

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021055301**

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

RE: BGB Securities, Inc., Respondent
Member Firm
CRD No. 36716



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

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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 September 1994, BGB Securities, Inc. ("BGB") has been a member of FINRA. The firm conducts a general securities business and has one registered branch office and employs about twelve registered persons. The firm has no FINRA disciplinary history.

In November 2002, [REDACTED] first became registered with FINRA as a General Securities Representative. Since then, he has been registered in that capacity through BGB. In February 2009, he also became registered as a

General Securities Principal. [REDACTED] has no FINRA disciplinary history.

OVERVIEW

[REDACTED] a BGB research analyst, traded in covered securities at times when such trading was prohibited. Moreover, BGB and [REDACTED] failed to make certain required disclosures in the firm's research reports. BGB also failed to adopt and implement written supervisory procedures ("WSPs") reasonably designed to achieve compliance with NASD Conduct Rule 2711. In addition, the firm failed to prepare accurate order tickets for corporate bond transactions, and failed to accurately report such transactions to FINRA's Trade Reporting and Compliance Engine ("TRACE").

[REDACTED] conduct violated NASD Conduct Rule 2711 and FINRA Rule 2010. BGB's conduct violated NASD Conduct Rules 2711, 3010, 3110 and 2110, FINRA Rules 2010 and 6730 and Rule 17a-3 promulgated under the Securities Exchange Act of 1934 ("Exchange Act").

FACTS AND VIOLATIVE CONDUCT

Personal Trading by Securities Research Analyst

NASD Conduct Rule 2711(g)(2) prohibits a research analyst from purchasing or selling any security, or any option on or derivative of such security, issued by a company that the analyst follows for a period beginning 30 calendar days before and ending 5 calendar days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities. The prohibition extends to any account in which a research analyst or member of the research analyst's household has a financial interest or over which the analyst has discretion or control.

On six occasions from April 27, 2009 to October 22, 2009, [REDACTED] executed a trade in a covered security in two accounts in which he or a member of his household had a financial interest and during a period beginning 30 calendar days before and ending 5 calendar days after he published a research report concerning the company that had issued the transacted security. By trading in covered securities at times when such trading was prohibited, [REDACTED] violated NASD Conduct Rule 2711(g)(2) and FINRA Rule 2010.

Failure to Disclose Ownership and Material Conflicts of Interest

NASD Conduct Rule 2711(h)(1)(A) requires a member to disclose in research reports if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company and the nature of the financial interest. Between April 1, 2009 and November 30, 2009, BGB, acting through [REDACTED] published nine research reports on two subject companies that failed to disclose that [REDACTED] or a member of [REDACTED] household had a financial interest in the securities of the subject companies. By failing to make required disclosures in research reports, BGB and [REDACTED] violated NASD Conduct Rule 2711(h)(1)(A) and FINRA Rule 2010.

NASD Conduct Rule 2711(h)(2)(A) requires a member, among other things, to disclose in research reports if the member has received any compensation for products or services other than investment banking services from the subject company in the past 12 months. In August and November 2009, BGB published a research report in which it failed to disclose that it had received trading commissions from the subject company in the past 12 months. By failing to make required disclosures in research reports, BGB violated NASD Conduct Rule 2711(h)(2)(A) and FINRA Rule 2010.

Supervisory Deficiencies

NASD Conduct Rule 2711(i) requires that member firms that issue research reports adopt and implement WSPs reasonably designed to ensure that the firm and its employees comply with all of the requirements set forth in Rule 2711. From December 1, 2008 to January 26, 2010, however, BGB failed to adopt and implement such procedures. Specifically, BGB's WSPs failed to include procedures:

- for disclosing whether any subject company has been a client of the firm within 12 months of the issuance of the research report on the subject company;
- for disclosing whether the firm received any compensation for non-investment banking services from the subject companies within 12 months of issuing a research report on the subject company;
- for disclosing any financial interest in any securities of the subject company by a research analyst (or member of the analyst's household) covering that company at the time a research report is issued;
- restricting the personal trading of the research analyst or a member of the research analyst's household in any security of a subject company 30 days before issuing a research report and 5 days after issuing a research report;

- restricting research analysts' communication with the subject companies; and
- for attesting annually to FINRA with regard to the firm's supervisory procedures concerning its research activities.

As a result, BGB failed to detect and prevent personal trading by a research analyst associated with the firm, and failed to disclose ownership and material conflicts of interest in research reports.

By failing to adopt and implement WSPs, and otherwise failing to establish and maintain a supervisory system, and establish, maintain, and enforce WSPs, that were reasonably designed to achieve compliance with applicable rules and regulations regarding its research reports and the supervision of its research analysts, BGB violated NASD Conduct Rules 2110 (for conduct before December 15, 2008), 2711(i) and 3010 and FINRA Rule 2010 (for conduct after December 14, 2008).

Inaccurate Order Tickets

From March 1, 2009 to May 31, 2009, BGB failed to prepare accurate order tickets for any of its approximately 150 corporate bond transactions. Those order tickets, which were prepared after the transactions were executed, reflected execution times that were later than the actual time of execution. By failing to prepare accurate order tickets, BGB violated NASD Conduct Rule 3110, FINRA Rule 2010 and Exchange Act Rule 17a-3.

Inaccurate TRACE Reports

With respect to a review sample of 149 corporate securities transactions entered from March 1, 2009 to September 20, 2009, BGB failed to accurately report 83 of the transactions to TRACE. Specifically, BGB double-reported 59 transactions, and reported 24 transactions with execution times that were later than the actual time of execution. By failing to accurately report corporate bond transactions to TRACE, BGB violated FINRA Rules 6730 and 2010.

B. Respondents also consent to the imposition of the following sanctions:

- a censure and a fine of \$25,000 against BGB; and
- a fine of \$5,000 against [REDACTED]

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have

each submitted an Election of Payment form showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are 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

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against us;
- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

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

██████ certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

BGB Securities, Inc.

8/18/2011
Date (mm/dd/yyyy)

By: SLB
Scott L. Barbee
President

8/18/2011
Date (mm/dd/yyyy)



Accepted by FINRA:

September 8, 2011
Date

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

A handwritten signature in black ink, appearing to read "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

This Corrective Action Statement Is Submitted By The Respondent, BGB Securities, Inc. ("BGB"). It Does Not Constitute Factual Or Legal Findings By FINRA; Nor Does It Reflect The Views Of FINRA, Or Its Staff.

Respondent BGB Securities, Inc. ("BGB") submits this Corrective Action Statement with respect to the Financial Industry Regulatory Authority Letter of Acceptance, Waiver and Consent.

**BGB Has Hired Two Experienced Executives
To Bolster Compliance Monitoring**

Since receiving FINRA's Examination Report dated June 18, 2010, BGB has hired two additional experienced employees into leadership positions -- Mr. Kenneth Billingsley, COO and Mr. Mathew McCormack, Director of Research ("DOR") -- to bolster compliance monitoring and remediate the Exceptions noted by FINRA. In addition, we have hired Hardin Compliance Consulting LLC to increase firm access to compliance expertise.

**BGB Has Amended Bond Trade Execution and
TRACE Reporting Procedures**

We also have amended our corporate bond trade order receipt, order entry, and order execution time recording process to eliminate bond recordkeeping errors. Bond trades are now time stamped on the order ticket to record the accurate order receipt, order entry, and order execution time. Training on the proper recording of bond business has been conducted with all personnel responsible for executing and reporting bond trades.

We also have amended TRACE reporting procedures so that the execution time reported on TRACE matches exactly our manually executed time stamp on our bond trade tickets. Training on the proper recording and reporting of bond business has been

conducted with all personnel responsible for executing and reporting bond trades. We also have been reviewing the TRACE Quality of Markets Report Card - Corporate Bonds via FINRA Firm Gateway to monitor our progress.

As a result of duplicate data entry, we changed from NFS to Wedbush Securities, Inc. ("Wedbush") in March 2010. During our contract negotiation with Wedbush, we ensured that Wedbush would not report duplicate corporate bond trades on TRACE. We also have amended the bond trade allocation spreadsheet that Wedbush supplied so that it is clear that Wedbush should *not* report our corporate bond trades a second time when they allocate corporate bonds to our client accounts.

BGB Has Improved its Research Process

Since the Examination, we have hired three experienced research analysts, each with over 10 years of securities experience, and designated a director of research (DOR), who is now responsible for research compliance supervision. We have implemented a cross-review process among the analysts, so that research reports have to pass several levels of review of both content and compliance disclosure before they can be released.

We also have developed a Research Report Approval Checklist to assist in capturing all necessary disclosures. The checklist must be signed off before releasing any research reports for publication.

In addition, training has been done to underscore the importance of 2711 disclosures. Annually, or upon hiring, each BGB employee signs an Annual Compliance Questionnaire regarding any potential conflicts that require disclosure.

We have modified our procedures so that the DOR keeps track of the firm's Research Coverage List and provides the updated Coverage List to the firm's CCO

on a monthly basis. This List is compared to the firm's trade blotter on a monthly basis by the CCO. If any company subject to BGB research has become a client of the firm during the month, the CCO notifies DOR as to the name of the subject company and the date the subject company became a client, and requests that the disclosure be included on any subject company's research report issued within the subsequent 12 month period. The DOR keeps track of this requirement on the Research Report Approval Checklist.

We have amended the firm's Written Supervisory Procedures concerning analysts' personal trading. BGB's analysts are no longer permitted to trade any securities of any company subject to research coverage.

Before initiating research on a new company, analysts are required to disclose his or his household's ownership of the subject company's securities. If the answer is affirmative, the CCO notifies the DOR to keep track of this on the Research Report Approval Checklist so that the disclosure is included in the research report.

Additionally all trading in analysts' personal accounts must receive prior approval from the CCO before they are executed. The CCO compares analysts' personal trading from duplicate trade confirmations and account statements to pre-authorized personal trades to ensure compliance.

BGB's Written Supervisory Procedures now impose a restriction on analysts' communications with subject companies. BGB monitors analysts' email and IM communications regularly and performs key word searches to detect any non-compliant communications. The analysts are also required to certify that they understand the rules and have adhered to the requirements by completing and signing the Annual Compliance Questionnaire.

We timely made the required 2711 annual attestation for both 2009 and 2010. We added timely filing of the 2711 Annual Attestation to the firm's Written Supervisory Procedure. To ensure proper implementation, we have established a tracking system via a Compliance Calendar so that the 2711 Annual Attestation will be timely filed before April 1 of each year going forward.

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