FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019060753601

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

RE: Cova Capital Partners LLC (Respondent)
Member Firm
CRD No. 109761

Pursuant to FINRA Rule 9216, Respondent Cova Capital Partners LLC 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

Cova has been a FINRA member since July 2001. The firm has 10 registered representatives and one branch office in Syosset, New York. Its primary business lines include private placements, private investments in public equity, and retail sales of equity securities.[1]

OVERVIEW

Between June 2018 and December 2021, Cova recommended three private placements to retail customers without conducting due diligence sufficient to form a reasonable basis to believe that the offerings were suitable for or in the best interests of at least some investors. As a result, Cova willfully violated Rule 15*l*-1(a)(1) under the Securities Exchange Act of 1934 (Regulation Best Interest or Reg BI) and violated FINRA Rules 2111 and 2010.

Additionally, between June 2018 and December 2023, Cova failed to establish, maintain, and enforce a supervisory system, including written policies and procedures, reasonably designed to achieve compliance with its suitability and best interest obligations in connection with its sale of private placement offerings. As a result, Cova willfully

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

violated Reg BI's Compliance Obligation and violated FINRA Rules 3110 and 2010.

Cova also violated FINRA Rules 5123 and 2010 by failing to make a timely filing in connection with one private placement offering.

FACTS AND VIOLATIVE CONDUCT

This matter originated from reviews conducted by FINRA's Department of Member Supervision and FINRA's Department of Corporate Financing.

A. Cova recommended three private placements to its customers without conducting reasonable due diligence and without satisfying its suitability and best interest obligations.

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation Best Interest. Rule 15*l*-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer.

Reg BI's Care Obligation, set forth at Exchange Act Rule 15*l*-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, understand the potential risks, rewards, and costs associated with a recommendation. Reg BI's Adopting Release provides that what constitutes "reasonable diligence" depends on, among other things, the complexity of, and risks associated with, the recommended security.[2] The Care Obligation requires broker-dealers and their associated persons to have a reasonable basis to believe that the recommendation could be in the best interest of at least *some* retail investors.

Prior to June 30, 2020, FINRA Rule 2111 required members and associated persons to have a reasonable basis to believe that a recommendation of a transaction or investment strategy involving a security or securities to any customer is suitable for the customer. FINRA Rule 2111 is still in effect, but as of June 30, 2020, it no longer applies to recommendations that are subject to Reg BI. Rule 2111.05(a) defines the reasonable-basis obligation to require members and their associated persons to have an understanding of the potential risks and rewards associated with the recommended security or strategy and to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors.

Regulatory Notice 10-22 reminded firms of their obligation to conduct a reasonable investigation of the issuer and the securities they recommend in connection with private

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[2] *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33376 (July 12, 2019).

placements. To satisfy its obligations, a firm should conduct a reasonable investigation of, among others, the issuer and its management and the assets held or to be acquired by the issuer.[3]

A violation of Reg BI and FINRA Rule 2111 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.

During the relevant period, Cova failed to conduct reasonable due diligence before recommending three private placement offerings to retail customers and thus did not have a reasonable basis to believe these offerings were suitable for and in the best interests of at least some investors.

Between June 2018 and February 2020, Cova sold nine investors more than $2 million of a private placement offering by Issuer 1, which purported to offer pre-initial public offering (pre-IPO) shares of Company A (Offering 1). Before selling Offering 1 to these investors, Cova failed to take reasonable steps to confirm that Issuer 1 in fact possessed rights to the shares of Company A, even though acquiring an interest in such shares was the sole purpose of investing in Offering 1. Moreover, despite knowing that Issuer 1 applied markups to the pre-IPO shares—in other words, the issuer charged a higher price to investors than the issuer paid to acquire the shares—Cova did not take reasonable steps to determine the amount of the markups applied by Issuer 1 to the shares of Company A.

As a result, at the time Cova recommended Offering 1 to its customers, the firm had no reasonable basis to believe that Issuer 1 had access to or possession of the pre-IPO shares identified in the offering documents, or that Issuer 1's markups were reasonable and properly disclosed.[4]

Between October 2019 and 2021, Cova sold 24 investors more than $1.7 million of a private placement offering by Issuer 2 (Offering 2). Before selling Offering 2 to these investors, Cova failed to reasonably investigate Issuer 2's management and thus did not identify that Issuer 2's Chief Executive Officer was previously the subject of federal and state regulatory actions related to illegal robocalls to senior consumers.

Between September 2021 and December 2021, Cova sold 49 investors more than $9 million of a private placement offering by Issuer 3, which purported to offer pre-IPO shares of Company B (Offering 3). Before selling Offering 3 to these investors, Cova

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[3] Regulatory Notice 23-08 updates and supplements, without altering, the guidance provided in Regulatory Notice 10-22.

[4] On May 13, 2022, the SEC filed a lawsuit in the Southern District of New York against Issuer 1 and its principals. Among other things, the SEC alleged that Issuer 1 committed fraud by charging undisclosed, excessive markups and not having enough pre-IPO shares to satisfy its sales to investors. On June 14, 2022, the court entered a stipulation and consent order granting a preliminary injunction and other relief, including appointment of a receiver for the Issuer. On November 28, 2023, the U.S. Attorney's Office for the Southern District of New York filed a criminal case naming principals of the Issuer as defendants in a multi-count indictment including various felonies, including fraud and conspiracy to obstruct justice.

failed to take reasonable steps to confirm that Issuer 3 in fact possessed rights to the shares of Company B. Additionally, during its due diligence process, Cova failed to investigate information concerning SEC charges filed against two individuals associated with another pre-IPO fund from which Issuer 3 purported to source Company B shares.

By recommending to its customers three private offerings without conducting due diligence sufficient to form a reasonable basis to believe that the recommendations were suitable for and in the best interest of at least some investors, Cova willfully violated Exchange Act Rule 15*l*-1(a)(1) and violated FINRA Rules 2111 and 2010.

B. Cova did not establish and maintain a reasonable supervisory system with respect to private placement recommendations.

Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15*l*-1(a)(2)(iv), requires broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI, including the Care Obligation. The Adopting Release provides that broker-dealers should consider the nature of that firm's operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.[5]

FINRA Rule 3110 requires member firms to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules.

A violation of Reg BI and FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Between June 2018 and December 2023, Cova failed to establish, maintain, and enforce a supervisory system, including written procedures, and as of June 30, 2020, written policies and procedures pursuant to Reg BI, reasonably designed to achieve compliance with its suitability and best interest obligations in connection with its recommendations of private placements. Cova's written procedures recited the general obligation to conduct private placement due diligence and listed some steps registered representatives and supervisors should take to investigate each offering. However, the procedures failed to describe what documents and information should be collected as part of that investigation. In addition, the procedures failed to identify the individuals responsible for conducting, documenting, and reviewing the due diligence process and granting approval for each offering. The procedures also listed some due diligence steps that were never actually carried out in practice during the relevant period. As described above, Cova failed to reasonably supervise the due diligence processes for Offerings 1, 2, and 3 in order to ensure that the firm reasonably investigated each offering prior to its approval for sale.

[5] Adopting Release at 33397.

Through this conduct, Cova willfully violated Exchange Act Rule 15*l*-1(a)(1) and violated FINRA Rules 3110 and 2010.

C. Cova made a late Rule 5123 filing.

FINRA Rule 5123(a) requires, among others, that each member that sells a private placement submit to FINRA, or have submitted on its behalf, a copy of any private placement memorandum, term sheet or other offering document used in connection with such sale within 15 calendar days of the date of first sale. Rule 5123 was implemented to, as described in FINRA Regulatory Notice 12-40, "enhance oversight and investor protection" and provide "more timely and complete information about the private placement activities of firms on behalf of other issuers." A violation of FINRA Rule 5123 is also a violation of FINRA Rule 2010.

Cova approved Offering 1 and began soliciting investors in March 2018. The first Offering 1 sale occurred in June 2018, but Cova did not make its required filing with FINRA for Offering 1 until September 2019, over one year late.

Therefore, Cova violated FINRA Rules 5123 and 2010.

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

- a censure;
- a $30,000 fine; and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Reg BI's Care Obligation regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Evan Ennis, Principal Counsel, 581 Main St. #710, Woodbridge, NJ 07095, evan.ennis@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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.

Respondent understands that this settlement includes a finding that it willfully violated Exchange Act Rule 15*l*-1(a)(1) of the Securities Exchange Act of 1934 and that under Article III, Section 4 of FINRA's By-Laws, this makes Respondent subject to a statutory disqualification with respect to membership.

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.

1/15/2025
Date

Cova Capital Partners LLC
Respondent

Print Name: EDWARD GIBSTEIN

Title: CEO

Reviewed by:

Robert M. Bursky
Counsel for Respondent
68 South Service Road – Suite 100
Melville, NY 11747

Accepted by FINRA:

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

February 14, 2025
Date

Evan Ennis
Principal Counsel
FINRA
Department of Enforcement
581 Main St. #710
Woodbridge, NJ 07095