

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

Department of Enforcement,

Complainant,

v.

Gary C. Mastrodonato (CRD No. 723366),

Respondent.

Disciplinary Proceeding
No. 2009019192801

Hearing Officer: APerkins

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: April 18, 2012

INTRODUCTION

Disciplinary Proceeding No. 2009019192801 was filed on July 27, 2011, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Gary Mastrodonato submitted an Offer of Settlement (Offer) to Complainant dated March 8, 2012. 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 Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Mastrodonato entered the securities industry in 1981 and has worked in various capacities in the industry ever since. He currently is working in the securities industry as a registered representative and remains under FINRA jurisdiction.

FINDINGS AND CONCLUSIONS

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

SUMMARY

1. Between February and May 2009 ("the relevant period"), Gary C. Mastrodonato ("Mastrodonato" or "Respondent") circumvented his firm's supervisory system and procedures by submitting, or causing to be submitted, 14 variable annuity exchanges for 12 customers directly to a product sponsor prior to receiving his firm's trade approval. These transactions that bypassed the firm's supervisory system had a total market value of over \$1.3 million. Of particular concern, after learning of his firm's disapproval of two transactions for customer LS, he failed to either inform his firm of the submissions directly to the product sponsor or withdraw the applications from the product sponsor. By intentionally circumventing his firm's supervisory review process, Mastrodonato violated FINRA Rule 2010.

2. Mastrodonato entered the securities industry in 1981 as an Investment Company Products/Variable Annuity Contracts Representative ("IR") with a FINRA (formerly NASD) registered firm. From January 1981 through June 2004, Mastrodonato became registered through

several member firms in various capacities, including as a General Securities Representative in 1982, a General Securities Sales Supervisor in 1982, and a General Securities Principal in 1992.

3. From June 2004 until his termination in July 2009, Mastrodonato maintained the aforementioned registrations, but he worked primarily as a GS and IR through member firm Securities America, Inc. (“SAI”).

4. During his employment with SAI, Mastrodonato also owned and operated an outside business called the Masters, LLC (“the Masters”), an independent insurance sales corporation that he founded in the 1980s.

5. Through the Masters, Mastrodonato offered insurance products, including health and life insurance and fixed annuities from his office located in Oriental, North Carolina. Mastrodonato offered securities through SAI from the same location. SAI was aware of and approved Mastrodonato’s insurance business activities during the relevant period.

6. Mastrodonato is currently working in the securities industry as a registered representative with another registered firm and remains under FINRA jurisdiction.

Facts Common to All Counts

SAI’s Guidelines, Review and Approval Process for Variable Annuity Transactions

7. During the relevant period, SAI’s supervisory procedures required that the firm’s registered representatives enter specific details regarding each variable annuity transaction into the firm’s electronic order entry system called the Non Brokerage Order Entry System (“NBOE system”). The firm required registered representatives to send copies of the transaction paperwork for each NBOE entry to the firm for review and approval of the transaction. Firm supervisors conducted a suitability review and account verification. After review, supervisors

could approve or reject the trade or request further information. Upon receipt of an approval notification from the firm via the NBOE system, the representatives were permitted to forward the transaction documentation to the annuity product's sponsor company. SAI's Field Compliance Manual specifically stated: "Transaction and/or account approval may only be granted via the NBOE system.... Verbal approvals are prohibited."

Allianz Vision Product

8. In the first quarter of 2009, annuity product sponsor Allianz Life Insurance Company of North America ("Allianz") announced that it would discontinue offering its Allianz Vision Variable Annuity ("Allianz Vision") effective April 1, 2009. Consequently, customers who wished to obtain this annuity would have to submit an application to Allianz by March 31, 2009. Allianz processed Allianz Vision applications received after March 31, 2009, as long as they bore signatures and dates prior to the cutoff date.

SAI determined that certain exchange trades for customer LS were unsuitable, but Mastrodonato submitted them to the VA product sponsor and caused them to be processed.

9. On February 11, 2009, Mastrodonato entered an annuity exchange request for customer LS into the firm's NBOE system to exchange an ING Global Select annuity valued at \$200,000 to purchase Allianz Vision. Without waiting for SAI's approval, Mastrodonato forwarded copies of the paperwork to Allianz. Allianz received the transaction paperwork that day.

10. On February 18, 2009, Mastrodonato entered another annuity exchange request for customer LS into the firm's NBOE system to exchange \$21,000 from an ING Golden Select annuity into the Allianz Vision annuity. Without waiting for SAI's approval, Mastrodonato again forwarded copies of the paperwork to Allianz.

11. On February 19, 2009, SAI notified Mastrodonato via the NBOE system and telephone that the \$200,000 exchange request for customer LS had been denied during its supervisory review “due to the short term holding of the ING contract, the significant surrender charge and the significant loss in benefit base.” By telephone, SAI’s Regional Director of Supervision instructed Mastrodonato not to process the exchange at SAI. Mastrodonato failed to notify anyone at SAI that he had already submitted the transaction request directly to Allianz without firm approval on February 11, 2009. Additionally, Mastrodonato failed to notify Allianz that the firm had disapproved the exchange. The \$200,000 exchange was later completed by Allianz on April 20, 2009.

12. On February 20, 2009, the firm notified Mastrodonato via the NBOE system that the \$21,000 exchange request for customer LS had also been denied “due to the short holding period of the ING contract and the significant loss in benefit base to the client.” Again, Mastrodonato failed to notify SAI that he had already submitted the request to Allianz. Mastrodonato also failed to notify Allianz that the firm had disapproved the exchange during supervisory review.

13. On April 20, 2009, Allianz completed the \$21,000 annuity exchange request for customer LS, which had already been denied by SAI.

Mastrodonato submits transaction paperwork for additional customers directly to Allianz without entering them into NBOE.

14. Mastrodonato also submitted at least 12 other exchange request applications for 11 separate customers directly to Allianz without submitting them to SAI for review and approval as required. Though Allianz received each of these requests between April 1 and 6, 2009, all of them had been signed and dated on or before March 31, 2009. Allianz processed

these requests between April 17 and 27, 2009. None of these exchange requests had been approved by SAI because Mastrodonato failed to enter any of them into the NBOE system.

CAUSE OF ACTION
CIRCUMVENTING THE FIRM'S SUPERVISORY PROCESS
FINRA Rule 2010

15. The Department realleges and incorporates by reference paragraphs 1 through 14 above.

16. Respondent Mastrodonato circumvented his firm's supervisory procedures and review process by submitting at least 12 variable annuity exchange applications directly to Allianz to be processed without SAI's supervisory review. Additionally, when two exchange requests were denied by SAI, Mastrodonato failed to inform SAI that he had already submitted the material directly to Allianz. Nor did he withdraw the applications from Allianz. Mastrodonato knew that by submitting the requests directly to Allianz, they would be processed without SAI's review or approval.

Based on the foregoing, Respondent circumvented his firm's supervisory review process and violated FINRA Rule 2010.

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:

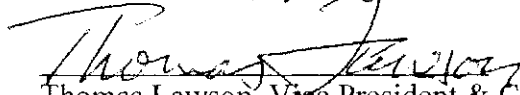
1. suspended from association with any FINRA registrant for 30 days; and
2. fined \$10,000.

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

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

SO ORDERED.

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

A handwritten signature in black ink, appearing to read "Thomas Lawson", is written over the printed name.

Thomas Lawson, Vice President & Chief Counsel

Lane Thurgood, Director

Frank Mazzairelli, Senior Counsel

FINRA Department of Enforcement

1801 K Street NW, 8th Floor

Washington, DC 20006

Telephone: (202) 974-2769 (Mazzairelli)

Facsimile: (202) 721-1354 (Mazzairelli)

Frank.Mazzairelli@finra.org