliance Officer to caution Kozi that Customer A's account profile was inconsistent with the trading in the account and that the profile would need to be changed from moderate risk to "speculative/high risk" if Customer A wanted to engage in speculative transactions.

Notwithstanding the CCO's instructions, Kozi increased the volume of recommended speculative trading in Customer A's account, while Customer A's account investment profile remained unchanged.

As early as October 2013, just a few months after Customer A opened his account, the account's cost-to-equity ratio exceeded 25%.

The rolling cost-to-equity ratio for Customer A's account increased every month thereafter, eventually reaching 93% in February 2015. The account's annualized cost-to-equity ratio was 53% in February 2015.

In total, Kozi's trading in Customer A's account generated more than \$135,000 in gross commissions and over \$87,000 in commissions to Kozi himself, while Customer A incurred a net loss of nearly \$72,000.

In addition, during the Relevant Period, Kozi was the broker of record for and received commissions from approximately ten customer accounts but commissions from Customer A's account constituted over 95% of Kozi's total commission income at PHX.

Kozi's Unsuitable Trading in Options

During the Relevant Period, Kozi recommended to Customer A 103 speculative purchases of calls or puts notwithstanding the fact that Customer A had no experience trading

options, had a moderate risk tolerance and sought balanced growth. Chart A attached to this Complaint identifies the unsuitable options transactions.

Buying a call option gives the buyer the right, but not the obligation, to buy 100 shares of the underlying stock at a specified price (the strike price) at any time before a specific time (the expiration date). If the option contracts are not exercised or traded by the expiration date, they expire worthless, which results in loss to the buyer of his entire investment (i.e., the price paid for the options, including any fees and commissions). For the transactions Kozi recommended to Customer A, the expiration dates were typically less than two months – and never more than six months – from the date of purchase.

During the Relevant Period, Kozi recommended that Customer A engage in 62 unsuitable purchases of call option contracts, 15 of which resulted in contracts expiring worthless for a loss to Customer A of \$184,105, including \$52,764 in commission.

Buying a put option gives the buyer the right, but not the obligation, to sell 100 shares of the underlying stock at a specified price prior to the expiration date. If the option contracts are not exercised or traded by the expiration date, they expire worthless, which results in loss to the buyer of his entire investment (i.e., the price paid for the options, including any fees and commissions). For the transactions Kozi recommended to Customer A, with one exception, the expiration dates were 45 days or fewer from the date of purchase.

During the Relevant Period, Kozi recommended that Customer A engage in 41 unsuitable purchases of put options contracts, 24 of which expired worthless for a loss to Customer A of \$67,300, including \$7,509 in commission.

Amongst the 103 above-referenced unsuitable call and put options contracts, on 13 occasions during the Relevant Period, Kozi purchased in Customer A's account both a call and a

put option of the same issuer on the same day. To profit on these types of transactions, the underlying stock's price needs to increase or decrease in a large enough magnitude to offset the cost of both premiums incurred and commissions charged on each transaction. This speculative trading was unprofitable for Customer A in eight instances and the total net loss for those 13 transactions exceeded \$42,000, including \$10,864 in commissions.

Also amongst the 103 above-referenced unsuitable call and put options contracts, Kozi recommended qualitatively unsuitable Issuer A options transactions. Eight of Kozi's recommended options transactions were purchases of Issuer A call contracts while Customer A's account also held Issuer A stock long, essentially doubling down on a bet that Issuer A would increase in value. These eight purchases – a total of 700 call contracts – cost in aggregate \$116,338, including commission. 300 of the contracts expired worthless for a loss of \$63,082, including \$3,696 in commission.

Because he was an unsophisticated investor with no prior experience trading options, Customer A did not understand Kozi's options trading in his account, was unable to evaluate the risks associated with the options trading Kozi exercised, and did not understand the speculative nature of the options trading in the account.

Kozi Recommended Unsuitable Transactions in Issuer A Stock

During the period August 2013 and February 2015, Kozi made unsuitable recommendations to Customer A in connection with long transactions in the stock of Issuer A. Issuer A was too speculative for Customer A, and the amounts held in the account caused Customer A's account to have too high a concentration of this single speculative security.

From August 2013 to February 2015, Issuer A's stock traded between \$3.19 and \$10.86, and Issuer A had no drug-related revenue and no drugs close to obtaining FDA approval. Issuer

A's public filings for the period just before Kozi recommended Customer A begin investing in the company, noted that its three possible drugs and/or devices "are currently undergoing, or are expected to undergo, clinical trials that are time-consuming and expensive, the outcomes of which are unpredictable, and for which there is a high risk of failure."

By April 2014, Issuer A stock constituted 39% of Customer A's month-end account value. By July 2014, Issuer A stock constituted 85% of Customer A's month-end account value. For each of the following five months, Issuer A's stock constituted more than 68% of Customer A's month-end account value.

Kozi had no reasonable basis to recommend that Customer A invest so much of his account value in a single speculative stock like Issuer A, especially in light of Customer A's investment profile of moderate, not high or maximum risk tolerance.

Because he was an unsophisticated investor with minimal investment experience, Customer A was unable to evaluate the risks associated with Kozi's recommendations that he invest in Issuer A equities.

SECOND CAUSE OF ACTION

Excessive Trading/Quantitative Suitability Violations (Violation of FINRA Rules 2111, and 2010)

FINRA Rule 2111 requires associated persons to have a reasonable basis to believe that an investment strategy is suitable for a customer, based on the customer's investment profile.

Excessive trading occurs when a registered representative has actual or de facto control over trading in a customer's account and the overall level of activity in that account, even if individual transactions are suitable when viewed in isolation, is inconsistent with the customer's investment needs and objectives. Excessive trading violates the suitability standards set forth in FINRA Rule 2111.

A violation of FINRA Rule 2111 also constitutes a violation of FINRA Rule 2010, which requires an associated person to “observe high standards of commercial honor and just and equitable principles of trade.”

During the Relevant Period, Kozi exercised de facto control over the trading in Customer A’s account.

The level of trading Kozi recommended in Customer A’s account was excessive, quantitatively unsuitable, and inconsistent with Customer A’s moderate risk tolerance and balanced growth investment objective, as evidenced by the account’s annualized cost-to-equity ratio of 53% at the end of the Relevant Period.

As a result of the foregoing, Kozi violated FINRA Rules 2111 and 2010.

THIRD CAUSE OF ACTION

Unsuitable Trading (Qualitative Unsuitability) (Violations of FINRA Rules 2111, 2360, and 2010)

Enforcement re-alleges and incorporates by reference paragraphs 1, 3-40.

As noted above, Rule 2111 requires an associated person to have a reasonable basis to believe that a recommended transaction or investment strategy is suitable for a customer, based on the customer's disclosed securities holdings, financial situation and needs. The rule also requires a broker to educate customers about the risks associated with any recommendation.

In addition, FINRA Rule 2360(b)(19)(A) prohibits associated persons from recommending an options transaction unless the associated person has reasonable grounds to believe, based on information furnished by the customer after a reasonable inquiry concerning the customer’s investment objectives, financial situation and needs, that the recommended transaction is not unsuitable for such customer.

FINRA Rule 2360(b)(19)(B) prohibits an associated person from recommending an opening transaction in any option contract unless that associated person has a reasonable basis for believing, at the time of the recommendation, that the customer has the knowledge and experience in financial matters to reasonably evaluate the risks of the recommended transaction and is financially able to bear the risks of the position.

FINRA Rule 2360 has been described as a heightened suitability standard for options trading.

Violation of FINRA Rules 2111 and 2360 also constitute a violation of FINRA Rule 2010, which requires an associated person to “observe high standards of commercial honor and just and equitable principles of trade.”

First, 103 of Kozi’s recommended options transactions for Customer A’s account were unsuitable given the high level of speculation involved as well as the transaction costs incurred when considered in the context of Customer A’s investment objective, risk tolerance, and financial situation and needs.

Further, Kozi lacked a reasonable basis to believe that Customer A was aware of and understood the risks associated with the options trading Kozi recommended, as Customer A had no experience trading options and many of the options trades Kozi recommended were speculative and intended for sophisticated options investors.

Kozi also lacked a reasonable basis to recommend that Customer A purchase Issuer A stock in quantities that caused Issuer A stock at one point to make up 85% of Customer A’s account value. For six of the 18 months Customer A held Issuer A stock, it was over 60% of Customer A’s account value and it was over 30% of Customer A’s account value for 11 of the 18

months. That amount of account value in a single speculative issuer's securities was not consistent with Customer A's balanced growth investment objective and moderate risk profile.

By reason of the foregoing, violated FINRA Rules 2111, 2360(b)(19)(A) and (B), and 2010.

Based on the foregoing, Respondent violated FINRA Rules 2111, 2360(b)(19)(A) and (B), 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 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 suspended from association with any FINRA member in all capacities for a period of two years. Respondent has submitted a sworn financial statement and demonstrated an inability to pay. In light of the financial status of Respondent, no monetary sanctions have been imposed.

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

SO ORDERED.

FINRA

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

A handwritten signature in black ink, appearing to read 'mshoff', written over a horizontal line.

Margery M. Shanoff
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