

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2012034936004**

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

RE: Center Street Securities, Inc., Respondent  
CRD No. 26898

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Center Street Securities, Inc. ("Center Street") 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 Center Street alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Center Street hereby accepts and consents, 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**

Center Street Securities, Inc. (CRD # 26898) is headquartered in Nashville, Tennessee and has been a FINRA member since 1991. Center Street has approximately 67 branch offices and approximately 84 registered representatives.

**RELEVANT DISCIPLINARY HISTORY**

On December 16, 2013, Center Street was censured and fined \$30,000 by FINRA for failing to establish, maintain and enforce adequate supervisory systems and written supervisory procedures to appropriately monitor associated persons' use of external email accounts to conduct firm related business in violation of Section 17(a) of the Securities Exchange Act of 1934, Rule 17a-4 thereunder, NASD Rules 3010 and 3110, FINRA Rules 4511 and 2010 and MSRB Rules G-9 and G-27.

**OVERVIEW**

Between approximately March 2012 and August 2013 (the "relevant period"),

Center Street, through the actions of multiple registered representatives, made unsuitable recommendations to customers to purchase GWG Renewable Secured Debentures, an illiquid and high-risk alternative investment, in violation of NASD Rule 2310 and FINRA Rules 2111 and 2010.<sup>1</sup> These recommendations were unsuitable because the high risk nature of the Debentures was inconsistent with certain customers' investment objectives and risk tolerances and because the purchases represented an excessive concentration of the customers' total investable assets or net worth in a speculative and high-risk security. Center Street also failed to maintain an adequate supervisory system and adequate written supervisory guidelines and failed to reasonably supervise the sales of GWG debentures by its representatives, in violation of NASD Rule 3010 and FINRA Rule 2010.

Between approximately mid-February 2012 and November 2012, Center Street also distributed an inaccurate GWG sales brochure to over 100 customers, in violation of NASD Rule 2210 and FINRA Rule 2010. Moreover, during the relevant period, certain Center Street customer account forms contained inaccurate information about customer net worth or other information, and thus the firm failed to maintain accurate books and records, in violation of FINRA Rules 4511 and 2010. Finally, in violation of NASD Rule 3010 and FINRA Rule 2010, Center Street failed to establish an adequate supervisory system for responding to responses to regulatory requests.

### **FACTS AND VIOLATIVE CONDUCT**

#### ***GWG Renewable Secured Debentures***

GWG Holdings, Inc. ("GWG"), which was formed in 2006, purchases life insurance policies on the secondary market at a discount to the face value of the policies. Once GWG purchases a policy, it pays the policy premiums until the insured dies. GWG then collects the face value of the insurance benefit. GWG hopes to earn returns by collecting more upon the maturity of the policies than it has paid to purchase, finance and service the policies. The company has a limited operating history and is not yet profitable. GWG has purchased almost all of the policies it owns with funds borrowed from financial institutions or investors.

In 2012, GWG began selling what it called Renewable Secured Debentures. The minimum investment in the Debentures is \$25,000. Additional investments can be made in \$1,000 increments. The Debentures have varying maturity terms and interest rates, from six-month Debentures offering an annual interest rate 4.75% to seven-year Debentures offering 9.50%.

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<sup>1</sup> FINRA Rule 2111 superseded NASD Rule 2310 on July 9, 2012. NASD Rule 2310 applies for conduct prior to July 9, 2012 and FINRA Rule 2111 applies for conduct on or after July 9, 2012.

The prospectus for the Debentures states that the life insurance policies held by GWG are not collateral for obligations under the Debentures. Instead, those policies have been separately pledged as collateral for a line of credit used by GWG to purchase life insurance policies. As stated in the prospectus, the Debentures may be considered speculative investments and involve a high degree of risk, including the risk of loss of the entire investment. The prospectus states that the company's success is dependent upon, among other things, its continued ability to raise funds to pay its obligations, including interest payments under the Debentures.

An investment in the Debentures is also illiquid. Investors do not have access to their principal prior to maturity unless the request is due to death, bankruptcy or total disability. If GWG decides to prepay the Debentures other than under those circumstances, a prepayment fee of 6% may be charged. There is also no trading market for the Debentures. For these reasons, as the prospectus states, an investment in the Debentures is not suitable for investors who need liquidity prior to a Debenture's maturity date.

Debenture sales in various states are subject to specific suitability requirements. Such requirements are prominently displayed in the prospectus for the Debentures, as well as in certain versions of the application to purchase the Debentures.

### ***Center Street's Sale of the Debentures***

Center Street began selling the Debentures to its customers in February 2012. During the relevant period, it sold the Debentures to 269 customers. Many of those sales occurred in states with specific suitability requirements. Center Street's written supervisory procedures during the relevant period failed to address any state specific suitability or qualified investor requirements applicable to certain alternative products, such as the Debentures.

Until April 2013, Center Street did not maintain written guidelines, in its written supervisory procedures or otherwise, regarding the concentration of investments in alternative products, such as the Debentures, that would be suitable for customers. Between approximately March 2012 and April 2013, the firm maintained unwritten internal guidelines concerning the concentration of investments in alternative products, such as the Debentures, that would be suitable for customers. The unwritten guidelines generally limited cumulative investments in alternative products to 25% of a customer's total net worth and investment in any one alternative product to approximately 10% of a customer's total net worth. The guidelines were orally conveyed to the firm's sales force at, among other things, annual sales conferences. However, the guidelines were not included as part of the firm's written supervisory procedures. The firm had no other written supervisory procedures concerning concentration of investments in alternative products.

In April 2013, Center Street established a formal policy that limited amounts invested in alternative products to 25% of total customer assets, with no more than 10% invested in any one non-traded alternative product.

To purchase the Debentures, Center Street customers were required to complete an account application. A customer was also required, in order to purchase a Debenture, to complete GWG subscription forms. Center Street also utilized a form called "Compliance Alternative Investment (Non-Reg D) Suitability." This form required the Center Street registered representative to provide information about customers' existing assets, the concentration of the alternative investment as percentage of net worth, the customer's age, and the customer's investment objectives. Center Street also used a "Universal Switch Letter" form for Debenture sales that involved the liquidation of other investments within a thirty day period prior to the Debenture purchase. That form sought information concerning the existing investment and the proposed Debenture purchase and a narrative reason for the exchange.

Once completed, these documents were submitted to Center Street's Compliance Department in the Nashville home office for supervisory and suitability review. These forms were the only items the firm relied upon in reviewing and assessing Debenture sales. Center Street did not prepare or maintain any exception reports that would have alerted supervisors to an over-concentration in Debentures or purchases where the customer had risk tolerances or investment objectives that were inconsistent with the high risk nature of the Debentures.

Three employees of Center Street's Compliance Department in the Nashville home office conducted supervisory and suitability review of all transactions recommended to customers by the firm's registered representatives. The firm assigned one of those employees, MW, primary responsibility for conducting the review of Debenture transactions.<sup>2</sup> MW received no training from the firm regarding the unique characteristics and risks of the Debentures. MW was also unaware of the firm's guidelines concerning concentration of alternative products and of the various state specific suitability requirements applicable to Debenture sales.

During the relevant period, Center Street's registered representatives made 34 unsuitable recommendations and recommendations containing misrepresentations to purchase the GWG Debentures to 28 customers, including elderly customers and retirees. These recommendations resulted in the sale of more than \$3 million in Debentures to these customers.<sup>3</sup> These recommendations were unsuitable

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<sup>2</sup> The firm's Chief Compliance Officer, JL, conducted the review of Debenture transactions in instances when MW was unavailable.

<sup>3</sup> These unsuitable sales generated more than \$103,000 in gross commissions, of which Center Street received more than \$27,000.

because the investments were inconsistent with the customers' stated conservative investment objectives and need for safety of principal, the customers' ages, and because the purchases represented an excessive concentration of the customers' net worth in a speculative and high-risk security, or included material misrepresentations about the Debentures.

Due to these deficiencies, Center Street:

- Approved Debenture purchases by customers, including elderly customers and retirees, whose conservative investment objectives were inconsistent with the speculative nature of the Debentures;
- Approved Debenture purchases that resulted in a high concentration of a customer's total investable assets or net worth in the Debentures. In certain instances prior to April 2013 the Debenture sales exceeded the firm's unwritten internal guidelines regarding concentration of investments in alternative products, or exceeded state specific suitability requirements;<sup>4</sup> and
- Approved Debenture sales where the applications indicated that misrepresentations about the nature or risks of the Debentures had been made to the customers, including statements that the Debentures were "guaranteed" or were liquid.

In addition, despite the presence of these red flags, Center Street failed to take reasonable supervisory steps to ensure the Debenture sales were suitable or that the Debentures had been accurately represented to the customers. Among other things, Center Street approved the Debenture purchases without adequately considering whether they were consistent with the customers' investment objectives, risk tolerances, financial conditions, ages, or liquidity needs. Nor did Center Street adequately consider whether representations that had been made regarding the Debentures were accurate.

Center Street also approved Debenture sales where certain forms contained inconsistencies concerning the customer's net worth, investment objectives, or other information pertaining to suitability, or where certain information was missing from the documentation. Center Street did not document why these transactions were approved with missing or incorrect information.

#### ***Center Street Distributed Inaccurate Sales Literature Regarding the Debentures***

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<sup>4</sup> At least 28 of the Debenture sales during the relevant period violated state suitability requirements. As a result of an over-concentration in Debenture holdings by Center Street customers residing in Arizona, in July 2013 the firm issued partial refunds to those customers. One Arizona customer was issued a full refund of her investment because she was not qualified to purchase the Debentures.

Between February 2012 and November 2012, Center Street and its registered representatives distributed a GWG sales brochure to more than 100 customers in connection with its sales of the Debentures. The brochure was provided to customers as part of a GWG-created sales kit that also included the prospectus and a subscription agreement.

Prior to November 2012, the GWG sales brochure contained within the sales kit stated that “Renewable Secured Debentures are secured by the corporate assets of GWG, which consist primarily of investments in life insurance policies purchased in the secondary market.” The sales brochure further stated that the Debentures “are secured by all the corporate assets of GWG. GWG’s assets consist primarily of the life insurance policies purchased in the secondary market and are summarized in the table below.” The table stated that GWG held “Insurance Policy Benefits” of over \$489 million. However, the \$489 million value was the face value of the benefits of the policies and not their current market value, a significantly lower number. Moreover, as stated in the prospectus for the Debentures, those policies were not collateral for the Debentures and instead had been pledged as collateral for a separate line of credit. Thus, the statements in the brochure that GWG held \$489 million of life insurance policies and that those policies served as collateral for the Debentures were incorrect and misleading.

#### ***Center Street Failed to Maintain Accurate Books and Records***

In fifteen instances, Center Street registered representatives placed information on customer account documentation and other forms relating to suitability that overstated the customers’ net worth or assets or inaccurately stated that a transaction in the Debentures did not involve a switch from another product.

#### ***Center Street’s Responses to Regulatory Requests***

Pursuant to FINRA Rule 8210, FINRA sent requests for documents and information to Center Street in connection with an investigation of the firm’s sales of the Debentures. In responding to certain of those requests, the firm did not seek all responsive information from various areas of the firm where responsive information was located, and as a result the firm’s responses to some of FINRA’s requests were incomplete. Complete responses to the requests were subsequently provided after FINRA staff conducted on-site examinations of certain Center Street offices and in response to additional FINRA Rule 8210 requests.

During the relevant period, Center Street’s written supervisory procedures did not specify who was responsible for responding to regulatory requests or provide guidance as to steps or actions that should be taken to identify and collect responsive information.

## **Violations**

### **Violations of NASD Rule 2310 and FINRA Rules 2111 and 2010**

NASD Rule 2310(a) and FINRA Rule 2111 require that, in recommending the purchase, sale or exchange of any security, a member have a reasonable basis for believing that the recommendation is suitable for a customer based upon the customer's financial situation and needs. As described above, Center Street, through the actions of multiple registered representatives, made unsuitable recommendations to customers to purchase of more than \$3 million of the Debentures. Therefore, the firm violated NASD Rule 2310 (prior to July 9, 2012) and FINRA Rule 2111 (for conduct July 9, 2012 or later). As a result of these violations, Center Street also violated FINRA Rule 2010.

### **Violations of NASD Rule 3010 and FINRA Rule 2010**

NASD Rule 3010 requires that member firms establish, maintain and enforce supervisory procedures that are reasonably designed to achieve compliance with applicable securities laws, regulations and FINRA rules. To comply with Rule 3010, a firm must respond reasonably to red flags of potential misconduct and take appropriate action when misconduct has occurred.

*Center Street's Supervisory System for Review of Alternative Products, Including the Debentures, Was Not Reasonably Designed and Therefore Center Street Failed to Supervise Debenture Sales*

Center Street failed to establish and maintain a supervisory system that was reasonably designed to achieve compliance with FINRA Rules and applicable securities laws. During a portion of the relevant period, the firm used unwritten internal guidelines as a means of ensuring that a customer's concentration in alternative products was consistent with suitability requirements. However, the thresholds established by the unwritten guidelines were the same for all types of customers and alternative products. The unwritten guidelines did not take into consideration differences between customers' investment objectives or risk tolerances, or the unique features or risks of particular products, or state-specific requirements. Therefore, the unwritten guidelines were not sufficient to ensure that recommendations to purchase high risk alternative products, such as the Debentures, in any amount below the unwritten guideline limits were appropriate for customers with conservative investment objectives. Furthermore, the guidelines were not included in the firm's written supervisory procedures and were not communicated in writing to the principals responsible for conducting suitability reviews. The unwritten guidelines were therefore not enforced in connection with Debenture sales.

In addition, Center Street did not prepare or maintain any exception reports that would have alerted supervisors to an over-concentration of a customer's assets or

net worth in the Debentures or the purchase of the Debentures by customers with investment risk objectives inconsistent with the risks of the Debentures. Center Street's procedures also failed to prevent the making of suitability determinations when necessary customer profile information was missing or inconsistent. Finally, the firm's supervisory system and procedures also failed to require that the supervisory review process was adequately documented.

In addition to the deficiencies described above in Center Street's procedures, the firm also relied on an inexperienced principal to conduct supervisory review of many of the Debenture transactions, and did not provide him with adequate training regarding the unique risks and features of the Debentures.

Finally, Center Street also failed to address and respond to multiple red flags suggesting that numerous Debenture transactions were unsuitable, as well as potential violations of state suitability and investor qualification requirements and misleading communications with customers regarding the Debentures. Consequently, the firm approved numerous Debenture transactions that were not compliant with FINRA Rules or state and federal securities regulations.

*Center Street's Supervisory System for Responding to Regulatory Requests Was Not Reasonably Designed*

Center Street's written supervisory procedures did not provide any specific guidance for responding to regulatory requests. The firm failed to establish policies and procedures reasonably expected to result in the identification, collection, and provision of full and accurate responses to regulatory requests. Consequently, the firm failed to take reasonable steps to fully and completely respond to FINRA requests for documents until after FINRA conducted onsite visits at various firm offices.

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By failing to establish a system to supervise sales of alternative products or to respond to regulatory requests that were reasonably designed to achieve compliance with FINRA rules, and by failing to reasonably supervise sales of the Debentures, Center Street violated NASD Rule 3010. As a result of these violations, Center Street also violated FINRA Rule 2010.

**Violations of NASD Rule 2210 and FINRA Rule 2010**

NASD Rule 2210(d)(1)(B) prohibited member firms from making misleading statements or claims in communications with the public.<sup>5</sup> Moreover, Rule 2210(d)(1)(A) required that communications with the public be fair and balanced,

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<sup>5</sup> FINRA Rule 2210 superseded NASD Rule 2210 effective February 4, 2013. Since the violative communications with the public with respect to the sales brochure occurred prior to February 4, 2013, NASD Rule 2210 applies.

provide a sound basis for evaluating the facts in regard to any security, and not omit material facts that would cause a communication to be misleading.

Center Street distributed to over 100 customers a sales brochure regarding the Debentures that claimed that the Debentures were collateralized by \$489 million in "Insurance Policy Benefits" owned by GWG. In fact, as disclosed in the prospectus for the Debentures, those policies had been pledged as collateral for a separate line of credit. Moreover, the \$489 million value was the face value of the policies and not their current market value, a significantly lower number. The brochure therefore omitted material facts and was misleading. While the brochure was created by GWG, it was distributed to customers by Center Street, and Center Street relied on it when recommending the Debentures to customers. Center Street was therefore responsible for ensuring that the brochure complied with the standards of Rule 2210. The brochure did not comply with those standards. By distributing the misleading sales brochure, Center Street therefore violated NASD Rule 2210. As a result of this violation, Center Street also violated FINRA Rule 2010.

#### **Violations of FINRA Rule 4511 and FINRA Rule 2010**

FINRA Rule 4511 requires each member to make and preserve books and records in conformity with Rules 17a-3 and 17a-4 of the Securities Exchange Act. In turn, Rules 17a-3 and 17a-4 require member firms to make and keep current certain books and records relating to their business activities. Rule 17a-3(a)(17) requires that firms maintain books and records for customers including, among other things, a customer's net worth. Rule 17a-4(b)(4) requires that firms preserve inter-office memoranda and communications relating to their business as such, and those records must be accurate. As described above, Center Street registered representatives placed information on customer account documents and forms relating to suitability that overstated customers' net worth or assets or inaccurately stated that a transaction in the Debentures did not involve a switch from another product. Center Street thus failed to maintain accurate books and records relating to account documentation and to Debenture purchases, in violation of FINRA Rule 4511. As a result of this violation, Center Street also violated FINRA Rule 2010.

B. Center Street also consents to the imposition of the following sanctions:

(a) A censure; and,

(b) A fine in the amount of \$100,000, which includes disgorgement of approximately \$27,000 in concessions derived from unsuitable sales of the Debentures.

Center Street further agrees to comply with the following undertaking: Center Street shall conduct a comprehensive review of the adequacy of its policies,

systems, procedures (written or otherwise), and training with respect to reviewing and approving alternative products and responding to regulatory requests. Within 120 days of the issuance of a Notice of Acceptance of this AWC, the firm's Chief Executive Officer shall certify in writing to FINRA's Department of Enforcement that (i) the firm has engaged in the comprehensive review described above; and (ii) as of the date of the certification, the firm has in place policies and procedures to address and correct the violations described in this AWC. The certification shall be accompanied by a description of the review undertaken pursuant to this undertaking. In addition, at the time the certification is provided, Center Street will provide the Department of Enforcement with a copy of its procedures relating to compliance with FINRA Rules 2111 and 8210. The Department of Enforcement may, upon a showing of good cause and its sole discretion, extend the dates for compliance with any of the terms of this provision.

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

Center Street specifically and voluntarily waives any right to claim that the firm is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Centre Street specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

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

Further, Center Street specifically and voluntarily waive any right to claim bias or prejudgment

of the General Counsel, 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.

Center Street 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**

Center Street 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 it; and
- C. If accepted:
  - 1. this AWC will become part of Center Street's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
  - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Center Street's disciplinary record;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
  - 4. Center Street 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. Center Street 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 Center Street's: (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. Center Street may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Center Street understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

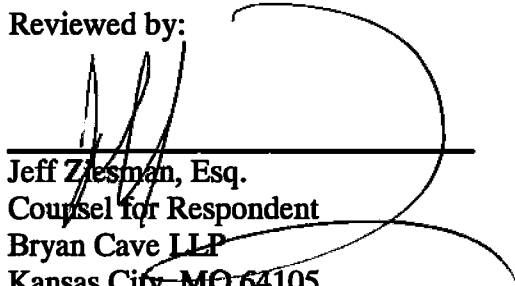
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Center Street has agreed to its provisions voluntarily; and that no offer, 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 Center Street to submit it.

7-24-14  
Date (mm/dd/yyyy)

  
Center Street Securities, Inc.  
Respondent

By: Jack R. Tracker, President

Reviewed by:



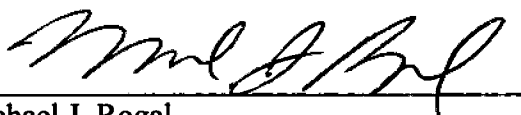
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Jeff Ziesman, Esq.  
Counsel for Respondent  
Bryan Cave LLP  
Kansas City, MO 64105  
816.374.3225

Accepted by FINRA:

8/12/14  
Date

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

  
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Michael J. Rogal  
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