

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009017118601**

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

RE: MML Investors Services, LLC ("MMLISI" or the "Firm") (CRD No. 10409)

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

I.

ACCEPTANCE AND CONSENT

- A. MMLISI 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

MMLISI has been a FINRA regulated broker-dealer and registered investment advisor since 1982. MMLISI offers investment products and services, including mutual funds, variable annuities, variable life insurance, brokerage accounts, portfolio management services, and unit investment trusts. MMLISI is a subsidiary of Massachusetts Mutual Life Insurance Company ("MML"). MMLISI has over 5,700 registered representatives ("RRs") and approximately 1,369 branch offices. MMLISI had an office of supervisory jurisdiction ("OSJ") located at Intermountain Financial Group ("IFG"), in Salt Lake City, Utah. IFG also was MML's General Agency in Utah and IFG's primary business was insurance sales, financial planning and securities sales.¹

¹MML currently has over 80 "core" retail distribution offices, known as General Agencies, each having a regional footprint. Each General Agency is operated by a General Agent who is contracted with MML and is responsible for all operations of the General Agency.

Between March 1, 2007 and December 4, 2008 (the "Relevant Period"), IFG's main office in Salt Lake City had approximately 52 RRs. The OSJ also had supervisory responsibilities over two additional Utah branches each with 10 to 20 RRs, and 20 other registered branches each with one or two RRs. During the Relevant Period, TR,¹ a General Agent with MMLISI, had supervisory responsibilities over the broker-dealer activities of IFG and IFG's 22 branch offices.

RELEVANT DISCIPLINARY HISTORY

The Firm does not have any relevant disciplinary history.

OVERVIEW

During the Relevant Period, the Firm violated NASD Rules 3010(a) and 2110 by failing to reasonably supervise its RRs in connection with their unapproved sale of certain private securities. The Firm's written supervisory procedures ("WSPs") stated that RRs were prohibited from participating in private securities transactions without the prior written approval of the Chief Compliance Officer or his or her delegate. Despite this prohibition, and numerous red flags described below indicating that IFG's RRs were engaged in selling away, the Firm did not reasonably monitor for or review these indications to determine whether unapproved private securities transactions were occurring at the Firm. As a result of the Firm's supervisory failures, certain IFG RRs recommended unapproved promissory notes to investors. Two of these IFG RRs sold unapproved ICI promissory notes to seven investors who sustained losses of up to \$760,000 when the issuers of these promissory notes discontinued interest payments. The issuer of these unapproved promissory notes was ICI, which was later determined to be engaged in a multi-million dollar Ponzi scheme.

FACTS AND VIOLATIVE CONDUCT

Beginning in or around March 2007, several RRs at IFG solicited, recommended and sold promissory notes issued by third parties, including notes issued by ICI. The ICI promissory notes were represented to be as safe as a certificate of deposit and that investors could not lose their money.

Seven investors purchased \$760,000 in ICI promissory notes from these IFG RRs. Five of the investors were customers of the Firm. In reliance upon representations made by these IFG RRs, some investors refinanced their homes to purchase the promissory notes. Certain investors relied upon the purported 33% annual interest rate payments from the promissory notes to purchase

¹ TR held his Series 7, 24, 63, 6, and 65 licenses through MMLISI

other insurance products from the same RRs. When the ICI promissory notes failed to deliver on their promised return, several investors lost their insurance policies because they could no longer afford to pay the insurance premiums.

During the Relevant Period, TR, the General Agent of IFG, was responsible, on behalf of the Firm, for compliance and supervision of IFG and its 22 branch offices. TR delegated certain supervisory responsibilities over IFG to an Agency Supervisory Officer ("ASO"). The ASO's authority was limited to the extent that he could not discipline or impose sanctions against staff for misconduct without the General Agent's approval.

Failure to Supervise

NASD Rule 3010(a) requires each member firm to "establish and maintain a system to supervise the activities of each RR, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules."

NASD Rule 2110 requires each member firm in the conduct of its business, to "observe high standards of commercial honor and just and equitable principles of trade."

The Firm Failed to Properly Monitor for Red Flags and Effectively Address its RRs' Sales of Unapproved Private Securities

The Firm conducted annual compliance visits at IFG in November 2006 and November 2007, and conducted semi-annual Agency Director reviews at IFG in June 2007, April 2008, and October 2008. Pursuant to the Firm's WSPs, the ASO created and maintained a Supervisory Issues Log that described the type and status of supervisory issues, along with any action taken. In March 2007, the ASO noted indications of unapproved selling away activity by RRs in the IFG Supervisory Issues Log. Specifically, the ASO identified client referrals by RRs to outside entities that offered unapproved promissory notes. In addition, the ASO sent numerous emails to TR regarding the ASO's concerns about this improper selling away activity. TR and the Firm did not adequately investigate or seek to identify the RRs associated with the improper sales of promissory notes despite red flags of selling away.

During the Relevant Period, the Firm failed to detect that certain of IFG's RRs were conducting unapproved ICI sales from Firm branch offices under TR's supervisory jurisdiction. The Firm reviewed the Supervisory Issues Log in June 2007 but took no action despite entries indicating improper selling away. Additionally, in March 2007, the ASO also sent a number of emails to TR describing the potential liability, and the problems that could occur with regulators, in connection with the RRs' sales of unapproved promissory notes. The ASO further stated to TR that he believed that IFG RRs continued to make referrals to entities selling promissory notes as part of agency sales presentations despite being advised that such referrals were prohibited. The ASO forwarded an email to TR evidencing that an RR was engaged in unapproved private

securities transactions and that another RR was found to have used unapproved "Doing Business As" sales materials for which he had previously received a Letter of Caution from TR. The ASO documented in emails to TR that the same RR's telephone was answered by a person who identified the office as that of a competitor insurance agency, HZN.

Also, in March 2007, the ASO documented in emails that certain IFG RRs referred clients to the OKM Group to purchase promissory notes. The ASO warned TR that by referring clients to real estate promissory notes "a regulator could make a full circle connection" and "...it can come back to haunt us." The ASO's emails also advised that an RR admitted that he included the investment return from real estate promissory notes in his client presentations. Without further elaboration the ASO warned TR that this would be damning in a legal dispute.

Between April 2007 and September 2007, the ASO further placed the Firm on notice via email advising TR that certain RRs were dropping their securities licenses as a way to continue to sell promissory notes and receive compensation in an attempt to avoid oversight and regulatory scrutiny.

In May 2007, the ASO again placed the Firm on notice of selling away activity when he noted in the Supervisory Issues Log that an RR had invested \$9,000 in a real estate deal that was not reported as a private securities transaction with the Firm. In another Supervisory Issues Log entry, the ASO noted that an RR had been found with a receipt evidencing that she had obtained unapproved marketing materials relating to HZN, whose general agent was the principal of an entity which was an issuer of promissory notes, and that another RR had given another producer a business card for an unapproved DBA.

In September 2007, the ASO warned that an RR voluntarily terminated his securities license on September 9, 2007 and had refused on numerous occasions to allow the Firm to inspect his client files. The ASO also noted in the Supervisory Issues Log that another RR was suspected of having engaged in unreported private securities transactions.

On October 28, 2007, the ASO noted in the Supervisory Issues Log that three RRs were involved in the referral of clients to issuers of unregistered promissory notes. He also sent emails to TR summarizing his information gathering regarding another RR who had introduced a Firm client to an outside entity that issued promissory notes. The ASO advised TR to notify the Firm's home office compliance department, warning him that "regulators will see this on the OKM Group's books and the loop will be closed coming back to IFG."

On October 31, 2007, the ASO emailed a summary of his findings to the Firm's Compliance Department. On November 1, 2007, after seven months of continuous red flags of selling away and email warnings by the ASO, the Firm's home office began its investigation into the sale of unapproved promissory notes by its RRs. Even though the Firm had performed periodic supervisory reviews and audits of IFG, it failed to uncover the sale of unapproved promissory notes occurring at the Firm.

The Firm's Failure to Conduct an Adequate Investigation and Take Timely and Appropriate Action to Prevent Continuing Violations

On January 25, 2008, during its internal investigation, the Firm notified FINRA pursuant to NASD Rule 3070(a)(10)¹ that the employment of three IFG RRs had been terminated in connection with their unapproved referrals to an outside entity.

The Firm investigated the concerns that the ASO raised about selling away activities occurring at IFG, however, the Firm's investigation was not adequate and did not uncover its RRs' improper sales of ICI promissory notes from Firm offices.

In addition, although the Firm was on notice beginning in March 2007 that other RRs were referring investors to outside entities for the purpose of purchasing unapproved promissory notes, the Firm did not adequately supervise IFG or its General Agent, TR, in connection with the activities occurring at IFG. As a result, certain RRs continued to refer clients to outside entities offering promissory notes and at least one additional sale of unapproved promissory notes that occurred on February 19, 2008 went undetected. In April 2008, all investors stopped receiving payments from ICI.

On December 4, 2008, despite the Firm's investigation concerning other promissory note sales, the Firm for the first time, became aware of the ICI promissory note sales after two IFG RRs reported to the Firm that a State securities regulatory agency had interviewed them regarding their involvement with ICI promissory notes issued in 2007 and 2008.

For the foregoing reasons, the Firm violated NASD Rules 3010(a) and 2110.

B. MMLISI also consents to the imposition of the following sanctions:

A Censure,

A fine in the amount of \$125,000, and

Restitution in the amount of \$760,000 to ICI investors listed in Schedule A, attached hereto and incorporated herein. In addition, the Firm will pay restitution in the amount of \$24,847.70 relating to unreimbursed insurance premiums to one investor. To the extent that MMLISI can submit to FINRA Enforcement staff, within 90 days after the AWC becomes final, satisfactory proof of interest payments made by ICI to the investors listed in Schedule A, the amount of restitution shall be reduced by such payment.

¹ Effective July 1, 2011, FINRA Rule 4530 superseded NASD Rule 3070

Restitution is ordered to be paid to the investors listed on Attachment A hereto in the total amount of \$784,847.70. A registered principal on behalf of Respondent firm shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to George Tidona, Sr. Counsel, Department of Enforcement, FINRA, One World Financial Center, 200 Liberty Street, New York, N.Y. 10281-1003 either by letter that identifies the Respondent and the case number or by e-mail from a work-related account of the registered principal of Respondent firm to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than six months after acceptance of the AWC.

If for any reason Respondent cannot locate any investor identified in Attachment A after reasonable and documented efforts within six months from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the investor is last known to have resided. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

MMLISI has specifically and voluntarily waived any right to claim an inability to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude investors from pursuing their own actions to obtain restitution or other remedies.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

MMLISI 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, MMLISI 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.

MMLISI 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

MMLISI 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;

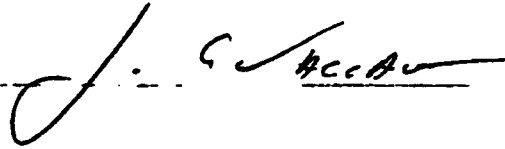
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about its disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. MMLISI may not take any 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. MMLISI 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: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. MMLISI may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. MMLISI 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.

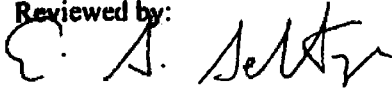
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read this AWC and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that MMLISI has agreed to its provisions voluntarily; and that no offer, 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 MMLISI to submit it.

8/19/13
Date

MML Investors Services, LLC
Respondent

By: 

Reviewed by:



Eric S. Seltzer
Sidley Austin LLP
85 Exchange Street
Portland, Maine 04101

Accepted by FINRA:

Date 8/21/13

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



Richard Chin, Chief Counsel
FINRA Department of Enforcement
One World Financial Center, 11th Floor
200 Liberty Street
New York, N.Y. 10281-1003
Tel: 646-315-7322

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Schedule A – List of ICI Investors

RE: MML Investors Services, LLC (“MMLISI” or the “Firm”) (CRD No. 10409)

MS & SS	Purchase date: March 21, 2007. Amount: \$150,000
BW	Purchase date: March 19, 2007. Amount: \$150,000
RK	Purchase date: March 19, 2007. Amount: \$100,000
VT & NT	Purchase date: June 3, 2007. Amount: \$ 60,000
DW & MW	Purchase date: June 4, 2007. Amount: \$200,000
RM & SM	Purchase date: June 24, 2007. Amount: \$ 50,000
DP & CP	Purchase date: February 19, 2008. Amount: \$ 50,000
Total:	\$760,000