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**STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES**

In the Matter of
ProEquities, Inc.,

Respondent

S-12-0055

ORDER TO CEASE AND DESIST,
ORDER ASSESSING CIVIL PENALTY
AND CONSENT TO ENTRY OF ORDER

WHEREAS, state regulators from multiple jurisdictions conducted coordinated investigations of Bankers Life and Casualty Company (“Bankers Life”) and BLC Financial Services, Inc. (“BLCFS”) (collectively, “Bankers”) to determine whether Bankers should have been licensed as a broker-dealer and investment adviser between January 1, 2005, and December 2, 2011; and

WHEREAS, the investigations revealed that Bankers has acted as a broker-dealer and investment adviser in Oregon without being licensed, exempt from licensing, or a federal covered investment adviser, and has employed or associated with salespersons and investment adviser representatives who were not so licensed on behalf of Bankers, all in violation of ORS 59.165; and

WHEREAS, ProEquities, Inc. (“ProEquities”) entered into an agreement with Bankers effective April 30, 2010, to provide brokerage and investment advisory services out of Bankers Life branch office locations; and

WHEREAS, the conduct addressed herein has resulted in no known direct consumer harm, and the parties understand that licensed salespersons or investment adviser representatives of ProEquities participated in all securities transactions and at locations that were licensed with the appropriate securities authorities as broker-dealer locations of ProEquities; and

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1 in Oregon and a federal covered investment adviser.

2 4. Bankers Life and BLCFS entered into an agreement with ProEquities effective April
3 30, 2010 (the "ProEquities Agreement"). The ProEquities Agreement specifies that ProEquities
4 would "exercise exclusive control" over the broker-dealer and investment advisory activities of
5 ProEquities agents who were also insurance agents for Bankers Life (the "Dual Agents"). In
6 addition, the ProEquities Agreement assigned the following securities-related roles to BLCFS or
7 to BLCFS and Bankers Life, which roles BLCFS and Bankers Life did perform until December
8 2, 2011:

- 9 a. consulting with ProEquities on the persons to be appointed as representatives of
10 ProEquities;
- 11 b. identifying securities product training and marketing opportunities for review by
12 ProEquities;
- 13 c. conferring with ProEquities concerning the securities products made available for
14 distribution by the dual agents;
- 15 d. terminating the clearing broker selected by ProEquities (BLCFS only) in the event
16 that the clearing agent did not use commercially reasonable efforts to process and service
17 customer accounts at a level consistent with BLCFS' standards;
- 18 e. paying for advertising and promotional material (BLCFS only) in the event that
19 BLCFS ordered more than a reasonable quantity of such materials or required customization of
20 them;
- 21 f. recruiting representatives for ProEquities and assisting with the licensing and
22 registration process;
- 23 g. providing marketing, training and support; and
- 24 h. paying for:
 - 25 i. pre-examination training for required FINRA examinations;
 - 26 ii. sales training materials;



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iii.recruitment and travel costs; and

iv.ProEquities stationary and business cards.

5. Under the ProEquities Agreement, ProEquities was required to pay BLCFS between 87% and 91% of revenue received by ProEquities for the securities business conducted by the dual agents. ProEquities also was required to provide reports to BLCFS of the amount of compensation to be paid to each dual agent for securities work, and BLCFS was to retain the difference.

6. BLCFS, in its current Form BD filing, lists the following as other business:

BLC Financial Services, Inc. (BLCF) provides sales support & a marketing program to Bankers Life & Casualty agents who are securities licensed with ProEquities. BLCFS will receive compensation from ProEquities based on these securities sales. BLCFS will not have any representatives that sell to the public.

7. Evidence obtained during the investigation indicated that Bankers screened prospective securities salespersons, trained new securities salespersons, conducted some periodic training sessions for securities salespersons, monitored and attempted to increase securities production of securities salespersons, and played a significant role in determining the compensation of securities salespersons. Additionally, evidence showed that the involvement of Bankers in securities-related roles led to confusion in the reporting and responsibility hierarchies as between Bankers and ProEquities.

8. At no time were the dual agents licensed as salespersons or investment adviser representatives of Bankers Life or BLCFS. The agents were salespersons and investment adviser representatives of ProEquities.

9. From April 30, 2010, through November 31, 2011, Bankers received, on a nationwide basis, a total of approximately \$11 million from ProEquities under the ProEquities Agreement for variable annuity and securities transactions and investment advice.



CONCLUSIONS OF LAW

10. Under the Oregon Securities Law, Oregon Revised Statutes Chapter 59 and Oregon Administrative Rules Chapter 441, a person may not act as a broker-dealer in Oregon unless licensed or exempt from licensing. ORS 59.165(1).

11. Similarly, a person may not act as an investment adviser in Oregon unless licensed, exempt from licensing, or a federal covered investment adviser. ORS 59.165(6).

12. A broker-dealer may not employ or associate with a salesperson, as defined in ORS 59.015(18)(a), unless the employee or associated person is licensed as a salesperson of the broker-dealer. ORS 59.165(3).

13. An investment adviser may not employ or associate with an investment adviser representative unless the employee or associated person is licensed as an investment adviser representative of the investment adviser. ORS 59.165(4).

14. By engaging in the conduct set forth above, Bankers acted as an unlicensed broker-dealer and investment adviser in Oregon in violation of ORS 59.165(1) and ORS 59.165(6).

15. Furthermore, by employing or associating with dual agents who were not licensed as salespersons or investment adviser representatives of Bankers, Bankers violated ORS 59.165(3) and ORS 59.165(4).

16. By engaging in the conduct set forth above, ProEquities engaged in conduct giving rise to liability under ORS 59.245(4).

17. As a result, this Consent Order and the following relief are appropriate and in the public interest.

ORDER

NOW, THEREFORE, THE DIRECTOR ISSUES THE FOLLOWING ORDERS:

18. ProEquities shall CEASE AND DESIST from engaging in conduct giving rise to liability under ORS 59.245(4).



1 19. In accordance with the terms of the multistate settlement, ProEquities shall pay an
2 amount of \$435,000 to the states where dual agents were located during the period from April
3 30, 2010, through December 2, 2011, allocated according to a schedule provided by the multi-
4 state investigation working group. ProEquities shall pay, pursuant to ORS 59.995(1), a civil
5 penalty of \$8,207.55 (eight thousand two hundred seven dollars and fifty-five cents) to Oregon
6 Department of Consumer and Business Services as its portion of the total amount. Such payment
7 shall be made within ten days from the date this Consent Order is signed on behalf of the
8 Director.

9 20. If any state securities regulator determines not to accept the settlement offer of
10 ProEquities reflected herein, including the amount allocated to the applicable state according to
11 the schedule referenced in paragraph 19 above, the payment to Oregon set forth in paragraph 19
12 above shall not be affected; and ProEquities shall not be relieved of any of the non-monetary
13 provisions of this Consent Order.

14 21. ProEquities shall not attempt to recover any part of the payments addressed in this
15 Consent Order from dual agents, Bankers Life, or customers of ProEquities.

16 22. ProEquities shall fully cooperate with any investigation or proceeding related to the
17 subject matter of this Consent Order.

18 23. From the date of this Consent Order through March 31, 2015, and while Bankers has
19 dual agents that are salespersons or investment adviser representatives of ProEquities, any
20 agreement between Bankers and ProEquities shall be consistent with the provisions set forth in a
21 separate Order to Cease and Desist, Order Assessing Civil Penalty and Consent to Entry of Order
22 executed by Bankers and the Director in S-12-0053.

23 24. This Consent Order concludes the investigation by the Director, and any other action
24 that the Director could commence under applicable law on behalf of the State of Oregon as it
25 relates to the violations described above, up to and including activity occurring through
26 December 2, 2011; provided, however, that excluded from and not covered by this paragraph are



1 any claims by the Director arising from or relating to the "Order" provisions contained herein.

2 25. If payments are not made by ProEquities, or if ProEquities defaults in any of its
3 obligations set forth in this Consent Order, the Director may vacate this Consent Order, at his
4 sole discretion, upon 10 days notice to ProEquities and without opportunity for administrative
5 hearing or judicial review, and commence a separate action.

6 26. Nothing herein shall preclude the State of Oregon, its departments, agencies, boards,
7 commissions, authorities, political subdivisions and corporations, other than the Director and
8 only to the extent set forth herein, (collectively, "State Entities") and the officers, agents or
9 employees of State Entities from asserting any claims, causes of action, or applications for
10 compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive
11 relief against ProEquities.

12 27. This Consent Order is not intended by the Director to subject any person to any
13 disqualifications under the laws of the United States, any state, the District of Columbia, Puerto
14 Rico, or the Virgin Islands including, without limitation, any disqualification from relying upon
15 the state or federal registration exemptions or safe harbor provisions.

16 28. This Consent Order and the order of any other state in related proceedings against
17 ProEquities (collectively, the "Orders") shall not disqualify any person from any business that
18 they otherwise are qualified, licensed or permitted to perform under applicable securities laws of
19 the State of Oregon, and any disqualifications from relying upon this state's registration
20 exemptions or safe harbor provisions that arise from the Orders are hereby waived.

21 29. This Consent Order and any dispute related thereto shall be construed and enforced in
22 accordance with, and governed by, the laws of the State of Oregon without regard to any choice
23 of law principles.

24 30. This Consent Order shall be binding upon ProEquities, its relevant affiliates, successors
25 and assigns. .

26 31. Except as set forth above, the Director agrees to take no action adverse to ProEquities



1 based solely on the same conduct addressed in this Consent Order. However, nothing in this
2 Consent Order shall preclude the Director from: (a) taking adverse action based on other
3 conduct; (b) taking this Consent Order and the conduct described above into account in
4 determining the proper resolution of action based on other conduct; (c) taking any and all
5 available steps to enforce this Consent Order; or (d) taking any action against other entities or
6 individuals, regardless of any affiliation or relationship between ProEquities and the entities or
7 individuals.

8 IT IS HEREBY ORDERED on this 22nd day of August, 2012.

9
10 PATRICK M. ALLEN, Director
11 Department of Consumer and Business Services

12 /s/ David Tatman
13 David C. Tatman, Administrator
14 Division of Finance and Corporate Securities

15 **CONSENT TO ENTRY OF CONSENT ORDER**

16 ProEquities, Inc. (“ProEquities”), by signing below, agrees to the entry of this Consent
17 Order, and waives any right to a hearing or to judicial review.

18 ProEquities states that no promise of any kind or nature whatsoever that is not reflected
19 in this Consent Order was made to it to induce it to enter into this Consent Order and that it has
20 entered into this Consent Order voluntarily.

21 Michael J. Mungenast (name) represents that he or she has been
22 authorized to enter into this Consent Order on behalf of ProEquities.

23 ProEquities, Inc.
24 By: /s/ Michael J Mungenast
25 Title: CEO
26 Date: 8/6/2012