FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018057298702

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

RE: Michael G. Seymour (Respondent)
General Securities Principal
CRD No. 1597042

Pursuant to FINRA Rule 9216, Respondent Michael G. Seymour 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

Seymour first became registered with FINRA through a member firm in July 1987. Between July 1987 and August 2016, Seymour was registered with FINRA through various member firms. In July 2016, Seymour became registered with FINRA through Centaurus Financial, Inc. (CRD No. 30833) as a General Securities Representative, General Securities Principal, Investment Company and Variable Contracts Products Representative and General Securities Sales Supervisor. Seymour currently remains registered through Centaurus in those capacities.[1]

OVERVIEW

Between September 2016 and September 2018, Seymour failed to reasonably supervise a registered representative's (RR 1) recommendations and sales of Unit Investment Trusts (UITs) and alternative investments. Seymour, who was a branch manager and RR 1's direct supervisor, failed to review whether the UIT and alternative investment recommendations RR 1 made were suitable for RR 1's customers. Seymour thereby violated FINRA Rules 3110(a) and (b) and 2010.

[1] For more information about the respondent, visit BrokerCheck® at www.finra/org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3110(a) requires that each member 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)(1) requires that each member 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.

FINRA Rule 2111(a) states that "[a] member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile."[2] FINRA Rule 2111 Supplementary Material .05 provides:

> The reasonable-basis obligation requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy. A member's or associated person's reasonable diligence must provide the member or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires members and associated persons to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

A UIT is one of three basic types of investment companies registered with the SEC under the Investment Company Act of 1940. UITs are assembled by a sponsor and publicly offered to investors through broker-dealers and investment advisors. The sponsor-issued securities, typically called "units," represent undivided interests in a portfolio of securities maintained in a trust that are issued for a specific term. Generally, that portfolio is not actively traded and follows a "buy-and-hold" strategy. A UIT terminates on a specified maturity date at which point the underlying securities are sold and the resulting proceeds are paid to the investors.

When a customer purchases a "standard version" UIT, the customer incurs transactional sales charges, including an initial sales charge of up to 1% of the purchase price, a

[2] FINRA Rule 2111 was amended effective June 30, 2020. The pre-June 30, 2020 version applies to the conduct at issue here.

deferred sales charge of up to 2.45% of the purchase price, and a creation and development fee of an additional 0.5%. The majority of a standard version UIT's total sales charge is paid to the broker-dealer selling the units.

Customers of investment advisors, however, are eligible to purchase fee-based UITs (as opposed to standard version UITs). When a customer purchases a fee-based UIT, the customer incurs only the creation and development fee. The UIT sponsor will waive the initial and deferred sales charge because the customer is typically paying periodic advisory fees from the account as compensation to the advisor. Therefore, fee-based units are less expensive for customers than the standard version of the same UIT.

Certain alternative investment issuers also had different cost structures for customers of investment advisors.[3] The two alternative investment issuers involved here (Issuers A and B) paid selling commissions of up to 7% to participating broker-dealers. Issuer A, however, did not pay any selling commissions in connection with the sale to investors whose contracts for investment advisory and related brokerage services include a fixed or wrap fee feature. Issuer A's prospectus further stated "[i]nvestors may agree with their participating broker-dealers to reduce the amount of selling commissions payable with respect to the sale of their Units down to zero (i) if the investor has engaged the services of a registered investment advisor, or RIA, or other financial advisor who will be paid compensation for investment advisory services or other financial or investment advice." Similarly, Issuer B's prospectus stated that if shares were purchased through investment advisors, no selling commissions would be payable.

Between September 2016 and September 2018, Seymour served as the manager of the Centaurus branch office located in Winter Haven, Florida, which RR 1 owned. At all relevant times, RR 1 also owned and was the sole managing member of an unaffiliated SEC-registered investment advisory firm (RR 1 Advisory). Seymour served as the Chief Operating Officer and Chief Compliance Officer of RR 1 Advisory. The vast majority of RR 1's customers at Centaurus also were clients of RR 1 Advisory and held their securities solely through their accounts at Centaurus.

During the relevant period, Centaurus assigned the first level of supervision and oversight of registered representatives to the branch manager who was responsible for the review and processing of orders and the suitability of the recommended transactions. With respect to UITs, Centaurus's written supervisory procedures (WSPs) provided that a UIT order form must be completed and signed by the customer and the registered representative and then forwarded to the branch manager for review. The WSPs further stated that "principals shall carefully review the [UIT order] form for potential violations of Breakpoint Sales . . . unsuitable transactions and other potential B/D and industry rule infractions." The firm's WSPs applicable to alternative or non-conventional investments

[3] Two alternative investments are at issue in this matter. The first was an offering of the preferred stock of a non-traded real estate investment trust (REIT). REITs are corporations, trusts or associations that own or manage income-producing real estate. The second was a non-traded business development company (BDC). BDCs are closed-end investment companies that primarily invest in small and medium-sized enterprises that cannot otherwise easily raise capital.

(NCIs) stated that "[a]ll recommended NCI transactions must be pre-approved by the Registered Representative's Branch Manager, and all such transactions will be reviewed by the Regional Compliance Officer."

Between September 2016 and September 2018, RR 1 recommended 595 UIT purchases across 83 customer brokerage accounts at Centaurus. RR 1 recommended and sold standard version UITs to his customers instead of fee-based UITs, thereby causing his customers to incur certain unnecessary sales charges that would have been avoided had RR 1 recommended the fee-based UITs.

Between October 2016 and June 2017, RR 1 recommended alternative investment Issuers A and B to nine customers who had Centaurus brokerage accounts and entered into advisory agreements with RR 1 Advisory. For each of these nine customers, RR 1 purchased these alternative investments through Centaurus, thereby earning Centaurus a 7% selling commission on each purchase. Had RR 1 caused RR 1 Advisory to enter into selling agreements with the issuers and purchased those investments through RR 1 Advisory, RR 1 and Centaurus would not have earned any selling commission on these transactions.

In his role as branch manager, Seymour was responsible for supervising RR 1 and for the review and processing of orders and the suitability of RR 1's recommended transactions, including UITs and alternative investments. Seymour knew of RR 1's practice of recommending that his customers purchase standard version UITs and alternative investments through Centaurus, which were more expensive due to the transactional sales charges. Seymour also knew that RR 1 recommended the higher-cost UITs to earn additional compensation. Seymour did not, however, conduct a suitability review of RR 1's UIT and alternative investment recommendations.

Centaurus placed RR 1 on heighted supervision effective January 1, 2018, and Seymour was responsible for RR 1's heightened supervision plan. Pursuant to the terms of the heightened supervision plan, Seymour was obligated to "ensure all transactions conform to industry and Firm standards on suitability and concentration of asset classes." Although 229 of the UIT purchases RR 1 made for customers that are at issue here occurred while RR 1 was on heightened supervision, Seymour still did not conduct a suitability review of any of these purchases.

Therefore, Seymour violated FINRA Rules 3110(a) and (b) and 2010.

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

- a one-month suspension from associating with any FINRA member in all principal capacities;
- a $10,000 fine; and
- a requirement that within 90 days of the Notice of Acceptance of this AWC, Seymour will undertake to attend and satisfactorily complete 20 hours of

continuing education concerning supervisory responsibilities by a provider not unacceptable to FINRA. Seymour will notify Michael Perkins, Senior Counsel, of the name and contact information of the provider who is providing the continuing education at least 10 days prior to attending the training. Within 30 days following the completion of such training, Seymour will submit written proof that the continuing education program has been satisfactorily completed to Michael Perkins at michael.perkins@finra.org. All correspondence must identify the respondent and matter number.

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

Respondent understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, 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, Respondent may not be associated with any FINRA member in any principal capacity during the period of the bar or suspension. *See* FINRA Rules 8310 and 8311. Furthermore, because Respondent 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 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 him;

B. To be notified of the complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and

D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

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

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;

3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and

4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing

in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that he 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.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent has agreed to the AWC's provisions voluntarily; and 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 him to submit this AWC.

9/26/22
Date

Michael G. Seymour
Respondent

Reviewed by:

John Cataldo
John G. Cataldo, Esq.
Counsel for Respondent
D'Ambrosio LLP
Counselors At Law
185 Devonshire Street, 10th Floor
Boston, MA 02110

Accepted by FINRA:

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

September 27, 2022

Michael Perkins

Date

Michael Perkins
Senior Counsel
FINRA
Department of Enforcement
200 Liberty Street, Brookfield Place
New York, NY 10281