

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
No.: 2011025852103**

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

RE: Ernest J. Romer
Registered Representative
CRD No. 2311741

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Ernest Romer 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I 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

Ernest Romer entered the securities industry in March 1993 as a general securities representative. In December 2005, he became registered in that same capacity with Leonard & Company. He remained registered with Leonard & Company until July 2012. He is presently registered with another FINRA firm. Romer has no prior disciplinary history.

OVERVIEW

Romer recommended that his customers buy and sell Inverse Floater Collateralized Mortgage Obligations ("Inverse Floater CMOs"), without having a reasonable basis to make those recommendations. Romer did not understand the nature of the Inverse Floater CMO transactions he recommended, including the potential risks and rewards, because he failed to perform a reasonable investigation or appropriate due diligence of each product prior to making his recommendations. This conduct was in violation of NASD Rules 2310 and 2110,

and FINRA Rule 2010. Additionally, Romer engaged in discretionary trading when he effected securities transactions involving Inverse Floater CMOs in his customers' accounts, in violation of NASD Rules 2510 and 2110, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Inverse Floater CMOs

A CMO is a security that is collateralized by mortgage-backed securities ("MBS"). MBS, in turn, are securities collateralized by a pool of mortgages. The principal and interest from the mortgages underlying the MBS are used to pay CMO investors principal and/or interest, depending on the type, or "tranche," of CMOs that they own. CMOs come in myriad varieties, each with its own yield, price volatility, and risk characteristics. CMOs are classified, in part, based on the entity that guarantees them. CMOs guaranteed by the Government National Mortgage Association, a government-owned corporation, or guaranteed by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, both government-sponsored enterprises ("GSEs"), are referred to as "agency" CMOs. While agency CMOs have low levels of credit risk, they do expose investors to high levels of interest rate risk and liquidity risk.

Inverse Floater CMOs are variable rate securities with a coupon that is inversely related to a short-term interest rate index, typically the London Interbank Offered Rate ("LIBOR"). As the index's interest rate rises, the Inverse Floater CMO's interest payment falls. Conversely, if the index's interest rate declines, the interest payment of the Inverse Floater CMO increases. Oftentimes, Inverse Floater CMOs are "leveraged," meaning that the interest rate moves up or down more severely than the index to which it is tied. This leverage can create an even greater risk to an investor in the event of movements in the interest rate markets. In addition, given their complexity and volatility, Inverse Floater CMOs often have poor liquidity. Given that Inverse Floater CMOs are one of the riskiest CMOs available, they are generally sold only to institutional investors.

According to FINRA's *Notice to Members 93-73: Member's Obligations to Customers When Selling Collateralized Mortgage Obligations (CMOs)*, Inverse Floater CMOs are "only suitable for sophisticated investors with a high-risk profile and the investor must be made aware of the risks and characteristics of [the Inverse Floater] being purchased." Thus, a representative must be aware of the risks and characteristics associated with each Inverse Floater CMO being recommended. The notice further provides that members "must be conversant in all of the characteristics of CMOs to assess adequately the suitability of CMOs for their customers."

Reasonable Basis Suitability

NASD Rule 2310 requires, among other things, that a registered representative: 1) perform reasonable diligence to understand the nature of the recommended security as well as the potential risks and rewards; and 2) determine whether the recommendation is suitable for at least some investors based on that understanding. A broker must adhere to both components of reasonable-basis suitability. A broker violates the obligation if he does not understand the recommended security, even if the security is suitable for at least some investors. Determining reasonable basis suitability includes conducting appropriate due diligence to ensure that persons who recommend a security understand its nature, as well as its risks and rewards.

Leonard & Company's Inverse Floater CMO Program

In October 2008, Leonard & Company established a branch office in Boca Raton, Florida and hired several individuals who purportedly had expertise in trading CMOs ("Boca Raton Group"). These individuals worked with C.P., a person who held himself out as a CMO expert ("CMO Consultant").

The CMO Consultant's primary role was to analyze the market and provide Leonard & Company with a selection of Inverse Floater CMOs for representatives to offer to their customers. Once an Inverse Floater CMO was selected by the CMO Consultant, it was recommended to the firm's registered representatives, including Thomas Cordingly, through the Boca Raton Group. The only written information provided in connection with the Boca Raton Group's recommendations came in the form of screen printouts from a third-party entity that provided financial market data to Leonard & Company and other firms that traded CMOs ("screen printouts"). The screen printouts, however, failed to contain critical information that would have assisted the firm's registered representatives, including Cordingly, in gaining an adequate understanding of each Inverse Floater CMO before recommending a transaction to a retail customer.

Romer Lacked Experience in the Sale of Inverse Floater CMOs to Retail Customers and Failed to Obtain Proper Training Prior to Engaging in Sales Activities

Romer did not have any prior experience selling Inverse Floater CMOs to retail customers and had very little knowledge about the characteristics and risks of the product. Romer participated in a brief training program offered by Leonard & Company. However, Romer failed to take the training before he began offering Inverse Floater CMOs to his customers. Further, the training did not provide him with specific, objective criteria or guidelines to use in conducting an analysis of each Inverse Floater CMO, prior to making a purchase or sale recommendation.

As a consequence, Romer did not have the requisite background, experience and training necessary to conduct an adequate investigation and analysis of each Inverse Floater CMO prior to recommending a transaction to one of his customers.

Romer Recommended His Customers Buy and Sell Inverse Floater CMOs Without Having a Reasonable Basis to Make Those Recommendations

Between October 2008 and February 2011, Romer recommended approximately 800 Inverse Floater CMO transactions to approximately 30 of his customers. The total amount of revenue earned by Romer in connection with these Inverse Floater CMO transactions was approximately \$400,000. Romer relied almost exclusively on the recommendations of the Boca Raton Group when effecting transactions for his customers. He accepted the Boca Raton Group's recommendations as his own, with little or no further analysis.

Romer lacked a reasonable basis to recommend the purchase and sale of Inverse Floater CMOs to his customers. He failed to perform a reasonable investigation or appropriate due diligence of each Inverse Floater CMO he recommended. Romer also failed to investigate each Inverse Floater CMO he recommended with respect to several key risk factors, including, but not limited to, the Inverse Floater CMO's mortgage pool, its structure, and its expected average life. Further, the information contained in the screen printouts sent by the Boca Raton Group was very limited, and did not provide Romer with sufficient enough information to conduct an adequate assessment of the important characteristics and risks of each particular Inverse Floater CMO. As a result, Romer did not have a reasonable understanding of the nature, risks and rewards of each transaction he recommended.

Based on the above, Romer violated NASD Rules 2310 and 2110 and FINRA Rule 2010.

Romer Engaged in Discretionary Trading When He Effected Securities Transactions Involving Inverse Floater CMOs on Behalf of His Customers

Between October 2008 and February 2011, Romer used discretion to buy and sell an unknown number of Inverse Floater CMOs on behalf of approximately ten customers, without having obtained prior written authorization from them to exercise discretion and prior written acceptance of their accounts as discretionary from his firm. Although Leonard & Company permitted discretionary trading, he was required by his firm's written supervisory procedures to obtain prior written approval from the firm's Executive Committee before engaging in any discretionary trading activities.

By engaging in the conduct described above, Romer violated NASD Rules 2510 and 2110, and FINRA Rule 2010.

- B. I also consent to the imposition of a two month suspension from association with any FINRA member in any capacity and a \$30,000 fine.

I agree to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. I have submitted an Election of Payment form showing the method by which I propose to pay the fine imposed.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See FINRA Rules 8310 and 8311.)

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

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

I 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

I 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 me; 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. I 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. I 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 my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I 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.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I 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 me to submit it.

11-29-2012

Date



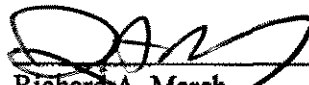
Ernest J. Romer

Accepted by FINRA:

1/15/13

Date

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



Richard A. March

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