

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013035565002**

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

RE: 79 Capital Securities, LLC, Respondent
Broker-Dealer
CRD No. 145511

Michael M. Ward, Respondent
CRD No. 2853262

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

I.

ACCEPTANCE AND CONSENT

- A. Respondents 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

Respondent 79 Capital Securities, LLC became a member of FINRA in April 2008. 79 Capital conducts private placements and a general securities business. As of April 2014, it had two branches and 13 registered representatives.

Respondent Michael M. Ward entered the securities industry in 1997 and was registered with four firms from January 1997 to April 2011. In September 2011, Ward joined 79 Capital and became registered as a General Securities Representative, General Securities Principal, Introducing Broker-Dealer/Financial Operations Principal, and Investment Banking Representative. Ward currently is registered with 79 Capital and serves as its CEO. Ward owns a controlling interest in the firm.

OVERVIEW

In or about June and July 2012, 79 Capital and Ward posted on the website of a business networking organization sales material regarding GWG Renewable Secured Debentures, an illiquid and high-risk alternative investment that omitted material information concerning the Debentures. Respondents' distribution of the sales material violated NASD Rule 2210(d)(1)(A) and FINRA Rule 2010.

Additionally, Respondents failed to record basic suitability information and create new account forms for customers involved in two transactions for the purchase of Debentures. Respondents also permitted an employee whose FINRA registration had not been approved to sell Debentures. Respondents failed to enforce the firm's written procedures, requiring the creation of new account forms for these transactions and prohibiting unregistered persons from effecting securities transactions. As a result, Respondents violated Article V, § 1 of the FINRA By-Laws, NASD Rule 3010(b)(1), and FINRA Rules 4511(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

GWG Renewable Secured Debentures

GWG Holdings, Inc. purchases life insurance policies on the secondary market at a discount to the face value of the policies. Once GWG purchases a policy, it pays the policy premiums until the insured dies. GWG then collects the face value of the insurance benefit. GWG hopes to earn returns by collecting more upon the maturity of the policies than it has paid to purchase, finance and service the policies. The company has a limited operating history and has not yet obtained profits through its strategy. GWG has purchased almost all of the policies it owns with funds borrowed from financial institutions or investors.

In 2012, GWG began selling what it called Renewable Secured Debentures. The minimum investment in the Debentures is \$25,000. Additional investments can be made in \$1,000 increments. The Debentures have varying maturity terms and interest rates, from six-month Debentures offering an annual interest rate 4.75% to seven-year Debentures offering 9.50%.

The prospectus for the Debentures states that the life insurance policies held by GWG are not collateral for obligations under the Debentures. Instead, those policies have been separately pledged as collateral for a line of credit used by GWG to purchase life insurance policies. As stated in the prospectus, the Debentures may be considered speculative investments and involve a high degree of risk, including the risk of loss of the entire investment. The prospectus states that the company's success is dependent upon, among other things, its continued ability to raise funds to pay its obligations, including interest payments under the Debentures. Debentures renew automatically unless the investor takes action to cash out the investment.

An investment in the Debentures is also illiquid. Investors do not have access to their principal prior to maturity unless the request is due to death, bankruptcy or total disability. If GWG decides to prepay the Debentures other than under those circumstances, a prepayment fee of 6% is charged. There is also no secondary market for the Debentures. GWG also has the right to redeem the Debentures at any time. For these reasons, as the prospectus states, an investment in the Debentures is not suitable for investors who need liquidity prior to the Debenture's maturity date.

79 Capital and Ward Prepared an Internet Posting Regarding the Debentures that Omitted Material Information

Ward, on behalf of 79 Capital, prepared a description of the GWG Debentures and posted it on a password-protected business networking website in or about June and July 2012. The internet posting omitted information regarding the Debentures and was misleading for three reasons. First, the posting did not provide a sound basis for evaluating the GWG Debentures. The posting emphasized the GWG Debentures' interest rates but failed to disclose its illiquidity. Second, the posting failed to disclose the substantial risks involved in the investment. Third, the posting incorrectly stated that the "[u]nderlying investments are a portfolio of life insurance policies purchased in the secondary market" when, in fact (as stated in the prospectus for the Debentures and as described above), the Debentures are not a "portfolio" of insurance policies, and the policies have been pledged as collateral for a separate line of credit.

NASD Rule 2210(d)(1)(A) requires that member communications with the public, among other things, must be fair and balanced, must provide a sound basis for evaluating the facts in regard to any particular security or type of security, and may not omit information if the omission, in the light of the context of the material presented, would cause the communications to be misleading. By distributing the sales literature described above, 79 Capital and Ward violated NASD Rule 2210(d)(1)(A). As a result of this violation, 79 Capital and Ward also violated FINRA Rule 2010.

79 Capital and Ward Failed to Record Required Customer Information

Ward, on behalf of 79 Capital, approved two transactions to purchase the GWG Debentures. 79 Capital and Ward failed to record basic identifying and financial information, such as annual income, net worth, and the account's investment objectives for the customers making these purchases. In fact, no new account forms were prepared for these customers.

Exchange Act Rule 17a-3(a)(17) requires members to maintain current records of, *inter alia*, their customers' basic identifying and financial information, such as annual income, net worth, and the account's investment objectives. FINRA Rule 4511(a) requires members to make and preserve books and records as required under the Exchange Act and applicable Exchange Act rules. By failing to record basic identifying and financial information for these customers, 79 Capital and Ward violated FINRA Rule 4511(a). As

a result of this violation, 79 Capital and Ward also violated FINRA Rule 2010.

79 Capital and Ward Permitted an Unregistered Employee to Sell Securities

Between approximately May 2012 and July 2012, 79 Capital and Ward permitted an employee to sell securities prior to the time that FINRA approved the employee's application for registration. 79 Capital filed a Form U4 for the employee on May 22, 2012. Because of certain deficiencies related to the employee's continuing education requirements, however, FINRA did not approve the application until July 6, 2012. During this time the employee sold \$250,000 of GWG Debentures to two customers in one transaction. (79 Capital later reversed this transaction and refunded the customers' money.)

Article V, § 1 of FINRA's By-Laws states that "[n]o member shall permit any person associated with the member to engage in the investment banking or securities business unless the member determines that such person satisfies the qualification requirements established under Article III, Section 2[.]" Thus, a firm may not permit an associated person to sell securities without first becoming registered with FINRA. By permitting the employee to sell \$250,000 of GWG Debentures prior to the approval of his application for registration, 79 Capital and Ward violated Article V, § 1 of FINRA's By-Laws. As a result of this violation, 79 Capital and Ward also violated FINRA Rule 2010.

79 Capital and Ward Failed to Implement the Firm's Procedures

79 Capital's written supervisory procedures contained provisions restricting unregistered individuals from engaging in the securities business. They also required the creation of new account documents and the collection of customers' suitability information. Ward was responsible for the implementation of the firm's procedures. 79 Capital and Ward failed to enforce the firm's written supervisory procedures by allowing an unregistered employee to effect the purchase of \$250,000 of GWG Debentures. 79 Capital and Ward also failed to enforce the firm's written procedures by failing to require new account documents to be created for two GWG transactions. Ward signed the subscription agreements for both transactions as a firm principal.

NASD Rule 3010(b)(1) requires that each member firm "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD." By failing to enforce the firm's procedures related to sales by unregistered individuals and collecting customer information, 79 Capital and Ward violated NASD Rule 3010(b)(1). As a result of this violation, 79 Capital and Ward also violated FINRA Rule 2010.

B. Respondents also consent to the imposition of the following sanctions:

79 Capital:

1. A censure;
2. A fine of \$25,000, imposed jointly and severally with Respondent Ward.

Ward:

1. A suspension in all principal capacities for 20 calendar days;
2. A fine of \$25,000, imposed jointly and severally with Respondent 79 Capital.

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

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

Ward understands that if he is suspended or barred from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in a principal capacity, during the period of the suspension (see FINRA Rules 8310 and 8311). Furthermore, because he is subject to a statutory disqualification during the principal suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

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

Respondents 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

Respondents 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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondents;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' 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. Respondents 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. Respondents 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 Respondents': (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that Respondents 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, Michael M. Ward, certify individually and on behalf of the Firm 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 and the Firm 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 or the Firm to submit it.

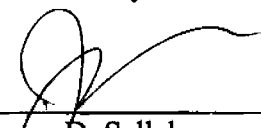
6/10/14
Date (mm/dd/yyyy)


Michael M. Ward, *Respondent*

79 CAPITAL SECURITIES, LLC, *Respondent*

By: 
Michael M. Ward, President

Reviewed by:


James D. Sallah
SALLAH ASTARITA & COX, LLC
2255 Glades Road, Suite 300E
Boca Raton, Florida 33431
(561) 989-9080 (phone)
(561) 989-9020 (facsimile)

Accepted by FINRA:

6/27/14
Date

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

A handwritten signature in black ink, appearing to read "Thomas B. Lawson", written over a horizontal line.

Thomas B. Lawson
Vice President and Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, 3rd Floor
Rockville, Maryland 20850-3241