

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011028571401**

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

RE: B.C. Ziegler and Company, Respondent
Member Firm
CRD No. 61

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

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

B.C. Ziegler and Company ("B.C. Ziegler" or the "Firm") has been a registered broker-dealer and a member of FINRA, since 1948. B.C. Ziegler is a full service brokerage firm headquartered in Chicago, Illinois. A primary business of the Firm is the underwriting and sale of various fixed income products, including debt issued by religious institutions ("Church Bonds") and senior living facilities ("Senior Living Bonds"). B.C. Ziegler has approximately 22 branch offices and 200 registered representatives.

OVERVIEW

During the period from January 1, 2009 through May 30, 2012 (the "Relevant Period"), B.C. Ziegler failed to implement a supervisory system reasonably designed to ensure that material economic information regarding Church Bonds,

including delinquent sinking fund payments, was disclosed to the Firm's registered representatives, trading desk and customers, and that such information was factored into the pricing of Church Bonds sold to customers in secondary market transactions. As a result of these supervisory deficiencies, B.C. Ziegler violated NASD Rule 3010 and FINRA Rule 2010.

During the Relevant Period, B.C. Ziegler used Church Bond sales material with customers that was not fair and balanced. The sales material prominently promoted the yields associated with Church Bonds without balancing the presentations by disclosing the risks associated with these bonds. As a result, B.C. Ziegler violated NASD Rule 2210(d)(1)(A) and FINRA Rule 2010. B.C. Ziegler also distributed unbalanced internal-use-only Church Bond sales material to its registered representatives, causing the Firm to violate NASD Rule 2211(d)(1) and FINRA Rule 2010. In addition, B.C. Ziegler disseminated advertisements for Senior Living Bonds without adequate risk disclosures in violation of MSRB Rule G-21.

FACTS AND VIOLATIVE CONDUCT

B.C. Ziegler's Church Bond Business

B.C. Ziegler specializes in underwriting and selling Church Bonds for religious institutions located throughout the United States. Church Bonds are generally issued by nonprofit religious entities and exempt from registration as a security with the Securities and Exchange Commission. The bonds are often secured by mortgages on real property of the issuer with maturity dates ranging up to 25 years from issuance. There is no established secondary market for Church Bonds, although B.C. Ziegler frequently facilitated secondary trading among its customers for Church Bonds it underwrote during the Relevant Period.

A Church Bond sinking fund is a pool of money funded with periodic payments, usually weekly, by an issuer for the purpose of accumulating money to make annual or semi-annual coupon payments due to Church Bond investors. Sinking fund payments are often required by Church Bond trust indentures to account for irregular and seasonal church cash flows. A Church Bond issuer behind on its sinking fund payments is not in strict compliance with its trust indenture. Untimely sinking fund payments may be a sign of an issuer's financial distress. Trust indentures for Church Bonds issued by B.C. Ziegler required sinking fund payments and provided a 30 day grace period to cure delinquent sinking fund payments before the Church Bonds could be deemed to be in default.

Part of B.C. Ziegler's post-offering Church Bond due diligence was monitoring sinking fund payments by issuers. The trustee responsible for administering the sinking funds provided monthly reports to the Firm, which identified Church Bond issuers who were delinquent with their sinking fund payments. Beginning in

or about March 2009, B.C. Ziegler's Chief Credit Officer created a Credit Watch List that tracked, among other things, Church Bond issuers who were five or more weeks behind on sinking fund payments. The Credit Watch List was distributed initially only to senior management of the Firm. In September 2010, B.C. Ziegler began distributing the Credit Watch List to the Firm's trading desk and registered representatives. The Credit Watch List was only produced periodically and not every time a Church Bond issuer fell five weeks behind on its sinking fund payments.

Failure to Establish and Maintain Adequate Supervisory Procedures

NASD Rule 3010 requires each member firm to establish and maintain a system, including written procedures, to supervise its activities that is reasonably designed to achieve compliance with the federal securities laws and applicable FINRA and NASD Rules.

B.C. Ziegler violated NASD Rule 3010 by failing to establish and maintain a supervisory system reasonably designed to ensure that material economic information, such as delinquent sinking fund payments, was disclosed to the Firm's sales staff and customers who were sold Church Bonds in secondary market transactions. The Firm collected information on sinking fund payments, but did not have policies or procedures addressing the dissemination of this information to registered representatives, the trading desk, or customers. Consequently, prior to September 2010, B.C. Ziegler did not inform its registered representatives, trading desk, or customers when an issuer was more than 30 days behind on its sinking fund payments. From September 2010 through at least May 2012, B.C. Ziegler's registered representatives and trading desk were informed periodically and not every time a Church Bond issuer fell five weeks behind on its sinking fund payments through the Credit Watch List.

B.C. Ziegler's supervisory system was also not reasonably designed to consider material economic information in the pricing of Church Bonds in secondary market transactions. Because there was not an active secondary market for Church Bonds, B.C. Ziegler set the prices at which it repurchased and resold Church Bonds. The Firm's trading desk did not consider, and there were no procedures addressing, economic information specific to particular issuers, such as delinquent sinking fund payments, in determining the price for secondary market trades. The result was similar pricing for secondary market trades in Church Bonds that were current and delinquent with sinking fund payments.

By reason of the foregoing, B.C. Ziegler violated NASD Rule 3010 and FINRA Rule 2010.

Advertising Violations

NASD Rule 2210(d)(1)(A) requires that FINRA member communications be "based on principles of fair dealing and good faith" and "fair and balanced," and that they "provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service." Further, it states: "[n]o member may omit any material fact or qualification if the omission, in the light of the context of the material presented, would cause the communications to be misleading."

During the Relevant Period, B.C. Ziegler violated NASD Rule 2210(d)(1)(A) by using 59 pieces of sales material that were not fair and balanced and did not provide a sound basis for evaluating the facts in regard to purchases of Church Bonds. The sales material generally promoted Church Bond new issues and the bonds' yields without a fair and balanced presentation of the risks posed by the bonds. The risk disclosures were generic and in small print legends at the bottom of the page, and did not prominently disclose the risks of potential default and/or loss of principal, that the bonds were not rated and the bonds' illiquidity resulting from the lack of a secondary market.

NASD Rule 2211(d)(1) applies the content standards of NASD Rule 2210(d)(1)(A) to institutional sales material. B.C. Ziegler violated NASD Rule 2211(d)(1) by distributing seven internal-use-only Church Bond sales point memos to its registered representatives during the Relevant Period that failed to include risk disclosures addressing illiquidity and the potential loss of principal.

MSRB Rule G-21 prohibits the publication or dissemination of any advertisement relating to municipal securities that is false or misleading. The Senior Living Bonds issued by B.C. Ziegler were municipal securities. B.C. Ziegler violated MSRB Rule G-21 by disseminating 101 Senior Living Bond advertisements during the Relevant Period that promoted bond yields without disclosing that the bonds were non-rated or explaining the risks accompanying the high returns of such non-rated bonds. Promoting the Senior Living Bond yields without adequately disclosing the risks associated with those yields made the advertisements misleading.

By reason of the foregoing, B.C. Ziegler violated NASD Rules 2210(d)(1)(A) and 2211(d)(1), MSRB Rule G-21 and FINRA Rule 2010.

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

1. A censure; and
2. A fine in the amount of \$150,000 (\$15,000 of which pertains to the violation of MSRB Rule G-21).

B.C. Ziegler agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. B.C. Ziegler has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

B.C. Ziegler specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

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

Respondent 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

Respondent 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 Respondent; and**
- C. If accepted:**
 - 1. This AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;**
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. Respondent 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. Respondent 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 Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 B.C. Ziegler, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and have been given a full

opportunity to ask questions about it; that B.C. Ziegler 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 B.C. Ziegler to submit it.

6/2/14
Date (mm/dd/yyyy)

JRC
B.C. Ziegler and Company

By: Thomas R. Paprocki, CEO

Reviewed by:

[Signature]
Alan M. Wolper, Esq.
Counsel for Respondent
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Tel: (312) 658-6564

Accepted by FINRA:

6/19/14
Date

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

[Signature]
Perry C. Hubbard, Esq.
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