

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021071926701**

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

RE: Insight Securities, Inc. (Respondent)
Member Firm
CRD No. 5611

Pursuant to FINRA Rule 9216, Respondent Insight Securities, 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

Insight Securities has been a FINRA member since February 1971. It is headquartered in Highland Park, Illinois, and acts as an introducing broker-dealer engaged in a general securities business servicing retail and institutional customers. Insight Securities currently has 66 registered representatives in fifteen branches.¹

OVERVIEW

Between March 2017 and June 2020, Insight Securities failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with its suitability obligations in connection with inverse and leveraged exchange traded funds or notes (collectively, “non-traditional exchange-traded products” or “NT-ETPs”). Although the firm was aware of the complex nature of NT-ETPs, Insight Securities permitted its representatives to offer the products to retail customers on a solicited basis without having in place a supervisory system to reasonably monitor those transactions. As a result, Insight Securities violated FINRA Rules 3110 and 2010.

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

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2020 cycle exam of Insight Securities.

FINRA Rule 3110(a) requires member firms to “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.” FINRA Rule 3110(b)(1) requires member firms to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” These obligations include establishing a reasonable system, including WSPs, to supervise for compliance with FINRA Rule 2111 Supplementary Material .05(a), which requires member firms and their associated persons “to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors” (emphasis in original). A violation of FINRA Rule 3110 is also 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.

Non-traditional exchange-traded products are complex products intended to be held for short periods of time as part of a trading strategy rather than as buy-and-hold investments. They are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over 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 of time longer than a single trading session can differ significantly from the performance of their underlying index or benchmark during the same period of time. Because of these risks and the inherent complexity of the products, FINRA guidance to member firms provides 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.”²

Between March 2017 and June 2020, Insight Securities' registered representatives solicited 647 purchases of NT-ETPs, totaling \$23.9 million, and 509 sales of NT-ETPs, totaling \$24.5 million, in 46 retail customer brokerage accounts. None of the customers who held positions for more than a week sold the positions at a loss.

Throughout the relevant period, Insight Securities failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with its suitability obligations as it relates to solicited NT-ETP transactions and, in particular, to address the risks associated with holding such products for extended periods of time. The firm did not monitor the holding periods of its customers' positions in NT-ETPs, nor did it its WSPs require supervisors to conduct such monitoring. Instead, Insight Securities

² FINRA Regulatory Notice 09-31. In Regulatory Notice 12-03, issued in January 2012, FINRA reminded firms of their heightened supervisory obligations with respect to complex products, which include NT-ETPs.

relied on supervisors to conduct a manual blotter review to detect potentially unsuitable NT-ETP transactions. The firm's blotter review, however, did not provide supervisors with information on how long the customers held the products. Insight Securities failed to reasonably monitor NT-ETP holding periods despite having twice been warned by FINRA, in 2014 and 2018, that its supervisory systems were deficient in failing to conduct such monitoring. In response to the first warning, the firm represented to FINRA staff in 2014 that it would immediately cease soliciting trades in NT-ETPs yet continued to solicit the products.³

As a result of the foregoing, Insight Securities violated FINRA Rules 3110 and 2010.

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

- a censure and
- a \$25,000 fine.

Respondent agrees to pay the monetary sanction 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 sanction imposed in this matter.

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

³ Subsequent to the relevant period, Insight Securities revised its WSPs to prohibit solicited trades in NT-ETPs without prior compliance approval and to set forth procedures for the monitoring of holding periods.

- 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.

12/16/2022

Date



Insight Securities, Inc.
Respondent

Print Name: Carlos Legaspy

Title: President and CEO

Accepted by FINRA:

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

01/12/2023

Date



Jeffrey E. Baldwin
Senior Counsel
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