

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009019513903**

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

RE: Great American Advisors, Inc. ("Great American" or the "Firm"), Respondent
Firm CRD No. 36451

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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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

Great American has been a registered broker-dealer with FINRA since 1994. From 1994 through August 2010, the Firm operated as a full service, introducing broker-dealer using independent contractor registered representatives to sell mutual funds and annuities, among other investment products, in Firm brokerage accounts. During this time, the Firm organized its independent contractor representatives into remote branch offices that were grouped under offices of supervisory jurisdiction and the Firm averaged between 500 and 800 registered representatives.

In May 2010, the Firm announced its divestiture of its retail broker dealer operation and another FINRA registered firm acquired the Firm's retail business and the registered representatives who serviced the business. In August 2010, the Firm completed the transfer of its retail business and registered representatives to the FINRA registered Firm. Since August 2010, the Firm serves as a principal underwriter and distributor for registered annuity products issued by affiliate insurers. Today, the Firm has 54 registered representatives that serve as employees of the Firm or its affiliate insurers.

RELEVANT DISCIPLINARY HISTORY

The Firm has no prior relevant disciplinary history.

OVERVIEW

Between December 2006 and December 2007, Great American failed to have an adequate supervisory system for the sale of variable annuities. As a result, two of its independent contractor registered representatives, JH and BH, recommended and effected 301 unsuitable variable annuity transactions involving 206 Firm customers. JH, BH and the Firm improperly earned commissions, and caused customers to pay \$363,173 in unnecessary surrender fees and incur longer surrender periods. As a result, Great American violated NASD Rules 3010 and 2110.

FACTS AND VIOLATIVE CONDUCT

The Unsuitable VA Sales by JH and BH

Between December 2006 and December 2007, JH switched 140 customers who held 214 fixed or variable annuities to a VA issued by an unaffiliated third party insurance company which cost the customers approximately \$208,000 in unnecessary surrender penalties and earned JH \$380,235 in commissions. During the same time, BH switched 66 customers who held 87 fixed or variable annuities to the same VA, which cost the customers approximately \$155,173 in unnecessary surrender penalties and earned BH \$196,684 in commissions. Each of the replacement transactions required the customers to have to incur a new surrender period.

JH and BH employed a "one size fits all" investment strategy for their diverse customer base, who were between the ages of 27 and 73, who were working or retired, and who had varied net worths and income. They switched substantially all of their customers into the same VA, the same rider, and the same asset allocation investment fund option. JH classified virtually all of his customers as having a moderate risk tolerance with growth or income as their primary investment objective, while BH marked substantially all of his customers as having an aggressive risk tolerance with long term growth as their primary investment objective. To justify the replacements, JH stated on virtually all the VA applications that the VA had "better retirement options," while BH stated that the customer liked the features of the VA and the name recognition of the issuer. Any benefits that the customers received from the VA did not outweigh the costs of the transactions, the commencement of a new 10-year surrender period or justify the commissions received by JH and BH for the replacements.

The Firm's Failure to Have an Adequate Supervisory System to Supervise JH and BH

JH and BH were supervised remotely by managers from the Firm. In or around April 2007, the Firm noted a high number of VA replacement transactions by JH in which the customers had held the prior annuity for only two to three years. The Firm began an internal review of the replacements in May 2007. In August, the Firm required JH and BH to provide information about the annuity replacements, including details about the high volume of replacement transactions, records of the transactions, and copies of sales materials used. On August 8, 2007, the Firm suspended all VA replacement transactions by JH and BH during the internal investigation by its compliance department.

During this time, the Firm's written procedures generally addressed suitability considerations related to VA sales. However, the Firm did not have an adequate supervisory system to ensure that the procedures were properly implemented. For example, the Firm failed to ensure that the sales of the VA by JH and BH adhered to its written procedures. Moreover, the supervisors approved VA replacements based on limited Firm systems and with inadequate written guidance, computer systems and surveillance tools. As a result, supervisors could not identify:

- the volume of VA replacement activity for JH or BH;
- when customers surrendered their former VA and switched into the same VA;
- when customers purchased replacement VAs with substantially the same investment objectives and risk tolerance, asset allocation investment fund options, and riders;
- when VA replacement paperwork had substantially the same rationale for the replacement of the prior VA;
- when JH or BH underreported surrender fees to the Firm and customers; and
- the existence of red flags. For example, each of JH's and BH's customer who performed an annuity switch between December 2006 and December 2007 reported that their prior VA paperwork had been either destroyed or misplaced, which prevented a supervisory review of the need for a replacement VA.

During the Relevant Period, JH underreported surrender fees on replacement transactions and the Firm did not check or verify the correct surrender fees. The Firm also did not have a system or web-based access to a database that allowed it to adequately compare the annuity to be replaced with the replaced VA.

Accordingly, the Firm violated NASD Rules 3010 and 2110.

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

- Censure;
- and a fine of \$100,000.

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

The Firm 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

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, the Firm 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.

The Firm 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

The Firm understands that:

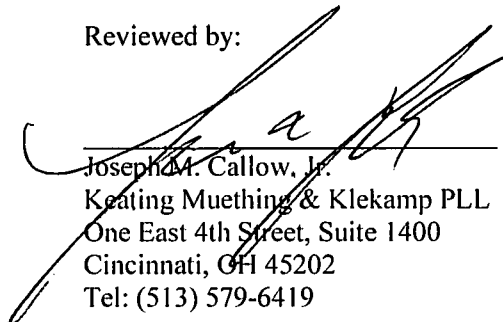
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 - 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm'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. The Firm 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. The Firm 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 the Firm's: (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. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

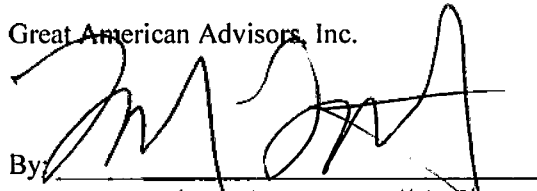
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer,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

4/29/14
Date (mm/dd/yyyy)

Reviewed by:


Joseph M. Callow, Jr.
Keating Muething & Klekamp PLL
One East 4th Street, Suite 1400
Cincinnati, OH 45202
Tel: (513) 579-6419

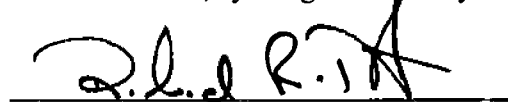
Great American Advisors, Inc.

By: 
MARK F. MUETHING
VP and Chief Legal Officer

Accepted by FINRA:

5.22.14
Date

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


Richard R. Best
Chief Counsel
FINRA Department of Enforcement
One World Financial Center, 200 Liberty Street
New York, NY 10281
Phone Number (646) 315-7379
richard.best@finra.org



Member FINRA and SIPC
A Registered Investment Advisor

Great American Insurance Tower – 11-S
301 E. Fourth Street
Cincinnati, Ohio 45202

www.gaadvisors.com
Phone (513) 333-6030
Toll Free (800) 216-3354
Fax (513) 412-5109

April 30, 2014

FINRA

Attn: Gerard Murphy, Senior Counsel
One World Financial Center
200 Liberty Street, 11th Floor
New York, NY 10821

Re: Investigation No. 2009019513903

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.

This Corrective Action Statement is attached to the Letter of Acceptance Waiver and Consent, Investigation No. 2009019513903 to describe the changes we have made to safeguard against further deficiencies of the nature cited in FINRA's Investigation No. 2009019513903. Great American Advisors, Inc. ("GAA") arranged in 2010 to exit retail broker dealer operations by taking the following actions:

- 1) Contracted with another FINRA broker dealer member firm to absorb GAA's independent contractor representatives and their associated books of securities business.
- 2) Submitted notice to FINRA pursuant to Regulation 1017 that detailed the firm's intended reorganization as a limited purpose, institutional broker dealer. The notice described the plans to transition representatives and their blocks of business to another firm. The notice also led to development of the communication plan and client consent procedures for the transition.
- 3) Closed all external Offices of Supervisory Jurisdictions and branch offices following the effective date of the transition plan described above. The transition was effective August 2, 2010.
- 4) Revised the firm's Written Supervisory Procedures to document that the firm would only engage employees of its affiliate insurance companies as registered representatives. The firm would not allow its registered representatives to solicit retail securities clients aside from their assigned duties of the affiliate insurer.
- 5) Set the responsibility directly with the firm's Chief Compliance officer for direct supervision and training of the firm's registered representatives and non-licensed finger-print only associates.

GAA appreciates FINRA's cooperation in the time since we reported to FINRA that we were terminating two representatives for cause in relation to the sales practice deficiencies that were subsequently cited in the investigation. GAA has promptly responded to all regulatory inquiries and customer complaints. GAA has taken steps to safe further occurrences of such deficiencies.

Respectfully submitted by,

Mark F. Muething
Vice President & Chief Legal Officer