

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016047636601**

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

RE: Royal Alliance Associates, Inc., Respondent
Member Firm
CRD# 23131

FSC Securities Corporation, Respondent
Member Firm
CRD# 7461

SagePoint Financial, Inc., Respondent
Member Firm
CRD# 133763

Woodbury Financial Services, Inc., Respondent
Member Firm
CRD# 421

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondents Royal Alliance Associates, Inc. (“Royal Alliance”), FSC Securities Corporation (“FSC”), SagePoint Financial, Inc. (“SagePoint”), and Woodbury Financial Services, Inc. (“Woodbury”) (collectively the “Advisor Group Firms” or “Respondents”) submit 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 us alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

Royal Alliance has been a member of FINRA since July 1989. Royal Alliance is headquartered in New York, New York and is a full-service broker-dealer that sells a wide array of securities products to its customers, including products issued by affiliated and unaffiliated companies. As of March 2018, Royal Alliance had 2,130 registered representatives in 819 branch offices.

FSC has been a member of FINRA since August 1977. FSC is headquartered in Atlanta, Georgia and is a full-service broker-dealer that sells a wide array of securities products to its customers, including products issued by affiliated and unaffiliated companies. As of March 2018, FSC had 1,375 registered representatives in 639 branch offices.

SagePoint has been a member of FINRA since May 2005. SagePoint is headquartered in Phoenix, Arizona and is a full-service broker-dealer that sells a wide array of securities products to its customers, including products issued by affiliated and unaffiliated companies. As of March 2018, SagePoint had 1,891 registered representatives in 890 branch offices.

Woodbury has been a member of FINRA since May 1968. Woodbury is headquartered in Oakdale, Minnesota and is a full-service broker-dealer that sells a wide array of securities products to its customers, including products issued by affiliated and unaffiliated companies. As of March 2018, Woodbury had 1,537 registered representatives in 794 branch offices.

RELEVANT DISCIPLINARY HISTORY

The Advisor Group Firms have no relevant disciplinary history.

OVERVIEW

Royal Alliance (between February 2014 and December 2015) and FSC, SagePoint, and Woodbury (between January 2013 and December 2014) failed to establish, maintain and enforce a supervisory system and written procedures designed to reasonably supervise representatives' sale of multi-share class variable annuities and failed to provide training to their representatives and principals on the sale and supervision of multi-share class variable annuities. As a result, the Advisor Group Firms violated FINRA Rules 2330(d) and (e), NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014), and FINRA Rule 2010.

In addition, Royal Alliance (between February 2014 and March 2016) failed to reasonably supervise variable annuity exchanges in that it failed to implement a reasonable supervisory system and procedures to determine if any of its registered representatives had inappropriate rates of variable annuity exchanges. As a result,

Royal Alliance violated FINRA Rule 2330(d), NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014), and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

During the Relevant Period, the Advisor Group Firms each failed to establish, maintain and enforce a supervisory system and written procedures reasonably designed to supervise representatives' recommendations of variable annuities.

Variable Annuities

Variable annuities are complex products that permit customers to choose among a variety of contract features and options. Due in part to the complexity of these products and the inherent risk of sales practice violations they present, FINRA issued Rule 2330 to require that firms enhance their supervisory systems, and provide more comprehensive and targeted protection to investors who purchase or exchange variable annuities. Among other things, Rule 2330 requires a registered representative, when recommending a variable annuity, to inform the customer of the various features of the annuity, including applicable surrender charges, tax penalties, fees and costs.

L-Share Contracts

During the Relevant Period, the Advisor Group Firms sold variable annuity contracts with the option of different share classes, including B-share contracts (the most commonly sold share class) and L-share contracts.

L-share contracts have relatively short surrender periods—generally three to four years. Insurance companies specifically design L-share contracts so that customers pay a higher fee in exchange for the increased liquidity provided by the shorter surrender period. Consequently, the annual fees associated with L-share contracts are often between 35 and 50 basis points higher than most B-share contracts.

Because L-share contracts generally charge higher fees for the life of the contract than comparable B-share contracts, L-share contracts may raise suitability concerns when sold to customers with long-term time horizons. These concerns are even more pronounced where an L-share contract is combined with a long-term rider such as a Guaranteed Minimum Income Benefit Rider (GMIB) or Guaranteed Minimum Withdrawal Benefit Rider (GMWB) because these riders often require the customer to hold the variable annuity for five years or longer (*i.e.*, longer than the contract's surrender period) in order to obtain the full benefit.

Respondents' Failure to Reasonably Supervise the Sale of Multi-Share Class Variable Annuities

NASD Rule 3010(a) required member firms to “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 NASD [and now FINRA] Rules.” NASD Rule 3010(b) required member firms to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD [and now FINRA].” FINRA Rule 3110, which superseded NASD Rule 3010 effective December 1, 2014, contains the same requirements.

In addition to the general supervisory requirements of NASD Rule 3010 and FINRA Rule 3110, FINRA Rule 2330(d) specifically requires that member firms “establish and maintain specific written supervisory procedures reasonably designed to achieve compliance with the standards set forth in [Rule 2330].” Among the standards set forth in Rule 2330 is the requirement that no member or associated person recommend the purchase or exchange of a variable annuity unless the member or person has a reasonable basis to believe that:

- (1) “the customer has been informed, in general terms, of various features of deferred variable annuities, such as the potential surrender period and surrender charge; potential tax penalty . . .; mortality and expense fees . . .; potential charges for and features of riders . . .;”
- (2) “the customer would benefit from certain features of deferred variable annuities, such as tax-deferred growth, annuitization, or a death or living benefit;” and
- (3) “the particular deferred variable annuity . . . and riders and similar product enhancements, if any, are suitable . . . for the particular customer.”

Royal Alliance (between February 2014 and December 2015) and FSC, SagePoint, and Woodbury (between January 2013 and December 2014) failed to establish, maintain and enforce a supervisory system and written supervisory procedures reasonably designed to ensure that their representatives complied with the standards set forth in Rule 2330. For example, the Firms’ procedures did not specifically address the suitability issues related to the different surrender periods, fees and costs of the different variable annuity share classes. Similarly, the Firm’s procedures did not specifically address the suitability concerns raised by the sale of an L-share contract when combined with a long-term income rider or to a customer with a long-term investment time horizon.

The Advisor Group Firms' written supervisory procedures also failed to address when additional scrutiny may be warranted during the required principal review and approval process because of suitability concerns about the variable annuity share class that was selected for the transaction. Although FSC, SagePoint and Royal Alliance's procedures for principals did explain basic differences in the surrender period for variable annuity share classes, and noted that reviewing principals should attempt to get a rationale addressing the customer's decision to pay the increased annual fee for an L-share contract, these procedures failed to address the suitability concerns raised by the sale of an L-share contract with a long-term income rider or to a customer with a long-term investment time horizon. Woodbury's written supervisory procedures failed to address variable annuity share classes at all.

The Advisor Group Firms also failed to provide sufficient training to their registered representatives and reviewing principals to ensure that they understood the material features of variable annuities, as required by Rule 2330(e). Specifically, the variable annuity training provided by the Advisor Group Firms was not designed to ensure that the Firms' registered representatives and reviewing principals understood the suitability considerations raised by the sale of an L-share contract with a long-term income rider or to a customer with a long-term investment time horizon.

Despite the significant role that variable annuity sales played in their overall business, the Advisor Group Firms failed to implement a supervisory system and procedures reasonably designed to ensure suitability in multi-share class VA sales, including L-share contracts:

- Between February 2014 and December 2015, Royal Alliance received over \$61.9 million from the sale of variable annuities, including approximately \$15.6 million from the sale of L-share contracts. More than 28% of the variable annuity transactions at Royal Alliance were L-share contracts (2,522 contracts).
- Between January 2013 and December 2014, FSC received over \$51.5 million from the sale of variable annuities, including approximately \$12.2 million from the sale of L-share contracts. More than 23% of the variable annuity transactions at FSC were L-share contracts (1,627).
- Between January 2013 and December 2014, Sagepoint received over \$52.7 million from the sale of variable annuities, including approximately \$11.5 million from the sale of L-share contracts. More than 21% of the variable annuity transactions at Sagepoint were L-Share contracts (1,717).

- Between January 2013 and December 2014, Woodbury received over \$107.1 million from the sale of variable annuities, including approximately \$18.8 million from the sale of L-share contracts. More than 19% of the variable annuity transactions were L-Share contracts (3,185).

At each of the Advisor Group Firms, a significant number of the L-share contracts were sold with long-term riders. Many of the customers purchasing L-shares indicated they had a long-term investment horizon. As a result of the Firms' failure to have supervisory procedures identifying these potential suitability concerns, supervisors at the Firms responsible for reviewing variable annuity transactions had no procedures to ensure they were considering suitability issues related to share class selection, including whether the sale of L-share contracts was suitable for customers with no short-term liquidity needs, a long-term investment horizon or a desire for a long-term rider.

As a result of the foregoing, the Advisor Group Firms violated FINRA Rule 2330(d) and (e), NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014) and FINRA Rule 2010.

Royal Alliance's Failure to Reasonably Supervise For Rates of Variable Annuity Exchanges

Finally, between February 2014 and March 2016, Royal Alliance failed to establish and maintain a supervisory system and procedures reasonably designed to supervise variable annuity exchanges. FINRA Rule 2330(d) requires, among other things, that firms "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." During this period, Royal Alliance's system for reviewing variable annuity exchanges was flawed in several respects. Royal Alliance selected for review only a limited number of representatives based on ad hoc criteria unrelated to their volume of variable annuity recommendations. And the firm's written supervisory procedures did not include any "surveillance procedures" designed to determine if representatives had problematic rates of variable annuity exchanges, as required.

As a result of the foregoing, Royal Alliance violated FINRA Rule 2330(d), NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014) and FINRA Rule 2010.

- B. The Advisor Group Firms consent to the imposition of the following sanctions:

Royal Alliance consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$350,000.00, and;
3. Certification Regarding Supervision of Multi-Class VAs and Monitoring of Rates of 1035 Exchanges: Royal Alliance shall review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the areas described within Section I.A of this AWC. Within 90 business days of the date this AWC is accepted, the President of Royal Alliance shall certify in writing to Sarah B. Belter-Pylant, Senior Regional Counsel, at the address listed above, that with respect to the areas described in Section I.A. of this AWC: (i) Royal Alliance has engaged in the review described above; and (ii) as of the date of the certification, Royal Alliance has established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD Rules cited herein.

FSC consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$200,000.00, and;
3. Certification Regarding Supervision of Multi-Class VAs: FSC shall review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the areas described within Section I.A of this AWC. Within 90 business days of the date this AWC is accepted, the President of FSC shall certify in writing to Sarah B. Belter-Pylant, Senior Regional Counsel, at the address listed above, that with respect to the areas described in Section I.A. of this AWC: (i) FSC has engaged in the review described above; and (ii) as of the date of the certification, FSC has established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD Rules cited herein.

SagePoint consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$200,000.00, and;
3. Certification Regarding Supervision of Multi-Class VAs: SagePoint shall review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the areas described within

Section I.A of this AWC. Within 90 business days of the date this AWC is accepted, the President of SagePoint shall certify in writing to Sarah B. Belter-Pylant, Senior Regional Counsel, at the address listed above, that with respect to the areas described in Section I.A. of this AWC: (i) SagePoint has engaged in the review described above; and (ii) as of the date of the certification, SagePoint has established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD Rules cited herein.

Woodbury consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$250,000.00, and;
3. Certification Regarding Supervision of Multi-Class VAs: Woodbury shall review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the areas described within Section I.A of this AWC. Within 90 business days of the date this AWC is accepted, the President of Woodbury shall certify in writing to Sarah B. Belter-Pylant, Senior Regional Counsel, at the address listed above, that with respect to the areas described in Section I.A. of this AWC: (i) Woodbury has engaged in the review described above; and (ii) as of the date of the certification, Woodbury has established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD Rules cited herein.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have each submitted an Election of Payment form showing the method by which Respondent proposes to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that Respondents are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;

- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents’ permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondents;
 - 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. Respondents 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. Respondents 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 Respondents': (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Royal Alliance, 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 Royal Alliance 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.

6/29/2018
Date (mm/dd/yyyy)

Royal Alliance Associates, Inc., Respondent

By: *Anty Sells*

The undersigned, on behalf of FSC, 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 FSC 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.

Date (mm/dd/yyyy)

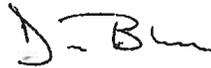
FSC Securities Corporation, Respondent

The undersigned, on behalf of FSC, 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 FSC 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.

06/27/2018

Date (mm/dd/yyyy)

FSC Securities Corporation, Respondent

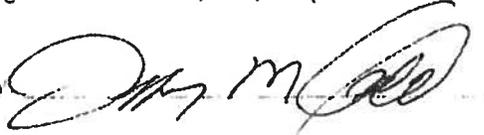


By: _____

The undersigned, on behalf of SagePoint, 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 SagePoint 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.

6/27/18
Date (mm/dd/yyyy)

SagePoint Financial, Inc., Respondent

By: 

The undersigned, on behalf of Woodbury, 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 Woodbury 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.

Date (mm/dd/yyyy)

Woodbury Financial Services, Inc., Respondent

By: _____

The undersigned, on behalf of SagePoint, 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 SagePoint 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.

Date (mm/dd/yyyy)

SagePoint Financial, Inc., Respondent

By: _____

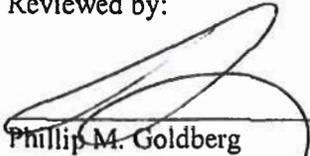
The undersigned, on behalf of Woodbury, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Woodbury has agreed to its provisions voluntarily; and that no offer, threat, 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.

6/29/2018
Date (mm/dd/yyyy)

Woodbury Financial Services, Inc., Respondent

By:  _____

Reviewed by:

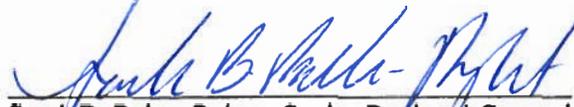


Phillip M. Goldberg
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SagePoint Financial, Inc. and Woodbury Financial Services, Inc.
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321 North Clark Street, Suite 2800
Chicago, Illinois 60654-5313
Phone Number: (312) 832-4549

Accepted by FINRA:

July 24, 2018
Date

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



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