

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014041310602**

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

RE: Coastal Equities, Inc. (BD No. 23769),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Coastal Equities, Inc. ("Coastal" 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. Coastal 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

Coastal has been a FINRA member since 1989. The Firm has approximately 40 offices and about 90 registered personnel. Its main office is in Wilmington, Delaware.

RELEVANT DISCIPLINARY HISTORY

Coastal has no relevant disciplinary history with the Securities and Exchange Commission, any self-regulatory organization, or any state securities regulator.

OVERVIEW

From October 2013 to September 2014 (the "Relevant Period"), Coastal failed to establish, maintain, and enforce a reasonably-designed supervisory system for its representatives' sales of leveraged, inverse, and inverse-leveraged exchange-traded funds ("Non-Traditional ETFs"), in violation of NASD Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Non-Traditional ETFs 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. As a result, and as stated in *FINRA Regulatory Notice 09-31*, the performance of Non-Traditional ETFs 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 has advised broker-dealers and their representatives that Non-Traditional ETFs “typically are not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.” *Id.*

During the Relevant Period, Coastal representatives sold Non-Traditional ETFs to customers, many of whom held these products for longer than one trading session.

Coastal's procedures required the Firm to perform due diligence on each new product sold to customers to ensure that the Firm and its representatives understood the nature of the product and its potential risks and rewards. The procedures also required the Firm, on an ongoing basis, to determine whether the specific product was performing as anticipated, whether market conditions had affected performance, and whether only authorized and suitably trained representatives were selling the product. The procedures required the Firm to document these reviews. Coastal could not demonstrate that, during the Relevant Period, it had complied with these procedures.

Coastal's procedures also required its representatives to collect a signed “qualification agreement” from each customer prior to executing any Non-Traditional ETF transaction for that customer. According to the procedures, the qualification agreement would describe product features and risks, and memorialize the customer's acknowledgement of acceptance of the risks. During the Relevant Period, Coastal did not enforce this procedure and collected no qualification agreements from its customers.

During the Relevant Period, the Firm had no exception reports specific to Non-Traditional ETFs, and failed to implement a system to monitor Non-Traditional ETF holding periods and losses.

By virtue of the foregoing, Coastal violated NASD Rule 3010 and FINRA Rule 2010.

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

- a censure, and
- a \$15,000 fine.

Coastal agrees to pay the monetary sanction upon notice that this AWC has been

accepted and that such payment is due and payable. Coastal has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

Coastal 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

Coastal 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, Coastal 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.

Coastal 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

Coastal 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;
- C. If accepted:
 - 1. this AWC will become part of Coastal'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. Coastal 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. Coastal 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.

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.

Coastal Equities, Inc. (BD No. 23769).
Respondent

5/18/2017
Date

By: [Signature]
Name: Francis Sklar
Title: CEO

Reviewed by:

[Signature]
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Accepted by FINRA:

June 9, 2017
Date

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

[Signature]
Matthew M. Ryan
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