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**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

In the Matter of:

PETER CARMINE COVINO, III, applicant
for broker-dealer registration and investment
adviser registration under the Uniform
Securities Act (2004)

Docket No. 2013-7-15

**ORDER DENYING APPLICATIONS FOR
REGISTRATION, AND NOTICE OF
HEARING**

The Director of the Idaho Department of Finance (“Director”) pursuant to the Uniform Securities Act (2004), Idaho Code § 30-14-101, *et. seq.* (the Act), in particular Idaho Code § 30-14-412, hereby finds as follows:

SUMMARY OF THE CASE

The statements in this Summary of the Case do not constitute findings of fact or conclusions of law, but are simply intended to provide a framework for understanding this disciplinary action.

On October 4, 2013, Applicant Peter Covino filed applications for registration as an agent of a broker-dealer under Idaho Code § 30-14-402 and as an investment advisor representative

under Idaho Code § 30-14-404. The Department finds that Applicant Covino guaranteed a specific result to a client, borrowed money from another client, and failed to notify his broker-dealer of outside business activity, acts which constitute dishonest and unethical practices in violation of Idaho Code § 30-41-412(13). Accordingly, the Department denies both of Covino's applications for registration.

FINDINGS OF FACT

BACKGROUND

1. On October 4, 2013, Peter Carmine Covino, III (Covino) filed an application via the Central Registration Depository for registration in Idaho as a broker-dealer agent and as an investment advisor representative with American Independent Securities Group, LLC. Although Covino was previously registered, agents and representatives are required to file a new application for registration in Idaho each time they change their employment to a different broker-dealer firm.

2. To qualify for registration, Covino had to study and pass various examinations administered by FINRA, the Financial Industry Regulatory Authority. Each examination tests a person's knowledge of the activity and regulatory obligations related to the activity. The following chart shows the seven securities-related examinations Covino has taken and passed. Passing these examinations demonstrates Covino's knowledge of the requirements of the securities industry, including those that form the basis of this action.

Examination	Date Passed	Summary of Purpose
Uniform Securities Agent State Law Examination: Series 63	10/01/1998	The examination covers the principles of state securities regulation reflected in the Uniform Securities Act

Investment Company And Variable Contracts Products Representative: Series 6	10/08/1998	Qualifies an individual to sell mutual funds, closed-end funds (original distribution), variable annuities, and other contracts sold by insurance companies.
Investment Company Products/Variable Contracts Limited Principal: Series 26	02/21/2002	Qualifies an individual to act as a principal in transactions authorized under Series 6 .
General Securities Representative: Series 7	03/06/2002	Qualifies an individual for the solicitation, purchase, and/or sale of <i>all securities products</i> .
General Securities Principal: Series 24	03/21/2002	Qualifies an individual as general securities principal in order to manage or supervise the member firm's investment banking or securities business for corporate securities, direct participation programs, and investment company products/variable contracts.
Uniform Investment Adviser Law Exam: Series 65	01/03/2005	Qualifies an agent as investment adviser representative.
Futures Managed Funds Exam: Series 31	03/28/2007	Qualifies an individual to engage in limited futures activities, specifically to solicit funds, securities or property for participation in a <i>commodity pool</i> , solicit discretionary accounts to be managed by a <i>Commodity Trading Advisor</i> or to supervise others who perform these same limited activities.

3. Prior to Covino's recent application, Covino had been registered in Idaho to sell variable annuities and securities as shown below:

<u>Agency</u>	<u>Beginning</u>	<u>Ending</u>
Prospera Financial Services, Inc.	October 2010	October 2013
VSR Financial Services, Inc.	January 2009	September 2010
LPL Financial Corporation	December 2001	December 2008
Equity Services, Inc.	June 1999	December 2001
Mony Securities Corporation	August 1998	June 1999

4. VSR Financial Services, Inc. (VSR) terminated Covino's employment on September 30, 2010, stating that Covino had been involved in a private securities transaction,

had guaranteed a customer against loss, and had failed to disclose an outside business transaction.

GUARANTEE OF SPECIFIC RESULT

5. DK became a Covino client around September 2004, when she was 52 years old. Covino sold her an annuity and she also invested in a real estate trust and other investments.

6. In early April 2008, DK told Covino that she had some cash that she wished to get a better return on. She explained to him that she could not afford to lose this money because it was earmarked to pay for her future living expenses should she lose her job, which she thought was a possibility.

7. To alleviate DK's concerns about the stability of the investment, Covino guaranteed the investment. He told her that if she lost her job and the account had declined in value, he would personally fund her account back to its original amount.

8. Based on Covino's assurance, on April 16, 2008, DK agreed to purchase three closed-end mutual funds worth approximately \$20,000 from Covino.

9. Not long after investing, DK's account began to lose value. DK contacted Covino and suggested that he sell her investments to avoid additional losses. Covino told DK that the account would regain its value in time, and he repeated his assurance that if DK lost her job he would restore the account to its original value. After three months, DK's account had lost approximately 34% of its value.

10. During the first quarter of 2009, in response to DK's repeated concerns about the lost value of her account, Covino repeated his pledge that he would restore her account to its original value should she lose her job.

11. DK was laid off on June 15, 2009, at which time her account was worth around \$9,912, having lost a bit more than half its value. DK contacted Covino and asked him to make good on his pledge. Covino told her that he could not afford to restore the entire value of her account immediately, but did agree to make installment payments.

12. On July 2, 2009, DK sent Covino an email stating "Checking in to see where we're at on my first \$3,000 installment I'll need for living expenses?"

13. On July 28, 2009, DK sent Covino another email, in which she wrote:

Hi Pete:

This is to confirm our conversation from this afternoon, and I also have a couple of questions at the bottom of the e-mail, if you would respond to them as well.

As a result of your repeated past and current commitment made to me to bring my balance back up to its original invested amount of \$20,000 on my individual [sic] accounts (as you stated, a total balance due as of today of \$9,800) for my living expenses during the period of my unemployment, you agreed to send me a check out of your pocket for \$3,000 as a first installment.

You indicated you would deliver the check by mail to my residence, to arrive no later than Monday, August 10th, and also indicated a 90% confidence of funds availability by that time. If not available by the 10th, you said you would still send the check and ask me to hold it until August 20th, when you felt a 99% confidence in availability at that time.

14. On August 8, 2009, Covino gave employee Renee McConnell an envelope containing a \$3,000 check payable to DK, drawn on the bank account of Covino Financial Group, Ltd., and postdated to August 20, 2009. Covino instructed McConnell to give the envelope to DK when she came to the office. DK picked up the check from McConnell and made a copy, upon which she wrote "Rec'd 8/8."

15. Before DK deposited the check, Covino contacted her and asked her to return the check. DK returned the check and on August 19, 2009, received in exchange two checks from Covino, both drawn on his personal checking account. The first check, in the amount of \$1,000,

was postdated to August 20, 2009. The second check was for \$2,000 and was postdated to August 30, 2009.

16. Despite additional requests by DK for payment to bring her investment account back to its original \$20,000 value, Covino made no further payments.

LOAN FROM CLIENT

17. During the summer of 2008, Covino learned that an acquaintance was looking to sell a private residence club property that he had been developing in McCall, Idaho, called Timbercrest. Timbercrest sold fractional ownership interests in large vacation homes being developed on the property. Each building would be divided into 12 separately titled interests and each owner would have the right to stay at the home for 1/12 of the year.

18. To raise funds to purchase an ownership interest in Timbercrest, Covino contacted three of his LPL Financial clients, RB, MT, and PC. Covino, RB, MT and PC frequently met at Covino's offices to discuss Timbercrest.

19. On August 25, 2008, attorney Lyman Belnap filed articles of incorporation for Timbercrest Partners, LLC (TCP), listing RB and Covino as members or managers. TCP was created to purchase and operate the Timbercrest development.

20. The partners' interests¹ and contributions are shown below:

<u>Name</u>	<u>% ownership</u>	<u>Monetary contribution</u>	<u>Cost per % of ownership</u>
Covino	25	\$26,050	\$1,042
RB	20	\$275,000	\$13,750
MT	15	\$235,000	\$15,667
PC	10	\$225,000	\$25,000
RJ/DR	3	\$250,000	\$83,333
TW	15	Unknown	

¹ Does not total to 100%.

21. During this period of time, Covino would discuss the Timbercrest development with clients, seeking client-interest in purchasing the residential shares for their personal use. Covino was also a registered broker-dealer agent for LPL Financial Corporation (LPL).

22. In August of 2008, Covino spoke to his client DR about Timbercrest and told her about the great opportunity to own a fractional use interest in a luxury vacation home. DR was 78 years old at this time and had recently hired Covino to manage her investment accounts at LPL.

23. DR's grandson RJ was an employee of Covino. Covino asked RJ to talk to his grandmother about investing in TCP. RJ did discuss the investment in TCP with DR, but she also wanted to talk to Covino about it before she committed. After discussing it with Covino, her financial advisor, she agreed to invest \$250,000².

24. One of DR's investment requirements was that her grandson receive an ownership interest in TCP. Covino eventually agreed to give RJ a 3% interest in TCP if DR invested.

25. Covino characterizes DR's money transfer to TCP as a loan. In a response to a FINRA examination, Covino wrote: "It is my understanding that [DR] entered into a secured loan arrangement with Timbercrest rather than an 'investment.'" (Emphasis in original)

26. Covino identified a portion of DR's funds invested in a Genworth Financial Wealth Management Inc. ("Genworth") account that could be used to fund the investment in TCP. On September 12, 2008, Covino submitted a Redemption Request to close that account and transfer \$219,796.34 to TCP. The transfer was executed on October 1, 2008.

² DR's contribution ended up as slightly less than \$250,000, but the discrepancy is meaningless here.

FAILURE TO FILE PRIOR WRITTEN NOTICE
OF OUTSIDE BUSINESS ACTIVITY.

27. Covino was a registered agent of LPL Financial Corporation until December 2008, several months after he entered into the TCP enterprise. Covino did not notify LPL Financial in writing of his participation in TCP.

28. On March 10, 2009, several months after Covino entered into the TCP enterprise, he filed a Notification Regarding Outside Business Activities (OBA) with VSR his broker-dealer at the time. Covino identified only Crump Insurance as an OBA. He did not identify TCP to VSR until June 15, 2010.

CONCLUSIONS OF LAW

Idaho Code § 30-14-412 provides:

30-14-412. Denial, Revocation, Suspension, Withdrawal, Restriction, Condition or Limitation of Registration. (a) Disciplinary conditions – Applicants – If the administrator finds that the order is in the public interest and subsection (d) of this section authorizes the action, an order issued under this chapter may deny an application, or may condition or limit registration of an applicant to be a broker-dealer, agent, investment adviser or investment adviser representative...

(d) Grounds for discipline. A person may be disciplined under subsections (a) through (c) of this section if the person:

...

(13) Has engaged in dishonest or unethical practices in the securities, commodities, investment, franchise, banking, finance or insurance business within the previous ten (10) years.

IDAPA 12.01.08.104 provides:

12.01.08.104. Fraudulent, Dishonest and Unethical Practices - Broker-Dealer, Broker-Dealer Agents, Issuer Agents, Investment Advisers, Investment Adviser Representatives (Rule 104)

01. Fraudulent, Dishonest and Unethical Practices. Any broker-dealer, agent, issuer agent, investment adviser or investment adviser representative who engages in one (1) or more of the following practices shall be deemed to have engaged in one (1) or both of the following:

a. An “act, practice, or course of business that operates or would operate as a fraud or deceit” as used in Section 30-14-501, Idaho Code;

b. A dishonest and unethical practice as used in Section 30-14-412(d)(13), Idaho Code, and such conduct may constitute grounds for denial, suspension, or revocation of registration or such other action authorized by statute.

...

21. Loans from Customers. Borrowing money or securities from a customer unless the customer is a broker-dealer, an affiliate, or a financial institution engaged in the business of loaning funds or securities, or immediate family.

...

38. Guaranteeing Specific Results. Guaranteeing a client that a specific result will be achieved (gain or no loss) with advice which will be rendered.

...

46. Outside Business Activities - Selling Away. Any agent or investment adviser representative associated with a broker-dealer or investment adviser registered under the Act shall not engage in business activities, for which he receives compensation either directly or indirectly, outside the scope of his regular employment unless he has provided prior written notice to his employer firm.

1. When Covino allowed his employee RJ to make arrangements for DR to loan \$219,796.34 to use in Covino’s real estate development LLC, he borrowed money from a customer in violation of IDAPA 12.01.08.104.21. He was aware of RJs efforts toward this end, and he assisted in the transaction. He did not advise DR or RJ that the loan would violate applicable laws and rules, nor did he make any effort to cause TCP to refuse to accept the money. Instead, he facilitated the transaction. Under IDAPA 12.01.08.104.01.b., this violation constitutes a dishonest or unethical practice for the purposes of Idaho Code § 30-14-412(d)(13).

2. When Covino promised DK that either her investment would not lose money or he would make up any losses, he guaranteed a specific result in violation of IDAPA 12.01.08.104.38. Under IDAPA 12.01.08.104.01.b, this violation constitutes a dishonest or unethical practice for the purposes of Idaho Code § 30-14-412(d)(13).

3. When Covino failed to disclose in writing to his broker, LPL, that he was involved in an outside business activity, namely, Timbercrest Partners LLC, he violated IDAPA

12.01.08.104.46. Under IDAPA 12.01.08.104.01.b., this violation constitutes a dishonest or unethical practice for the purposes of Idaho Code § 30-14-412(d)(13).

4. When Covino failed to disclose in writing to his broker VSR that he was involved in an outside business activity, he again violated IDAPA 12.01.08.104.46. Under IDAPA 12.01.08.104.01.b., this violation constitutes a dishonest or unethical practice for the purposes of Idaho Code § 30-14-412(d)(13).


5. The Director concludes that the above violations of Idaho Code § 30-14-412(d)(13) constitute grounds for discipline under Idaho Code § 30-14-412(d), and further concludes that such grounds authorize the denial of Covino's application for registration as a broker-dealer agent, and authorize the denial of Covino's application for registration as an investment advisor representative.

6. The Director finds, pursuant to Idaho Code § 30-14-412, that it is not in the public interest to register as a broker-dealer agent or investment advisor representative an individual who has been found to have engaged in dishonest or unethical practices, and therefore finds that it is in the public interest to deny Covino's application for registration as a broker-dealer agent and as an investment adviser under Idaho's Uniform Securities Act.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that the application for broker-dealer registration submitted to the Idaho Department of Finance by Peter Carmine Covino, III, on or about October 4, 2013, is DENIED.

IT IS FURTHER ORDERED that the application for investment adviser representative registration submitted to the Idaho Department of Finance by Peter Carmine Covino, III, on or about October 4, 2013, is DENIED.



GAVIN M. GEE, Director
Idaho Department of Finance



this 28th day of JANUARY, 2014.

NOTICE OF OPPORTUNITY FOR HEARING

YOU ARE HEREBY NOTIFIED that you have the right to request a hearing on this Order, within thirty (30) days after the service of this Order, in accordance with Idaho Code § 30-14-412(f). Within fifteen (15) days from the Department's receipt of a request for hearing on this Order, a hearing will be scheduled, and implementation of this Order will be suspended until a final determination is made. If you do not request a hearing and none is ordered by the Director within thirty (30) days after the date of service of this Order, this Order becomes final by operation of law.

Any such request for hearing must be in writing, addressed to:

Marilyn T. Chastain
Securities Bureau Chief
Idaho Department of Finance
P.O. Box 83720
Boise, Idaho 83720-0031

A copy of such request for a hearing shall also be served on the Department's counsel, Alan Conilogue, Deputy Attorney General, at the same address.

At the hearing you will be entitled to enter an appearance, introduce evidence, examine and cross-examine witnesses, make arguments, and generally participate in the conduct of the proceedings.

The hearing will be conducted in accordance with the Idaho Administrative Procedure Act (IDAPA), Chapter 52, Title 67, Idaho Code, and rules promulgated thereto at IDAPA 04, Title 11, Chapter 01 *et seq.* If you fail to appear at the hearing, you are subject to a default order, in accordance with the IDAPA.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 29th day of January, 2014, I served a true and correct copy of the foregoing ORDER DENYING APPLICATIONS FOR REGISTRATION, AND NOTICE OF OPPORTUNITY FOR A HEARING upon the following, by the designated means:

Peter Carmine Covino, III
1901 South Stream Pointe Ln.
Eagle, ID 83616

- U.S. mail, postage prepaid
- certified mail
- overnight mail
- email: pete@covinors.com
- fax: _____

Paralegal 