

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Great Nation Investment Corporation
(CRD No. 19981)

and

Byron Pat Treat
(CRD No. 1466393)

Respondents.

DISCIPLINARY PROCEEDING
No. 2011026374802

Hearing Officer: DRS

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: January 24, 2014

INTRODUCTION

Disciplinary Proceeding No. 2011026374802 was filed on May 14, 2013, by the Department of Enforcement of the Financial Industry Regulatory Authority ("FINRA") ("Complainant"). Respondents Great Nation Investment Corporation ("Great Nation") and Byron Pat Treat ("Treat") submitted an Offer of Settlement ("Offer") to Complainant dated January 14, 2014. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC"), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth

in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint as amended by the Offer of Settlement, 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, to the entry of findings and violations consistent with the allegations of the Complaint as amended by the Offer of Settlement, and to the imposition of the sanctions set forth below, and fully understand that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Great Nation is currently, and was during all times relevant hereto, a member of FINRA and registered as a broker/dealer with the U.S. Securities and Exchange Commission. The firm, which registered with FINRA in June 1987 and is headquartered in Amarillo, Texas, currently employs forty-one registered personnel and operates six branch offices. Great Nation's primary business activity is the offer and sale of church bonds. The firm also conducts business in equities, mutual funds, municipal securities, variable life insurance products, and private placements.

The firm's disciplinary history includes the following:

On March 4, 2011, FINRA issued an Order Accepting Offer of Settlement (No. 2008011602901), in which Great Nation was censured and fined \$10,000 for willful violations of SEC Rule 15c2-4 and violations of NASD Rules 2110 and 3010. The firm consented to findings that, in connection with a contingent securities offering conducted during the period from 2006 to 2007, it allowed investor funds to be deposited into an

account at an unaffiliated third-party bank that was not a party to the escrow agreement.

The firm also failed to establish and maintain a supervisory system and procedures reasonably designed to achieve compliance with applicable securities laws and regulations and with NASD Rules in connection with establishing and monitoring escrow accounts in connection with contingent securities offerings.

On September 29, 2008, the State of Arkansas issued a Consent Order (No. S-08-46-08-CO01), in which the firm was fined \$21,112.65 for violations involving the sales of securities in excess of the amount allowed under certain exemptions, and for advertising and supervisory violations.

Treat entered the securities industry in February 1986, when he associated with a FINRA member firm. Subsequently, in July 1989, Treat associated with Great Nation. He is currently, and was during all times relevant hereto, Great Nation's President and Chief Executive Officer. During the relevant period, Treat also was responsible for supervising the firm's contingent securities offering business. During his career in the securities industry, Treat obtained Series 7, 24, 27 and 63 securities licenses. He has no prior disciplinary history.

FINRA has jurisdiction over Great Nation because it is currently registered as a FINRA member firm and over Treat because he is currently associated with a FINRA member firm.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

FIRST CAUSE OF ACTION

Inadequate Supervisory Systems and Written Supervisory Procedures (NASD Rules 3010 and 2110 and FINRA Rule 2010)

Offering #1

1. From November 2008 to December 2008, Great Nation, acting through Treat,

underwrote a “minimum-maximum” contingent offering of church bond securities (“Offering #1”). According to the Offering #1 prospectus, the offering sought to raise a minimum of \$86,000 and a maximum of \$925,000.

2. Great Nation entered into an escrow agreement with a bank to serve as Escrow Agent for Offering #1. The Offering #1 prospectus states that the “Escrow Agent will establish an appropriate account to receive the proceeds from the sale of the Bonds for deposit therein until the earlier of the termination of the Escrow Agreement or the termination of the offering and sale of the Bonds. The prospectus also states that investor checks shall be made payable to the Escrow Agent.

3. In at least four instances, customer checks received by Great Nation in connection with Offering #1 were made payable to Great Nation instead of the Escrow Agent. Great Nation deposited the checks into its bank account that was established pursuant to SEC Rule 15c3-3(k)(2)(i) (“(k)(2)(i) account”). The firm subsequently drew checks on that account made payable to the Escrow Agent. Great Nation did not return any checks to customers with instructions to make the checks payable to the Escrow Agent.

4. Upon receipt of customer funds from Offering #1, either directly from customers or via a check from Great Nation, the Escrow Agent deposited the funds into a commingled account that was in the name of the Escrow Agent and contained funds from unrelated church bond offerings conducted by several different broker-dealers.

5. Great Nation’s and Treat’s actions contravened the following representations in the Offering #1 prospectus: (1) that customer investment checks “shall” be made payable to the Escrow Agent when Great Nation accepted customer checks made payable to the firm instead of

the Escrow Agent; and (2) that customer funds would be deposited into an escrow account when Great Nation deposited customer funds into its (k)(2)(i) account instead of the escrow account.

Offering #2

6. From February to March 2010, Great Nation underwrote a “minimum-maximum” contingent offering of church bond securities (“Offering #2”). According to the Offering #2 prospectus, the offering sought to raise a minimum of \$104,000 and a maximum of \$1,000,000.

7. Great Nation entered into an escrow agreement with a bank to serve as Escrow Agent for Offering #2. The Offering #2 prospectus states that the Escrow Agent will establish an appropriate account to deposit customer funds from the offering until the termination of the escrow agreement or the termination of the offering. The prospectus also requires that customer checks be made payable to the Escrow Agent.

8. At least twenty-seven customer checks received by Great Nation in connection with Offering #2 were made payable to Great Nation instead of to the Escrow Agent. The firm endorsed the checks and forwarded them to the Escrow Agent. Great Nation did not return any checks to customers with instructions to make the checks payable to the Escrow Agent.

9. Upon receipt of investor funds from Offering #2, the Escrow Agent deposited the funds into the commingled account described in paragraph 4.

10. Great Nation and Treat did not review the activity in the commingled escrow account. Instead of escrow account bank statements, the Escrow Agent provided Great Nation with documents entitled *Bond Proceeds Summary* that provided an overview of the activity in the commingled account that was related to either Offering #1 or Offering #2. The summary did not show the underlying activity in the commingled account.

11. Great Nation's and Treat's actions contravened the representation in the Offering #2 prospectus that customer investment checks "shall" be made payable to the Escrow Agent when Great Nation accepted customer checks made payable to the firm instead of the Escrow Agent.

12. During the relevant time period, Great Nation, acting through Treat, failed to establish, maintain, and enforce an adequate supervisory system and written supervisory procedures regarding the firm's participation in contingent offerings of securities. Specifically, Great Nation's supervisory systems and written supervisory procedures were inadequate to ensure compliance with the terms of the prospectuses for Offering #1 and Offering #2.

13. Great Nation's supervisory systems and written supervisory procedures also failed to contain provisions regarding supervision of the activity in escrow accounts established in connection with contingent offerings of securities. For example, Great Nation had no procedures in place that required review of escrow account statements to ensure that investor funds were being handled in accordance with the terms of offering prospectuses.

14. As a result of the foregoing conduct, Great Nation and Treat violated NASD Rules 3010, 2110 (during the period from November 2008 to December 14, 2008), and FINRA Rule 2010 (during the period from December 15, 2008 to March 2010).

SECOND CAUSE OF ACTION

Failure to Disclose Required Information on Customer Confirmations (Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-10 thereunder, NASD Rule 2230, and FINRA Rules 2010 and 2232)

15. From October 2010 to September 2011, Great Nation, while acting in an agency capacity, failed to disclose commission fees, totaling approximately \$42,000, that it charged to customers on 160 customer confirmations as detailed on Exhibit A to the Complaint.

16. As a result of the foregoing conduct, Great Nation violated Section 10(b) of the Exchange Act and Rule 10b-10 thereunder, and violated NASD Rule 2230 (during the period from October 2010 to June 16, 2011), and FINRA Rules 2010 and 2232 (during the period from June 17, 2011 to September 2011).

17. Based on the foregoing, Respondents Great Nation and Treat violated NASD Rules 3010, 2110 (during the period from November 2008 to December 14, 2008), and FINRA Rule 2010 (during the period from December 15, 2008 to March 2010), as alleged in the First Cause of Action, and Great Nation violated Section 10(b) of the Exchange Act and Rule 10b-10 thereunder, NASD Rule 2230 (during the period from October 2010 to June 16, 2011), and FINRA Rules 2010 and 2232 (during the period from June 17, 2011 to September 2011), as alleged in the Second Cause of Action.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent Great Nation Investment Corporation be censured and fined \$20,000 and Respondent Byron Pat Treat be fined \$5,000.

Respondents agree to pay the monetary sanctions upon notice that this Offer has been accepted and that such payments are due and payable. Respondents have submitted Election of Payment forms showing the methods by which they propose to pay the fines imposed.

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

SO ORDERED.

FINRA

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

A handwritten signature in black ink, reading "Karen E. Whitaker". The signature is fluid and cursive, with a horizontal line drawn underneath it.

Karen E. Whitaker
Senior Regional Counsel
FINRA Department of Enforcement
12801 North Central Expressway, Suite 1050
Dallas, TX 75243
Phone: 972-716-7610; Fax: 972-716-7612
e-mail: karen.whitaker@finra.org