

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**  
**OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael Ciro Colletti (CRD No. 4577898),

Respondent.

DISCIPLINARY PROCEEDING  
No. 2014042520501

**COMPLAINT**

The Department of Enforcement alleges:

**SUMMARY**

1. Between May 2014 and October 2014 (the “relevant period”), Respondent Michael Ciro Colletti failed to reasonably supervise cold callers in his branch office that he had hired without following firm procedures. As a result, Colletti’s member firm was not aware of some of those cold callers, and some were not subject to background checks as required by the firm. And despite working in close proximity with the cold callers in his branch, Colletti claimed he was not aware that several of them possessed unauthorized scripts containing improper questions and potential misrepresentations.

2. By failing to properly supervise his branch office, Colletti violated NASD Rule 3010 and FINRA Rule 2010.

## RESPONDENT AND JURISDICTION

3. Colletti entered the securities industry in August 2002, when he became associated with a FINRA member firm. He registered with FINRA as a General Securities Representative through that firm in August 2002, and he remained there through July 2004. Between July 2004 and March 2012, Colletti associated with two other FINRA member firms, became registered with FINRA as a General Securities Principal through one of those firms in July 2006, and became registered with FINRA as an Investment Banking Representative in February 2010. In March 2012, Colletti became registered with National Securities Corporation as a General Securities Representative and a General Securities Principal. National Securities terminated Colletti's registrations in October 2014, after which he has been associated with three other FINRA member firms. Colletti is currently registered as a General Securities Representative and a General Securities Principal at a FINRA member firm.

## FACTS

4. National Securities opened a branch in Melville, New York, as an Office of Supervisory Jurisdiction on March 19, 2012, with Colletti as the designated supervisor and branch office manager.

### National Securities' Written Supervisory Procedures Relating to Cold Callers.

5. National Securities' written supervisory procedures ("WSPs") specified, among other things, that all application information for new hires of any kind had to be submitted to National Securities' Hiring Committee for review, and that a majority vote of the committee was required for an applicant to be submitted for association.

6. National Securities' WSPs also specifically provided that the association of unlicensed cold callers required the prior approval of the Hiring Committee. In addition,

National Securities' WSPs also specified that all cold callers would be subject to a background check. National Securities' WSPs stated that the designated principal of the branch associating the cold callers was responsible for the supervision of those cold callers' activities.

7. National Securities' WSPs also stated that "[a]ll unregistered cold callers who elect to use scripts or other materials will use only scripts and materials pre-approved by Supervision" and specified that unlicensed persons may not "[s]olicit prospects to open accounts" or "[d]iscuss general or specific products or services" or "[p]re-qualify prospects by inquiring about financial status or investment objectives, including information designed to determine whether the prospect is accredited."

8. According to National Securities' WSPs, cold callers' activities were limited to "[i]nviting prospects to firm-sponsored events," "[a]sking whether a prospect would like to speak to a registered person," and "[a]sking whether a prospect would like to receive information about the firm or its services."

9. Colletti knew or should have known about the hiring procedures and supervisory policies regarding cold callers, and, in fact, he attested that he had "reviewed and complied with all policies and procedures in [his] Broker-Dealer's Written Supervisory Procedures and Compliance Alerts" in National Securities' 2014 Semi Annual Compliance Questionnaire for Quarters 1 & 2.

*Colletti Failed to Enforce National Securities Procedures  
When Hiring Cold Callers.*

10. During the relevant period, the Melville branch hired and employed several cold callers, the majority of whom were not registered through National Securities.

11. Colletti and another registered representative, AR, with whom he split expenses for the branch, paid the cold callers a weekly salary from corporations they controlled or from AR's personal bank account. National Securities did not pay any of the cold callers.

12. Indeed, National Securities did not know about many of the cold callers until months after they began working at the Melville branch, if at all, as Colletti failed to follow firm procedures when hiring the cold callers.

13. For at least nine cold callers hired during the relevant period—DH, JB, VC, JM, RM, JR, DB, DF, and ES—Colletti failed to submit any hiring paperwork to National Securities until two to five months after they had begun working at the Melville branch—in some instances not until after FINRA began an examination of Colletti's branch and brought this failure to Colletti's attention.

14. Colletti never submitted hiring paperwork to National Securities for at least two cold callers, JP and JR.

15. As a result, Colletti did not follow National Securities' WSPs regarding hiring practices, including those specific to cold callers, such as ensuring that all cold callers in the Melville Branch were subject to the background checks or approved by the Hiring Committee.

*Colletti Failed to Supervise the Cold Callers He Hired.*

16. Colletti, as the designated supervisor and branch office manager, was responsible for supervising the cold callers.

17. Everyone working at the Melville branch, including the cold callers, worked in a single room and one small office directly off the entranceway. Colletti sat approximately 20 feet away from the cold callers.

18. The cold callers in the Melville Branch had scripts written on notepads, taped to a table by their phones, and in their desk drawers.

19. The cold callers' scripts had not been pre-approved by anyone at National Securities.

20. The majority of the scripts contained questions that were contrary to the limitations National Securities placed on activities of unlicensed persons (alleged above), such as (i) "Who handles your investments?"; (ii) "What's a stock you are holding onto?"; and (iii) "How much do you have in the market?"

21. Contrary to the firm's WSPs, which prohibited cold callers from discussing general or specific products or services, a number of the scripts referenced sending an information package or a comparison sheet for specific securities, and a few of the scripts indicated that the caller was debuting an unspecified IPO underwritten by a prominent investment bank.

22. A few scripts incorrectly described National Securities as a "former trading division of Fidelity Investments," which was not true.

23. A white board near the desks of some of the cold callers listed the names of the cold callers, with a column for the number of accounts opened, a column for their "Acct Goal," and a column for their "Money Raised." As alleged above, National's WSPs limited cold callers to a handful of specific permissible activities, none of which included opening accounts or raising money.

**CAUSE OF ACTION**  
**Failure to Supervise the Melville Branch**  
**(NASD Rule 3010 and FINRA Rule 2010)**

24. Enforcement realleges and incorporates by reference paragraphs 1-23 above.

25. NASD Rule 3010(a) required FINRA members to establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated persons that is reasonably designed to achieve compliance with applicable securities

laws and regulations, and with applicable NASD Rules.<sup>1</sup> NASD Rule 3010(b) required each member to establish, maintain, and enforce written procedures to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD. A violation of NASD Rule 3010 also is a violation of FINRA Rule 2010.

26. During the relevant period, Colletti failed to enforce National Securities' written procedures regarding hiring and cold callers.

27. Because of Colletti's failure to enforce National Securities' written procedures regarding hiring and cold callers, National Securities was unaware of some of the cold callers for months after they began working in the Melville Branch, if at all, and some of the cold callers were not subject to a background check, much less approved by the Hiring Committee.

28. In addition, during the relevant period, Colletti, the designated supervisor and branch office manager of the Melville Branch, failed to supervise the cold callers in the Melville branch office.

29. Despite working in the same room as the cold callers, Colletti either missed or did not act upon red flags that the cold callers were engaging in impermissible activities. Those red flags included (i) the scripts written on notepads, taped to furniture, and in cold callers' desk drawers and (ii) the white board containing the cold callers' names and columns for "acct opened" "acct goal" and "money raised."

30. Because Colletti did not reasonably supervise the cold callers, some of the cold callers' unauthorized scripts contained misrepresentations and improper questions.

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<sup>1</sup> NASD Rule 3010 was superseded by FINRA Rule 3110 as of December 1, 2014. Because the conduct at issue occurred before December 1, 2014, NASD Rule 3010 is applicable.

31. As a result of the foregoing conduct, Respondent Colletti violated NASD Rule 3010 and FINRA Rule 2010.

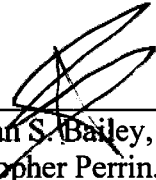
**RELIEF REQUESTED**

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

**FINRA DEPARTMENT OF ENFORCEMENT**

Date: July 31, 2017



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