

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2014039417401**

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

RE: IMS Securities, Inc., Respondent  
Member Firm  
CRD No. 35567

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, IMS Securities, Inc. ("IMS" 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 Respondent 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**

IMS has been a member of FINRA since February 1994. The Firm conducts a general securities business and is headquartered in Houston, Texas. IMS has approximately 105 associated persons and 57 branch offices.

**RELEVANT DISCIPLINARY HISTORY**

IMS has the following recent disciplinary history:

In December 2012, FINRA issued an AWC (No. 2010020847501) in which IMS was censured and fined \$100,000 fine for violating SEC Rules 17a-3(a)(1) and 17a-4(b)(4), NASD Conduct Rules 3010(a), 3010(b), 3010(c)(1), 3010(d)(3), 3110(a) and 2110, and FINRA Rule 2010 for failing to establish and maintain a system to supervise the activities of wholesale representatives, including written supervisory procedures ("WSP"), reasonably designed to ensure compliance with securities laws and regulations, and FINRA rules. In addition, IMS failed to retain emails, conduct audits at two of its Offices of Supervisory Jurisdiction,

maintain compliant purchase and sales blotters, and maintain compliant checks received and forwarded blotters.

On Nov. 16, 2012, the Texas State Securities Board ordered that IMS be reprimanded (No. IC12-CAF-20) for its failures to enforce its WSPs regarding heightened supervision and branch office inspections and fined IMS \$20,000 for violations of §115.10(b)(1) of the Rules and Regulations of the Texas Securities Board.

### **OVERVIEW**

The Firm failed to have adequate supervisory procedures to monitor variable annuity transactions for problematic rates of exchange. In addition, the Firm failed to enforce its written supervisory procedures requiring review and approval of consolidated reports prior to disseminating the reports to clients. As a result the Firm violated FINRA Rules 2330(d) and 2010 and NASD Rules 3010(a) and 3010(b).

### **FACTS AND VIOLATIVE CONDUCT**

*Failure to implement surveillance process to review for inappropriate rates of variable annuity exchange transactions*

FINRA Rule 2330(d) requires firms to: “(1) implement surveillance procedures to determine if any of the member’s associated persons have rates of effecting deferred variable annuity exchanges that raise for review whether such rates of exchanges evidence conduct inconsistent with the applicable provisions of this Rule, other applicable FINRA rules, or the federal securities laws (‘inappropriate exchanges’); and (2) have policies and procedures reasonably designed to implement corrective measures to address inappropriate exchanges and the conduct of associated persons who engage in inappropriate exchanges.”

For the period July 15, 2013 through May 8, 2014, the Firm failed to have adequate supervisory procedures to monitor variable annuity transactions for problematic rates of exchange. The Firm relied upon its Chief Financial Officer (“CFO”) to review variable annuity exchanges effected pursuant to 26 U.S.C. §1035 (“1035”) for regulatory compliance, but provided him with no guidance or tools such as exception reports or trend analysis to assist with reviews for problematic patterns of exchange. The resources available to the CFO for the 1035 reviews were limited to the variable annuity application and the order records for the exchange at issue. Consequently, the Firm failed to detect or investigate potentially problematic patterns of variable annuity exchanges.

As a result of the foregoing conduct, Respondent violated FINRA Rules 2330(d) and 2010 and NASD Rules 3010(a) and 3010(b).

### *Consolidated Reports*

A consolidated report is a document provided by a broker to a customer that combines account information regarding certain or all of a customer's assets. Consolidated reports supplement, but do not replace, the customer account statements required pursuant to NASD Conduct Rule 2340. On April 8, 2010, FINRA issued a Notice reminding 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 present 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. The Notice encouraged member firms to review the overall adequacy and effectiveness of their current policies and procedures relating to their consolidated reporting and warned that any member firm that could not adequately supervise consolidated reports prepared by its registered representatives must prohibit the dissemination of those reports and take the necessary steps to ensure that its registered representatives comply with this prohibition. The Notice also stated that member firms should take reasonable steps to accurately reproduce information obtained regarding outside accounts and not to include information that is false or misleading in consolidated reports. Regardless of which specific practice a firm chose to adopt, the Notice directed that any firm that chose to provide consolidated reports to customers should ensure that the size and complexity of the consolidated reporting program did not exceed the firm's ability to supervise the activity and to subject it to a rigorous system of internal controls.

The Firm had WSPs regarding consolidated reports, but failed to enforce the procedures. According to the procedures, the Firm was to review and approve the consolidated reports prior to dissemination to clients. The Firm allowed manual entry of values for investments not held at the Firm, and the approval process required verification of the value of investments not held by the Firm. Despite the written procedures, IMS failed to review and approve reports prior to dissemination. For example, from April 1, 2014 to June 30, 2014, ten registered representatives associated with IMS sent a total of 66 consolidated reports. Although the Firm represented that it was verifying the values of the investments listed on the 66 reports, the verifications occurred after dissemination to the clients, and in many instances, the Firm could provide no support other than the initials of a principal on the reports.

As a result of the foregoing conduct, Respondent violated FINRA Rule 2010 and NASD Rules 3010(a) and 3010(b).

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

A censure and a \$100,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 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; 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 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 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 understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent 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 Respondent to submit it.

SEP 06 2016  
Date (mm/dd/yyyy)

IMS Securities, Inc., Respondent

By: \_\_\_\_\_

(Signature)

Name: WACKIE WADSWORTH  
(Print Name)

Title: CEO

Reviewed by:

TIM JOHNSON

Attorney Name

Counsel for Respondent

Firm Name LOCKE LOREN LLP

Address 600 TRAVIS

City/State/Zip HOUSTON, TX 77002

Phone Number

Accepted by FINRA:

September 30, 2016

Date

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

Laura Leigh Blackston  
Laura Leigh Blackston, Senior Regional Counsel  
FINRA Department of Enforcement

1100 Poydras Street

Energy Centre, Suite 850

New Orleans, LA 70163-1108

Phone: 504/412-2408; Fax: 504/522-4077

Email: [laura.blackston@finra.org](mailto:laura.blackston@finra.org)