

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

SCOTT D. STEPHENSON
(CRD No. 2057439),

Respondent.

DISCIPLINARY PROCEEDING
No. 20070114369-02

HEARING OFFICER – LBB

ORDER ACCEPTING OFFER OF SETTLEMENT

Date: January 25, 2011

INTRODUCTION

Disciplinary Proceeding No. 20070114369-02 was filed on April 7, 2010 by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Scott D. Stephenson submitted an Offer of Settlement (Offer) to Complainant on December 22, 2010. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, 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, to the entry of findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of

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Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent entered the securities industry in 1990 by filing a Form U4 to become associated with a FINRA member. He first became registered as an Investment Company and Variable Contracts Products Representative (IR) in June 1990 and a General Securities Representative (GS) in May 2001.

From on or about November 24, 2008 through November 22, 2010, Respondent was associated with FINRA member Valic Financial Advisors, Inc. as an IR and GS.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

Suitability (NASD Rules 2310 and 2110)

Background

The [Issuing Company] Floating Rate Income Fund (the Fund) is an exchange-traded, closed-end fund that has been listed on the New York Stock Exchange since March 2004. The Fund's investment objective is to achieve high current income for investors. To achieve this objective, the Fund invests in adjustable rate loans and other debt securities. The adjustable rate loans consist primarily of senior secured loans. According to an Investor Guide concerning the Fund published by [Issuing Company], "While secured senior loans are backed by specific collateral, they often are rated below investment grade, and therefore are regarded as having predominantly speculative characteristics and are subject to greater risk of default than investment-grade securities." In addition, the Fund employed financial leveraging in an amount totaling up to 38% of its managed assets.

At all times relevant to this proceeding, the Fund's targeted asset allocation was as follows: a) at least 80% in senior loans: 65% or more in secured senior loans, non-secured loans must be investment grade; b) up to 20% in foreign issuers and currencies; and c) a maximum of 5% in any single issuer.

As of January 31, 2007, the Fund's portfolio allocation consisted of 88.9% variable rate senior loan interests, 7.4% corporate bonds, 3.6% short-term investments and 0.1% "other."

Customer B.S.

On or about May 23, 2007, customer B.S. opened an account with Respondent at CUSO. Her signed account application included the following information: a) Annual Income: \$50,000-99,999; b) Liquid Net Worth: \$50,000 - 99,999; c) Investment Objective: Income & Growth; and d) Risk Tolerance: Medium.

On or about May 31, 2007, Respondent recommended and effected the purchase of 3,395 shares of the Fund in B.S.'s account, at a cost of \$49,965.51.

In light of the Fund's predominantly speculative characteristics, B.S.'s risk tolerance and the fact that the investment constituted at least 49.97% and as much as 99.93% of B.S.'s entire liquid net worth, Respondent had no reasonable grounds for believing that his recommendation to purchase the Fund was suitable for B.S. His recommendation therefore violated NASD Rules 2310 and 2110.

Customer D.T.

On or about December 11, 2006, customer D.T. opened an account with Respondent at CUSO. Her signed account application included the following information: a) Annual Income: \$50,000-99,999; b) Liquid Net Worth: \$200,000-499,999; c) Investment Objective: Capital Preservation; and d) Risk Tolerance: Low.

On or about July 19, 2007, Respondent recommended and effected the purchase of 14,066 shares of the Fund in D.T.'s account, at a cost of \$190,191.95.

In light of the Fund's predominantly speculative characteristics, D.T.'s risk tolerance, D.T.'s investment objective and the fact that the investment constituted at least 38.04% and potentially up to 95.10% of D.T.'s entire liquid net worth, Respondent had no reasonable grounds for believing that his recommendation to purchase the Fund was suitable for D.T. His recommendation therefore violated NASD Rules 2310 and 2110.

Customer E.B.

On or about August 16, 2007, customer E.B. opened an account with Respondent at CUSO. Her signed account application included the following information: a) Annual Income: than \$15,000; b) Liquid Net Worth: \$100,000-199,999; c) Investment Objective: Income; and d) Risk Tolerance: Medium.

On or about August 27, 2007, Respondent recommended and effected the purchase of 4,774 shares of the Fund in E.B.'s account, at a cost of \$59,993.32.

In light of the Fund's predominantly speculative characteristics, E.B.'s risk tolerance and the fact that the investment constituted at least 30.00% and potentially up to 59.99% of E.B.'s entire liquid net worth, Respondent had no reasonable grounds for believing that his recommendation to purchase the Fund was suitable for E.B. His recommendation therefore violated NASD Rules 2310 and 2110.

Forgery (NASD Rule 2110)

Customer B.S.

On or about June 20, 2007, Respondent signed customer B.S.'s name to a Transaction Cover Sheet form. He then submitted the form to CUSO.

On or about August 15, 2007, Respondent signed customer B.S.'s name to a Dividend Reinvestment Enrollment/Withdrawal form. He then submitted the form to CUSO.

On or about November 6, 2007, Respondent signed customer B.S.'s name to a second Dividend Reinvestment Enrollment/Withdrawal form. He then submitted the form to CUSO.

Respondent signed each of these forms without B.S.'s knowledge, authorization or consent, in violation of NASD Rule 2110.

Customer M.S.

On or about June 20, 2007, Respondent signed customer M.S.'s name to a Transaction Cover Sheet form. He then submitted the form to CUSO.

Respondent signed the form without M.S.'s knowledge, authorization or consent, in violation of NASD Rule 2110.

Customer D.J.

On or about August 2, 2007, Respondent signed customer D.J.'s name to an Account Application form. He then submitted the form to CUSO.

On or about August 16, 2007, Respondent signed D.J.'s name to a Transaction Cover Sheet form. He then submitted the form to CUSO.

Respondent signed each of these forms without D.J.'s knowledge, authorization or consent, in violation of NASD Rule 2110.

Customer E.B.

On or about October 15, 2007, Respondent signed E.B.'s name to a Dividend Reinvestment Enrollment/Withdrawal form. He then submitted the form to CUSO.

Respondent signed the form without E.B.'s knowledge, authorization or consent, in violation of NASD Rule 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be:

1. suspended from association with all FINRA members in all capacities for a period of five months; and
2. fined in the amount of \$7,500.

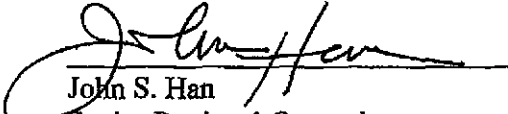
The fine shall be due and payable either immediately upon reassociation with a member firm following the five-month suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

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

SO ORDERED.

FINRA

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



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