

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021107801**

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

RE: Allied Beacon Partners, Inc., Respondent
CRD No. 46227

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, we 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. We 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

Allied Beacon Partners, Inc. ("Allied Beacon") has been a FINRA member since March of 1999.¹ The firm has 90 branch offices, 220 registered persons and is headquartered in Richmond, Virginia. The firm is approved to conduct business in equities, corporate debt securities, mutual funds, municipal securities, variable products and annuities, and private placements.

RELEVANT DISCIPLINARY HISTORY

On August 17, 2009, FINRA fined Allied Beacon \$12,500 for failure to transmit all reportable order events to the Order Audit Trail System ("OATS") and for supervisory failures related to OATS reporting.

¹ Allied Beacon acquired Waterford Investor Services, Inc. ("Waterford") in 2011. All of the conduct described in this AWC, including the disciplinary history referenced below, was committed by Waterford prior to Allied Beacon's acquisition of Waterford.

OVERVIEW

During the time period from October 1, 2007 through June 25, 2010 (hereinafter the "relevant time period"), Allied Beacon: 1) on two occasions, acquired assets that generated more than 25% of the firm's earnings measured on a 36-month rolling basis, without filing required continuing membership applications; 2) failed to gather adequate information from customers who engaged in variable annuity transactions so that the firm could make reasonable suitability determinations; 3) failed to conduct adequate annual testing of the firm's supervisory control procedures; 4) failed to report customer complaints to FINRA's 3070 system; and 4) failed to establish, maintain and implement a supervisory system reasonably designed to achieve compliance with securities laws and regulations. As a result of the foregoing, Allied Beacon violated NASD Membership and Registration Rule 1017, NASD Rules 2110, 2821, 3110, 3010, 3012, 3013, 3070, and FINRA Rules 2330, 3130 and 2010.

FACTS AND VIOLATIVE CONDUCT

Failure to File Continuing Membership Applications

In early 2009 and early 2010, Allied Beacon acquired registered representatives, customer accounts and branch offices from two broker-dealers that had filed Forms BDW. In both instances, the transfer of assets from the other firms to Allied Beacon represented significantly more than 25 percent of Allied Beacon's earnings measured on a rolling 36-month basis. Despite the foregoing, on both occasions Allied Beacon failed to file required continuing membership applications (hereinafter "CMAs") requesting approval of the asset transfers from FINRA. On one occasion Allied Beacon represented to FINRA that a CMA would be filed with FINRA within 30 days, yet no CMA was ever filed with FINRA requesting approval of either asset transfer.

As a result of the foregoing, Allied Beacon violated NASD Membership and Registration Rule 1017 and FINRA Rule 2010.

Variable Annuity Deficiencies

FINRA staff sampled 20 variable annuity transactions conducted by Allied Beacon during the relevant time period. A review of the 20 transactions revealed that Allied Beacon failed to gather and maintain required documentation about the transactions and the customers. Specifically, 18 transactions sampled were lacking certain customer information or documentation needed in order to make a reasonable suitability determination as follows: In 12 instances, the firm failed to demonstrate that the customer was informed of potential charges for, and features of, elected riders; In 11 instances, there was no evidence that the variable annuity application was promptly forwarded to the Office of Supervisory Jurisdiction as required by FINRA Rule 2330(b)(3); In 9 instances, there was no reasonable basis documented for the variable annuity recommendation and/or the registered representative did not clearly document and sign a

suitability determination; In 8 instances, the intended use of the product was not documented; In 5 instances, the time horizon for the product was not documented, the risk tolerance of the client was not identified and/or the subaccount allocation was not documented and disclosed; In 4 instances, the mortality and expense fees for the new product was not documented and disclosed; In 3 instances, there was no indication of the existing assets prior to an IRS Rule 1035 exchange and/or there was no indication of the customers' risk tolerance; and in 1 instance, there was no indication of the customer's financial situation and needs, there was no indication of the customer's liquidity needs, there was no indication of the customer's time horizon and/or there was no indication that the new surrender charge was documented and disclosed.

Of the 20 variable annuity transactions that were sampled, a large portion of them revealed Allied Beacon's failure to ensure that the customer's application was adequately reviewed and approved by a designated principal prior to its transmission to the issuing insurance company in accordance with FINRA Rule 2330(c). In 11 instances, there was no evidence and signed documentation to support the suitability determination by the registered principal who reviewed and then approved the transaction. In 12 instances, there was no evidence that the application was forwarded to the issuing insurance company within 7 days after an Office of Supervisory Jurisdiction received the application.

In addition to the foregoing, the firm's written supervisory procedures (hereinafter "WSPs") for variable annuity transactions were deficient. Specifically, the WSPs for variable transactions identified one individual as having the responsibility to supervise variable transactions; however, another individual that was not identified in the WSPs was actually the primary person responsible for supervising variable annuity transactions during the relevant time period. In addition, the WSPs did not address how the firm would monitor compliance with SEC Rule 15c2-8, which requires that a prospectus be delivered to customers. Of the 20 transactions that FINRA staff sampled, Allied Beacon was unable to provide any documentation demonstrating that a prospectus was sent to any of the customers.

As a result of the foregoing, Allied Beacon violated NASD Rules 2821, 2110 and 3110, and FINRA Rules 2330 and 2010.

Failure to Conduct Adequate Testing of Supervisory Control Procedures

In 2007, 2008 and 2009, Allied Beacon tested the firm's supervisory control procedures and prepared the required annual reports to senior management. The firm's testing and/or subsequent reports were inadequate as they: (1) did not detail how the firm tested, sampled, corrected, and evidenced the review of supervisory controls to ensure compliance with regulatory requirements; (2) did not test the firm's variable annuity business, which represented one of the largest revenue sources for the firm; and (3) did not address the changes made to the firm's supervisory systems after it was acquired by another entity. In addition, the annual CEO certifications were executed prior to the preparation of the annual reports to senior management for 2008 and 2009. As a result of

the foregoing, Allied Beacon violated NASD Rules 3012, 3013 and 2110 and FINRA Rules 3130 and 2010.

Failure to Report Customer Complaints

During the relevant time period, Allied Beacon: (1) failed to file with FINRA statistical and summary information relating to four customer complaints; and (2) failed to timely file with FINRA statistical and summary information relating to two customer complaints received by Allied Beacon that were required to be reported under NASD Conduct Rule 3070.

As a result of the foregoing, Allied Beacon violated NASD Rules 3070 and 2110 and FINRA Rule 2010.

Failure to Establish, Maintain and Implement an Adequate Supervisory System

As set forth above, the firm effectuated two asset transfers without filing required CMAs. The asset transfers increased the firm's number of registered representatives and branches to 100 and 30 respectively, which nearly doubled the amount of representatives and branches that the firm had prior to the asset transfers. Despite the rapid and unapproved growth, the firm's overall supervisory and compliance structure remained the same during the relevant time period. The firm's compliance department was located in the main office in Clearwater, Florida and consisted of its President and Chief Executive Officer and two part-time employees. Contrary to the firm's WSPs, the majority of supervisory reviews during the relevant time period were conducted by individuals located in the firm's Richmond, Virginia Office of Supervisory Jurisdiction. In addition, the firm's books and records were maintained in Richmond, Virginia.

As set forth above, the firm had various deficiencies related to variable annuity transactions, which during the relevant time period, comprised approximately 25% of the firm's overall business. The firm had adequate procedures for complaint reporting and supervisory controls, yet the firm failed to report four complaints, reported two complaints in an untimely manner and conducted inadequate testing of its supervisory controls for three consecutive years. Based on all of the above, the firm's overall supervisory system was not adequate given its business model and rapid acquisition of assets from other firms.

As a result of the foregoing, Allied Beacon violated NASD Rules 3010 and 2110 and FINRA Rule 2010.

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

A censure and a \$40,000 fine.

We agree to pay the monetary sanctions upon notice that this AWC has been

accepted and that such payment is due and payable. We have submitted an Election of Payment form showing the method by which we propose to pay the fine imposed.

We specifically and voluntarily waive any right to claim that we 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

We 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, we specifically and voluntarily waive any right to claim bias or prejudice 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.

We 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

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

Allied Beacon Partners, Inc.

By:


James Hintz, President and CEO

08/08/2012

Date

Reviewed by:

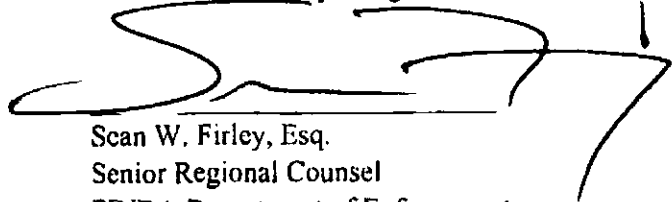


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Accepted by FINRA:

8/27/12
Date

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



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