

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060039815-01**

RECEIVED
2007 DEC -9 A 11:54
REGISTRATION & DISCLOSURE

**To: Department of Enforcement
FINRA**

**Re: N.I.S. Financial Services, Inc.
Member (CRD No. 5361)**

and

**Carol Sharpe Boone
Financial and Operations Principal
and Investment Company and Variable Contracts Products Principal
(CRD No. 722594)**

Pursuant to NASD Rule 9216 of the FINRA Code of Procedure, N.I.S. Financial Services, Inc. (NIS) and Carol Sharpe Boone (Boone) 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 us alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. We 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

NIS has been a FINRA member since September 21, 1970. NIS conducts a subscription-based securities business selling mutual funds from its main office in Kansas City, Missouri.

Boone entered the securities industry in December 1980 when she associated with NIS. From December 15, 1980 through the present, Boone has been associated with NIS as its president. Boone is registered with FINRA as a financial and operations principal and an investment company and variable contracts products principal and representative.

Relevant Prior Disciplinary History

Neither NIS nor Boone has been the subject of prior formal disciplinary action by FINRA.

000060344 2007

Letter of Acceptance, Waiver and Consent No. 20060039815-01
Department of Enforcement v. N.I.S. Financial Services, Inc. and Carol Sharpe Boone
Page 2

Overview

NIS violated SEC Rule 15c3-3 by failing to have a Special Reserve Account for the Exclusive Benefit of Customers. NIS, acting through Boone, also had several supervisory failures in violation of NASD Conduct Rule 3010, such as failing to retain electronic correspondence, failing to have written procedures for certain operations and failing to conduct inspections of non-branch office locations. NIS and Boone acted promptly to address these deficiencies once they were aware of the concerns of FINRA staff.

Facts and Violative Conduct

Customer Protection - SEC Rule 15c3-3 and NASD Conduct Rule 2110

In connection with the sale of joint investments in life insurance and mutual funds, NIS directed customer funds to be deposited in the suspense account of its insurance affiliate. Some of these funds were intended for investments in mutual funds. These customer funds were not transmitted directly to the mutual fund company because the minimum contribution requirement of the mutual fund company was often not fulfilled for each individual customer. These funds were transmitted to the mutual fund company once the various customers had invested sufficient funds to fulfill the minimum contribution requirement. As of April 30, 2006, the suspense account of NIS' insurance affiliate held \$1,243,416 of these customer funds. Nevertheless, NIS was still adequately capitalized in accordance with securities laws and regulations.

In addition, FINRA staff reviewed NIS' checks received and forwarded blotter for the period from January 1, 2006 through June 15, 2006. FINRA staff determined that 252 out of the 460 customer checks received (55%) were not promptly forwarded for processing.

By failing to promptly forward these customer funds in both instances, NIS did not comply with the requirements of the exemption set forth in SEC Rule 15c3-3(k)(1), under which NIS was operating. Thus, NIS became fully subject to SEC Rule 15c3-3. Because NIS was operating under the (k)(1) exemption to the Rule, it did not meet all of the requirements of SEC Rule 15c3-3, including the requirement to maintain a Special Reserve Account for the Exclusive Benefit of Customers pursuant to SEC Rule 15c3-3(e).

Through this conduct, NIS violated SEC Rule 15c3-3 and NASD Conduct Rule 2110.

Supervision, Retention of Correspondence - NASD Conduct Rules 3010(d)(3) and 2110 and SEC Rule 17a-4(b)(4)

From June 2002 through June 2006, NIS, acting through Boone, failed to implement a supervisory system to review and retain electronic correspondence received and/or sent by its associated persons. As of June 2006, at least 217 associated persons of NIS had

Letter of Acceptance, Waiver and Consent No. 20060039815-01
Department of Enforcement v. N.I.S. Financial Services, Inc. and Carol Sharpe Boone
Page 3

personal email accounts; however, NIS did not require its associated persons to submit any securities-related communications for review by the firm's supervisory personnel. Through this conduct, NIS violated NASD Conduct Rules 3010(d)(3) and 2110 and SEC Rule 17a-4(b)(4), and Boone violated NASD Conduct Rules 3010(d)(3) and 2110.

Supervision, Written Procedures - NASD Conduct Rules 3010(b) and 2110

From June 2002 through June 2006, NIS, acting through Boone, failed to establish written supervisory procedures for the following activities:

- a. Supervisory approval to changes in account names or designation;
- b. Limitations on holding customer mail;
- c. Maintaining internal communications and establishing adequate controls over the firm's internal communications system; and
- d. Review and retention of correspondence of associated persons.

Through this conduct, NIS and Boone violated NASD Conduct Rules 3010(b) and 2110.

Supervision, Internal Inspections, NASD Conduct Rules 3010(c) and 2110

From June 2002 through June 2006, NIS, acting through Boone, failed to implement a supervisory inspection program of its non-branch office locations. As of May 31, 2006, NIS had 331 non-branch office locations; however, NIS conducted no onsite inspections of these locations from June 2002 through June 2006. NIS was previously warned by the SEC in May 2003 that its failure to conduct inspections of its non-branch office locations was a violation of securities rules and regulations.

Through this conduct, NIS and Boone violated NASD Conduct Rules 3010(c) and 2110.

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

1. a censure of NIS and Boone;
2. a \$20,000 fine against NIS; and
3. and a joint and several fine of \$70,000 against NIS and Boone.

We agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. We have submitted an Election of Payment form showing the method by which we propose to pay the fine imposed.

We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

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

Letter of Acceptance, Waiver and Consent No. 20060839815-01
Department of Enforcement v. N.L.S. Financial Services, Inc. and Carol Sharpe Boone
Page 4

II. WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against us;
- B. To be notified of the Formal 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, we 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.

We further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of NASD Procedural Rule 9143 or the separation of functions prohibitions of NASD Procedural 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

We 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 NASD Procedural Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against us; and
- C. If accepted:
 - 1. this AWC will become part of our permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against us;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about our disciplinary records;

Letter of Acceptance, Waiver and Consent No. 20060639815-01
Department of Enforcement v. N.I.S. Financial Services, Inc. and Carol Sharpe Boone
Page 5

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Procedural Rule 8310 and IM-8310-3; and
 4. we 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. We 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 our rights to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. We may attach a Statement of Corrective Action to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we 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.

We certify that we have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that we 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 us to submit it.

N.I.S. FINANCIAL SERVICES, INC.

By: 
Carol Sharpe Boone, President


CAROL SHARPE BOONE

Reviewed by:


Counsel for NIS

Received: 11/30/07 5:18PM;

816 842 7482 -> NASD; Page 7

Sent By: OZARK NATIONAL LIFE LEGAL DEPT; 816 842 7482;

Nov-30-07 5:28PM;

Page 7/10

Letter of Acceptance, Waiver and Consent No. 20060039815-01
Department of Enforcement v. N.I.S. Financial Services, Inc. and Carol Sharpe Boone
Page 6

Accepted by FINRA:

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

12-7-07
Date


James M. Stephens, Regional Counsel

N.I.S. FINANCIAL SERVICES, INC.
STATEMENT OF CORRECTIVE ACTION

This Statement of Corrective Action is submitted by Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

N.I.S. Financial Services, Inc. ("NIS") submits the following Statement of Corrective Action to be attached to Letter of Acceptance, Waiver and Consent No. 20060039815-01. NIS affirmative states, without admitting or denying FINRA's findings, that, immediately following the June 2006 NASD examination, it took the following steps to address these concerns:

Customer Protection - SEC Rule 15c3-3 and NASD Conduct Rule 2110. NIS has asked the SEC for exemptive relief from SEC Rule 15c3-3 in connection with its coordinated sale of life insurance and mutual funds. The SEC granted exemptive relief based upon similar facts in *Notice of Order Exempting American Express Travel Related Services Company, Inc., From Broker-Dealer Registration* (December 1, 2000).

While awaiting a response from the SEC on its request for exemptive relief, NIS has implemented the following interim safeguards: (i) sweeping all mutual fund suspense accounts held by its insurance affiliate on a daily basis and sending the money to each mutual fund; (ii) no longer allowing its insurance affiliate to wait for checks or EFTs to clear before transmitting funds to the mutual fund; (iii) requiring its insurance affiliate to immediately refund, directly to customers, all funds which are designated for accounts that are not in good order (i.e., where no mutual fund account yet exists or where a competing broker/dealer has taken over the account); and (iv) NIS has also opened a "Special Account for the Exclusive Benefit of Customers of N.I.S. Financial Services, Inc." (a "(k)(2)(i) account"), which in essence functions as a surety bond. To NIS' knowledge, no customers complained and no customer funds were ever at risk or lost because of NIS' alleged failure to strictly comply with all of the requirements of SEC Rule 15c3-3.

Supervision, Retention of Correspondence - NASD Conduct Rules 3010(d)(3) and 2110 and SEC Rule 17a-4(b)(4). NIS and Ms. Boone failed to implement a supervisory system to review and retain electronic correspondence received and/or sent by its associated persons because (a) Ms. Boone misunderstood the scope of the Limited Size and Resource Exception, and (b) NIS had consistently and repeatedly instructed its associated persons not to use electronic mail, so NIS mistakenly believed such a supervisory system was not required.

Following the NASD examination, NIS, acting through Ms. Boone and other NIS executives, promptly developed a new electronic mail usage policy and distributed and explained the policy to all NIS associated persons. NIS also worked with its Information Technology Department to promptly correct its Microsoft Outlook system so that it now retains all inter-office, incoming and outgoing electronic mail messages. The NIS computer system now properly backs up electronic mail messages and retains them on a server at NIS' home office.

NIS also required all of its associated persons to use electronic mail addresses with the NIS Microsoft Outlook system. NIS instructed its representatives that they are prohibited from

communicating with clients by electronic mail unless they are using their NIS-provided electronic mail addresses. NIS also required all representatives to update their business cards to reflect the NIS-provided electronic mail addresses. To NIS' knowledge, no customers complained and no customer funds were ever at risk or lost as a result of the electronic correspondence issues described above.

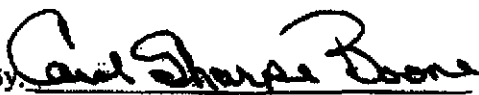
Supervision, Written Procedures – NASD Conduct Rules 3010(b) and 2110. NIS, acting through Ms. Boone, mistakenly believed that it was not required to have the written supervisory procedures described above (although NIS generally was following proper, but unwritten, procedures under NASD rules). Promptly after learning of the NASD's concerns, NIS adopted written supervisory procedures, which were hand delivered to the NASD on July 21, 2006. To NIS' knowledge, no customers complained and no customer funds were ever at risk or lost as a result of these issues.

Supervision, Internal Inspections, NASD Conduct Rules 3010(c) and 2110. NIS mistakenly believed that inspections of the briefcases of its associated persons constituted an adequate inspection of its non-branch office locations. Following its NASD examination in June 2006, NIS promptly implemented written supervisory procedures regarding inspection of its non-branch offices. NIS implemented a plan to inspect every non-branch office location within a three-year period, beginning with representatives that require special supervision. The audit procedure is designed to continuously cycle through all non-branch offices every three years.

NIS takes its compliance obligations very seriously and believes that it adequately addressed the concerns raised by FINRA. NIS now is very vigilant about its culture of compliance, with annual training for Ms. Boone and its new chief compliance officer. NIS also regularly consults with its general counsel to make certain it understands the scope of applicable rules and regulations.

Respectfully submitted,

N.I.S. FINANCIAL SERVICES, INC.

By: 
Carol Sharpe Boone, President