

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009016067901**

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

RE: Indiana Merchant Banking and Brokerage
BD No. 16315

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

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, 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

Indiana Merchant Banking and Brokerage Co. Inc (IMBB) has been a member of FINRA since November 5, 1985. The firm is also a member of MSRB. The firm is required to maintain a minimum net capital position of \$5,000. The firm engages in the sale of variable products, retailing corporate equity securities OTC, non-exchange member arranging for transactions in listed securities by exchange members, mutual funds and investment advisory.

The firm has one office located in Indianapolis, Indiana and it employs six registered representatives.

RELEVANT DISCIPLINARY HISTORY

In 2007, in case no. 2006003852601, the firm and its CEO Michael Grady

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were censured and fined a total of \$7,500 (\$4,500 against the firm and Grady and an additional \$3,000 against Grady) for failing to create and maintain a written training plan and written needs analysis as required by membership and registration Rule 1120, and failed to evidence annual compliance meetings for 2002 and 2003, and failed to evidence that all registered representatives attended the annual compliance meeting in 2004 and 2005, in violation of Rules 2210 and 3010.

OVERVIEW

The firm failed to evidence review of written and electronic correspondence, failed to retain email correspondence, failed to provide FINRA with the required notification regarding its electronic storage media, and failed to evidence distribution of its privacy policy.

FACTS AND VIOLATIVE CONDUCT

1. For the period of October 1, 2008 through December 31, 2008, the firm failed to evidence any review of incoming or outgoing written and electronic correspondence. In addition, the firm failed to review the incoming and outgoing electronic correspondence of its Chief Compliance Officer (CCO)'s personal email account that he used to conduct securities related business. The firm's CCO had business cards with his personal email address included.

By reason of the foregoing, IMBB violated NASD Rules 3010 and 2110 and MSRB Rule G-27.

2. A review of the firm's electronic correspondence (email) and electronic internal communications (email) disclosed that the firm failed to maintain the communications for the period January 4, 2006 through November 6, 2007 as required by SEC Rule 17a-4 and MSRB Rule G-9. In addition, the firm failed to maintain the incoming and outgoing electronic communications of William Robertson's personal email account used to conduct business.

By reason of the foregoing, IMBB violated SEC Rule 17a-4 and MSRB Rule G-9.

3. For the period between March 21, 2006 and January 4, 2009, the firm failed to notify FINRA prior to employing such electronic storage media in violation of SEC Rule 17a-4.
4. For the period between March 21, 2006 and January 4, 2009, the firm failed to file an attestation by at least one third party who has access and the ability to download information from the member's electronic storage media to an

acceptable media, for such records that are exclusively stored electronically, in violation of SEC Rule 17a-4.

5. For the period between March 21, 2006 and January 4, 2009, the firm's electronic storage media failed to have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved, and inputting of any changes to every original and duplicate record maintained and preserved, in violation of Rule 17a -4.

By reason of the foregoing acts and conduct described above in paragraphs 3, 4 and 5 , IMBB violated SEC Rule 17a-4 and MSRB Rule G-9.

6. For the period between March 21, 2006 and January 4, 2009, the firm failed to evidence the disclosure of the firm's privacy notice upon account opening and annually thereafter, in violation of Reg S-P, 17 CFR 248. Although the firm produced a privacy policy and procedures, the firm failed to provide initial, annual, and revised privacy notices.

By reason of the foregoing, IMBB violated Reg S-P and NASD Conduct Rule 2110.

- B. IMBB also consents to the imposition of the following sanctions:

A censure and a fine of \$20,000 for violations of NASD Rules 3010, 3110 and MSRB Rules G-9 and G-27, SEC Rule 17a-4 and Reg. S-P. (Of the \$20,000 fine, \$2,500 is attributable to the violation of MSRB Rule G-27 and \$7,500 is attributable to the violation of MSRB Rule G-9).

Pursuant to General Principles Applicable to all Sanction Determinations contained in the Sanctions Guidelines, FINRA imposed a lower fine in this case after it considered, among other things, the firm's size, revenues and financial resources. See *Notice to Members 06-55*.

IMBB agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. IMBB has submitted an Election of Payment form showing the method by which IMBB proposes to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Respondent;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudice 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.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's 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. Respondent 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. Respondent 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 my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that Respondent 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has 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.

June 2, 2011
Date

Michael C. Grady
Indiana Merchant Banking and Brokerage Co., Inc.

Reviewed by:

By: Michael C. Grady

[Signature]
Counsel for Respondent

Accepted by FINRA:

June 7, 2011
Date

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

Kevin G. Kulling
Kevin G. Kulling
Senior Regional Counsel
FINRA Department of Enforcement
55 W. Monroe St., Suite 2700
Chicago, IL 60603
Phone: (312) 899-4348
Fax: (312) 899-4600

May 24, 2011

Mr. Kevin G. Kulling
Senior Regional Counsel
FINRA, Chicago District Office
55 West Monroe Street, Suite 2700
Chicago, IL 60603-5052

Re: **Statement of Corrective Action**
Examination Number: 20090160679

Dear Mr. Kulling:

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

The following procedural changes have been made and other actions taken by the Indiana Merchant Banking and Brokerage Co. Inc. (the "Firm") (detailed below) immediately following the regulatory examination concluded in March 2009.

1. For the period of October 1, 2008 through December 31, 2008, the firm failed to evidence any review of incoming or outgoing written and electronic correspondence. In addition, the firm failed to review the incoming and outgoing electronic correspondence of its Chief Compliance Officer (CCO)'s personal email account that he used to conduct securities related business. The firm's CCO had business cards with his personal email address included.

At the time of the examination, Mr. William Robertson, CCO, was operating under the mistaken impression that, as a Supervisory Principal, he was authorized to review and approve his own customer correspondence. Immediately upon being informed of this oversight, the Firm instituted new procedures, to wit: all incoming and outgoing electronic communications are now printed in hard copy, initialed by a Supervisory Principal to evidence their review (Mr. Robertson's communications are now reviewed by Mr. Michael Grady, President), and maintained in the respective client file(s).

The Firm again wishes to point out that any customer correspondence of Mr. Robertson via his personal e-mail account were forwarded to the Firm for review. All such e-mails were reviewed; however, there was no means by which to evidence the review in an electronic format. This issue has been addressed by the new procedure of printing out all electronic correspondence.

Lastly, Mr. Robertson's previous business cards were destroyed upon this matter having been brought to the attention of the Firm and new business cards (showing no such personal e-mail address) were ordered as a replacement.

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Electronic communication is only utilized by two members of the Firm's personnel: Mr. Robertson and Ms. Cynthia Chambers, Office Manager. As a supervisory principal, Mr. Robertson is well aware of what constitutes proper communication with Firm customers and prospective customers.

All incoming and outgoing electronic communication was reviewed by the Firm, however, the Firm simply failed to evidence that the review had taken place.

2. A review of the firm's electronic correspondence (email) and electronic internal communications (email) disclosed that the firm failed to maintain the communications for the period January 4, 2006 through November 6, 2007 as required by SEC Rule 17a-4 and MSRB Rule G-9. In addition, the firm failed to maintain the incoming and outgoing electronic communications of William Robertson's personal email account used to conduct business.

Unbeknownst to supervisory personnel of the Firm, the office managers employed by the Firm prior to the employment of Ms. Cynthia Chambers (hired in October 2007) had apparently been deleting stored incoming electronic communications due to storage size limitation reasons. The Firm has maintained outgoing electronic correspondence since April 27, 2004, and has all incoming electronic correspondence from November 12, 2007 forward. Per the response to Item #1 above, new Written Supervisory Procedure have been established to ensure the maintenance of both incoming and outgoing electronic correspondence in hard copy for a minimum of three years.

3. For the period between March 21, 2006 and January 4, 2009, the firm failed to notify FINRA prior to employing such electronic storage media in violation of SEC Rule 17a-4.

The Firm has never employed the sole use of electronic storage of its communications, inasmuch as it maintained paper records of all communications. It was the Firm's error or misunderstanding with the examiners if the Firm informed the examiners that it solely used electronic storage media.

Upon being informed of the requirements of SEC Rule 17a-4, the Firm discontinued the storage of electronic communications in an electronic format and maintains hard copies of all incoming and outgoing electronic communications. As these records are not exclusively stored via an electronic storage media, the Firm believes that no conflict with SEC Rule 17a-4(f)(3)(vii) currently exists.

4. For the period between March 21, 2006 and January 4, 2009, the firm failed to file an attestation by at least one third party who has access and the ability to download information from the member's electronic storage media to an acceptable media, for such records that are exclusively stored electronically, in violation of SEC Rule 17a-4.

Per the Firm's response to Item #3, the Firm is now maintaining hard copies of all

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incoming and outgoing electronic communications. As these records are no longer exclusively stored via an electronic storage media, the Firm believes that no conflict with SEC Rule 17a-4(f)(3)(vii) currently exists.

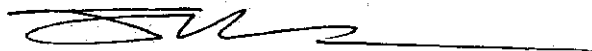
5. For the period between March 21, 2006 and January 4, 2009, the firm's electronic storage media failed to have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved, and inputting of any changes to every original and duplicate record maintained and preserved, in violation of Rule 17a -4.

Per the Firm's response to Item #3, the Firm is now maintaining hard copies of all incoming and outgoing electronic communications. As these records are no longer exclusively stored via an electronic storage media, the Firm believes that no conflict with SEC Rule 17a-4(f)(3)(vii) currently exists.

6. For the period between March 21, 2006 and January 4, 2009, the firm failed to evidence the disclosure of the firm's privacy notice upon account opening and annually thereafter, in violation of Reg S-P, 17 CFR 248. Although the firm produced a privacy policy and procedures, the firm failed to provide initial, annual, and revised privacy notices.

Prior to the FINRA examination, the FIRM was operating under the mistaken impression that the privacy policy provided by Southwest Securities satisfied its obligations. Since being advised by FINRA of its error, the Firm provides a copy of its privacy policy to all customers upon account opening and annually. The Firm has never revised its privacy policy such that it would need to send a notice. The Firm simply failed to evidence it provided the information to its customers upon account opening and annually.

Sincerely,



Stephen M. Coons
Counsel for Indiana Merchant Banking and Brokerage Co., Inc.