

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040630701**

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

RE: American Trust Investment Services, Inc., Respondent
CRD No. 3001

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 accept 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

Respondent American Trust Investment Services, Inc. ("ATIS" or the "Firm") has been a member of NASD, and later FINRA, since January 17, 1957. ATIS maintains its main office in Whiting, Indiana, and its other branch office in Chicago, Illinois. The firm currently employs approximately 30 registered individuals. During the period from June 2012 to February 2014, the firm employed an average of approximately 6 registered representatives.

RELEVANT DISCIPLINARY HISTORY

ATIS does not have relevant formal disciplinary history.

OVERVIEW

During the period including July 13, 2013 through June 19, 2014, ATIS failed to preserve emails in a non-rewriteable, non-erasable format, in violation of FINRA Rule 4511 and Exchange Act Rule 17a-4.

During the period including July 13, 2013 through June 19, 2014, and later, the period including January 1, 2015 through May 27, 2015, ATIS failed to demonstrate a sufficient supervisory review of email, as required by NASD Rule 3010, and later, by FINRA Rule 3110.¹

Finally, in violation of NASD Rule 3010 (during the period including July 13, 2013 through November 30, 2014) and FINRA Rule 3110 (during the period including December 1, 2014 through May 27, 2015), ATIS failed to establish and maintain an adequate supervisory system, including written supervisory procedures, with respect to a range of consulting services that ATIS contracted to provide a particular client (the "Client").

FACTS AND VIOLATIVE CONDUCT

Email Storage and Supervisory Review

FINRA Rule 4511 and Exchange Act Rule 17a-4 require that firms electing to store records electronically must use an electronic storage media that, among other things, preserves records exclusively in a non-rewriteable, non-erasable format.

On July 12, 2013, Respondent notified FINRA that it was electing to store records electronically, and certified that an outside vendor was providing it with an electronic storage media system that satisfied all the requirements of Rule 17a-4. Respondent believed this certification to be accurate. In fact, however, the outside vendor's system did not provide non-rewriteable, non-erasable storage. As a result, during the period including July 13, 2013 through June 19, 2014, ATIS's email system allowed deleted emails to become unrecoverable after 30 days, in contravention of Exchange Act Rule 17a-4.

NASD Rule 3010(d)(1) required a firm to review the electronic correspondence of its registered representatives, and to maintain evidence of that review, as part of the obligations in NASD Rule 3010(a) to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.

During the same period that its electronic storage media system failed to comply with Exchange Act Rule 17a-4, and as a result of those deficiencies, ATIS was unable to maintain or enforce a supervisory review system with respect to all email correspondence. In addition, ATIS's email system lacked dedicated supervisory review functions and could not create a verifiable audit trail.

After learning that its electronic storage media did not comply with Exchange Act Rule 17a-4, on or around June 19, 2014, ATIS entered into a contract for an enhanced email system with a different third-party vendor that preserved email in

¹ NASD Rule 3010 was replaced by FINRA Rule 3110, effective December 1, 2014.

the manner required by Exchange Act Rule 17a-4 and that included dedicated review and supervision functions. In implementing these functions, ATIS selected emails for supervisory review using an overbroad lexicon filter, which flagged over 90% of the firm's email communications for supervisory review. As a result, during the period including January 1, 2015 through May 27, 2015, ATIS did not completely review the email communications flagged by its filtering system for review. Specifically, while ATIS reviewed the headers of each flagged email communication, the Firm additionally reviewed the body of each flagged email only approximately 2% of the time.

Based on the foregoing, ATIS violated FINRA Rules 4511 and 2010 and Exchange Act Rule 17a-4 during the period including July 13, 2013 through June 19, 2014; NASD Rule 3010 and FINRA Rule 2010 during the period including July 13, 2013 through June 19, 2014; and FINRA Rules 3110 and 2010 during the period including January 1, 2015 through May 27, 2015.

Supervision of Certain Consulting Services

NASD Rule 3010(b)(1) provided that a supervisory system must include the establishment, maintenance, and enforcement of written supervisory procedures reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules. These written supervisory procedures must be tailored to the business of each firm.

Since 2012, ATIS has contracted with an issuer Client to provide, on a non-exclusive basis, a range of investment banking, investor awareness, and business advisory consulting services. ATIS is contractually obligated to provide all such consulting as the Client might reasonably require. The scope of services identified in the consulting contract includes: advising on investor communications; introductions to broker dealers, research analysts, and investment companies; introductions to potential strategic partners; and introductions of potential institutional investors. In exchange for standing ready to provide this range of services, ATIS receives a fixed monthly retainer. At certain times, the retainer fee has represented a material percentage of the Firm's gross revenues.

ATIS did not have specific written supervisory procedures tailored to the scope of the consulting services contracted for with this Client as part of, or in addition to, the written supervisory procedures that the Firm did have in place for investment banking services generally. Instead, ATIS's on-going supervision with respect to its consulting services for this Client was conducted primarily through its general supervision of email correspondence, and by efforts not pursuant to its written supervisory system. As discussed above, the firm's general supervision of email at certain times was not sufficient. Further, ATIS's supervisory efforts outside of its written procedures did not ensure adequate oversight of the registered representative(s) involved in providing the consulting services on behalf of the Firm.

Based on the foregoing, ATIS violated NASD Rule 3010 and FINRA Rule 2010 during the period including July 13, 2013 through November 30, 2014, and FINRA Rules 3110 and 2010 during the period including December 1, 2014 through May 27, 2015.

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

- A censure; and
- A fine of \$20,000.

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.

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 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 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 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 Respondent;
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 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 Respondent 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 understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that such person 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.

5-16-16
Date (mm/dd/yyyy)

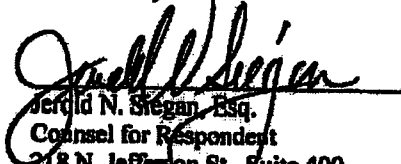

Respondent

AMERICAN TRUST
INVESTMENT SERVICES, INC.

By: Daniel O'Halloran

Its: COO

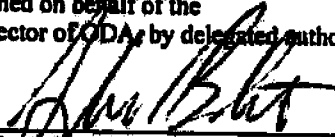
Reviewed by:


Gerald N. Siegan, Esq.
Counsel for Respondent
218 N. Jefferson St., Suite 400
Chicago Illinois 60661
312.877.5559

Accepted by FINRA:

5-26-16
Date

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


Andrew C. Boldt
Principal Regional Counsel
FINRA Department of Enforcement
55 West Monroe Street, Suite 2700
Chicago, Illinois 60603-5052
(312) 899-4400 (Phone)
(312) 606-0742 (Fax)

AMERICAN TRUST INVESTMENT SERVICES, INC.
STATEMENT OF CORRECTIVE ACTION

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

FROM: American Trust Investment Services, Inc.
("Respondent") CRD No. 3001

RE: Letter of Acceptance, Waiver and Consent No.
20140406307 ("AWC")

Dated: May 16, 2016

THIS CORRECTIVE ACTION STATEMENT IS SUBMITTED BY THE ABOVE REFERENCED RESPONDENT. IT DOES NOT CONSTITUTE FACTUAL OR LEGAL FINDINGS BY FINRA, NOR DOES IT REFLECT THE VIEWS OF FINRA, OR ITS STAFF.

This Corrective Action Statement is submitted by the above referenced Respondent with regard to the above referenced AWC.

Email Storage and Supervisory Review

After learning that email system it had been using did not comply with such requirements, on or around June 19, 2014, the Respondent entered into a contract for an enhanced email system with a different third party vendor that represented that its system preserved emails in the manner required by FINRA Rule 4511 and Securities Exchange Act Rule 17a-4 and that, among other things, preserves records exclusively in a non-rewriteable, non-erasable format.

In implementing the functions in its email system, the Respondent selected emails for supervisory review using an overly broad lexicon filter, which flagged over 90% of the firm's email communications for supervisory review. As a result, during the period including January 1, 2015 through May 27, 2015, the Firm's email system showed that the Firm viewed the header of all of the flagged emails but only a small percentage of the email communications flagged for review by its filtering system was completely reviewed. The Firm has since revised its lexicon filter to a more word specific search in order to better focus its emails flagged for regulatory and supervisory review.

Supervision of Certain Consulting Services

During the subject period, the Firm had written supervisory procedures regarding insider trading, underwriting, private offerings and communications with the public, and implemented those procedures and additional procedures that the Respondent implemented specifically for this particular investment banking client. The Firm has since added additional written supervisory procedures regarding, among other matters, investment banking consulting services, mergers and acquisitions services and finders services.

[Signature Page Follows]

Dated: May 16, 2016

Respondent:
AMERICAN TRUST
INVESTMENT SERVICES, INC.

By: Daniel O'Halloran
Its: Coo