

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Centaurus Financial, Inc.
(CRD No. 30833)

Notice Pursuant to
Rule 19h-1
Securities Exchange Act
of 1934

SD-2356

March 13, 2024

I. Introduction

On April 19, 2023, Centaurus Financial, Inc. (“Centaurus” or “Firm”) submitted a Membership Continuance Application (“MC-400A Application” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.¹ The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(E), as a result of a February 6, 2023 Order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding that Centaurus failed reasonably to supervise its employees with a view to preventing and detecting their violations of Sections 17(a)(2) and (3) of the Securities Act of 1933 (the “SEC Order”).² According to the SEC Order, Centaurus failed reasonably to implement its written supervisory procedures (“WSPs”) to determine whether a) its registered representatives were making the required customer-specific suitability determinations prior to recommending variable rate structured products (“VRSPs”) to customers and b) the Lexington, South Carolina branch manager (Ricky A.

¹ See MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated April 24, 2023, collectively attached as Exhibit 1.

² See SEC Order, *In re Centaurus Financial, Inc., Ricky A. Mantei, and Atul Makharia*, Exchange Act Release No. 96805 (Feb. 6, 2023), attached as Exhibit 2.

Mantei) was following the WSPs with regards to supervising those VRSP transactions.³ The Firm's WSPs required its financial advisors to conduct additional customer-specific suitability reviews for all VRSP transactions.⁴ Those mandated reviews required analyzing the customer's age and the Firm's 10% single-security concentration limit for VRSPs.⁵ The Firm failed to implement any procedures or mechanisms to monitor whether these additional suitability reviews were being conducted.⁶ Furthermore, the Firm's WSPs required specialized training for all of its registered representatives involved in the sale or supervision of structured products, but the Firm failed to develop reasonable systems to implement its structured products training requirement.⁷ Finally, the Firm failed to make and keep certain required records relating to customer accounts, including customer account information, in violation of Exchange Act Section 17(a) and Rules 17a-3 and 17a-4 thereunder.⁸

The Firm was ordered to cease and desist from committing or causing any future violations of Securities Act Sections 17(a)(2) and (3), Exchange Act Section 17(a), and Rules 17a-4(e)(5), 17a-4(f)(2), and 17a-3(a)(17)(i)(B)(3) thereunder.⁹ The Firm was also censured, ordered to pay \$4,876 in disgorgement plus \$623 in prejudgment interest plus a \$750,000 civil monetary penalty (totaling \$755,499), and ordered to comply with undertakings.¹⁰

The SEC Order also contained findings and sanctions against the former branch manager of the Firm's Lexington, South Carolina branch office, Ricky A. Mantei ("Mr. Mantei").¹¹ According to the SEC Order, Mr. Mantei failed to reasonably supervise several registered representatives at his Lexington branch office with a view to preventing and detecting their violations of Sections 17(a)(2) and (3) of the Securities Act of 1933 arising from their unsuitable recommendations of VRSPs.¹² Mr. Mantei failed reasonably to follow the Firm's then existing customer-specific suitability review procedures which required him to review every proposed structured product transaction, including all VRSP transactions.¹³ The Commission ordered Mr. Mantei to cease and desist from committing or causing any

³ *Id.* at pp. 2-3.

⁴ *Id.* at p. 6.

⁵ *Id.* at pp. 6-7.

⁶ *Id.* at pp. 8-9.

⁷ *Id.* at pp. 7-9.

⁸ *Id.* at pp. 3, 9-10.

⁹ *Id.* at p. 13.

¹⁰ *Id.* at pp. 13-15. The Firm paid these amounts on February 14, 2023. *See* Exhibit 1 at FINRA00091. *See also* Correspondence from Jerome V. Duhovic to FINRA dated May 22, 2023, attached as Exhibit 3 at p. 1, Response 2. The Firm also represents that it is in full compliance with the ordered undertakings. *Id.* at pp. 1-2, Response 2. *See also* Correspondence from Jerome V. Duhovic to FINRA dated September 29, 2023, attached as Exhibit 4 at p. 1, Response 1.

¹¹ *See* Exhibit 2 at pp. 2-3, 7-8.

¹² *Id.*

¹³ *Id.*

violations of Section 17(a)(2) and (3) of the Securities Act, prohibited him from acting in a supervisory capacity for six months, and ordered him to pay a total of \$310,492 (\$92,650 disgorgement, \$11,842 prejudgment interest, and a \$206,000 civil money penalty).¹⁴

III. Remedial Measures

In the Application, the Firm represented that it has undertaken significant remedial measures in response to the SEC's findings, including ceasing the sale of VRSPs firmwide (the Lexington branch was the only branch offering them), retaining an independent consultant to review the Firm's policies and procedures related to preventing and detecting unsuitable recommendations of structured products, and correcting its record-keeping system so that when client information is updated in the system, the old client information is archived rather than deleted.¹⁵ The Firm also took remedial measures specifically related to Mr. Mantei, including prohibiting him from acting in any supervisory capacity for as long as he remains associated with Centaurus (even after the six month supervisory suspension from the SEC Order ended), instructing Mr. Mantei that he may not act in a consultative capacity on supervisory issues at the Firm, appointing new branch managers for the Lexington branch, and having Mr. Mantei sign an agreement explaining all of the supervisory and branch manager activities he was forbidden from performing.¹⁶

IV. Firm Background

The Firm has been a FINRA member since 1993.¹⁷ It is headquartered in Anaheim, California with 393 branches, 136 of which are Offices of Supervisory Jurisdiction.¹⁸ The Firm employs 596 registered representatives (205 of which are registered principals), 619 non-registered fingerprint employees, and one operations professionals.¹⁹ Centaurus employs five statutorily disqualified individuals.²⁰

Centaurus is approved to engage in the following lines of business: broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; mutual fund retailer; U.S. government securities broker; municipal

¹⁴ *Id.* at pp. 13-14. Mr. Mantei is subject to statutory disqualification under Exchange Act Section 3(a)(39)(F), incorporating Section 15(b)(4)(E), as a result of the SEC Order's findings that he failed to reasonably supervise several registered representatives with a view to preventing and detecting their violations of Sections 17(a)(2) and (3) of the Securities Act of 1933. *See also* Appendix A.

¹⁵ *See* Exhibit 1 at FINRA00112-113. *See also* Exhibit 3 at pp. 1-2, Responses 1 and 3.

¹⁶ *See* Letter Agreement from Centaurus to Mantei dated February 17, 2023, attached as Exhibit 5.

¹⁷ *See* CRD Excerpt: Organization Registration Status, attached as Exhibit 6.

¹⁸ FINRA confirmed this through analysis of the Firm's information contained in the Central Registration Depository ("CRD"), last performed on February 28, 2024.

¹⁹ *Id.*

²⁰ *Id.* The individuals subject to statutory disqualification are Ricky A. Mantei (CRD# 1098981), Atul Makharia (CRD# 5070762), Martin J. Vanamen (CRD# 1704657), Robert J. Degroot (CRD# 1004871), and Curtis R. Edmark (CRD# 1596961). All of these individuals are currently classified as Tier 3 statutorily disqualified individuals, permitted to associate without any special supervision. *See* Appendix A.

securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; broker or dealer selling gas or oil interests; put and call broker or dealer or option writer; investment advisory services; broker or dealer selling tax shelters or limited partnerships in primary distributions; broker or dealer selling tax shelters or limited partnerships in the secondary market; non-exchange member arranging for transactions in listed securities by exchange member; private placements of securities; broker or dealer selling interests in mortgages or other receivables; engages in other securities business; effects transactions in commodity futures, commodities, commodity options as broker for others or dealer for own account; and engages in other non-securities business such as soliciting fund pools on a best efforts basis, including commodity pools, funds of funds, and managed futures; and soliciting non-securities insurance products.²¹

The Firm is a member of the following self-regulatory organizations (“SROs”): Municipal Securities Rulemaking Board (“MSRB “); the National Securities Clearing Corporation (“NSCC”).²²

Recent Examinations

In the past two years, FINRA completed one routine examination of the Firm that resulted in a Cautionary Action Letter (“CAL”) and a referral to FINRA’s Department of Enforcement (“Enforcement”). Zero non-routine FINRA examinations of the Firm resulted in CALs in the past two years. The SEC also recently completed two examinations of the Firm, one that resulted in no further action, and one that resulted in a deficiency letter.

A. FINRA Routine Examination

In December 2022, FINRA issued a CAL to the Firm for 16 of the 19 exceptions noted in the examination report, while two additional exceptions were referred to Enforcement for further review and disposition.²³ The majority of the 16 exceptions that resulted in the CAL related to the Firm’s failure to establish, maintain, and/or enforce adequate written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest (“Reg BI”) because the Firm’s WSPs were inadequate in a variety of ways, including not adequately describing the steps that associated persons needed to take to ensure recommendations are in the best interest of the retail customer,²⁴ not considering reasonable available alternatives when making recommendations,²⁵ referencing the old

²¹ See CRD Excerpts: Types of Business and Other Business Descriptions, collectively attached as Exhibit 7.

²² Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on February 28, 2024.

²³ See Disposition Letter for Examination No. 20210693353 dated December 21, 2022, Examination Report dated June 9, 2022, and Firm Response dated July 27, 2022, collectively attached as Exhibit 8.

²⁴ *Id.* at FINRA pp. 7-8, Exception 3.

²⁵ *Id.* at FINRA p. 8, Exception 3.

suitability standard rather than the new Best Interest standard,²⁶ not covering the considerations for rollover recommendations,²⁷ not mentioning the use of any exception reports for supervisory reviews,²⁸ not addressing the frequency of supervisory reviews,²⁹ not addressing the record-making and recordkeeping requirements of Reg BI,³⁰ not ensuring newly hired associated persons complete training related to Reg BI,³¹ not enforcing its supervisory system and procedures designed to ensure that customers received appropriate breakpoints for mutual funds,³² not establishing and enforcing policies and procedures related to the supervision of mutual fund switches,³³ not ensuring customers received sales charge waivers,³⁴ not adequately addressing variable annuity transactions including exchanges and purchases,³⁵ not adequately describing how the Firm will ensure or determine that client transactions in alternative investments comply with its concentration limits for such investments and not properly implementing its procedures for concentration limits,³⁶ and not adequately addressing supervisory review of 529 Plan transactions,³⁷ amongst other things. Additional exceptions that resulted in the Cautionary Action related to the Firm's failures to: ensure that its obligation to complete Reg BI training was satisfied by its associated persons within a reasonable timeframe,³⁸ make and maintain adequate blotters for its direct application-way mutual fund business,³⁹ establish, maintain, and/or enforce adequate written procedures reasonably designed to achieve compliance with SEA Rule 17a-14 concerning the filing and distribution of Form CRS,⁴⁰ distribute Form CRS to at least 18 existing customers within the required deadline,⁴¹ establish, maintain, and enforce a reasonably designed supervisory system and controls including WSPs regarding the use of consolidated account reports,⁴² maintain accurate records which identified representatives authorized to use consolidated account reports,⁴³

²⁶ *Id.*

²⁷ *Id.* at FINRA p. 9, Exception 4.

²⁸ *Id.* at FINRA p. 10, Exception 4.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at FINRA p. 10, Exception 5.

³² *Id.* at FINRA pp. 11-13, Exceptions 6 and 7.

³³ *Id.* at FINRA pp. 14-16, Exception 9.

³⁴ *Id.* at FINRA p. 16, Exception 10.

³⁵ *Id.* at FINRA pp. 17-18, Exception 11.

³⁶ *Id.* at FINRA pp. 20-21, Exception 14.

³⁷ *Id.* at FINRA pp. 21-22, Exception 15.

³⁸ *Id.* at FINRA p. 10, Exception 5.

³⁹ *Id.* at FINRA pp. 13-14, Exception 8.

⁴⁰ *Id.* at FINRA p. 19, Exception 12.

⁴¹ *Id.* at FINRA pp. 19-20, Exception 13.

⁴² *Id.* at FINRA pp. 22-24, Exception 16.

⁴³ *Id.* at FINRA pp. 24-25, Exception 17.

and to accurately report three trades to RTRS.⁴⁴

With respect to these 16 exceptions, the Firm responded in writing that it has established many other internal communications, alerts, and bulletins to inform its staff about Reg BI compliance,⁴⁵ will review its policies and procedures with respect to Reg BI and make beneficial changes including replacing references to suitability with the new Reg BI standard,⁴⁶ will ensure the WSPs include references to information collected for Reg BI purposes,⁴⁷ enhanced its policies and procedures with regards to new hire training,⁴⁸ will ensure there is specific clarity in its WSPs regarding the use of the Firm's Breakpoint Worksheet,⁴⁹ will review its order forms for mutual funds in order to better reflect Reg BI's requirements,⁵⁰ will increase the specificity in its WSPs with respect to Mutual Fund Rights and Reinstatement supervision,⁵¹ will amend its variable annuity order forms and add another layer of review and disclosure for new variable annuity transactions,⁵² will amend its procedures with regard to recordkeeping for information related to the distribution of Form CRS to customers,⁵³ sent a copy of Form CRS to those customers who may not have received it already,⁵⁴ reiterated its real-time supervisory review process for all orders including alternative investments,⁵⁵ will modify its WSPs to memorialize certain supervisory aspects applicable specifically to 529 Plans,⁵⁶ will revise its WSPs to specifically address required disclosures that are to be included on consolidated account reports,⁵⁷ re-ran a report to accurately identify the individuals authorized to use consolidated account reports,⁵⁸ and corrected the inaccurate trade reporting error.⁵⁹

The two exceptions referred to Enforcement pertained to the Firm's failures to: make and maintain accurate books and records for customer accounts and transactions for customers of one particular registered representative, and establish and enforce adequate policies and

⁴⁴ *Id.* at FINRA p. 25, Exception 18.

⁴⁵ *Id.* at FINRA p. 39, Exception 3.

⁴⁶ *Id.* at FINRA pp. 39-44, Exception 3.

⁴⁷ *Id.* at FINRA p. 47, Exception 4.

⁴⁸ *Id.* at FINRA p. 48, Exception 5.

⁴⁹ *Id.* at FINRA pp. 49-51, Exceptions 6-7.

⁵⁰ *Id.* at FINRA p. 54, Exception 9.

⁵¹ *Id.* at FINRA p. 59, Exception 10.

⁵² *Id.* at FINRA pp. 60-62, Exception 11.

⁵³ *Id.* at FINRA p. 63, Exception 12.

⁵⁴ *Id.* at FINRA p. 64, Exception 13.

⁵⁵ *Id.* at FINRA p. 67, Exception 14.

⁵⁶ *Id.* at FINRA p. 69, Exception 15.

⁵⁷ *Id.* at FINRA pp. 69-71, Exception 16.

⁵⁸ *Id.* at FINRA pp. 71-72, Exception 17.

⁵⁹ *Id.* at FINRA p. 73, Exception 18.

procedures related to the supervision of individuals who are dually registered as registered representatives of the Firm and also investment advisor representatives of an investment advisor firm that is not affiliated with Centaurus.⁶⁰ With respect to these exceptions, the Firm responded that the record-keeping deficiencies had been corrected, the representative at issue was notified and reminded of his record-keeping obligations, the Firm's Home Office Staff was notified to review the applicable client documents going forward,⁶¹ and that it respectfully disagreed with the examiner's conclusions regarding its dually registered representatives.⁶² The two exceptions referred to Enforcement remain open.⁶³

B. SEC Examinations

In June 2021, the SEC completed an examination of the Firm that resulted in no further action taken against Centaurus.⁶⁴

In May 2020, the SEC issued the Firm a deficiency letter relating to the Firm's failures to: maintain accurate customer account records for 11 customer accounts, adhere to its procedures for documenting investment objectives and risk tolerance levels and approving new accounts, and adequately memorialize its procedures for conducting customer-specific suitability reviews.⁶⁵ The Firm responded in writing that it identified and remedied the issue that caused incorrect customer data to be entered into its electronic systems, corrected the discrepancies in customer data, will further enhance its quality control measures related to the way information is entered into its systems, and will review its policies and procedures to ensure they appropriately memorialize the Firm's processes for conducting customer-specific suitability review.⁶⁶

Regulatory Actions

The Firm has recently been the subject of five disciplinary matters, besides the SEC Order at issue in this Notice. The Firm was the subject of an Order Accepting Offer of Settlement from FINRA, an Order from the South Carolina Securities Commission, a Cease and Desist Order from the SEC, a fine from the Louisiana Department of Insurance, and a Consent Order from the Colorado Division of Securities.

⁶⁰ *Id.* at FINRA pp. 1, 5-7, Exceptions 1 and 2.

⁶¹ *Id.* at FINRA pp. 33-35, Exception 1.

⁶² *Id.* at FINRA pp. 36-38, Exception 2.

⁶³ The two exceptions referred to Enforcement remain open under Examination Matter No. 20210693353. In addition, that examination led to Spin-Off Matter No. 20220738369 also currently being handled by Enforcement. The spin-off matter relates to variable annuities that were potentially switched from the Firm's broker-dealer to its investment advisor platform. The spin-off matter remains open.

⁶⁴ See SEC No Further Action Letter, File No. 008-45185 dated June 2, 2021, attached as Exhibit 9.

⁶⁵ See SEC Deficiency Letter, File No. 8-45185 dated May 27, 2020 and the Firm's Response dated July 27, 2020, collectively attached as Exhibit 10.

⁶⁶ *Id.* at FINRA pp. 5-9.

A. FINRA Action

On May 5, 2023, FINRA issued an Order Accepting Offer of Settlement to the Firm in connection with the Firm's failure to reasonably supervise one of its registered representative's recommendations of Unit Investment Trusts and other investments to certain customers in violation of FINRA Rules 3110(a) and (b) and 2010.⁶⁷ Centaurus' supervisor failed to conduct any suitability review of the transactions in violation of the Firm's WSPs and the registered representative's heightened plan of supervision.⁶⁸ The Firm's trading principal also failed to conduct a secondary review of the recommendations as required by the WSPs.⁶⁹ The Firm agreed to a censure, to pay a \$50,000 fine, and to pay \$388,962.13 in restitution to the impacted customers (jointly and severally with the registered representative the Firm failed to supervise).⁷⁰

B. South Carolina Action

On February 6, 2023, the Securities Commissioner of South Carolina entered into a Consent Order with Centaurus ("SC Consent Order") in connection with the Firm's recommendations of certain VRSPs known as "steepeners" to clients of its Lexington branch office without reasonable grounds to believe those investments were suitable, and the Firm's failure to reasonably supervise certain Lexington branch agents in connection with the recommendation of steepeners.⁷¹ The Firm was censured, ordered to cease and desist from transacting business in South Carolina in violation of the South Carolina Uniform Securities Act of 2005, and ordered to pay \$650,000 (\$425,000 civil penalty, \$225,000 reimbursement for the cost of the investigation).⁷² The Firm also agreed to comply with various undertakings including withdrawing the Lexington branch WSPs, dedicating a regional compliance supervisor to supervise all securities-related activity of the Lexington branch (along with the branch registered principal), and retaining an independent compliance consultant to review the Firm's policies and internal controls designed to prevent and detect unsuitable recommendations of steepener securities.⁷³

⁶⁷ See Order Accepting Offer of Settlement, *Department of Enforcement v. Donnie E. Ingram and Centaurus Financial, Inc.*, Disciplinary Proceeding No. 2018057298701 (FINRA OHO May 5, 2023), attached as Exhibit 11.

⁶⁸ *Id.* at pp. 5-6.

⁶⁹ *Id.*

⁷⁰ *Id.* at p. 21. The fine was paid on June 6, 2023. See CRD Disclosure Composite for Occurrence No. 2231338, attached as Exhibit 12, at p. 2. FINRA staff confirmed that the Firm sent all restitution payments to the impacted customers, and less than 5% of the customers have not cashed the checks yet.

⁷¹ See SC Consent Order, *In re Centaurus Financial, Inc., Ricky Alan Mantei, and Mantei & Associates, LLC*, Securities Commissioner of South Carolina Matter No. 20191562 (Feb. 6, 2023), attached as Exhibit 13.

⁷² *Id.* at pp. 18-19. The Firm paid these amounts on February 15, 2023. See Correspondence from Jerome V. Duhovic to FINRA dated August 31, 2023, attached as Exhibit 14, at p. 1 Response 1.

⁷³ See Exhibit 13 at pp. 13-18. The Firm represented that it is in full compliance with the ordered undertakings. See Exhibit 3 at pp. 2-3, Response 4; Exhibit 4 at p. 3, Response 4.

The SC Consent Order also contained findings and sanctions against Mr. Mantei, much like the SEC Order that caused the Firm's disqualification.⁷⁴ According to the SC Consent Order, Mr. Mantei failed to reasonably supervise certain Lexington branch agents in connection with steeper transactions.⁷⁵ Mr. Mantei was censured and ordered to cease and desist from transacting business in South Carolina in violation of the South Carolina Uniform Securities Act of 2005.⁷⁶ Also, the Firm and Mr. Mantei agreed that Mr. Mantei would no longer function as a supervisor or compliance officer at Centaurus.⁷⁷

C. Louisiana Action

On September 21, 2020, the Louisiana Department of Insurance issued a Notice of Fine to Centaurus in connection with the Firm's failure to disclose an administrative action on three licensing applications and to timely report two administrative actions.⁷⁸ The Firm was fined \$500 (jointly with the individual being licensed).⁷⁹

D. Colorado Action

In April 2020, the Firm entered into a Stipulation for Consent Order with the Division of Securities for the State of Colorado in connection with Division's allegations that the Firm inappropriately decided to allow clients of its Lexington branch to allocate up to 50% of their net worth to structured investment products, failed to document that additional suitability reviews were conducted for clients over a certain age, failed to obtain an annual financial update form from Colorado clients who invested in structured products, and failed to reasonably supervise Mr. Mantei.⁸⁰ The Firm agreed to various undertakings including that it would not seek to license any persons as registered representatives in Colorado who have a regulatory action or more than three customer complaints in the last five years, would not allow anyone to supervise any licensed representative in Colorado if that supervisor has a regulatory action or more than three customer complaints in the last five years, and would cease the sale of structured products to Colorado clients.⁸¹

⁷⁴ See Exhibit 13 at pp. 10, 13, 16-19.

⁷⁵ *Id.* at pp. 16-17.

⁷⁶ *Id.* at pp. 18-19.

⁷⁷ *Id.* at p. 13, ¶ 58.

⁷⁸ See Notice of Fine for Centaurus Financial, Inc. and Westley Hayes King, dated September 21, 2020, attached as Exhibit 15.

⁷⁹ *Id.* at FINRA p. 2. The Firm paid the fine on October 6, 2020. See Exhibit 3 at p. 3, Response 6.

⁸⁰ See Staff of the Division of Securities' Unopposed Motion to Vacate Hearing and Dismiss, *In re Centaurus Financial, Inc., Cindy Chiellini, and Ricky Mantei*, Case No. 2019-CDS-016 (Colo. Sec. Comm. April 23, 2020), Stipulation for Consent Order (same case) (April 17, 2020), and Unopposed Motion to Dismiss (same case) (April 23, 2020), collectively attached as Exhibit 16.

⁸¹ *Id.* at FINRA p. 7. The Firm represented that it is in full compliance with the ordered undertakings. See Exhibit 14 at pp. 1-2, Response 2.

E. SEC Action and Disqualifying Events

The Firm was also the subject of one additional recent SEC order, which also subjected the Firm to statutory disqualification but did not result in a SEA Rule 19h-1 notice filing.

On June 2, 2021, the SEC issued an order finding that the Firm willfully violated Sections 206(2) and 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) and Rule 206(4)-7 thereunder by failing to fully and fairly disclose conflicts of interests created by the Firm’s receipt of third-party compensation from client investments.⁸² In particular, certain mutual fund share classes and cash sweep products paid the Firm Rule 12b-1 fees and other revenue, but the Firm provided no disclosure or inadequate disclosure of the conflicts created by its receipt of this compensation.⁸³ The Firm also failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act in connection with its mutual fund share class selection practices and other revenue sharing.⁸⁴ Consequently, the Firm was censured, ordered to cease and desist from committing or causing any violations of Section 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, ordered to pay a total of \$1,281,396 (\$907,377 disgorgement, \$124,019 prejudgment interest, and \$250,000 civil monetary penalty), and ordered to comply with various undertakings.⁸⁵

V. **Prior SEA Rule 19h-1 Notices**

FINRA has not previously filed a Rule 19h-1 Notice related to Centaurus.

VI. **The Firm’s Proposed Continued Membership with FINRA Plan of Heightened Supervision**

The Firm seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision (“Supervision Plan” or “Plan”) as a condition of its continued membership with FINRA.⁸⁶

Centaurus Financial, Inc. (the “Firm”) is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934, incorporating by reference Section 15(b)(4)(E), as a result of a February 6, 2023

⁸² See *In re Centaurus Financial, Inc.*, Exchange Act Release No. 92095 (June 2, 2021), attached as Exhibit 17. This order subjects the Firm to a statutory disqualification as defined in Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(D).

⁸³ *Id.* at p. 2.

⁸⁴ *Id.*

⁸⁵ *Id.* at pp. 7-12. The Firm provided FINRA an affirmation that it paid the amounts owed on June 9, 2021, that it complied with the undertakings, and that the sanctions were no longer in effect. Since there are no sanctions in effect for statutory disqualification purposes, an application to continue in membership is no longer required under FINRA rules. See [FINRA Regulatory Notice 09-19](#) (June 15, 2009). As such, a 19h-1 Notice was not filed in connection with this matter.

⁸⁶ See Executed Consent to Plan of Heightened Supervision dated February 27, 2024, attached as Exhibit 18.

Order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding Centaurus failed reasonably to supervise its employees with a view to preventing and detecting their violations of Sections 17(a)(2) and (3) of the Securities Act of 1933.

In consenting to this Supervision Plan, the Firm agrees to the following:

1. The Firm must comply with all of the undertakings outlined in the Securities and Exchange Commission (“SEC” or “Commission”) Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, *In the Matter of Centaurus Financial, Inc., Ricky A. Mantei, and Atul Makharia*, Exchange Act Release No. 96805 (February 6, 2023) (“SEC Order”).
2. The Firm must maintain copies of all correspondence between the Firm and Commission staff regarding the SEC Order’s undertakings, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. Copies of all correspondence must be maintained and kept segregated for ease of review by FINRA staff.
3. The Firm must maintain copies of all certifications, reports, and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. These copies must be kept in a segregated file for ease of review by FINRA staff.
4. The Firm must document its implementation of the recommendations of the Independent Consultant hired pursuant to the SEC Order and make available copies of said documentation to FINRA staff, if requested.
5. All Structured Note and Structured CD⁸⁷ purchases must be pre-approved by a registered principal of the Firm, other than Mr. Mantei, prior to the transaction’s execution. The principal must document that pre-approval, including a representation that the principal reviewed whether the recommendation was suitable for (or in the best interest of) the customer and a written explanation regarding the principal’s suitability/best interest determination. Before executing a Structured Note or Structured CD purchase, the trader must review the principal’s pre-approval documentation to verify that the trade was pre-approved by a registered principal. The trader must also document his/her review of the principal’s

⁸⁷ The terms “Structured Note” and “Structured CD” include but are not limited to principal protected notes, partially principal protected notes, market-linked certificates of deposit, callable yield notes, enhanced yield notes, leveraged notes, and reverse convertible notes. They are generally defined as a debt obligation that contains a derivative component that adjusts the security’s risk-return profile. It does not contain an actual underlying portfolio of investments like a Mutual Fund or an Exchange Traded Fund (ETF).

documentation. The trader must then forward the pre-approval documentation to a Regional Compliance Supervisor (“RCS”) who must verify the trade was pre-approved by a registered principal and that the principal documented the basis for his/her suitability/best interest determination. The RCS must document his/her review of the principal’s pre-approval and indicate whether the RCS concurs or disagrees with the principal’s pre-approval of the trade. If the RCS agrees with the principal’s pre-approval, the RCS must then communicate his/her approval to the trader, at which point the trader may place the trade. The Firm must maintain the principal’s documentation, the trader’s documentation, and the RCS’s documentation in a segregated place for ease of review by FINRA staff.

6. The Firm must update its Written Supervisory Procedures to reflect the pre-approval requirements for Structured Notes and Structured CDs as described in Paragraph 5. While the Firm does not currently have any Registered Representatives approved for the sale of Structured Notes or Structured CDs, should the Firm grant such approval in the future, a Compliance Bulletin will be drafted, detailing the pre-approval requirements as described in Paragraph 5. Such Compliance Bulletin will be sent to the specific Registered Representative(s)/Associated Person(s) approved to engage in such business prior to the sale of any Structured Notes or Structured CDs to customers.
7. Within six months of SEC’s Letter Of Acknowledgement (“LOA”), to the extent it has not already done so in 2024, and once per calendar year thereafter, the Firm must conduct training for all associated persons⁸⁸ on the subjects of making recommendations to clients under the “best interest” standard of conduct described in Regulation Best Interest’s Care Obligation and making customer-specific suitability determinations, as well as the Firm’s policies and procedures regarding those subjects. The Firm must maintain a copy of the written training materials and a record of individual completion of said training segregated for ease of review by FINRA staff upon request.
8. Within six months of the SEC’s LOA, to the extent it has not already done so in 2024, and once per calendar year thereafter, the Firm must conduct training for all Series 24, 9, 10, and/or 26 licensed registered principals, branch managers, supervisors, and compliance personnel regarding the Firm’s policies and procedures for conducting supervisory reviews of trade recommendations with regards to customer specific suitability and “best interest” standards. The Firm must maintain a copy of the written training materials and a record of individual completion of said training segregated for ease of review by FINRA staff upon request.
9. The Firm will require evidence of all newly hired registered representatives’ prior training as described in Paragraph 7 above. The Firm’s Compliance Department will conduct a review of the evidence of prior training and determine if it meets the Firm’s training requirements. The review will be documented accordingly and said

⁸⁸ As defined by FINRA Rule 1011(b)(1).

- record(s) will be segregated for ease of review by FINRA Staff upon request. If the newly hired registered representative does not have a copy of their training certificate, or if the training is deemed insufficient, the Firm must provide the required training described in Paragraph 7 above to the newly hired registered representative within 60 days from the date of hiring. The Firm must retain a record of said new hire training, including a copy of all written training materials, and will keep said record(s) segregated for ease of review by FINRA Staff upon request.
10. The Firm will require evidence of all newly hired Series 24, 9, 10, and/or 26 licensed registered principals' prior training as described in Paragraph 8 above. The Firm's Compliance Department will conduct a review of the evidence of prior training and determine if it meets the Firm's training requirements. The review will be documented accordingly and said record(s) will be segregated for ease of review by FINRA Staff upon request. If the newly hired Series 24, 9, 10, and/or 26 licensed registered principal does not have a copy of their training certificate, or if the training is deemed insufficient, the Firm must provide the required training described in Paragraph 8 above to such newly hired Series 24, 9, 10, and/or 26 licensed registered principal within 60 days from the date of hiring or new registration in one of the positions listed herein. The Firm must retain a record of this new hire training, including a copy of all written training materials, and keep said record(s) segregated for ease of review by FINRA Staff upon request.
 11. Prior to Mr. Mantei acting in any supervisory, branch manager, or compliance officer capacity at the Firm, the Firm must notify the Firm's assigned Risk Monitoring Analyst at FINRA in writing, which notice shall include any supervisory steps the Firm will take to monitor Mr. Mantei's activities.
 12. Within six months of SEC's LOA, the Firm must develop and implement a quarterly review process whereby orders that originate from the Lexington, South Carolina office are randomly reviewed by one of the Firm's Home Office Registered Principals/Supervisors to determine if the registered representatives responsible for those trades (and the branch managers responsible for supervising those trades) fully complied with their obligations under the Firm's Written Supervisory Procedures regarding "best interest" and customer-specific suitability for those particular trades. The Firm must update its WSPs to include this review process. The Firm must also document and maintain a record of these reviews segregated for ease of review by FINRA Staff upon request.
 13. A Firm Compliance Department Principal must review and certify the Firm's compliance with all provisions of this Plan on a quarterly basis. The Firm must document these reviews and maintain the documentation and certifications in a segregated place for ease of review by FINRA Staff.
 14. All requested documents and certifications under this Supervision Plan must be sent directly to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.

15. The Firm must obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of this Supervision Plan.
16. The Firm must submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.

VII. Discussion

After carefully reviewing the entire record in this matter, Member Supervision approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating Centaurus' Application, the Department assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on FINRA's assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the recent SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Centaurus' securities activities. The Firm promptly paid the civil monetary penalty, disgorgement, and interest, and it worked to remediate the conduct prior to the entry of the SEC Order. The Firm ceased the sale of the VRSPs six months before the SEC started its formal review that led to the SEC Order.⁸⁹ It also corrected its record-keeping system and retained an independent consultant to review its policies related to preventing and detecting unsuitable recommendations of structured products.⁹⁰ The Firm took additional remedial measures directed specifically at the Firm's Lexington branch and its former branch manager, Mr. Mantei, which were a major focus of the SEC Order. The Firm appointed new branch managers of the Lexington office and have effectively banned Mr. Mantei from acting in any supervisory capacity at Centaurus. These remedial measures give FINRA comfort that the misconduct that occurred at the Lexington branch will not be repeated.

It is well settled that a firm's regulatory history bears upon the assessment of its ability to comply with securities law and regulations. *See In the Matter of the Continued Association of Craig Scott Taddonio with Meyers Associate, L.P.*, SD-2117, slip op. at 24-25 (FINRA NAC March 8, 2017). However, the corrective measures taken by firms to address

⁸⁹ *See* Exhibit 3 at p. 2, Response 3.

⁹⁰ *Id.* at pp. 1-2, Responses 2 and 3.

deficiencies are weighed in determining whether to approve applications. *See In the Matter of the Association of X with the Sponsoring Firm*, SD11007 (FINRA NAC Jan. 1, 2011) (where a firm's corrective actions negated Member Regulation's assertion that the firm failed to appreciate or respect securities rules and regulations). FINRA has also previously approved applications for continued membership where the firms had extensive regulatory history, including disqualifying events. *See In the Matter of the Continued Membership of Deutsche Bank Securities, Inc.*, SD-2190 (FINRA Jan. 14, 2020) and *In the Matter of the Continued Membership of Citigroup Global Markets, Inc.*, SD-2082 (FINRA May 2, 2017) (approving continued membership where the firms had extensive regulatory history, including recent disqualifying events).

In its evaluation of the Firm's Application, Member Supervision acknowledges the Firm's recent regulatory and disciplinary history, including its additional statutory disqualifying event. The Department also notes that, as of the date of this Notice, the Firm has paid all fines and complied with all undertakings ordered by regulators. None of these matters would prevent the continuance of the Firm as a FINRA member. With respect to the Firm's recent examination exceptions, the Firm took multiple steps to resolve the deficiencies, including reviewing its policies and procedures to ensure they reflect Reg BI standards, establishing additional internal communications to its staff to continue educating them about Reg BI compliance, updating its WSPs in several other areas, and amending various forms and reports to increase their accuracy.

The Department is further reassured by the progress the Firm has made on the undertakings required by the SEC. Specifically, the Firm retained a compliance consultant, the consultant completed its review of Centaurus' policies and procedures, and the consultant drafted its initial report and recommendations.⁹¹ The consultant made two recommendations to the Firm.⁹² First, the consultant recommended that the Firm amend its Order Form to require registered representatives to specifically identify instances where the proposed purchase of a structured product is to be funded with the proceeds of the sale of a different structured product, and that the Firm require the representative to provide a written explanation for the switch.⁹³ Second, the consultant recommended that the Firm amend its policies to emphasize the importance of evaluating a customer's concentration levels based on liquid net worth rather than total net worth.⁹⁴ The Firm represents that it adopted and implemented both of these recommendations.⁹⁵

With this approval, Member Supervision also weighed that the Firm agreed to a Supervision Plan that is sufficiently stringent, addresses the misconduct identified in the SEC Order, and strengthens the Firm's overall compliance with the issues identified for years to come. The Firm agreed that all future Structured Notes or Structured CDs sales to

⁹¹ *See* Exhibit 4 at pp. 1-2. Response 1.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.* at p. 2, Response 1.

customers must be pre-approved by a registered principal before execution. The principal must conduct suitability/best interest review of the recommendation and document why the principal agrees or disagrees that the recommendation was suitable or in the client's best interest. The trader executing those transactions must review the trade to ensure that the principal pre-approval has occurred and was documented. The Firm's Regional Compliance Supervisors will then review all Structured Note and Structured CD purchases to determine whether the pre-approval process was followed. The Firm will also update its WSPs to reflect this process. Although the Firm does not currently have any registered representatives approved to sell these products, if the Firm grants such approval in the future, it will circulate an internal compliance bulletin regarding this pre-approval process to the approved representatives. The pre-approval process aims to ensure that purchases involving the types of products at issue in the SEC Order are properly supervised with regards to conducting suitability and "best interest" analysis.

Under the Plan, the Firm also agreed to conduct additional training. First, the Firm will ensure all its associated persons, including new hires, receive annual training about making recommendations to customers pursuant to Reg BI's "best interest" standard (formerly known as customer-specific suitability) and the Firm's policies and procedures regarding conducting "best interest" and suitability analysis prior to making recommendations. Second, the Firm will ensure its Series 24, 9, 10, and 26 licensed registered principals, branch managers, supervisors, and compliance personnel receive annual training regarding supervisory reviews of trade recommendations, including a review of the suitability and "best interest" analysis registered representatives engaged in before making the recommendations. The Firm will retain records of these training materials, as well as records of individual completion of this training. These trainings address the areas of deficiency identified in the SEC Order: suitability and supervision.

The Plan also requires the Firm to put additional safeguards in place specifically regarding Mr. Mantei and the Lexington branch office, both of which were the main subject of the SEC Order. The Firm has agreed to notify FINRA if the Firm wishes for Mr. Mantei to act in any supervisory, branch manager, or compliance capacity and also submit any supervisory steps the Firm will take to monitor Mr. Mantei's activities. In addition, the Plan ensures that the Firm will implement a random review process for Lexington branch to ensure that trades emanating from that office complied with the Firm's policies and procedures regarding "best interest" and customer-specific suitability, and that the branch managers supervising those trades complied with their supervisory obligations. These steps will further enhance the Firm's supervision of Reg BI "best interest" and customer-specific suitability determinations being made at the Lexington branch beyond just transactions in structured products. The Firm's agreement to such a stringent plan, which also includes quarterly Compliance Department review and certification to its compliance, demonstrates its obligation to not only comply with the SEC Order and but also its commitment to prevent future violative conduct in this space.

Following the approval of the Firm's continued membership in FINRA, FINRA also intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and


FINRA Rule 9523.

Thus, Member Supervision is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, Member Supervision approves Centaurus' Application to continue its membership with FINRA.

FINRA certifies that the Firm meets all qualification requirements and represents that the Firm is also registered with NSCC. NSCC has been provided with the terms and conditions of Centaurus' proposed continued membership, and they concur with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



Jennifer Piorko Mitchell
Vice President, Corporate Governance and
Deputy Corporate Secretary

APPENDIX A

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXHIBITS
SD-2356

1. MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated April 24, 2023.
2. SEC Order, *In re Centaurus Financial, Inc., Ricky A. Mantei, and Atul Makharia*, Exchange Act Release No. 96805 (Feb. 6, 2023).
3. Correspondence from Jerome V. Duhovic to FINRA dated May 22, 2023.
4. Correspondence from Jerome V. Duhovic to FINRA dated September 29, 2023.
5. Letter Agreement from Centaurus to Mantei dated February 17, 2023.
6. CRD Excerpt: Organization Registration Status.
7. CRD Excerpts: Types of Business and Other Business Descriptions.
8. Disposition Letter for Examination No. 20210693353 dated December 21, 2022, Examination Report dated June 9, 2022, and Firm Response dated July 27, 2022.
9. SEC No Further Action Letter, File No. 008-45185 dated June 2, 2021.
10. SEC Deficiency Letter, File No. 8-45185 dated May 27, 2020 and the Firm's Response dated July 27, 2020.
11. Order Accepting Offer of Settlement, *Department of Enforcement v. Donnie E. Ingram and Centaurus Financial, Inc.*, Disciplinary Proceeding No. 2018057298701 (FINRA OHO May 5, 2023).
12. CRD Disclosure Composite for Occurrence No. 2231338.
13. SC Consent Order, *In re Centaurus Financial, Inc., Ricky Alan Mantei, and Mantei & Associates, LLC*, Securities Commissioner of South Carolina Matter No. 20191562 (Feb. 6, 2023).
14. Correspondence from Jerome V. Duhovic to FINRA dated August 31, 2023.
15. Notice of Fine for Centaurus Financial, Inc. and Westley Hayes King, dated September 21, 2020.

16. Staff of the Division of Securities' Unopposed Motion to Vacate Hearing and Dismiss, *In re Centaurus Financial, Inc., Cindy Chiellini, and Ricky Mantei*, Case No. 2019-CDS-016 (Colo. Sec. Comm. April 23, 2020), Stipulation for Consent Order (same case) (April 17, 2020), and Unopposed Motion to Dismiss (same case) (April 23, 2020).
17. *In re Centaurus Financial, Inc.*, Exchange Act Release No. 92095 (June 2, 2021).
18. Executed Consent to Plan of Heightened Supervision dated February 27, 2024.