

State of Missouri
Office of Secretary of State

Case No. AP-06-48

IN THE MATTER OF:

WORLD GROUP SECURITIES, INC., CRD # 114473

11315 Johns Creek Parkway
Duluth, GA 30097-1517,

Respondent.

CONSENT ORDER

SUMMARY OF ENFORCEMENT DIVISION'S ALLEGATIONS

1. The Enforcement Section of the Missouri Securities Division ("Securities Division") has alleged that Respondent World Group Securities, Inc. ("WGS") failed to reasonably supervise certain Missouri registered representatives ("RRs") and that this constitutes grounds to discipline WGS pursuant to the Missouri Securities law, §409.1-101 et seq, RSMo. (Cum. Supp. 2005), specifically §409.4-412(d)(9), RSMo. (Cum. Supp. 2005). The Securities Division alleges that the RRs effected unsuitable variable annuity transactions with respect to elderly clients, which resulted in commissions to WGS and the RRs but which may not have been in the best interest of the clients, in violation of §409.4-412(d)(13) RSMo. (Cum. Supp. 2005).
2. WGS and the Securities Division desire to settle the allegations and the matters raised by the Securities Division relating to WGS's alleged failure to supervise.

STIPULATIONS AND JURISDICTION

3. WGS is a broker-dealer registered in Missouri through the Central Registration Depository ("CRD") system and has CRD number of 114473. WGS is located at 11315 Johns Creek Parkway, Duluth, GA 30097-1517.
4. WGS maintains a Missouri branch office ("Chesterfield Branch") at 16690 Swingley Ridge Road, Chesterfield, Missouri 63017.
5. WGS and the Securities Division stipulate and agree that pursuant to the Missouri Securities Act of 2003, Chapter 409, et seq, the Commissioner has jurisdiction over WGS and, solely for purposes of these proceedings, the allegations and matters raised by the Securities Division.
6. The Securities Division and WGS stipulate and agree that the Commissioner has authority to enter this Order pursuant to §409.6-604(h), RSMo. (Cum. Supp. 2005), which provides:

"The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act."

WAIVERS AND EXCEPTION

7. WGS waives its right to a hearing with respect to this matter.
8. WGS waives any right that it may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. WGS specifically forever releases and holds harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner of Securities and their respective representatives and agents from any and all liability and claims arising out of, pertaining to or relating to this matter.
9. WGS stipulates and agrees with the Securities Division that, should information provided by WGS in response to the Securities Division's investigation regarding this matter prove to be false in any material respect, the Securities Division reserves the right to pursue any and all legal or administrative remedies at its disposal.

CONSENT TO COMMISSIONER'S ORDER

10. WGS and the Securities Division stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
11. WGS agrees not to take any action or to make or permit to be made any public statement creating the impression that this Order is without a factual basis.
12. WGS agrees that it is not the prevailing party in this proceeding since the parties have reached a good faith settlement.

13. Solely for purposes of these proceedings and any proceedings that may be brought to enforce the terms of this Consent Order, WGS consents to the issuance of this Consent Order without admitting or denying the Commissioner's Findings of Fact or conclusions of law.

COMMISSIONER'S FINDINGS OF FACT

The Commissioner makes the following Findings of Fact based upon information provided to the Commissioner by the Securities Division:

14. During the relevant time frame, the National Association of Securities Dealers ("NASD") issued "Notices to Members" on at least five occasions addressing the suitability of variable annuities.^[1]
15. In May 2003, the NASD issued an Investor Alert indicating key issues which agents should disclose to customers, including liquidity issues, potential surrender charges, tax penalties, fees and market risk.^[2]
16. In June 2004, the United States Securities and Exchange Commission ("SEC") and the NASD issued a report^[3] which found that the high fees and surrender charges inherent in variable insurance products could make them inappropriate for many investors.
17. Recently regulators have expressed concerns that variable annuity "riders were being used to justify an otherwise unsuitable product."^[4]

Unsuitable Transactions

18. From February 2004 through July 2005 the RRs made recommendations to eight Missouri residents (the "Missouri Residents"), ranging in age from 72 to 87, to purchase variable annuities or exchange an existing annuity for a variable annuity. In one case the investor was ill and was living in a nursing home at the time of the sale of the variable annuity. The total premiums paid by the Missouri Residents for the variable annuities were approximately \$1,198,000, resulting in commissions to WGS of approximately \$98,000, portions of which were paid to the RRs.
19. The investment in variable annuities represented a substantial percentage of the net worths of a number of the Missouri Residents as set forth on the WGS client account forms. In addition, surrender charges for withdrawals during the initial years of the variable annuities could adversely impact these Missouri Residents if they needed to access funds invested in the variable annuities.
20. Although WGS did not approve the purchase of the variable annuities until it had received suitability information regarding the Missouri Residents, and in certain instances required reductions in or changes to the variable annuities to be purchased, it eventually approved variable annuity purchases by all of the Missouri Residents.
21. WGS maintained written compliance procedures that were provided to all registered representatives. Among other things these procedures required that:

VARIABLE ANNUITIES. "...the client must have long-term investment goal because high surrender fees may be charged if the policy is cashed out early. Sales of variable annuities to clients more than 65 years old must be carefully scrutinized...Because of potentially high surrender fees, a variable annuity is seldom a liquid investment. If the investment for a variable annuity is more than 25 percent of the client's net worth and / or he/she is planning to make an immediate withdrawal from the annuity, a letter of explanation should accompany the application."

SWITCH / REPLACEMENT. "It is rarely suitable for the representative to recommend that the client surrender one variable contract and purchase another variable contract or switch mutual fund families...In other words, the new product must provide the client with significant and reasonable cost savings over the old product or it should offer additional benefit(s), not available in the old product, that are of significant importance to the client...A client stating that he / she wants this transaction does not make it suitable...A field representative must be extremely cautious in recommending that a client change from one financial product to a similar product...For securities products, this type of transaction may be considered switching or churning. A change in a financial product should be recommended only if the change:

- is in the client's best interest;
- improves that client's existing position; and
- is not designed for the purpose of generating new sales commissions...

In most instances, a replacement is not in the client's best interest."

22. WGS failed to reasonably supervise its registered representatives in violation of §409.4-412(d)(9), RSMo. (Cum. Supp. 2005).

ORDER

WHEREAS, the Commissioner, after consideration of the Findings of Fact set forth above and on the consents of WGS and the Securities Division, finds the following Order to be in the public interest and necessary for the protection of public investors and consistent with the provisions of the Act.

NOW, THEREFORE, it is hereby Ordered that:

1. WGS will retain, at its expense, an outside consultant ("Consultant") not unacceptable to the Commissioner, no later than one month after the execution of this Consent Order. Within six (6) months of the execution of this Order, the Consultant will furnish an initial report to WGS concerning WGS's supervisory and compliance policies, procedures and practices relating to the suitability of sales of variable annuities to persons over sixty-five years old, and the Consultant will make recommendations to improve these policies, procedures and practices. If the Consultant becomes unable to perform his or her duties, WGS shall have thirty (30) days to select a replacement Consultant not unacceptable to the Commissioner.
2. The Consultant will prepare follow-up reports twelve (12), eighteen (18), and twenty-four (24) months following the execution of this Order. These follow-up reports will make further recommendations if necessary or appropriate and discuss the extent to which WGS has implemented the Consultant's earlier recommendations.
3. Respondent will provide to the Securities Division copies of all reports prepared by the Consultant.
4. WGS will promptly adopt and implement any additional or revised policies, procedures and practices recommended by the Consultant; however, WGS may propose alternative procedures ("Alternative Procedures") designed to achieve the same objective or purpose as those that were recommended by the Consultant. WGS may adopt the Alternative Procedures if the Consultant agrees that WGS proposed procedures will achieve the same objectives or purposes as the Consultant's original recommendations. In the event that WGS and the Consultant disagree regarding any recommendation by the Consultant, WGS shall have thirty days to appeal such recommendation to the Commissioner and shall be bound by the decision of the Commissioner.
5. WGS will make available upon request by the Securities Division all written communications between WGS, its employees and the Consultant, as well as all documents that the Consultant has advised WGS that the Consultant reviewed or relied upon in connection with this engagement.
6. For a period of three years following the conclusion of the Consultant's work, WGS, its affiliates and any of their officers may not employ or hire the Consultant in any capacity.
7. For a period of one year from the date of this Order, a registered principal of WGS will make a follow-up call to any resident of Missouri, who purchases a variable annuity and who is over sixty-five years of age, before the variable annuity contract is submitted to the product provider to confirm such person's understanding of the essential economic and other elements of the variable annuity.
8. WGS shall pay approximately ninety eight thousand dollars (\$98,000) to the Missouri Residents that are the subject of this Order. Each Missouri Resident will be paid the amount of the commissions received and retained by WGS and or the RR from the sale of variable annuity to the Missouri Resident. These payments will be sent to the Missouri Residents within thirty days from the date of this order. WGS also shall send a copy of each check and forwarding letter to the Securities Division within ten days of the payments to these Missouri residents.
9. WGS shall pay to the Missouri Secretary of State's Investor Education and Protection Fund the sum of seventy-five thousand dollars (\$75,000). This amount shall be sent within ten days of the effective date of this order to the Securities Division at 600 W. Main Street, Jefferson City, Missouri 65101 and the Division will send the money to the Missouri Secretary of State's Investor Education and Protection Fund;
10. WGS shall pay a civil penalty of fifty thousand dollars (\$50,000) made payable to the State of Missouri, and delivered to the Securities Division at the above address within ten days of the effective date of this order, and the Secretary of State shall forward these funds to the state treasury for the benefit of county and township school funds as provided in Article IX, Section 7 of the Constitution of Missouri;
11. WGS shall pay five thousand six hundred dollars (\$5,600) as the cost of this investigation. This amount shall be payable to the Missouri Secretary of State's Investor Education and Protection Fund. This amount shall be due and payable within ten days of the effective date of this order, and shall be submitted to the Securities Division at the above address; and
12. WGS shall pay its own costs and attorneys fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 27TH DAY OF NOVEMBER, 2006.

ROBIN CARNAHAN

SECRETARY OF STATE

(Signed/Sealed)
MATTHEW D. KITZI
COMMISSIONER OF SECURITIES

Consented to by:

Mary S. Hosmer
Assistant Commissioner of Securities
Missouri Securities Division

World Group Securities, Inc.

Approved as to form

John R. Short
Attorney for World Securities Group, Inc.

[1] NASD *Notices to Members* 96-86, 99-35, 00-44, 04-45 and Notice to Members dated May 10, 2004.

[2] *Variable Annuities: Beyond the Hard Sell*, NASD Investor Alert May 27, 2003.

[3] *Joint SEC/NASD Staff Report on Examination Findings Regarding Broker-Dealer Sales of Variable Insurance Products*, Dated June 9, 2004, Office of Compliance Inspections and Examinations United States Securities and Exchange Commission.

[4] Statement of James Shorris, executive vice president of enforcement of the NASD, as reported in *BD Week*, June 12, 2006.