

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021316801**

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

RE: Arete Wealth Management LLC, Respondent
CRD No. 44856

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Arete Wealth Management LLC 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 it alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Arete 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

Arete's predecessor company, Keystone Securities, Inc., was created in August 21, 1998. Keystone Securities, Inc. changed its name to Arete in February 2008. Arete conducts a general securities business from its main office located in Schaumburg, Illinois and has 17 branch offices. The firm has 60 registered representatives. During all periods mentioned herein, Arete was a registered broker-dealer with the United States Securities and Exchange Commission ("SEC") and FINRA. The firm's registrations remain currently in effect.

RELEVANT DISCIPLINARY HISTORY

Arete does not have any relevant formal disciplinary history.

OVERVIEW

Between September 2007 and September 2008, Arete failed to enforce its written supervisory procedures regarding due diligence for private offerings. Specifically, Arete failed to document its due diligence efforts for three offerings and, for one of these offerings, failed to perform adequate due diligence. This conduct violates NASD Conduct Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

NASD Conduct Rule 3010 requires registered broker-dealers to establish, maintain and enforce a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations, and FINRA Rules. Rule 3010 also requires FINRA-registered firms to establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA Rules.

A broker-dealer must conduct due diligence on its securities products in order to understand the inherent risks of these products and to determine whether these products are suitable for its customers. This due diligence is especially important for alternative investments or private offerings, such as Regulation D offerings, where there is no registration of the securities with the SEC.

With respect to private placements, Arete's written supervisory procedures mandated that the firm, "at a minimum," take the following steps prior to offering shares of private offerings to customers:

- Obtain and review the offering material and all background documents;
- Research the issuer's industry segment, including historical growth, economic influences and competitive factors;
- Analyze the issuer's historical financial results and projected business activity;
- Review the issuer's management history; analyze its effectiveness and depth of experience;
- Use, where appropriate, the advice and guidance of an attorney, accountant, and/or other "due diligence" experts in the issuer's specific industry;
- Attend any "due diligence meetings" or other sessions providing an opportunity to meet the management and ask questions about the issuer and the offering; and

- Create a reasonably comprehensive “due diligence” file for the offering, containing copies of documents, records or meetings, telephone conversations, visits, etc.

Between approximately September 2007 and September 2008, Arete approved of multiple private offerings and offered them to its customers. For one of these offerings, Maize Fund LP (“Maize Fund”), Arete failed to perform adequate due diligence.

Prior to offering shares of Maize Fund to customers, Arete took some investigative steps, including verifying the money manager’s credentials and verifying that customer funds were kept in a separate account maintained by a clearing firm. However, Arete relied too heavily on the representations made by the issuer within the private placement memorandum for Maize Fund. For example, Arete failed to contact the law firm that purportedly created the private placement memorandum to verify its involvement. In addition, Arete failed to contact the accounting firm that purportedly was involved in preparing financial reports for Maize Fund to confirm its involvement.

Around September 2008, Arete sold shares of the Maize Fund to four of its customers. In January 2009, when Maize Fund could not immediately verify the value of the customers’ investments, Arete conducted additional investigative steps of Maize Fund. This time, Arete discovered that one individual involved with Maize Fund had misrepresented his educational credentials, and that the law firm and accounting firm supposedly involved with Maize Fund had not, in fact, performed services for the fund.

In late January 2009, the SEC determined that the umbrella corporation that owned Maize Fund was involved in fraudulent activity. As a result of that determination, even though Maize Fund was not directly involved in the fraud, the SEC seized Maize Fund’s assets.

In addition to Arete’s inadequate due diligence, the firm also failed to sufficiently document its due diligence. In connection with Maize Fund, Arete’s due diligence file only consisted of a private placement memorandum, some email correspondences between Arete and the issuer and a written timeline of meetings and phone calls. Additionally, in connection with two other private offerings, FINRA discovered that Arete failed to document that adequate due diligence had been performed. In each of these three offerings, Arete’s files did not contain documentation evidencing a meaningful investigation or critical analysis of the offerings.

Arete, by failing to perform adequate due diligence on one offering and failing to

evidence adequate due diligence on three private offerings, violated NASD Conduct Rule 3010 and FINRA Rule 2010.

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

1. Censure; and
2. Fine of \$25,000

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

Arete 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

Arete 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, Arete 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.

Arete 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

Arete understands that:

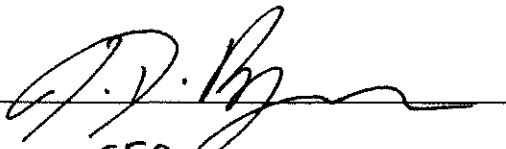
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
- C. If accepted:
 - 1. this AWC will become part of Arete's 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 Arete'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. Arete 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. Arete 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 Arete's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Arete may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Arete

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 Arete 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.

6/15/12
Date

Arete Wealth Management LLC

By: 
Its: CEO

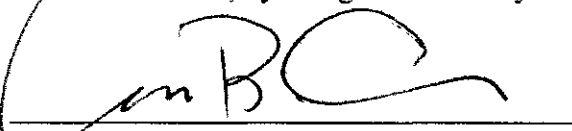
Reviewed by:

Attorney Name (if any)
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by FINRA:

7.9.12
Date

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



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June 15, 2012

UnBo Chung
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Re: Statement of Corrective Action

Dear Mr. Chung:

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.

Arete Wealth Management would like to offer the following Statement of Corrective Action in regards to its due diligence process and documentation of due diligence process.

As noted during the firm's cycle audit during 2010, the firm has expanded its executive staff to include a full time Chief Compliance Officer and an Executive Vice President who together oversee the firm's due diligence efforts on all private placement and/or non-traded securities. Similarly the firm has updated its Written Supervisory Procedures to accurately reflect the processes that are employed in determining the appropriateness of an offering.

While private placement of securities represents an entirely small portion of the firm's business, Arete Wealth Management commits a tremendous amount of resources to ensuring the legitimacy of all offerings and the appropriateness of any offering for its clients. While, the firm does not rely solely upon third party due diligence reports, it does make use of them in support of its own efforts to verify the facts and circumstances represented in an issuer's offering documents. Further, the firm maintains records of all of its research and conversations with involved parties.

The firm believes that it is currently in compliance with all of its requirements in regards to its review and evidencing of review of securities offered to its clients. It should be noted that no exceptions to its current processes and procedures were cited either during the District's 2010 audit, nor during the recently conducted 2012 audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Joshua Rogers", is written over a horizontal line.

Joshua Rogers
President
Arete Wealth Management