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FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021069370604

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

RE: Cape Securities Inc. (Respondent)
Member Firm
CRD No. 7072

Pursuant to FINRA Rule 9216, Respondent Cape 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

Cape Securities has been a FINRA member since 1976 and is headquartered in McDonough, Georgia. On March 19, 2026, the firm filed a Uniform Request for Broker Dealer Withdrawal (Form BDW) requesting to terminate its registration with FINRA. Prior to filing the Form BDW, the firm had approximately 20 registered representatives and eight branch locations, and conducted a general securities business offering investment products and services to retail customers. FINRA retains jurisdiction over the firm pursuant to Article IV, Section 6 of FINRA's By-Laws.[1]

OVERVIEW

From July 2020 to March 2023, Cape Securities failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Rule 15*l*-1(a)(1) of the Securities Exchange Act of 1934 (Reg BI). Cape Securities also failed to reasonably supervise its registered representatives' recommendations to purchase GWG L Bonds and non-traditional exchange-traded products (NT-ETPs) for compliance with Reg BI. As a result, Cape Securities willfully violated Reg BI and violated FINRA Rules 3110 and 2010. In addition, from May 2023

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

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to March 2025, the firm failed to timely respond to eight requests for information made pursuant to FINRA Rule 8210, in violation of FINRA Rules 8210 and 2010.

For these violations, the firm is censured and ordered to pay partial restitution of $145,072.62, plus interest.

FACTS AND VIOLATIVE CONDUCT

This matter arose from two firm examinations and two cause examinations.

A. Applicable Law Regarding Reg BI

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. 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 Compliance Obligation, set forth at Exchange Act Rule 15*l*-1(a)(2)(iv), requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. Reg BI's 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.[2]

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, have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation. A recommendation may not be in the best interest of a customer if it creates a risk of loss inconsistent with the customer's investment profile, which would be exacerbated by a high concentration in a particular security or category of securities. Reg BI's Adopting Release also provides that consideration of reasonably available alternatives offered by the broker-dealer is an inherent aspect of making a "best interest" recommendation.

[2] Adopting Release at 33397.

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FINRA Rule 3110(a) requires a member firm 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) requires a member firm 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. Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

A violation of Reg BI or 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.

B. Cape Securities failed to establish and maintain written policies and procedures, and a supervisory system, reasonably designed to achieve compliance with Reg BI.

From June 30, 2020, through March 2026, Cape Securities failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI's Care Obligation. The firm's policies and procedures discussed Reg BI only in general terms, without prescribing procedures for complying with the Care Obligation. For example, the firm's written policies and procedures provided no guidance explaining how representatives should exercise reasonable diligence, care, and skill to have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation. Additionally, as discussed in more detail below, the firm failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI with respect to recommendations of complex products to retail customers, including GWG L Bonds and NT-ETPs.

Therefore, Cape Securities willfully violated Exchange Act Rule 15*l*-1(a)(1) and violated FINRA Rules 3110 and 2010.

C. Cape Securities failed to reasonably supervise recommendations of GWG L Bonds and NT-ETPs for compliance with Reg BI.

1. Cape Securities failed to reasonably supervise its representatives' recommendations that six retail customers purchase GWG L Bonds.

At all relevant times, GWG Holdings, Inc., was a publicly traded financial services company. Prior to 2018, GWG purchased life insurance policies through its subsidiaries on the secondary market. GWG continued to pay the premiums for each policy that it purchased and collected the policy benefits upon the insured's death. Following a series of transactions in 2018 and 2019 with Beneficient Company Group, L.P., GWG reoriented its business, stopped acquiring life insurance policies, and focused instead on developing a business model of providing liquidity to holders of illiquid investments and alternative assets.

GWG had a history of net losses and had not generated sufficient operating and investing cash flows to fund its operations. To finance its operations, GWG offered corporate bonds (known as L Bonds) to investors with varying maturity periods and interest rates. L Bonds were not directly secured by GWG's life insurance portfolio and were not rated by any bond rating agency.

The GWG L Bonds were alternative investment products. Alternative investments are products that often have complex terms and features that are not easily understood. Although alternative investments may be offered to investors in an attempt to increase investors' potential return on investments, alternative investments correspondingly may involve greater degrees of risk. Alternative investments may, for example, have less market liquidity and less transparency regarding their pricing and value.

GWG sold L Bonds to retail investors in four separate offerings and made those sales through a network of broker-dealers, including Cape Securities, which entered into agreements with GWG to sell L Bonds in October 2017 and June 2020, respectively. The offering documents for the fourth L Bond offerings, which commenced in June 2020, stated that the bonds could be considered speculative, involved a high degree of risk, were illiquid, and were only suitable for persons with substantial financial resources and with no need for liquidity.

In January 2022, after Cape Securities' customers made investments in L Bonds, GWG defaulted on its obligations to L Bond investors and suspended further sales of L Bonds. In April 2022, GWG filed for bankruptcy.

Between July 2020 and April 2021, Cape Securities failed to reasonably supervise its registered representatives' GWG L Bond recommendations for compliance with Reg BI. As discussed above, the firm's written policies and procedures addressing recommendations to purchase alternative products like GWG L Bonds were not reasonably designed to achieve compliance with Reg BI. The WSPs required supervisors to review and sign an alternative products worksheet for all alternative products that a customer purchased on a single date, which included information about the concentration of the customer's liquid net worth in such products. However, the firm did not provide guidance to supervisors for determining whether a representative had a reasonable basis to believe that a recommendation to purchase an alternative product was in a customer's best interest, nor did the firm provide reasonable guidance for determining whether such a recommendation was consistent with the customer's profile.

During this period, two representatives recommended that six retail customers purchase a total of $460,000 of GWG L Bonds. One representative (Representative 1) recommended that five retail customers make six purchases of GWG L Bonds totaling $360,000. Another representative (Representative 2) recommended that one retail customer purchase $100,000 of GWG L Bonds. All six of the customers had a moderate risk tolerance and investment objectives that did not include speculation, and five of the six customers were seniors. As a result of these recommendations, up to 43% of the customers' liquid net worth was invested in alternative investments.

Despite red flags that the high risk of loss associated with speculative investments in unrated L Bonds may not have been consistent with these customers' profiles, including their age, investment objectives, and risk tolerances, as well as their concentrations in alternative investments, Cape Securities supervisors took no steps to confirm that Representatives 1 and 2 had a reasonable basis for these recommendations. As a result, the firm did not evaluate whether the representatives had a reasonable basis to believe that any of the recommendations were in the customers' best interest.

Therefore, Cape Securities violated FINRA Rules 3110 and 2010.

2. <u>Cape Securities failed to reasonably supervise a representative's recommendations that four retail customers purchase and hold NT-ETPs.</u>

NT-ETPs are complex financial instruments designed to return a multiple of an underlying index or benchmark, the inverse of the benchmark, or both, usually over the course of a single day. In June 2009, FINRA issued Regulatory Notice 09-31, which cautioned that, due to the effects of compounding daily returns during the holding period, the performance of NT-ETPs held for periods of longer than a single trading session can differ significantly from the performance of their underlying index or benchmark during the same period of time. Firms and their associated persons therefore must understand the terms and features of NT-ETPs, including the effect the customer's intended holding period will have on the products' performance, before recommending the purchase of the products. Because of these risks and the inherent complexity of the products, FINRA guidance to member firms provides that NT-ETPs "typically are not suitable for retail investors who plan to hold them for more than one trading session[.]" The NT-ETP prospectuses typically provide similar warnings. In January 2012, FINRA issued Regulatory Notice 12-03, which reminded firms of their heightened supervisory obligations with respect to complex products, which include NT-ETPs.

In adopting Reg BI, the SEC cited Regulatory Notices 09-31 and 12-03 in its discussion of NT-ETPs, cautioning that "broker-dealers recommending such products should understand that inverse and leveraged exchange-traded products that are reset daily may not be suitable for, and as a consequence also not in the best interest of, retail customers who plan to hold them for longer than one trading session, particularly in volatile markets."[3]

From July 2021 to March 2023, Cape Securities failed to reasonably supervise one of its registered representative's (Representative 3) NT-ETP recommendations for compliance with Reg BI. As discussed above, the firm's written policies and procedures regarding recommendations of NT-ETPs were not reasonably designed to achieve compliance with

[3] *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33376 (June 5, 2019) ("Reg BI Release").

Reg BI. Cape Securities' WSPs and training regarding the recommendation of NT-ETPs did not address Reg BI as it applied to these products. The firm did not provide any guidance regarding how supervisors should assess the specific risks of NT-ETPs, including risks associated with recommending that customers hold daily reset products longer than a single day. Further, the firm did not establish a supervisory system reasonably designed to ensure that its representatives actually considered the intended holding period before recommending NT-ETPs. Although the firm's 2021 WSPs stated that supervisors, as a "best practice," should apply "heightened scrutiny" to NT-ETP recommendations because NT-ETPs are "high risk or complex products," the firm did not mandate or define such scrutiny, and the firm removed this language from its WSPs in July 2022.

During this period, Representative 3 recommended that four retail customers purchase and hold for longer than a day approximately $45,000 in daily reset NT-ETPs that were designed to return three times the return of the benchmark they tracked. The customers ranged in age from 57 to 92 at the times of the purchases. Three of the four customers had a moderate risk tolerance.

Cape Securities did not reasonably supervise Representative 3's NT-ETP recommendations. The firm's assigned supervisor took no steps to determine whether Representative 3 had a reasonable basis to believe the recommendations were in the customers' best interest given their age and risk tolerance. The firm also failed to determine whether Representative 3 understood the NT-ETPs he recommended, or whether Representative 3's recommendations to hold the products for more than a single day were in the best interests of his customers given the NT-ETPs' daily reset feature. Based on Representative 3's recommendations, the four retail customers held the daily-reset NT-ETPs for periods ranging from 253 to 693 days and incurred $15,072.62 in realized losses.

Therefore, Cape Securities violated FINRA Rules 3110 and 2010.

D. Cape Securities failed to timely respond to eight FINRA Rule 8210 requests for documents and information.

FINRA Rule 8210(a) states, in relevant part, that FINRA may require a member "to provide information orally, in writing, or electronically" and that FINRA may "inspect and copy the books, records, and accounts of such member . . . with respect to any matter involved in [a FINRA] investigation [or] examination." FINRA Rule 8210(c) further states that "[n]o member . . . shall fail to provide information . . . or to permit an inspection and copying of books, records, or accounts pursuant to this Rule." Failing to timely provide information and documents in response to a FINRA Rule 8210 request violates FINRA Rules 8210 and 2010.

In connection with FINRA's investigation of Cape Securities, FINRA issued requests for documents and information pursuant to FINRA Rule 8210. On numerous occasions, Cape Securities failed to provide timely responses to those requests, and missed multiple

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deadlines without requesting extensions, which materially delayed resolution of this matter.

First, for over five months, Cape Securities failed to provide a complete response to FINRA's May 10, 2023, request pursuant to Rule 8210 for documents and information related to the firm's supervision of recommendations of L Bonds, including blotters of the firm's L Bond sales. Following multiple requests for extensions, multiple missed deadlines, and the issuance of a second request letter on June 23, 2023, the firm provided a complete response on October 11, 2023.

Second, for almost four months, Cape Securities failed to provide a complete response to FINRA's October 11, 2023, request pursuant to Rule 8210 for documents and information related to the firm's sale of L Bonds, the firm's implementation of Reg BI procedures, and other supervisory issues. Following multiple requests for extensions, multiple missed deadlines, and the issuance of a second request letter on January 9, 2024, the firm provided a complete response on February 8, 2024.

Third, for almost three months, Cape Securities failed to provide a complete response to FINRA's March 22, 2024, request pursuant to Rule 8210 for documents and information related to the firm's registered representatives' communications with customers who purchased L Bonds and evidence of the firm's supervisory review of L Bond sales. Following Cape Securities' failure to respond to the March 22 request letter, FINRA issued a second request letter on April 9, 2024. Following the firm's failure to respond to the April 9 request letter, FINRA issued a Notice of Suspension pursuant to FINRA Rule 9552 on May 20, 2024, which advised that FINRA would suspend the firm's membership on June 13, 2024, unless the firm complied with this request letter or requested a hearing before the suspension date. After seeking a one-day extension of the suspension date, the firm provided the requested documents and information on June 14, 2024.

Finally, for over four months, Cape Securities failed to provide a complete response to FINRA's November 13, 2024, request pursuant to Rule 8210 for documents and information related to various supervisory issues. Following multiple requests for extensions, multiple missed deadlines, and the issuance of a second request letter on December 18, 2024, the firm provided a complete response on March 17, 2025.

Therefore, Cape Securities violated FINRA Rules 8210 and 2010.

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

- a censure and
- partial restitution of $145,072.62, plus interest as described below.[4]

[4] Pursuant to the General Principles Applicable to all Sanction Determinations contained in FINRA's *Sanction Guidelines*, FINRA did not impose a fine after it considered, among other things, Respondent's revenues and financial resources, Respondent's Form BDW filing requesting to terminate its registration with FINRA, and Respondent's agreement to pay restitution.

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Partial restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of $145,072.62, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2).[5] For customers 1 to 5, interest will run from May 1, 2021, until the date this AWC is accepted by the National Adjudicatory Council (NAC). For customers 6 to 9, interest will run from April 1, 2023, until the date this AWC is accepted by the NAC.

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount paid to each Eligible Customer) 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.

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 imposition of a restitution order or any other monetary sanction 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.

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.

[5] For customers 1 to 5, the amount of partial restitution is equal to 50% of the principal value of the customers' GWG L Bond investments. The sixth GWG L Bond customer settled a claim against Cape Securities relating to the investment at issue in this AWC. For customers 6 to 9, the amount of restitution is equal to the customers' realized losses on NT-ETP positions.

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Respondent understands that this settlement includes a finding that it willfully violated Rule 15*l*-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 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

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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.

[redacted]

May 7, 2026	Philip Ciantro
Date	Cape Securities Inc. Respondent
	Print Name: Philip Ciantro
	Title: Chief Compliance Officer

Reviewed by:

Jeff Kern

Jeff Kern
Counsel for Respondent
Sheppard, Mullin, Richter & Hampton LLP
30 Rockefeller Plaza
New York, New York 10112

Accepted by FINRA:

	Signed on behalf of the Director of ODA, by delegated authority
May 8, 2026	Jamie P. Keesing
Date	Jamie P. Keesing Principal Counsel FINRA Department of Enforcement 9509 Key West Avenue Rockville, Maryland 20850

[redacted]

Attachment A

Customer	Restitution Amount
Customer 1	$50,000
Customer 2	$30,000
Customer 3	$12,500
Customer 4	$25,000
Customer 5	$12,500
Customer 6	$3,620.51
Customer 7	$4,660.85
Customer 8	$3,301.56
Customer 9	$3,489.70