

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019061213401**

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

RE: Coastal Equities, Inc. (Respondent)
Member Firm
CRD No. 23769

Pursuant to FINRA Rule 9216, Respondent Coastal Equities, Inc. 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Coastal has been a FINRA member firm since 1989. Coastal's main office is in Wilmington, Delaware. The firm has approximately 165 registered representatives across 72 branch offices. Coastal is an introducing broker-dealer that engages in a general securities business, including underwriting and the sale of equity securities.

On November 9, 2020, Coastal entered into an AWC for failing to reasonably supervise a registered representative who engaged in excessive and unsuitable trading in four customers' accounts from October 2016 through July 2018, in violation of FINRA Rules 3110 and 2010. Coastal became aware of numerous red flags that the representative was making unsuitable recommendations, but failed to take reasonable action to investigate them. Coastal was censured and ordered to pay \$270,320 plus interest, in restitution.¹

OVERVIEW

Between May 1, 2018 and June 30, 2018, Coastal negligently failed to tell customers it solicited to invest in offerings related to GPB Capital Holdings, LLC (GPB Capital) that the issuers failed to timely make required filings with the Securities and Exchange

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

Commission, including filing audited financial statements. By virtue of the foregoing, Coastal violated FINRA Rule 2010.

From August 2014 through July 2018, Coastal failed to supervise one of its representatives (Representative A) by failing to reasonably investigate red flags that the representative was falsifying documents regarding customers' financial status, for example by recording false increases in the net worth and liquid net worth of customers. By virtue of the foregoing, Coastal violated FINRA Rule 3110 and 2010 and NASD Rule 3010.²

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's investigation into firms that sold GPB Capital securities.

A. Background

GPB Capital is a New York-based alternative asset management firm founded in 2013. GPB Capital serves as the general partner for limited partnerships formed to acquire income-producing companies. From 2013 through 2018, GPB Capital launched several limited partnerships, each focused on acquiring controlling interests in certain private sector companies. As relevant here, the GPB Capital limited partnerships included GPB Automotive Portfolio, LP (Automotive Portfolio), which was formed in 2013 to acquire and operate automotive dealerships, and GPB Holdings II, LP (Holdings II), which was formed in 2015 primarily to acquire and operate companies in the automotive retail and managed IT sectors.

These GPB Capital limited partnerships raised capital by selling limited partnership interests to retail investors. GPB Capital sold the limited partnership interests through, among other channels, broker-dealers. The securities GPB Capital sold, including those issued by Automotive Portfolio and Holdings II, were not registered. Instead, the limited partnership interests were sold pursuant to Regulation D of the Securities Act of 1933. As a condition of the offerings, only accredited investors were permitted to purchase the GPB Capital limited partnership interests.³ Holdings II raised more than \$600 million from investors between April 2015 and June 2018. Automotive Portfolio raised in excess of an additional \$600 million from investors between July 2013 and June 2018.

After conducting due diligence on each offering, Coastal approved Automotive Portfolio for sale by the firm's registered representatives in October 2013, and then approved Holdings II in May 2015.

² FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014. Since the supervisory failures occurred before and after this date, both rules apply.

³ See 17 CFR §230.501(a) (defining accredited investor).

B. Coastal Negligently Failed to Tell Investors Material Information Concerning GPB Capital Offerings in 2018

FINRA Rule 2010 requires that members and associated persons observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. Making a negligent misrepresentation or omission of a material fact to customers violates FINRA Rule 2010, as it is inconsistent with just and equitable principles of trade.

On July 10, 2017, GPB Capital filed a lawsuit in New York against one of its former operating partners who had allegedly failed to acquire certain automotive dealership interests (the New York Litigation). In connection with the New York Litigation, the former partner asserted various counterclaims against GPB Capital and alleged that GPB Capital had falsified financial statements to conceal that GPB Capital was defrauding its investors. GPB Capital denied the former partner's allegations and the litigation remains pending.

On April 27, 2018, GPB Capital released what it characterized as important updates regarding the audited financial statements for certain of its limited partnerships, including Automotive Portfolio and Holdings II. The letters, which were sent to broker-dealers that sold GPB Capital-related investments, including Coastal, stated that GPB Capital was in the process of registering certain classes of securities issued by certain of the limited partnerships, including Automotive Portfolio and Holdings II, with the SEC. As part of that process, Automotive Portfolio and Holdings II were required to file audited financial statements. The letters further stated that the delivery of Automotive Portfolio's and Holdings II's audited financial statements (which were due to be filed by April 30, 2018) would be delayed pending the completion of a forensic audit. Specifically, GPB Capital disclosed that it and its auditors "determined that it would be prudent to hire a third-party firm to complete a forensic audit in order to endeavor to put [the former partner's] counterclaims and other allegations to rest." The offering documents for Automotive Portfolio and Holdings II were not timely amended by GPB Capital to disclose that the partnerships would be delayed in filing their audited financial statements with the SEC.

Although Coastal received the email from GPB Capital notifying it of the delays and GPB Capital's stated intention to complete a forensic audit, Coastal sold 11 limited partnership interests in Automotive Portfolio and one limited partnership interest in Holdings II after the date of the letter. The principal value of those 12 sales, which were finalized and accepted by GPB Capital between May 1, 2018, and June 30, 2018, totaled \$3.05 million. Coastal received a total of \$244,000 in commissions from the sales.

In connection with these sales, however, Coastal's representatives did not inform the customers that Automotive Portfolio and Holdings II had not timely filed their audited financial statements with the SEC or the reasons for the delay. The delay in filing audited financial statements was material information that should have been disclosed.⁴

⁴ In February 2021, the SEC filed a complaint against GPB Capital and other defendants alleging, among other things, that the defendants engaged in securities fraud in violation of Section 10(b) of the Securities Exchange Act of

By negligently omitting material facts, Coastal violated FINRA Rule 2010.

C. Coastal Failed to Reasonably Supervise Representative A

FINRA Rule 3110(a), like its predecessor NASD Rule 3010(a), requires that FINRA members “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” A violation of FINRA Rule 3110, or NASD Rule 3010, also constitutes a violation of FINRA Rule 2010, which requires member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

Between August 2014 and July 2018, Representative A recommended that his customers purchase GPB Capital investments. These customers purchased approximately \$15 million of GPB Capital investments. Coastal’s written supervisory procedures stated that registered representatives are responsible for ensuring customers meet suitability standards for products they recommend. As part of the suitability review for GPB Capital products, the firm required its registered representatives and customers to jointly complete a questionnaire titled “Complex Product/Direct Investment Disclosure Form” (the Disclosure Form), which the representative’s direct supervisor reviewed and approved, and then sent to the firm’s main office for recordkeeping. The Disclosure Form required, among other things, that representatives calculate the percentage the purchase, combined with the customer’s prior investments in alternative investments, constituted of the customer’s overall liquid net worth, to ensure that the proposed transaction complied with the firm’s 35% concentration limit for alternative investments.

During its review of Representative A’s transactions, the firm failed to recognize multiple red flags that Representative A was circumventing Coastal’s concentration limits by inflating customers’ financial information on the Disclosure Forms required for alternative investment transactions. In connection with at least 22 customers’ investments in GPB Capital, Representative A submitted altered Disclosure Forms. The majority of these alterations involved unsubstantiated increases in the customer’s net worth, liquid net worth, or both. In many instances, there were indications on the face of the documents that information had been whited-out and written over. In other cases, Representative A sent emails to customers attaching only the signature pages for documents related to the investment, including new account information forms, the Disclosure Forms, and subscription agreements. Representative A then completed the remaining portion of the documents with financial information that was inflated and/or false. For example:

- Representative A caused the financial information for a customer to falsely reflect that his liquid net worth tripled, increasing from \$4.5 million in May 2015 to

1934 and Rule 10b-5 promulgated thereunder. (Case No. 1:21-cv-00583, E.D.N.Y.). The United States Department of Justice also brought criminal charges against GPB Capital’s founder and CEO and two other executives, charging, among other things, securities fraud, mail fraud and wire fraud. (Case No. 1:21-cr-54, E.D.N.Y.).

\$13.6 million in September 2017. During that same time period, Representative A recommended \$875,000 in GPB Capital securities to the customer, which increased the customer's position in alternative investments. The customer's investment-related forms reflect the use of white-out over liquid net worth figures. By altering the forms and falsely inflating the customer's financial information, Representative A concealed the fact that, by September 2017, the customer's investments in alternative investments constituted approximately 75% of the customer's actual liquid net worth, far in excess of the firm's 35% concentration limit.

- Representative A caused a second customer's financial information to falsely reflect a liquid net worth increase of almost \$1 million in just over a year, from \$2 million in July 2016 to \$2.95 million in October 2017. During that same period, Representative A recommended \$445,000 in GPB Capital securities to the customer, which increased the customer's position in alternative investments. This customer's investment-related forms also reflect the use of white-out with respect to the customer's liquid net worth. In addition, on at least two instances, in June 2017 and October 2017, Representative A emailed the customer only the signature pages for GPB Capital investments, and then completed the forms with false information. By altering the forms and falsely inflating the customer's financial information, Representative A concealed the fact that, by October 2017, the customer's investments in alternative investments comprised 39% of the customer's actual liquid net worth.

These red flags should have caused the firm to investigate the accuracy of customer financial information Representative A submitted, but the firm failed to take any reasonable action. Coastal did not verify the changes to the customers' financial information or seek substantiating documentation, notwithstanding that many of Representative A's customers had purported liquid net worth increases around the time of a purchase of GPB Capital, an alternative investment. Instead, Coastal approved Representative A's recommendations, resulting in several of Representative A's customers having unsuitably high concentrations of their liquid net worth in alternative investments.

Therefore, Coastal violated FINRA Rules 3110 and 2010 and NASD Rule 3010.

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

- a censure;
- a \$150,000 fine; and,
- partial restitution of \$268,800 plus interest as described below.⁵

⁵ The amount of partial restitution being paid to customers who purchased Automotive Portfolio and Holdings II after April 27, 2018 (Customers 1 through 7 in this AWC) is equal to the commissions that Coastal received in

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanctions imposed in this matter.

Partial restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$268,800, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2), from the respective dates set forth on Attachment A until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each customer listed on Attachment A) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after the date of the notice of acceptance of the AWC.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

The imposition of a restitution order or any other monetary sanctions in this AWC, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

connection with customers' investments. Four customers to whom Coastal sold Automotive Portfolio after April 27, 2018 will not receive partial restitution because they previously settled their claims related to GPB Capital with the firm. Partial restitution is also included for one customer (Customer 8) that was overconcentrated in alternative investments. The amount of partial restitution is equal to the commissions the customer paid on his investments in GPB Capital securities between November 2015 and September 2017.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

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

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

Further, Respondent 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 its acceptance or rejection.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 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 its subject matter in accordance with FINRA Rule 8313; and
 4. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

November 9, 2022
Date

Coastal Equities, Inc.
Respondent

Print Name: Charles Leiby

Title: President & CEO

Reviewed by:

D. Newman

David Newman, Esq.
Counsel for Respondent
Law Office of David Newman
111 Dillons Lane
Mullica Hills, New Jersey 08062

Accepted by FINRA:

December 16, 2022

Date

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

Vaishali Shetty

Vaishali Shetty
Senior Counsel
FINRA
Department of Enforcement
Two Jericho Plaza, 3rd Floor
Jericho, NY 11753

ATTACHMENT A

RESTITUTION SCHEDULE

Customer	Investment Date	Restitution Amount
Customer 1	6/8/2018	\$12,000
Customer 2	6/8/2018	\$20,000
Customer 3	6/29/2018	\$4,800
Customer 4	6/29/2018	\$4,000
Customer 5	6/29/2018	\$4,000
Customer 6	6/29/2018	\$40,000
	6/29/2018	\$80,000
Customer 7	6/29/2018	\$40,000
Customer 8	11/5/2015	\$28,000
	2/3/2016	\$12,000
	6/23/2016	\$16,000
	9/26/2017	\$8,000
TOTAL		\$268,800