

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2009016150001**

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

RE: H. Beck, Inc., Respondent  
Member Firm  
CRD No. 1763

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 it 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**

Since August 1954, H. Beck, Inc. ("H. Beck") has been a member of FINRA. The firm conducts a general securities business and has 620 registered branch offices and employs about 1,015 registered persons. It is also registered with the Municipal Securities Rulemaking Board ("MSRB").

**RELEVANT DISCIPLINARY HISTORY**

On March 23, 2009, H. Beck entered into an AWC with NASD in which it agreed, without admitting or denying the findings, to a censure, \$140,000 fine, and restitution of \$32,431.56 plus interest for failing to accurately complete its self-assessment regarding breakpoint compliance in mutual fund Class A shares and failing to establish, maintain and enforce a supervisory system and written procedures that were reasonably designed to achieve compliance with its

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regulatory responsibilities relating to its fee-based brokerage business.

On November 24, 2007, H. Beck entered into an AWC with NASD in which it agreed, without admitting or denying the findings, to a censure, \$17,500 fine, and the requirement to revise its written supervisory procedures for the Order Audit Trail System (OATS) for failing to transmit required information to OATS and failing to have a supervisory system reasonably designed to achieve compliance with applicable securities laws, regulations and NASD rules concerning OATS reporting.

### **OVERVIEW**

H. Beck failed to retain written and electronic correspondence and develop and enforce reasonably-designed supervisory procedures for the retention of such correspondence. The firm also failed to establish and implement policies and procedures that could reasonably be expected to detect and cause the reporting of suspicious activity and failed to conduct adequate annual independent testing of its Anti-Money Laundering Compliance Program ("AMLCP"). In addition, H. Beck failed to prepare accurate order tickets for municipal and corporate bond transactions. The firm's conduct violated NASD Conduct Rules 3010, 3011, 3110, and 2110, FINRA Rule 2010, Rules 17a-3 and 17a-4 promulgated under the Securities Exchange Act of 1934 ("Exchange Act"), and MSRB Rules G-41 and G-8.

### **FACTS AND VIOLATIVE CONDUCT**

#### **Failure to Retain Correspondence and Develop and Enforce Procedures for Retention of Correspondence**

At the times relevant herein, Exchange Act Rule 17a-4 required that member firms maintain and preserve, for a period of not less than three years (the first two years in an easily accessible place), electronic and written communications relating to the firm's business as a broker-dealer. In Notices to Members 98-11, 01-80 and 03-33, FINRA provided member firms information and guidance regarding their supervisory and recordkeeping obligations as to electronic communications, including e-mail and instant messaging.

From May 26, 2007 to May 10, 2009 (the "relevant period"), H. Beck failed to maintain and preserve certain of its business-related electronic and written communications. Most of H. Beck's registered representatives are independent contractors operating from "one-man" branch office locations throughout the country. H. Beck's representatives were allowed to maintain written correspondence at their branch offices. The firm permitted representatives to send

e-mails from their personal computers. It did not have an electronic system to capture e-mails. Instead, H. Beck required representatives to print and make copies of their e-mails, which along with written correspondence were reviewed during annual branch inspections. E-mails and written correspondence involving the solicitation of products were required to be sent by representatives to compliance for pre-approval. H. Beck, however, had no system or procedures in place to retain all other e-mails and written correspondence after the representatives terminated from the firm. As a result, the firm did not subsequently retain most of the e-mails and written correspondence for 162 representatives who terminated from the firm during the relevant period.

By failing to maintain and preserve business-related electronic and written communications, H. Beck violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3110, FINRA Rule 2010 (for conduct after December 14, 2008) and Exchange Act Rule 17a-4. By failing to establish and maintain a supervisory system, and failing to establish, maintain and enforce written supervisory procedures, that were reasonably designed to achieve compliance with the rules and regulations applicable to the retention of electronic and written communications, H. Beck violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3010, and FINRA Rule 2010 (for conduct after December 14, 2008).

#### **Deficient AML Compliance Program**

NASD Conduct Rule 3011 requires FINRA members to develop and implement a written AML compliance program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder. Among other things, this rule directs member firms to establish and implement procedures reasonably designed to detect and cause the reporting of certain suspicious transactions. NASD Conduct Rule 3011(c) requires that member firms have independent testing for compliance with the AML rules on an annual basis or every two years depending on the firm's business. MSRB Rule G-41 requires MSRB members that are also FINRA members to comply with NASD Conduct Rule 3011.

During the relevant period, H. Beck did not establish and implement policies and procedures that could be reasonably expected to detect and cause the reporting of suspicious transactions. H. Beck's written supervisory procedures relating to the reporting of suspicious activity failed to provide reasonable detail, such as the specific reports and documents to be reviewed, the timing and frequency of such reviews, the specific persons to conduct the reviews, and a description of how the reviews will be conducted and evidenced. In addition, H. Beck's supervisory procedures did not provide adequate guidelines regarding the reporting of suspicious activity, including when a suspicious activity report should be filed and

what documentation should be maintained. Furthermore, although H. Beck had 140,000 active accounts during the relevant period, it used only a minimal number of exception reports, relying instead on its clearing firms to assist in the review of suspicious activity.

Moreover, in 2008 and 2009, H. Beck failed to conduct adequate independent tests of its AMLCP. H. Beck's AML tests failed to cover all aspects of the firm's AMLCP, failed to test topics sufficiently, and failed to adequately memorialize what was reviewed.

By failing to establish and implement reasonably-designed policies and procedures regarding the reporting of suspicious activity and by failing to conduct adequate independent tests, H. Beck violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 3011(a) and 3011(c), FINRA Rule 2010 (for conduct after December 14, 2008) and MSRB Rule G-41.

#### **Inaccurate Order Tickets**

With respect to a sample of 90 corporate bond transactions it executed from January 1, 2009 through March 31, 2009, H. Beck failed to accurately disclose the time of receipt on 86 of the order tickets. By failing to prepare accurate order tickets for corporate bond transactions, H. Beck violated NASD Conduct Rule 3110, FINRA Rule 2010 and Exchange Act Rule 17a-3.

With respect to a sample of 90 municipal securities transactions it executed from January 1, 2009 through March 31, 2009, H. Beck failed to accurately disclose the time of receipt on 86 of the order tickets. By failing to prepare accurate order tickets for municipal securities transactions, H. Beck violated MSRB Rule G-8.

**B. Respondent consents to the imposition of the following sanctions:**

- a censure; and
- a fine of \$150,000 (\$25,000 of which pertains to violations of MSRB Rules G-41 and G-8).

In addition, Respondent agrees to comply with the following undertaking within the time period specified (unless otherwise extended by FINRA staff following a written request by the firm):

- Within 30 calendar days of the issuance of this AWC, the President of H. Beck will certify to FINRA in writing that the firm currently has in place systems and procedures reasonably designed to achieve compliance with those laws, regulations, and rules concerning the preservation of electronic

mail communications. The certification, along with the current procedures, must be submitted to Department of Enforcement staff at FINRA's Philadelphia District Office. Although FINRA staff may review the revised procedures, said review shall in no way constitute an approval of the revised procedures. The failure of FINRA staff to alert H. Beck to any deficiencies in the revised procedures shall not preclude FINRA from instituting a subsequent disciplinary action as a result of deficiencies in the revised procedures.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is 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.

## **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 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, Respondent 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.

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;
- C. If accepted:
  - 1. this AWC will become part of the Respondent's 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. 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and

- 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 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.

The undersigned, on behalf of H. Beck, 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 it 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.

H. Beck, Inc.

6-7-11  
Date

By: Eric G. Meyers  
Eric G. Meyers  
President

Accepted by FINRA:

July 18, 2011  
Date

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

David F. Newman

David F. Newman  
Senior Regional Counsel  
FINRA Department of Enforcement  
1835 Market Street  
Philadelphia, PA 19103  
(215) 963-2608; Fax (215) 496-0434