

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014038914601**

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

RE: Trustmont Financial Group, Inc. (BD No. 18312),
Respondent

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Trustmont Financial Group, Inc. (“Trustmont” 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. Trustmont 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

Trustmont has been a member firm since September 1986. The Firm, which conducts a general securities business, is headquartered in Greensburg, Pennsylvania. Trustmont has approximately 65 registered branch offices and 120 registered representatives.

RELEVANT DISCIPLINARY HISTORY

In March 2011, pursuant to a Letter of Acceptance, Waiver and Consent in Matter No. 2009016311801, Trustmont was censured and fined \$30,000 for, among other rule violations, failing to establish an adequate supervisory system and written procedures for the review of electronic correspondence.

In November 2013, Trustmont agreed to a Consent Agreement and Order with the Commonwealth of Pennsylvania, Department of Banking and Securities (Docket No. 13-0070), relating to the Firm’s failure to supervise a representative engaged in outside business activities and private securities transactions. The Firm paid an administrative assessment of \$100,000, as well as investigative and legal costs of \$25,000.

OVERVIEW

During the relevant time periods identified herein, Trustmont failed to retain several representatives' business-related email and failed to inspect and register certain branch and non-branch locations. Also, Trustmont failed to adequately supervise representatives' use of consolidated reports and representatives' Unit Investment Trust ("UIT") transactions. Finally, Trustmont failed to enforce its supervisory procedures with respect to the review and supervision of one representative's financial-related radio show.

As a result of these deficiencies, Trustmont violated Section 17(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 17a-4 thereunder, Article IV, Section 8(a) of the FINRA By-Laws, NASD Conduct Rules 3010(a), 3010(b), 3010(c) and 3110(a), NASD IM-1000-4, and FINRA Rules 4511 and 2010.

FACTS AND VIOLATIVE CONDUCT

1. Failure to Retain Business-Related Email

(Relevant Periods: June 2010 to September 2012, January 2015 to June 2015)

Section 17 of the Exchange Act and Rule 17a-4 thereunder require that member firms preserve, "for a period of not less than three years, the first two years in a readily accessible place," originals of all communications received and copies of all communications sent by the member relating to its business. NASD Conduct Rule 3110(a) required member firms to preserve records in conformity with all applicable laws, rules and regulations, including Rule 17a-4. Likewise, FINRA Rule 4511 (which replaced NASD Conduct Rule 3110) incorporates the requirements of Rule 17a-4 into the rules governing FINRA members.

During the relevant periods identified above, Trustmont failed to retain the emails of three Firm representatives who used third-party email accounts not provided by the Firm to send and receive business-related email. The Firm knew that the representatives used outside email addresses, yet failed to take any steps to preserve those emails. As a result, Trustmont violated Section 17(a) of the Exchange Act and Rule 17a-4 thereunder, NASD Conduct Rule 3110(a) (for the conduct on or before December 4, 2011), FINRA Rule 4511 (for the conduct on or after December 5, 2011), and FINRA Rule 2010.

2. Failure to Inspect and Register Branch Offices

(Relevant Period: September 2012 to May 2014)

NASD Conduct Rule 3010(c)(1)(B) requires each member firm to inspect "at least every three years" every branch office that does not supervise one or more non-branch locations. NASD Conduct Rule 3010(c)(1)(C) requires member firms to inspect "on a regular periodic schedule" every non-branch location, and also requires firms to include that schedule and an explanation for "how the member

determined the frequency of the examination schedule” in their written supervisory procedures.

During the relevant period identified above, Trustmont failed to inspect 29 branch offices at least once every three years. The Firm also failed to conduct regular, periodic inspections of several non-branch locations and failed to establish written supervisory procedures for the inspection of its non-branch locations. As a result, Trustmont violated NASD Conduct Rules 3010(c)(1)(B) and 3010(c)(1)(C), and FINRA Rule 2010.

Further, Article IV, Section 8(a) of the FINRA By-Laws requires that member firms register each branch. NASD IM-1000-4 required members to keep current their membership applications, including “that any offices other than the main office are properly designated and registered.”

During the relevant period identified above, Trustmont failed to register 15 locations as branch offices. As a result, Trustmont violated Article IV, Section 8(a) of the FINRA By-Laws, NASD IM-1000-4, and FINRA Rule 2010.

*3. Failure to Supervise Representatives' Use of Consolidated Reports
(Relevant Period: September 2012 to May 2014)*

NASD Conduct Rule 3010(a) requires that each member “establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable [FINRA] Rules.” NASD Conduct Rule 3010(b) requires each member to establish, maintain, and enforce written procedures to supervise its business and its associated persons “reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of [FINRA].”

A “consolidated report” is a document provided by a broker to a customer that combines account information regarding most or all of a customer’s assets. On April 8, 2010, FINRA issued Regulatory Notice 10-19, which reminded member firms that consolidated reports are communications with the public by the firm and must be clear, accurate, and compliant with federal securities laws and FINRA Rules. The Notice cautioned that consolidated reports, “[i]f not rigorously supervised . . . can raise a number of regulatory concerns, including the potential for communicating inaccurate, confusing or misleading information to customers, lapses in supervisory controls, and the use of these reports for fraudulent or unethical purposes.”

During the relevant period identified above, certain Trustmont representatives created consolidated reports and sent those reports to Firm customers. During this period, Trustmont had no system or procedures for the regular review of consolidated reports. Nor did the Firm have any system or procedures to review

manually entered assets and asset values contained within those reports, even on a spot check basis. Similarly, while the Firm considered consolidated reports to be “correspondence” for purposes of review and retention, it did not have sufficient procedures to ensure that representatives retained consolidated reports as correspondence, that supervisors reviewed the consolidated reports during their correspondence review, and that supervisors kept records documenting that review. As a result, Trustmont violated NASD Conduct Rules 3010(a) and (b) and FINRA Rule 2010.

*4. Failure to Supervise a Representative’s Radio Program
(Relevant Period: September 2012 to May 2014)*

During the relevant period identified above, a Firm representative hosted a live weekly radio show that was broadcast on two AM stations, streamed live on one website, and was available post-broadcast on two other websites. The radio show included financial and investment-related topics. Trustmont’s procedures required representatives to submit retail communications to the Firm for pre-approval. However, as regards this radio show, these procedures were not enforced, and no one at Trustmont reviewed or approved the radio show’s content. As a result, Trustmont violated NASD Conduct Rule 3010(b) and FINRA Rule 2010.

*5. Failure to Establish an Adequate Supervisory System for UIT Transactions
(Relevant Period: September 2012 to May 2014)*

Trustmont failed to establish, maintain and enforce a reasonably designed supervisory system and written supervisory procedures with respect to representatives’ UIT transactions. The Firm claimed that it applied its supervisory procedures for mutual funds to UIT transactions. The Firm’s mutual fund procedures required, among other things, the use of exception reports and also a manual blotter review to prevent unsuitable “switch” transactions. Yet, the Firm had no exception report for UIT transactions and any blotter review it would have conducted was necessarily inadequate because the Firm’s blotter failed to capture all UIT transactions. Based on the foregoing, Trustmont violated NASD Conduct Rules 3010(a) and (b) and FINRA Rule 2010.

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

- a censure; and
- a \$100,000 fine.

Trustmont agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Trustmont specifically and voluntarily waives any right to claim that the Firm is

unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, Trustmont specifically and voluntarily waives any right to claim bias or prejudice 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.

Trustmont 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

Trustmont 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 the Firm;**
- C. If accepted:**
- 1. this AWC will become part of Trustmont'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 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. Trustmont 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. Trustmont 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 the Firm'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; and**
- D. Trustmont may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.**

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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 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.

Trustmont Financial Group, Inc. (BD No. 18312),
Respondent

09/02/2016
Date (mm/dd/yyyy)

By: Anthony C. Hladik

Name: Anthony C. Hladik

Title: President

Reviewed by:

Joseph S. Simms

Joseph S. Simms
Counsel for Respondent
Koehler Fitzgerald LLC
BNY Mellon Center
1301 East 9th Street, Suite 3330
Cleveland, OH 44114
Tel.: 216.539.9370
Fax: 216.916.4369
Email: jsimms@koehler.law

Accepted by FINRA:

September 23, 2016
Date

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

Matthew M. Ryan

Matthew M. Ryan
Principal Regional Counsel
FINRA Department of Enforcement
1601 Market Street, Suite 2700
Philadelphia, PA 19103
Tel.: 215.209.7094
Fax: 215.496.0434
Email: matthew.ryan@finra.org

CORRECTIVE ACTION STATEMENT

The Firm's leadership during the conduct at issue has changed. The current President, Anthony Hladek, took the position effective July 2013, and the current Chief Compliance Officer, Aimee Toth, took the position effective February 2014.

This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its Staff.