

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

DEPARTMENT OF ENFORCEMENT,	)	Disciplinary Proceeding
	)	No. 2008011579401
Complainant,	)	
	)	
	)	Hearing Officer: AHP
v.	)	
	)	
INTERMOUNTAIN FINANCIAL	)	
SERVICES, INC.	)	ORDER ACCEPTING OFFER
CRD No. 15386,	)	OF SETTLEMENT
	)	
and	)	
	)	
KENT D. SWEAT	)	Date: August 25, 2010
CRD No. 1157627,	)	
	)	
Respondents.	)	
	)	

INTRODUCTION

Disciplinary Proceeding No. 2008011579401 was filed on September 23, 2009, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents Intermountain Financial Services (IFS) and Kent D. Sweat (Sweat)(collectively, Respondents) submitted an Offer of Settlement (Offer) to Complainant on August 11, 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.

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Under the terms of the Offer, Respondents have 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 understand that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

IFS has been a FINRA member since September 1984. The firm is also a member of the MSRB, identification number A1999. IFS currently has approximately 31 registered representatives based out of 27 branches (mostly home offices). Because IFS is currently a FINRA member, FINRA has jurisdiction over the firm.

Sweat has been associated with IFS since April 1995. Sweat is currently registered as a general securities representative and a general securities principal. At all relevant times, Sweat was the owner, president and the designated principal at IFS for compliance and supervisory issues. Because Sweat is currently associated with a FINRA member, FINRA has jurisdiction over him.

FINDINGS AND CONCLUSIONS

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

A. Violations of Exchange Act Section 17(a), SEC Rule 17a-4, NASD Conduct Rules 3110, 3010(a),(b) and (d), and 2110 – Email Retention and Review – by IFS

1. The firm's 2007 written supervisory procedures with respect to electronic communications require the designated principal to "review and approve all relevant electronic communications (e.g. email, facsimiles, Intranet, Internet, etc.) concerning any firm-related information and/or investment advice.... Each piece of electronic communication will be initialed and dated as evidence of review." The procedures further provide that the designated supervisor "will review an appropriate sample of outgoing email messages. The designated principal will properly maintain all correspondence documentation by filing such records in a centralized correspondence file."

2. With respect to implementation, Section 5.02 of the procedures state:

In accordance with SEC Rule 17a-4 as amended and effective May 2, 2003, the designated supervisor will continuously monitor incoming/outgoing communications to ensure that the firm is capturing and preserving all original and copied communications received and sent by the firm (including inter-office memoranda and communications) relating to its securities business, including all communications to and from its SRO DEA (FINRA) regarding communications with the public. All relevant communications will be maintained for a minimum of three (3) years, with the first two (2) years in an accessible place. The designated supervisor shall also file all relevant records in their appropriate and corresponding file to be located in a convenient and accessible location of a designated period before being moved to a more remote long-term storage location (if applicable).

3. From 2007 through August 2008, the firm failed to implement the above-referenced procedures and failed to retain all electronic mail communications relating to its business as such.

4. Such acts, practices, and conduct constitute separate and distinct violations of Section 17(a) of the Securities Exchange Act of 1934, SEC Rule 17a-4, and NASD Conduct Rules 3110(a), 3010(a), 3010(b), 3010(d) and 2110 by IFS.

B. Violations of NASD Conduct Rules 3010(a) and 2110 – Supervisory Deficiencies - by Respondents IFS and Sweat

5. During the year 2007, IFS, acting through Sweat, failed to enforce its written supervisory procedures pertaining to the firm's annual compliance meeting.

6. Per the firm's procedures, all registered representatives were to attend an annual compliance meeting, either in person or by other acceptable means, as designated by IFS. The firm was responsible for documenting attendance, the date of the meeting, and topics covered during the meeting.

7. The implementation strategy set forth in the procedures states: "The designated supervisor (Sweat) will review the firm's annual compliance agenda and conduct a compliance meeting for all firm registered personnel at least once a year as required. Signature and date sheets listing all associated persons in attendance will be maintained for review and recording purposes."

8. Notwithstanding the procedural requirements set forth in paragraphs 6 and 7 above, 13 of the firm's 24 representatives failed to attend the firm's 2007 annual compliance meeting.

9. Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(a) and 2110 by IFS and Sweat.

C. Violations of NASD Conduct Rules 3010(b) and 2110 – Supervisory Deficiencies - by IFS and Sweat

10. During the year 2007, IFS, acting through Sweat, failed to enforce its written supervisory procedures pertaining to branch office inspections, outside business activities, outside securities accounts, Regulation SP, hiring practices and the use of personal computers.

11. Section 3.06 of IFS's procedures required the firm to maintain a branch office frequency cycle report (or similar documentation) which would designate the branch offices to be inspected. Per the procedures, branch offices were to be inspected at least every three years. Sweat provided sworn testimony to FINRA staff that he dutifully tried to visit each branch on an annual basis.

12. Sweat, on behalf of the firm, was responsible for maintaining the branch office frequency cycle report (or similar documentation).

13. Respondents failed to maintain a copy of the frequency cycle report (or similar documentation) that covered the office inspections for the exam period, thus failing to implement Section 3.06 of IFS's procedures.

14. Section 2.01 of the firm's procedures required the following with respect to review and approval of outside business activities:

The designated supervisor (Sweat) will distribute, collect and review Outside Business Activity Request and Disclosure Forms or similar documentation from each registered person on an annual basis, as well as approve all additional requests of outside business activities. All reviewed Outside Business Activities Statements and additional requests will be initialed and dated as evidence of review. All copies of such statements shall be maintained at the main office for accessibility and filing purposes.

15. The Outside Business Activities Statement form contained in the procedures required representatives to check that they either had or had not conducted outside business activities during the past year.

16. For 2007, Respondents failed to maintain copies of the Outside Business Activities Statement forms and evidence of review as required by the procedures set forth in paragraph 14 above.

17. Section 2.03 of the firm's procedures required the following with respect to outside securities accounts.

The designated supervisor (Sweat) will require employees to complete and sign a disclosure form listing accounts held at other firms on an annual basis...."

18. IFS's Disclosure of Outside Securities Accounts form contained in the procedures required representatives to check either "yes" to report that they had one or more outside personal securities accounts or "no," to indicate that they did not have outside accounts.

19. For 2007, Respondents failed to maintain copies of the Outside Securities Accounts forms and evidence of review as required by the procedures set forth in paragraph 17 above.

20. Section 9 of IFS's procedures sets forth the firm's privacy policies and procedures pertaining to compliance with Regulation SP.

21. Relevant sections therein require the firm's designated supervisor (Sweat) to "review and approve the form and content of initial and annual privacy notices to be issued to each new customer account, and each year thereafter. All review of initial and annual notices should be properly documented and filed as evidence of approval."

22. For 2007, Respondents failed to maintain copies of the initial and annual privacy notices and evidence of review as required by Section 9 of the firm's procedures and as set forth in paragraph 21 above.

23. Section 1.04 of the firm's procedures required Sweat, acting on behalf of the firm, to:

conduct an appropriate background review of each potential employee prior to making an application for registration on behalf of that individual with the firm. It is the firm's policy that any potential candidate will be subject to an initial background review using Central Registration Depository (CRD) system. However, the firm will obtain the permission of each registered person by requesting written authorization prior to conducting such review.

24. The procedures further require that "in the event that an applicant has been previously registered with a FINRA member firm, the designated principal (Sweat) ... will obtain a copy of the registered representative's Form U5 from the applicant's former employer or the CRD system."

25. Of the firm's 2007 hires, written authorization for CRD checks were not maintained for 3 new hires and Form U5s for 3 previously registered new hires were also not maintained. Therefore, the firm failed to implement the procedures set forth in paragraphs 23 and 24 above.

26. Section 3.15 of the firm's procedures provides:

The designated supervisor (Sweat) will constantly monitor the activities of associated personnel to ensure that such persons are aware that the use of personal computers during business hours and/or for business related purposes is strictly prohibited. Each associated person will be issued a business computer (and other appropriate computer equipment) that will be used for business-related purposes (i.e. correspondence with customers). Each associated person will acknowledge this policy by signing an acknowledgement statement confirming the prohibition of personal computers for business purposes. Any associated person in violation of such policy will be counseled on the appropriate conduct in accordance with firm policy which may result in disciplinary action up to termination. Relevant documentation will be initialed by the designated supervisor as evidence of review."

27. Section 3.15 was not put into practice. Accordingly, IFS, acting through Sweat, failed in 2007 to implement the procedures set forth in paragraph 26 above.

28. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(b) and 2110 by IFS and Sweat.

D. Violations of NASD Conduct Rules 3010(b), 3010(d) and 2110 – Supervisory Deficiencies – by IFS and Sweat

29. Rule 3010(d) requires member firms to establish procedures for the review of incoming and outgoing correspondence of its representatives with the public relating to its securities business. Evidence that the procedures have been implemented and carried out must be maintained by the member.

30. Consistent with Rule 3010(d), the firm's procedures (Section 7.09) required: "The designated principal (Sweat) shall review all incoming and outgoing correspondence on an ongoing basis. All incoming correspondence received by each registered representative shall be faxed or otherwise submitted to the designated principal for review and maintained in a centralized correspondence file. All outgoing correspondence will be maintained in the same centralized outgoing correspondence file."

31. In and for 2007, Respondents failed to maintain copies of such correspondence and evidence of review as required by the procedures set forth in paragraph 30 above.

32. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(b), (d) and 2110 by IFS and Sweat.

E. Violations of NASD Conduct Rules 1120(b) and 2110 – Firm Element of Continuing Education – by IFS and Sweat

33. IFS, acting through Sweat, failed to maintain records of its Firm Element Continuing Education Needs Analysis and Written Training Plan for 2005, 2006 and 2007.

34. Additionally, IFS, acting through Sweat, failed to maintain CE records to evidence that four of its twenty-four representatives participated in firm element CE in 2007.

35. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 1120(b) and 2110 by IFS and Sweat.

F. Violations of NASD Conduct Rules 3011 and 2110 and MRB Rule G-41 – by IFS

36. During the year 2007, IFS failed to implement a written anti-money laundering compliance program (AMLCP) that was reasonably designed to achieve the firm's compliance with various laws, rules and regulations to which it was subject.

37. The firm's AMLCP was not approved in writing by senior management, in violation of Rule 3011, which mandates that "[e]ach member's anti-money laundering program must be approved, in writing, by a member of senior management."

38. Records of the required AMLCP training for 2007 were not maintained for 15 of the firm's 24 representatives, in violation of the firm's procedures that required the retention of training records for a five year period. Accordingly, this constitutes a failure to implement procedures in violation of Rule 3011.

39. Additionally, in 2007, the firm failed to implement its AML procedures by failing to provide AML training in the manner specified in the firm's written AML program. The program provided that AML training would be conducted through direct

participation in seminars or lectures; live presentations or classroom instruction; on-line training; educational videos; educational materials or self-paced study programs. The firm did not provide training as specified in its procedures; instead, the firm provided representatives with a copy of the AMLCP and requested that they read it. This constituted both a failure to implement procedures in violation of Rule 3011 and a failure to provide ongoing training in violation of Rule 3011(e).

40. The firm did not properly update its AMLCO contact information on the FINRA Contact System for the 2nd quarter of 2007 as required by Rule 3011(d).

41. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3011 and 2110, and MSRB G-41 by IFS.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents 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 IFS be censured and fined in the amount of \$12,750.00. Pursuant to the general principles applicable to all sanction determinations contained in the Sanction Guidelines, FINRA imposed a lower fine against Respondent IFS in this case after it considered, among other things, the firm's revenues and financial resources. *See Notice to Member 06-55.*

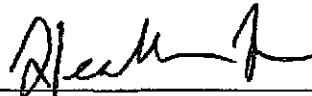
Respondent Sweat be suspended, in a principal capacity, for five (5) business days and fined in the amount of \$7,500.00.

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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