

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Central States Capital Markets, LLC
CRD No. 155291

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

SD-2235

Date: June 4, 2019

I. Introduction

On January 30, 2019, Central States Capital Market, LLC (“Central States” or the “Firm”) submitted a Membership Continuance Application (the “MC-400A” or the “Application”) with FINRA’s Department of Registration and Disclosure.¹ The Firm, a FINRA member subject to statutory disqualification, submitted the Application to continue its membership with FINRA notwithstanding its disqualification. A hearing was not held in this matter. Rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision f/k/a Member Regulation approves the Firm’s Application and files this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (the “Exchange Act”).

II. The Statutorily Disqualifying Event

The Firm is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Sections 15(b)(4)(D) of the Exchange Act, due to an order issued by the Securities and Exchange Commission (the “SEC” or “the Commission”) on December 19, 2018 (the “Order”).² In it, the SEC found that the Firm willfully violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder when it failed to accurately document its procedures and file certain reports with the U.S. Treasury concerning a series of transactions in the accounts of one of its clients that occurred between December 21, 2012 and March 13, 2013.³ The SEC ordered the Firm to cease and desist from committing or causing any violations of

¹ See the Record (“R.”) that was compiled by FINRA’s Registration and Disclosure Department and provided to the parties and FINRA’s Office of General Counsel on January 30, 2019, pursuant to FINRA Procedural Rule 9524(a)(3).

² See Order, *In the Matter of Central States Capital Markets, LLC*, SEC Rel. No. 5078 Admin. Proc. File No. 3-18940 (Dec. 19, 2018) found at R. at FINRA00053-00068; see also R. at FINRA00037-00046.

³ *Id.* at FINRA00044-00045.

Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.⁴ The SEC also censured the Firm and ordered it to complete various undertakings, including retaining a compliance consultant to address the adequacy of the Firm's customer identification program ("CIP") and anti-money laundering ("AML") compliance program.⁵ In determining whether to accept the Firm's Offer of Settlement, the SEC considered the deferred prosecution agreement between Central States and the United States Attorney's Office for the Southern District of New York, in which the Firm agreed to forfeit \$400,000.⁶

III. Background Information

A. The Firm

The Firm is based in Prairie Village, Kansas and has been a FINRA member since September 13, 2011.⁷ The Firm represents that it maintains one OSJ and three branch offices.⁸ Central States also represents that it has 24 registered representatives, of which eight are registered principals.⁹ FINRA has approved the Firm for 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 dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; investment advisor services; and trading securities for its own account.¹⁰ The Firm also employs one other statutorily disqualified individual, John Daniel Stepp.¹¹

Central States is not a member of any other self-regulatory organization.¹²

B. FINRA Routine Examinations

⁴ *Id.* at FINRA00046.

⁵ *Id.* at FINRA00045-FINRA00046.

⁶ *See* the Deferred Prosecution Agreement that the Firm entered into with the United States Attorney's Office of the Southern District of New York found at R. at FINRA00088-00095.

⁷ *See* CRD Snapshot Report for the Firm, dated May 16, 2019, at 3 (attached hereto as Exhibit 1).

⁸ R. at FINRA00050.

⁹ *Id.*

¹⁰ *See* Exhibit 1 at 4.

¹¹ Stepp (CRD No. 501417) is subject to statutory disqualification because of the same order. For his misconduct, the SEC suspended Stepp in a supervisory capacity for 6 months and ordered him to pay a civil penalty of \$17,500. On September 1, 2016, FINRA filed a notice with the SEC pursuant to Exchange Act Rule 19h-1(a)(3)(iv)(A) and (B), but ultimately withdrew it when the sanctions against Stepp were no longer in effect (Stepp's suspension elapsed on September 27, 2016 and he paid his fine in full on September 15, 2016).

¹² *See* Exhibit 1 at 3 - 4.

FINRA has conducted periodic cycle examinations of the Firm's sales practices and financial operations.

FINRA's 2018 cycle examination of the Firm resulted in a Cautionary Action for the Firm's failure to comply with: Exchange Act Rule 17a-3 for incorrectly calculating its net capital as of February 28, 2018; Exchange Act Rule 17a-3 and FINRA Rule 3110 for failing to maintain a trade blotter for mutual fund transactions conducted directly with fund companies and supervising this activity; and MSRB Rule G-14(b) due to trade reporting errors.¹³ In response, the Firm represented that it has established new procedures to ensure that: its trial balances and net capital calculations are accurate; and with respect to transactions with mutual fund companies, the CCO is reviewing and initialing new customer account forms and monitoring the trade blotter. The Firm also represented that it worked with its clearing firm to resolve the trade reporting errors.¹⁴

FINRA's 2016 cycle examination also resulted in a Cautionary Action Letter for multiple exceptions, including the Firm: did not have a properly registered municipal advisory principals be responsible for the Firm's supervision of its municipal advisory business; improperly supervised its municipal securities business by failing to have an adequate supervisory system regarding gift giving and client entertainment; had an improperly registered associate approve certain municipal trade orders; failed to comply with Exchange Act Rule 17a-3 for incorrectly calculating its net capital on July 31, 2016; and did not comply with Article V, Section 2 of FINRA's By-Laws by failing to timely update three representatives' Forms U4 after they disclosed an outside activity. In addition, FINRA referred to its Department of Enforcement a finding that the Firm failed to designate a properly registered municipal advisory principal responsible for certain supervisory functions, which as noted below, resulted in a Letter of Acceptance, Waiver and Consent.¹⁵ The Firm noted that its failure to have a municipal advisor principal was attributable to the SEC's suspension of the Firm's CEO and municipal securities principal, Stepp, in the same action that resulted in Malone's disqualification.¹⁶ Stepp has since resumed his activities at Central States.¹⁷ Further, the Firm amended its Written Supervisory Procedures with respect to municipal advisor regulations and now requires all associates involved in municipal activities to successfully complete MSRB's MuniEdPro Continuing Education course "Responsibilities of Market Participants in Fixed Rate Primary Market Offerings."¹⁸ Regarding the incorrect net capital calculation, the Firm stated it will ensure that accrual expenses are accounted for prior to performing its net capital analysis and added capital in August 2016 to ensure a substantial net capital cushion. Finally, the Firm stated it has

¹³ See FINRA Report of Examination, Examination No. 20180564440 (attached as Exhibit 2).

¹⁴ See Firm Response to FINRA Report of Examination, Examination No. 20180564440 (attached as Exhibit 3).

¹⁵ See FINRA Report of Examination, Examination No. 20160482397 (attached as Exhibit 4).

¹⁶ See Firm Response to FINRA Report of Examination No. 20160482397 (attached as Exhibit 5).

¹⁷ See Note 11 *infra*.

¹⁸ *Id.*

reminded staff to provide written notice of Form U4 changes, and that it will provide quarterly reminders to staff to keep their Form U4s current and accurate.

C. Regulatory Actions

FINRA and the Firm entered into a Letter of Acceptance, Waiver and Consent on June 5, 2018 pursuant to which FINRA censured the Firm and fined it \$10,000 to resolve the issues associated with the Firm's supervision of municipal underwriting activity in the Wichita office described above.¹⁹ The Firm does not have any additional disciplinary history for the preceding two-year period.

D. Prior Rule 19h-1 Notices

In addition to the Order, the Firm is also statutorily disqualified due to a June 2015 SEC order arising out of the SEC's Municipalities Continuing Disclosure Cooperation Initiative ("MCDC Initiative"), in which the SEC found that Firm willfully violated Section 17(a)(2) of the Securities Act. FINRA filed a notice pursuant to Rule 19h-1 of the Exchange Act with the SEC on August 10, 2015 to permit the Firm's continued membership.²⁰ The SEC acknowledged FINRA's filing on August 20, 2015.²¹

IV. The Firm's Proposed Continued Membership with FINRA and Proposed Supervisory Plan

The Firm seeks to continue its membership with FINRA notwithstanding the Order. In support of its Application, the Firm has agreed to the following plan of supervision (the "Plan").²²

1. The Firm will comply with all of the undertakings outlined in the Order;
2. The Firm will notify Member Supervision if and when the SEC staff grants any extensions to any of the deadlines set forth in the Order;
3. The Firm will retain all certifications, reports and other documentation submitted to the SEC staff in accordance with the Order as well as any other documentation needed to evidence its completion of each of the undertakings outlined in the Order;
4. The Firm will segregate all documentation related to the foregoing provisions in a separate file for FINRA's review during any statutory disqualification examination;

¹⁹ See Letter of Acceptance, Waiver and Consent (No. 20160482397) (attached as Exhibit 6).

²⁰ See FINRA's 19h-1 Notice filing, on behalf of Central States et al, dated August 10, 2015 (attached as Exhibit 7).

²¹ See the SEC's Letter of Acknowledgement, dated August 20, 2015 (attached as Exhibit 8).

²² See Consent to Supervisory Plan and Supervisory Plan (attached as Exhibit 9).

5. The Firm will obtain written approval from Member Supervision prior to changing any provision of the Plan; and
6. The Firm will submit any proposed changes or other requested information under this Plan to Lorraine Lee, Senior Principal Business Analyst, Statutory Disqualification Program at FINRA, 1735 K Street NW, Washington, DC 20006 and/or Lorraine.Lee@finra.org and SDMailbox@finra.org.

V. Discussion

After evaluating this Application, Member Supervision approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating the Firm's Application, Member Supervision 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.²³ The factors that Member Supervision considered in making this assessment include: the nature and gravity of the disqualifying event; the length of time that has elapsed since the disqualifying event; whether any intervening misconduct has occurred; the nature of the securities-related activities proposed in the Application; the regulatory history and industry experience of the member firm; and any other mitigating or aggravating circumstances that may exist.

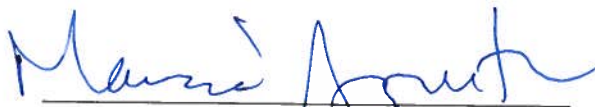
While the Order at issue involves serious violations of the federal securities laws, the SEC accepted Central States' Offer of Settlement, and through its Order, required the Firm to take appropriate remedial actions, which the Firm is executing. Specifically, the undertakings address the Firm's failures to prevent misconduct and regulatory non-compliance in its CIP and AML programs, and bolster the Firm's controls and processes to monitor and to deter future potential misconduct. Finally, the Firm's proposed Supervisory Plan, which it agreed not to alter without FINRA's prior approval, is reasonably designed to ensure the Firm's continued compliance with Order's terms. Further, following approval of the Firm's continued membership with FINRA, FINRA will utilize its examination and surveillance processes to monitor the Firm's compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.

As such, Member Supervision is satisfied that the Firm's continued membership with FINRA does not create an unreasonable risk of harm to the market or investors. Accordingly, Member Supervision approves the Firm's Application to continue its membership with FINRA as set forth herein.

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.

²³ See *In the Matter of the Continued Membership of J.P. Morgan Securities, LLC*, (FINRA NAC 2014) available at http://www.finra.org/sites/default/files/NAC%20Statutory%20Disqualification%20Decision%20SD1904_0_0_0_0_0_0.pdf (last visited May 6, 2019) (citing *Frank Kufrovich*, 55 S.E.C. 616, 624 (2002)).

On Behalf of FINRA,



Marcia E. Asquith
Executive Vice President,
Board & External Relations

Exhibits

1. CRD Snapshot Report for the Firm, dated May 16, 2019.
2. FINRA Examination Disposition Letter and Report of Examination, Examination No. 20180564440, dated July 19, 2018.
3. Central State's response to FINRA Report of Examination, Examination No. 20180564440.
4. FINRA Examination Disposition Letter and Report of Examination, Examination No. 20160482397, dated January 18, 2016.
5. Central State's response to FINRA Report of Examination No. 20160482397.
6. FINRA Letter of Acceptance, Waiver and Consent (No. 20160482397), dated June 22, 2018.
7. FINRA's 19h-1 Notice filing, on behalf of Central States et al, dated August 10, 2015.
8. SEC's Letter of Acknowledgement, dated August 20, 2015.
9. Central State's Consent to Supervisory Plan and Supervisory Plan, executed on May 23, 2019.