

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013036319701**

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

RE: Inland Securities Corporation, Respondent
FINRA Member Firm
CRD No. 15807

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 it 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

Inland Securities Corporation ("Inland Securities") has been a FINRA member since 1984. It is headquartered in Oak Brook, Illinois, and has approximately 70 registered persons. Inland Securities is the exclusive dealer-manager and placement agent for the public and private real estate investments sponsored by Inland Real Estate Investment Corporation and Inland Private Capital Corporation, including non-traded REITs and private offerings designed for investors who wish to complete IRS Section 1031 real estate exchanges. Inland Securities does not generally sell securities directly to investors; rather, it enters into soliciting dealer agreements with third-party broker dealers, which then offer and sell the interests on a best efforts basis. Inland Securities provides information, prospectuses, private placement memoranda, marketing materials, sales literature, and due diligence files to the soliciting broker dealers who sell the securities to their customers.

OVERVIEW

In connection with its role as the exclusive dealer-manager of private placements and non-traded REITS sponsored by its affiliates, Inland Securities' procedures required that it perform due diligence on the offerings for which it acted as placement agent.

However, between July 2009 and August 2014 (the "Relevant Period"), Inland's supervisory procedures failed to contain sufficient detail to implement that requirement. Thus, the firm's procedures were not reasonably designed to achieve compliance with the provisions of the federal securities laws and FINRA Rules concerning misstatements and omissions. The procedures failed to describe the steps to be followed in conducting the diligence, did not designate the persons responsible for carrying out those steps, and did not specify how compliance with the firm's procedures would be documented. Accordingly, Inland Securities violated NASD Rules 3010(a) and 3010(b)(1). Because its procedures did not designate which registered principals would perform which supervisory duties, Inland Securities also violated NASD Rule 3010(a)(2) and 3010(b)(3).

Inland Securities also failed to follow the procedures it did have in connection with two private placements that each raised approximately \$11 million to finance commercial real estate acquisitions. Inland Securities' failure to implement its procedures violated NASD Rule 3010(a). As a result of the violations of Rule 3010, Inland Securities also violated FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Facts

During the Relevant Period, Inland Securities' written procedures stated that "[s]ales of DPP or REITs may be made only if programs have been officially approved by [Inland Securities]. Due Diligence research will be performed by Home Office personnel, and approved or disapproved for sale by the President." However, the firm's procedures did not indicate which individuals were responsible for performing the due diligence research, what steps would be taken to perform the due diligence, or how that due diligence would be documented. The firm's procedures also failed to address its practice of relying on the due diligence its affiliates conducted on the underlying properties. In addition to the deficiencies related to the firm's due diligence process, the firm's procedures also failed to specify which principals would be responsible for the firm's other supervisory responsibilities.

Inland Securities also failed to follow the procedures it did have related to due diligence. In the winter of 2013, Inland Securities acted as placement agent for two private placements that each raised approximately \$11 million to finance commercial real estate acquisitions. Inland Securities retained a placement agent fee of 1.4% of the gross offering proceeds from the offerings. However, Inland Securities did not follow the requirement in its own procedures that it conduct due diligence research on the offerings. Although certain affiliated companies of Inland Securities performed due diligence on the underlying properties, Inland Securities did not perform due diligence on the offerings. In addition, one of the offerings was not approved or disapproved by Inland Securities' President, as required by the firm's written procedures.

Violations

NASD Rule 3010(a) requires member firms to establish and maintain systems to supervise its employees that are reasonably designed to achieve compliance with the federal securities laws and FINRA and NASD Rules. Rule 3010(b)(1) requires each member to establish, maintain, and enforce written supervisory procedures that are reasonably designed to ensure such compliance. NASD Rule 3010(a)(2) further requires a member firm to designate, where applicable, an appropriately registered principal to carry out the supervisory responsibilities of the member for each type of business in which it engages for which registration as a broker-dealer is required, and Rule 3010(b)(3) requires that it include in its supervisory procedures the locations of the required supervisory personnel and the responsibilities of each supervisory person.

As described above, Inland Securities' supervisory procedures were not reasonably designed to achieve compliance with the federal securities laws and FINRA Rules in connection with its role as the exclusive dealer-manager and placement agent of securities issued by its affiliated companies.¹ As described above, Inland Securities' procedures were not reasonably designed to ensure that it took the steps necessary to have a reasonable basis for the statements it made or used in connection with that role. The firm also failed to implement its procedures' requirement that a due diligence review be performed, and that its President approve each offering. Accordingly, Inland Securities violated NASD Rule 3010(a) and NASD Rule 3010(b)(1).

Inland Securities' procedures also failed to identify which firm principals would perform the firm's various supervisory responsibilities. Accordingly, Inland Securities violated NASD Rules 3010(a)(2) and 3010(b)(3).

As a result of the violations of NASD Rule 3010, Inland Securities also violated FINRA Rule 2010.

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

- A censure;
- A fine of \$40,000; and
- An undertaking to retain an independent consultant and revise its written supervisory procedures, as described below.

Respondent agrees to pay the monetary sanction(s) 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 it proposes to pay the fine imposed.

¹ Inland Securities was obligated to maintain procedures that were reasonably designed to ensure that it did not make or use material misrepresentations or omissions in connection with its role as placement agent of the private placements and non-traded REITS. See, e.g., Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, FINRA Rule 2010, and FINRA Rule 2020.

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.

1. Inland Securities Corporation shall:

- a. Retain, within 30 days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the adequacy of the firm's written supervisory procedures as addressed in this AWC;**
- b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;**
- c. Cooperate with the Independent Consultant in all respects, including by providing staff support. Inland Securities shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Inland Securities shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; Inland Securities shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;**
- d. At the conclusion of the review, which shall be no more than 60 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the firm and FINRA staff a written report. The Written Report shall address, at a minimum, (i) the adequacy of the firm's written supervisory procedures; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the firm's policies, systems, procedures and training; and**
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Inland Securities Corporation, Inc., or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or**

other professional relationship with Inland Securities Corporation or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

2. Within 30 days after delivery of the Written Report, Inland Securities Corporation shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the firm with a written decision reflecting his or her determination. The firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
3. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Inland Securities Corporation shall provide FINRA staff with a written implementation report, certified by an officer of Inland Securities Corporation attesting to, containing documentation of, and setting forth the details of the firm's implementation of the Independent Consultant's recommendations.
4. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

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; 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 it;
 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. 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. It 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. 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.

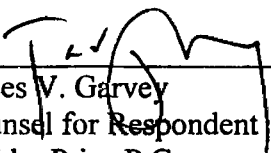
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that it has agreed to its provisions voluntarily; and that no offer, threat, 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.

08/13/2014
Date (mm/dd/yyyy)

Sandra L. Perion, Vice President
Respondent
Inland Securities Corporation

By: Sandra L. Perion

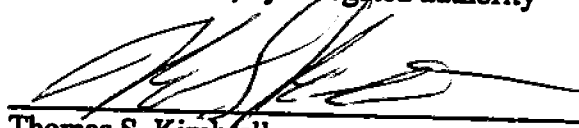
Reviewed by:


James V. Garvey
Counsel for Respondent
Vedder Price P.C.
222 North LaSalle Street
Chicago, IL 60601
Ph: 312-609-7712

Accepted by FINRA:

8/27/14
Date

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



Thomas S. Kimbrell
Senior Counsel
FINRA Department of Enforcement
15200 Omega Drive
3rd Floor
Rockville, MD 20850-3241
Ph: 301-258-8550
Fax: 202-721-6515



Inland Securities Corporation

2901 Butterfield Road

Oak Brook, Illinois 60523

630-218-8000

Member Financial Industry Regulatory Authority and SIPC

August 13, 2014

Via Electronic Mail and UPS

Thomas S. Kimbrell

Senior Counsel

FINRA Department of Enforcement

15200 Omega Drive, 3rd Floor

Rockville, MD 20850-3241

Dear Mr. Kimbrell:

This Corrective Action Statement is submitted by Inland Securities Corporation ("Inland Securities") in connection with Letter of Acceptance, Waiver and Consent No. 2013036319701. This Corrective Action Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff. Inland Securities is offering this Statement in regard to its due diligence procedures and systems for the private placement programs and non-traded REITs for which it serves as placement agent and dealer manager, respectively.

Inland Securities Corporation is committed to a culture of compliance and to operating with the highest standards of ethical behavior and compliance within the securities industry. Inland Securities is using this isolated compliance event as an opportunity to review, reinforce and further enhance its compliance policies and procedures. As soon as Inland Securities learned of FINRA's position regarding potential deficiencies in its procedures and systems, Inland Securities acted immediately to address the deficiencies and enhance its compliance procedures and systems. Specifically, Inland Securities has formed a new due diligence division, led by Roderick Curtis, Senior Vice President of Inland Securities. Inland Securities' dedicated due diligence team is responsible for reviewing each new private placement program sponsored by Inland Private Capital Corporation and non-traded REIT sponsored by Inland Real Estate Investment Corporation, and for issuing a formal due diligence report for each program. In addition, the President and the Chief Compliance Officer of Inland Securities will review each program recommended by the due diligence team. Inland Securities will proceed to serve as the placement agent or dealer manager for a particular private placement program or non-traded REIT, respectively, only if the program has received the approval of Inland Securities' due diligence division and its President and Chief Compliance Officer. Consistent with the Letter of Acceptance, Waiver and Consent, Inland Securities also will retain an independent consultant to provide recommendations for modifications and additions to the firm's policies, systems and procedures.

Inland Securities takes this isolated matter very seriously. Inland Securities will take all the steps set forth in the Letter of Acceptance, Waiver and Consent, including without limitation retaining an independent consultant. We note that Inland Securities has received no complaints from any investors or broker dealers with respect to the two private placement programs addressed within the Letter of Acceptance, Waiver and Consent.

Very Truly Yours,

INLAND SECURITIES CORPORATION

Sandra L. Perion
Vice President

cc: James V. Garvey (via email)