

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015043469001**

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

RE: Reef Securities, Inc., Respondent  
Member Firm  
CRD No. 31951

Paul Frank Mauceli, Jr., Respondent  
Direct Participation Programs Principal  
CRD No. 2330829

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondents submit 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 Respondents alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

Reef Securities, Inc. (“Reef” or “the Firm”) has been a FINRA member firm since 1993. The Firm is based in Richardson, Texas. Reef is an oil and gas private placement broker-dealer that is approved for the public or private placement of direct participation programs and as a broker selling limited partnerships in a primary distribution. Reef currently has five registered individuals and one branch office.

Mauceli first entered the securities industry when he associated with Reef (then known as Western American Securities Corporation) in 1993. Mauceli has been the owner and president of Reef since the Firm’s inception in 1993. He received his Series 22 and Series 39 that same year and registered with FINRA as a Direct Participation Programs Representative and Direct Participation Programs

Principal, respectively. Mauceli has remained associated with Reef through the present. He remains subject to FINRA's jurisdiction as a registered principal and representative with a FINRA member firm.

### **RELEVANT DISCIPLINARY HISTORY**

In 2013, Reef entered into an AWC (2011025620201) with FINRA and was censured and fined \$35,000 for failing to have adequate controls over customer funds which were placed into impermissible investment accounts in violation of Section 15(C) of the 1934 ACT, SEC Rules 15C2-4 and 15C3-1, FINRA Rule 2010, and NASD Rule 3070(C).

In 1995, the Texas State Securities Board brought an action (CEN/SSO-1076) in which it reprimanded Mauceli and placed him on probation for 180 days for failing to use registered representatives to sell securities and, also, for failing to maintain and grant immediate access to accurate records.

In December 2000, Mauceli entered into an AWC (C06000025) with the NASD in which Mauceli entered into an AWC finding that he violated NASD Rules 1120(B) and 2110 by failing to implement a training program and the written training plan for registered representatives. Mauceli was jointly and severally fined \$5,000 with his member firm.

In December 2004, Mauceli entered into an AWC (C06040037) with the NASD for a violation of NASD Rules 1120(B) and 2110 by failing to develop written training plans for registered representatives, and he was jointly and severally fined \$7,500 with his member firm.

### **OVERVIEW**

From December 4, 2014 through August 27, 2015, Reef, acting through Mauceli, failed to timely notify investors of a right of rescission following the issuance of an updated General Partners Audited Balance Sheet dated December 31, 2013 and approval of a Revised Prospectus for the Reef Oil and Gas Drilling and Income Fund, L.P. As a result, Reef and Mauceli violated FINRA Rule 2010.

In addition, from February 2015 through May 2015, Reef distributed four communications related to Offering M to investors that failed to provide balanced presentation or a sound basis for evaluating the investments being promoted, contained misleading and unwarranted claims, and, in addition, made prohibited investor profit projections. As a result, Reef violated FINRA Rules 2210(d)(1)(A), 2210(d)(1)(B), 2210(d)(1)(F), and 2010.

## FACTS AND VIOLATIVE CONDUCT

### Reef and Mauceli Failed to Timely Issue Revised Prospectus and Notice of Rescission

FINRA Rule 2010 requires associated persons, in conducting their business, to “observe high standards of commercial honor and just and equitable principles of trade.”

Beginning in March 2014, Reef served as the broker dealer selling an Oil and Gas Drilling and Income Fund, L.P (“Income Fund”) for Issuer #1. The Income Fund was a Texas limited partnership formed to drill and own interests in oil and natural gas properties located in the United States. The Prospectus noted that the information contained within it was not “complete” because it did not include “the audited balance sheet of . . . the general partner of the issuer.” Thus, the Prospectus stated that Issuer #1 intended to file “a post-effective amendment to the registration statement,” which would include the audited balance sheet. The Income Fund Prospectus further provided that once the “Revised Prospectus” was declared effective by the Securities and Exchange Commission, Reef, as the “dealer manager” would provide all investors with a copy of the “Revised Prospectus” and, in addition, a notice offering each such investor an opportunity to confirm or rescind his or her investment decision (the “Notice”).

The Revised Prospectus, with the updated, audited balance sheet, was not available until December 4, 2014. Thereafter, Reef had discussions with Issuer #1 about sending the Revised Prospectus to prior investors in the Income Fund. Reef was represented solely by Mauceli in these discussions. Reef, acting through Mauceli, and Issuer #1 decided not to send the Revised Prospectus and Notice at that time, despite the requirements of the Prospectus, due to low prices in the oil and gas market. After an inquiry into the matter by a state securities board, Reef provided two Income Fund investors who resided in that state with the Revised Prospectus and Notice in February 2015. Reef, however, did not send the Revised Prospectus and Notice to the more than one hundred other investors who had purchased units in the Income Fund between April 1, 2014 and the date of the Revised Prospectus. Over six months later, in July 2015, FINRA discovered that Reef had not provided the Revised Prospectus and Notice to the vast majority of these investors in the Income Fund. After FINRA raised the issue, the Firm eventually sent the Revised Prospectus and Notice to the 127 remaining investors on August 27, 2015, whereupon several investors rescinded their investment.

As a result of the foregoing conduct, Reef and Mauceli violated FINRA Rule 2010.

## Advertising Violations by Reef

FINRA Rule 2210 replaced NASD Conduct Rule 2210 effective February 4, 2013.

FINRA Rule 2210(d)(1)(A) requires that “[a]ll member communications must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service.” Rule 2210(d)(1)(A) prohibits any member from omitting “any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.”

FINRA Rule 2210(d)(1)(B) prohibits any member from making “any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication. No member may publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.”

FINRA Rule 2210(d)(1)(F) prohibits members from making any communication that would “predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.” A violation of FINRA Rule 2210 is also a violation of FINRA Rule 2010.

Beginning around February 2015, Reef served as the dealer manager for another offering by Issuer #1, Offering M. Offering M is a REIT investment offered to customers of Reef. From February 2015 through May 2015, Reef distributed several communications related to Offering M to investors, including the following: a two-page Overview (Communication 1), a four-minute online Video (Communication 2), a website with five pages (Communication 3), and nine-page 2015 e-mail (Communication 4). All four of these communications failed to provide a balanced presentation or a sound basis for evaluating the investments being promoted, contained misleading and unwarranted claims, and, in addition, made prohibited investor profit projections.

For example, the communications violated FINRA Rule 2210(d)(1)(A) by failing to provide an adequate discussion of the key risks associated with the underlying investment, such as, the illiquid nature of the investment (all Communications), the related partnership’s limited operating history (all Communications), the lack of a guarantee on returns or distributions (Communications 1 and 4), and possible loss of any principal invested (Communication 4).

The communications violated FINRA Rule 2210(d)(1)(B) by containing inconsistent, and therefore, unwarranted statements, such as referencing a 3-year profit range of “45% to 75%” (Communications 1 and 4) versus a 3-year profit range of “35% to 45%” (Communication 2), as well as

referencing an exit strategy time period that contradicts the related prospectus disclosure by stating that the divest period is 24-36 months (Communication 2) compared to the “3 to 5 year[]” holding period referenced in the prospectus. The communications also violated Rule 2210(d)(1)(F) by containing prohibited investor performance projections, such as “Total Anticipated Profit 45% to 75%,” (Communications 1 and 3) “Simple Anticipated Annual Average Profit 15% to 25%,” (Communications 1 and 3), “anticipated profit projection of ... 35% - 45% WITHIN 3 YEARS,” (Communication 2) and “Anticipated Profit Range in 3 Years = 45% to 75%” (Communications 3 and 4).

As a result of the foregoing conduct, Reef violated FINRA Rules 2210(d)(1)(A), 2210(d)(1)(B), 2210(d)(1)(F), and 2010.

B. Respondents also consent to the imposition of the following sanctions:

**REEF:** A censure and a \$40,000 fine.

Reef agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Reef has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Reef specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

**Mauceli:** A \$5,000 fine and a four-month suspension from association with any FINRA member firm in all principal capacities.

Mauceli agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Mauceli has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

Mauceli specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

Mauceli understands that if he is barred or suspended from associating with any FINRA member in a principal capacity only, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA’s By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in a principal capacity, during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because he is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

## II.

### WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive 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

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and

C. If accepted:

1. this AWC will become part of Respondents permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondents;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondents 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. Respondents 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 Respondents: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

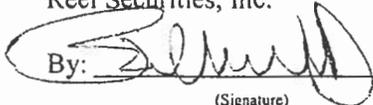
D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that Respondents may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

Respondents certify that Respondents have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Respondents have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondents to submit it.

3/6/14

Date

Reef Securities, Inc.

By: 

(Signature)

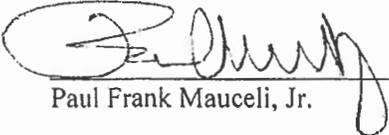
Name: PAUL F. MAUCELI, JR.

(Print Name)

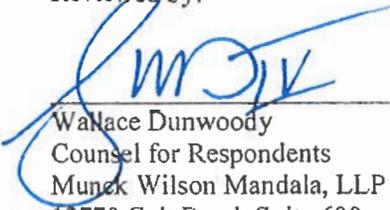
Title: President

3/6/14

Date

  
Paul Frank Mauceli, Jr.

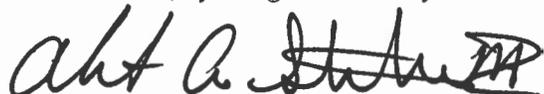
Reviewed by:

  
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Accepted by FINRA:

4/11/2018  
Date

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

  
\_\_\_\_\_  
Albert A. Starkus III  
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