

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070089350-08**

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

RE: InterSecurities, Inc./Transamerica Financial Advisors, Inc., Respondent
CRD No. 16164

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the firm submits 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 it alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I 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

InterSecurities, Inc. is a broker-dealer based in St. Petersburg, Florida. It has been a FINRA member since 1985. It merged with another broker-dealer owned by the same parent entity, and changed its name to Transamerica Financial Advisors, Inc., in September 2009. The firm has approximately 1,830 registered individuals in over 1,000 branches.

OVERVIEW

At least five InterSecurities, Inc. registered representatives recommended that customers participate in a so-called "Stock to Cash" program under which customers would pledge stock to obtain loans that were in some instances used to purchase other products, primarily fixed or indexed annuities. The firm allowed its registered representatives to recommend the program to customers, but failed to supervise their activities in connection with the program, including requiring that they undertake adequate due diligence concerning the operations or financial

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stability of the entity that conducted the Stock to Cash program, take sufficient action to determine whether a client's ownership interest in the pledged securities was adequately protected, and ensure that the representations made by the loan program promoters and conveyed to customers were accurate. Therefore, InterSecurities, Inc. failed to reasonably supervise its representatives utilizing Stock to Cash, in violation of Conduct Rules 3010 and 2110.

FACTS AND VIOLATIVE CONDUCT

The "Stock to Cash" Program

The Stock to Cash program was marketed by its promoters to representatives as a way for customers to obtain funds to purchase financial products, such as insurance or fixed or equity indexed annuities. Under the terms of the program, customers obtained non-recourse loans from a non-broker-dealer company and "pledged" stock to that entity as collateral for the loans. The "pledged" stock would be transferred to the loaning entity's securities account, which was maintained at a clearing firm. The loans were in amounts up to 90% of the value of the "pledged" stock and were typically for a short period of time, usually three years. No payments were required during the term of the loan; instead, customers were required to pay the full principal and interest due at the end of the loan term.

At that time, customers supposedly had four options: (1) the customer could renew the loan for an additional time period; (2) the customer could pay the total amount due on the loan and reclaim the stock that had been pledged; (3) if the value of the pledged stock had increased above the total amount due on the loan, the customer could elect to receive a cash payment equal to this profit (i.e., the current value of the stock, minus the total amount due on the loan); or (4) if the total amount due on the loan exceeded the value of the pledged stock, the customer could "walk away" from the transaction, keeping the money that had been loaned and forfeiting his or her interest in the pledged stock.

The promoters of the Stock to Cash program represented that customers would continue to have an ownership interest in the pledged securities and that the shares, if transferred, would be held by investment grade institutions. Certain documentation used by the loaning entity made it appear that the entity was retaining the securities pledged by customers and might use those securities to enter into hedging transactions.¹ The loaning entity also credited dividends paid

¹ The loaning entity claimed it was entering into "hedging" transactions using the customers' pledged stock as collateral. This would supposedly generate cash and, through the use of options strategies, allow the entity to return the stock, or sell it and pay the profits, to the customers at the end of the loan terms.

on the pledged securities against a customer's loan balance.

Despite this, however, when customers "pledged" stock as a part of the Stock to Cash program, they actually conveyed full ownership of their stock to the entity conducting the program. That entity routinely sold the securities upon receipt and often moved the money into its own bank account. Moreover, although the entity's ability to perform its contractual obligations under the Stock to Cash program was largely dependent on the success of supposed hedging strategies, it was not always performing such activities.²

By the spring of 2008, the entity running the program became unable to make complete payments to customers with profitable portfolios. It instead used the proceeds from the sale of securities pledged by new customers to pay off its obligations to existing customers. In addition, money was diverted from the entity to pay for expenses not related to its operation. The entity stopped making all payments to customers in early 2009, and stopped making loans in the spring of 2009.

Use of Stock to Cash at InterSecurities, Inc.

Stock to Cash first came to the attention of InterSecurities in 2002. At that time, the firm erroneously concluded that Stock to Cash was not a securities product, and therefore did not need to be approved. The firm allowed its registered representatives to recommend the program to their customers, but did not monitor use of the Stock to Cash program or otherwise inquire into the activities of the program.

Between 2002 and 2007, at least five InterSecurities registered representatives utilized the Stock to Cash program with their clients, and at least fifteen customers of the firm entered into Stock to Cash loans, pledging securities worth more than \$4.3 million and borrowing more than \$4.1 million.³ Neither these representatives nor management at InterSecurities conducted adequate due diligence into the Stock to Cash program prior to recommending that it be used by customers. The representatives never ascertained how the pledged stock would be used and incorrectly concluded that customers would retain complete ownership interest over the stock or that the stock was held by an "investment-grade" third party with a right of recourse by the client if the holder went out of business.

² Because the customers received 90% of the value of their stock at the time the loan was initiated, and did not have to pay any interest unless they sought to recover stock they had pledged, the potential out-of-pocket loss in any case was limited to 10% of the value of the pledged stock.

³ None of the customers have been deprived of any profits to which they were entitled because almost all of the loans that have come due to date were secured by stocks that lost money during the loan period.

They also failed to undertake efforts to look into the financial condition of the lender, upon which customers were depending for the return of their securities or payment of their profits. They also never spoke with anyone associated with the lender, and never learned what the lender actually did with the stock. As a result, the registered representatives did not understand the potential risks inherent in the Stock to Cash program, and conveyed inaccurate and misleading information to their customers.

By allowing the representatives to market the Stock to Cash program as a non-securities product, and by failing to supervise their participation in the program, InterSecurities violated the requirements of Conduct Rule 3010.

* * *

By virtue of the foregoing, InterSecurities, Inc. failed to reasonably supervise these registered representatives, thereby violating NASD Conduct Rules 3010 and 2110 (now FINRA Rule 2010).

- B. InterSecurities, Inc. also consents to the imposition of the following sanctions:
1. a fine in the amount of \$50,000; and
 2. a requirement that, within thirty days of issuance of this AWC, an officer of InterSecurities, Inc. certify to FINRA that InterSecurities, Inc. has reviewed its policies, systems and procedures concerning how it determines whether new products are securities and has determined that they are reasonably designed to achieve compliance with FINRA rules and the federal securities laws. At the time InterSecurities, Inc. provides this certification, it shall provide a written description of the policies, systems and procedures that are the subject of the certification.

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

II.

WAIVER OF PROCEDURAL RIGHTS

InterSecurities, Inc. 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, InterSecurities, Inc. specifically and voluntarily waives 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.

InterSecurities, Inc. 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

InterSecurities, Inc. 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 its 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 its 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. InterSecurities, Inc. 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. It 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 its right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. InterSecurities, Inc. may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. InterSecurities, Inc. 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.
- E. InterSecurities, Inc. agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

InterSecurities, Inc. specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

10/25/10

Date



Respondent
by SETH MILLER
its PRESIDENT

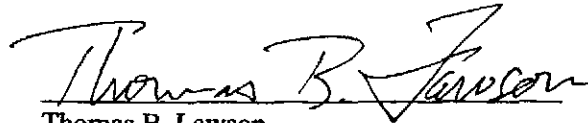
Reviewed by:

Burton W. Wiand
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Counsel for Respondent

Accepted by FINRA:

12/21/10
Date

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



Thomas B. Lawson
Vice President and Chief Counsel
FINRA Department of Enforcement
1801 K Street, N.W.
Washington, DC 20006