

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012031552601**

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

RE: H. Beck, Inc. (BD No. 1763),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, H. Beck, Inc. ("H. Beck" or the "Firm") 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. H. Beck 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

H. Beck is a full-service brokerage firm that has been a FINRA member since 1954. The Firm maintains its principal place of business in Bethesda, Maryland, and has approximately 465 registered branch offices and approximately 800 registered persons.

RELEVANT DISCIPLINARY HISTORY

On July 14, 2011, H. Beck entered into an AWC with FINRA in which it agreed, without admitting or denying the findings, to a censure and a fine of \$150,000. The AWC, in relevant part, charged the Firm with failure to retain email.

OVERVIEW

In the course of two routine examinations of H. Beck, FINRA staff found certain deficiencies. First, H. Beck failed to apply sales charge discounts to eligible purchases of unit investment trusts ("UITs") and failed to establish a supervisory system and written supervisory procedures ("WSPs") reasonably designed to

ensure that customers received sales charge discounts on all eligible UIT purchases. Second, H. Beck failed to establish a reasonable supervisory system and WSPs regarding the use of consolidated reports. In addition, certain registered representatives sent inaccurate consolidated reports to customers. Finally, H. Beck failed to enforce its WSPs requiring non-registered employees to register with the Firm any outside email accounts used for business-related communications. As a result of the above, H. Beck violated NASD Conduct Rules 2110, 2210 and 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. H. Beck Failed to Establish a Reasonable Supervisory System and Written Supervisory Procedures to Identify and Apply Applicable UIT Sales Charge Discounts

A UIT is a type of Investment Company that issues securities, typically called "units," representing undivided interests in a relatively fixed portfolio of securities. UITs are generally issued by a sponsor that assembles the UIT's portfolio of securities, deposits the securities in a trust, and sells units of the UIT in a public offering. UIT units are redeemable securities that are issued for a specific term, and entitle an investor to receive his or her proportionate share of the UIT's net assets on redemption or at termination.

UIT sponsors offer investors a variety of ways to reduce the sales charge fees charged on a purchase. For example, UIT sponsors often offer sales charge discounts on UIT purchases that are funded using redemption or termination proceeds from another UIT during the initial offering period.

On March 31, 2004, FINRA issued Notice to Members 04-26, *Unit Investment Trust Sales*, reminding broker-dealers that they should develop and implement procedures to ensure customers receive appropriate sales charge discounts for UITs. The Notice further stated that UIT transactions must take place "on the most advantageous terms available to the customer" and that it is the firm's responsibility to "ensure that they and their employees understand, inform customers about, and apply correctly any applicable price breaks available to customers in connection with UITs."

From October 2008 through September 2013, H. Beck failed to identify and apply sales charge discounts to customers with eligible purchases of UITs. Specifically, H. Beck failed to apply sales charge discounts to 1,017 eligible UIT purchases totaling approximately \$23 million. As a result, customers paid excessive sales charges of approximately \$198,000.¹ Based on the foregoing, H. Beck violated NASD Conduct Rule 2110 and FINRA Rule 2010.²

¹ H. Beck has paid restitution to all affected customers.

² NASD Rule 2110 was superseded by FINRA Rule 2010 effective December 15, 2008.

During the same period, H. Beck failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to ensure customers received sales charge discounts on all eligible UIT purchases. The Firm relied primarily on its registered representatives to ensure that customers received available UIT sales charge discounts, but failed to appropriately inform and train representatives and their supervisors to identify and apply such sales charge discounts. Based on the foregoing, H. Beck violated NASD Conduct Rules 3010(a) and (b) and 2110 and FINRA Rule 2010.

2. H. Beck Failed to Reasonably Supervise Registered Representatives' Use of Consolidated Reports

A consolidated report is a document provided to customers that combines information regarding most or all of a customer's financial holdings, regardless of where those assets are held. Consolidated reports supplement, but do not replace, customer account statements required pursuant to NASD Conduct Rule 2340.

In April 2010, FINRA issued Regulatory Notice 10-19, which reminded member firms that consolidated reports represent communications with the public and must therefore be clear, accurate and not misleading. The Notice directed that firms that allow representatives to create consolidated reports must supervise the activity. For instance, where the consolidated reports include assets held away from the firm, the firm must ensure that registered representatives take reasonable steps to ensure that such assets are valued accurately.

From July 26, 2011 through May 13, 2012, approximately 47 H. Beck registered representatives disseminated consolidated reports to customers. During that same period, H. Beck had no supervisory procedures specifically addressing the use and supervision of consolidated reports; therefore, H. Beck did not adequately address matters of concern specific to consolidated reports, such as the verification of valuation information provided or ensuring that registered representatives retain supporting documentation for such valuations. Based on the foregoing, H. Beck violated NASD Conduct Rules 3010(a) and (b) and 2110 and FINRA Rule 2010.

Also, a review of consolidated reports issued by H. Beck representatives from July 26, 2011 through May 13, 2012 disclosed instances in which representatives sent consolidated reports to customers that were inaccurate, primarily because the representatives manually inputted valuations of certain illiquid investments. Based on the foregoing, H. Beck violated NASD Conduct Rule 2210(d)(1) and FINRA Rule 2010.

3. H. Beck Failed to Enforce Written Supervisory Procedures Concerning Non-registered Employee's Use of Outside Email Accounts

11. Beck's WSPs required that non-registered employees utilize an email address for business-related communications that is registered with the Firm's outside vendor so that the emails could be archived. From July 26, 2011 through May 13, 2012, H. Beck failed to enforce these procedures. Specifically, the Firm allowed some non-registered employees to use outside email addresses for business-related communications, but failed to ensure that those email addresses were registered with its outside vendor for archiving. Based on the foregoing, H. Beck violated NASD Conduct Rule 3010(b) and FINRA Rule 2010.

- B. 11. Beck also consents to the imposition of the following sanctions:
- a censure and a fine in the amount of \$425,000.

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

Respondent 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 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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 it;
- C. If accepted:
 - 1. this AWC will become part of its 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 accordance with FINRA Rule 8313.
 - 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 its: (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; and

- 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 the Firm, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm 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.

H. Beck, Inc.

3-16-2015
Date (mm/dd/yyyy)
Reviewed by:

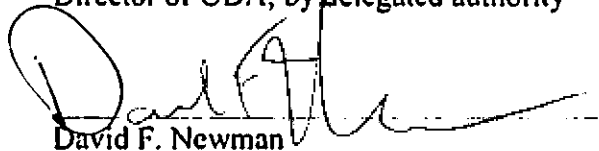
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Accepted by FINRA:

March 30, 2015
Date

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

A handwritten signature in black ink, appearing to read 'David F. Newman', is written over a horizontal line.

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