

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108**

IN THE MATTER OF:)
)
INVESTMENT PROFESSIONALS, INC.,) Docket No. E-2016-0060
)
RESPONDENT.)
_____)

ADMINISTRATIVE, COMPLAINT

I. PRELIMINARY STATEMENT

The Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth (the “Enforcement Section” and the “Division,” respectively) files this Administrative Complaint (the “Complaint”) to commence an adjudicatory proceeding against Investment Professionals, Inc. (“IPI” and or “Respondent”), for violations of MASS. GEN. LAWS ch. 110A, the Massachusetts Uniform Securities Act (the “Act”), and 950 MASS. CODE REGS. 10.00-14.413 (the “Regulations”).

The Enforcement Section seeks an order: 1) finding as fact the allegations set forth below; 2) requiring Respondent to permanently cease and desist from further conduct in violation of Section 204 of the Act and Regulations in the Commonwealth; 3) censuring Respondent; 4) requiring Respondent to offer rescission and restitution, without fees or penalties, to all customers referenced in the Complaint, including disgorgement of all fees and commissions, for all unsuitable sales; 5) requiring Respondent to engage an independent consultant to review written policies and procedures and implement corrective action regarding obligations to senior citizen investors, training and education on duties owed to clients, especially senior clients, sales

contests, and suitability; undertake a review of Agent 1 and Agent 2's senior clients for suitability; and ensuring that such policies and procedures include methods for enforcement and compliance oversight; 6) imposing an administrative fine on Respondent in an amount and upon such terms and conditions as the Director or Presiding Officer may determine; 7) finding that all sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors; and 8) taking any such further actions which may be necessary or appropriate in the public interest for the protection of Massachusetts investors.

II. SUMMARY

IPI's business model is predicated on partnering with community banks so that the bank's existing depository customers can be used to provide revenue to IPI and additional revenue to the bank. Networking agreements between IPI and their bank partners reveal a referral program where bank employees refer bank customers to IPI representatives for monetary incentives. In exchange for allowing IPI representatives convenient access to bank customers, IPI's bank partners receive "rent" which is a percentage of the sales that IPI representatives earn from selling products at bank branches. While IPI and their bank partners profit from their networking arrangements, the pervasive sales culture emphasizing and rewarding the volume of production at the expense of compliance with policies and procedures, suitability, and oversight means that certain senior citizen bank customers have been harmed.

IPI has partnered with the following banks and credit union in Massachusetts: Eastern Bank, Mutual Bank, East Boston Savings Bank, Edgartown National Bank, The Cooperative Bank, and Homefield Credit Union. Between January 2014 and June 2016, the top ten IPI representatives working out of Massachusetts community banks received approximately 2,208 customer referrals. Approximately forty-five percent (45%) of these bank referrals to IPI

representatives were referrals of senior citizens, those individuals aged 65 or older. Approximately fourteen percent (14%) of those referred invested in market-linked certificates of deposit (“MLCDs”) and approximately thirty-nine percent (39%) invested in annuities. Eastern Bank, a state chartered banking institution, is IPI’s largest bank partner in the Commonwealth. Eight of the top ten highest producing IPI representatives in Massachusetts work at Eastern Bank branches.

Two of IPI’s top producing representatives, (referred to going forward as “Agent 1” and “Agent 2”), work out of Eastern Bank branch locations. Agent 1 and Agent 2 participated in aggressive sales contests and made sales of unsuitable investments, which caused harm to certain senior citizens. IPI failed to supervise its representatives by allowing and promoting prohibited sales contests, and also failed to supervise its representatives by failing to prevent the sale of unsuitable investments to certain senior citizen customers.

IPI’s aggressive sales contests exist against a backdrop of lax supervision from offices located in Texas and Kentucky that management personal at IPI identified as “not adequate.” Although IPI’s own policies and procedures prohibit “activities that are designed to reward sales for a particular financial product or family of products” and prohibit activities that “would only serve as a luxury” to representatives, in 2016 IPI rewarded the top ten percent of the previous year’s highest-producing representatives, including Agent 1 and Agent 2, with a trip to Turks and Caicos. In 2015, IPI held a sales contest approved by IPI’s President and CEO whereby representatives who achieved sales of products up to \$150,000, including Agent 1 and Agent 2, could win a ski trip to Beaver Creek, Colorado. In 2013, IPI representatives in Massachusetts, including Agent 1 and Agent 2, participated in a sales contest where the prize consisted of tickets to a Red Sox game and additional cash bonus. During this contest, an IPI senior regional

director urged representatives to participate by stating: "Are there any 'Last Minute Cowboys' who can saddle up and ride?" Another IPI sales contest with a gambling theme rewarded high-producing representatives with a myriad of prizes. Despite being in violation of IPI's own policies and procedures, IPI's senior managers and executives approved and promoted such sales contests.

In addition to the sales contest violations, IPI's intense focus on revenues has led to other supervisory failures. For example, in 2013, an elderly Massachusetts resident Investor One visited her local Eastern Bank branch where she was referred to Agent 1 because she had a regular certificate of deposit coming due. Agent 1 convinced her to purchase an MLCD with the monies coming due without adequately explaining the risks of an MLCD to Massachusetts 'Investor One. Massachusetts Investor One was therefore locked into a multiple-year MLCD which was unsuitable in light of her age, investment objectives, and limited investing experience. On another occasion, Agent 1 recommended that a married couple in Massachusetts, who were also Eastern Bank customers in their mid-sixties, invest over 12% of their liquid net worth in a non-traded real estate investment trust ("REIT") and a non-traded business development company ("BDC"), which were unsuitable for these investors due to their risk and illiquidity. Despite numerous customer complaints about Agent 1 provided to IPI, IPI failed to supervise and prevent these unsuitable transactions.

IPI also failed to supervise and prevent Agent 2 from making an unsuitable recommendation to Investor Four, a lifelong customer of Eastern Bank in her sixties. In 2015, Agent 2 met with Investor Four at a bank branch location. Investor Four informed Agent 2 that she had terminal Stage IV cancer and that she wanted to have access to her monies for personal use. Despite Investor Four's investment objective of liquidity, Agent 2 recommended that

Investor Four purchase a variable annuity, which she did based on the recommendation. However, the annuity was unsuitable for Investor Four because it had a seven-year term and represented nearly all of Investor Four's investable assets, leaving her with very limited access to liquid funds. IPI has also failed to disclose Investor Four's customer complaint on Agent 2's records accessible to the public via BrokerCheck.

IPI engaged in dishonest and unethical conduct by allowing, sponsoring, and promoting the prohibited sales contests, and failed to prevent or detect certain unsuitable sales by its registered representatives. As such, the Enforcement Section seeks an order requiring the Respondent to permanently cease and desist from further conduct in violation of Section 204 of the Act and Regulations; censuring Respondent; and imposing an administrative fine. Further, the Enforcement Section seeks an order requiring IPI to offer rescission and restitution, without fees or penalties, to all of the senior customers referenced in the Complaint, including disgorgement of all fees and commissions, for unsuitable sales; and requiring IPI to engage an independent consultant to review IPI's policies and procedures and implement corrective action regarding obligations to senior citizen investors, training and education on duties owed to clients, especially senior citizens, sales contests, and suitability as well as to undertake a review of Agent 1 and Agent 2's senior clients for suitability; and ensuring that such policies and procedures include methods for enforcement and compliance oversight. The Enforcement

III. JURISDICTION AND AUTHORITY

Section's investigation into the sales practices of Agent 1 and Agent 2 is ongoing.

1. As provided for by the Act, the Division has jurisdiction over matters relating to securities pursuant to the Act.

2. The Enforcement Section brings this action pursuant to the authority conferred upon the Division by Sections 407A, 204, and 414 of the Act and its Regulations, wherein the Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and the Regulations.

3. The Enforcement Section reserves the right to amend this Complaint and/or bring additional administrative complaints to reflect information developed during the current and ongoing investigation.

IV. RELEVANT TIME PERIOD

4. Except as otherwise expressly stated, the conduct described herein occurred during the approximate time period of January 1, 2013 to the present (the “Relevant Time Period”).

V. RESPONDENT

5. Investment Professionals, Inc. is a broker-dealer and investment adviser with headquarters in Texas. IPI has a Financial Industry Regulatory Authority (“FINRA”) Central Registration Depository (“CRD”) number of 30184. IPI has been registered with Massachusetts since 2005.

VI. STATEMENT OF FACTS

A. IPI’s Business Model is Premised on Networking Arrangements Whereby Investment Services Are Offered on Bank and Credit Union Premises

i. IPI’s Networking Relationship With Community Banks

6. IPI states on its website that it “specializes in building profitable on-site investment programs for community financial institutions and credit unions nationwide.”

7. IPI has partnered with six bank partners--Eastern Bank, Mutual Bank, East Boston Savings Bank, Edgartown National Bank, The Cooperative Bank, and Homefield Credit Union--

in approximately twenty-three bank branch locations in over twenty Massachusetts cities and towns.

8. IPI's largest bank relationship in Massachusetts is with Eastern Bank which began in July 2009.

9. Eight out of the top ten highest producing IPI representatives in Massachusetts work at Eastern Bank branches.

10. In addition to a generous revenue sharing program, compliance oversight and other services and accommodations, the networking agreements between IPI and its bank partners show that bank partners typically receive "rent" in the form of a percentage of gross dealer concessions ("GDC") in exchange for allowing IPI representatives to operate on their premises.

ii. Massachusetts Community Bank Referrals to Onsite IPI Representatives

11. IPI's networking arrangement with its Massachusetts banks provides that bank customers be referred by bank employees to onsite IPI representatives.

12. Bank employees are also incentivized in the form of cash payments and sometimes gift cards to refer bank customers to IPI representatives.

13. IPI representatives hold trainings to instruct bank employees of their ideal types of referral customers, then the bank employees receive "points" that can earn them prizes for making referrals that fulfill the enumerated criteria.

14. Bank employees are compensated for these qualified referrals.

15. These referrals make up a significant portion of each IPI representative's book of business and the banks profit from the generous revenue sharing arrangement based on sales of securities products.

16. Between January 2014 and June 2016, the top ten IPI representatives working out of Massachusetts community banks received approximately 2,208 customer referrals.

17. Approximately forty-five percent (45%) of these bank referrals to IPI representatives were referrals of senior citizens, those individuals aged 65 or older.

18. Approximately fourteen percent (14%) of those referred invested in MLCs and approximately thirty-nine percent (39%) invested in annuities.

iii. Eastern Bank Referrals to Onsite IPI Representatives

19. Between January 2014 and June 2016, Eastern Bank employees made approximately 1,809 referrals to IPI representatives.

20. Approximately forty-seven percent (47%) of the total referrals made by Eastern Bank to IPI representatives were senior citizen referrals.

21. Between January 2014 and June 2016, Agent 1 received 525 qualified bank customer referrals and Agent 2 received 240 qualified bank customer referrals.

B. IPI's Aggressive Sales Culture Led to Prohibited Sales Contests Constituting Dishonest and Unethical Conduct

22. Section 8.3.10 of IPI's Written Supervisory Procedures in effect during the Relevant Time Period reads in relevant part:

As a general rule, the Company will not engage in activities that are merely designed to reward sales for a particular financial product or family of products (securities and/or variable insurance), nor that would only serve as a luxury to Registered Representatives and/or associated persons for similar reasons, but which would serve to promote growth of knowledge and skills in sales and associated suitability issues. Any trips or other such activities relating thereto shall be to locations which are within reasonable traveling distance to a nearby Investment Professionals, Inc. branch or other office location or the Home Office (OSJ), will not involve any subsidy of a Registered Representative's or associated person's spouse or other family members' food, drink, or lodging, and will chiefly be comprised of training for the Registered Representative or associated person on a topic relevant to the business of selling securities and/or variable insurance products and/or advisory services...

More particularly, while an occasional meal, ticket to a sporting event or event or comparable entertainment that is not so frequent as to raise a question of

comparable entertainment that is not so frequent as to raise a question of propriety, is de minimis (\$100 USD or less in value) and is not preconditioned on the achievement of a sales target is acceptable, the Company's goal is ultimately to promote best practices through offering continuing educational opportunities for its sales force. Such opportunities will be a matter of both recognizing past sales performance in a general, nonproduct specific sense and encouraging future performance in the same vein and in the context of best industry practices and compliance with all SEC, FINRA and state regulations. Associated persons of the Company should not expect that such opportunities require achievement of a sales target in advance thereof.

23. IPI has held multiple sales contests that are based on several criteria, including production volume and more bank customer referrals.

24. IPI engaged in dishonest and unethical conduct in violation of IPI's own policies and procedures and Massachusetts securities laws.

i. The Platinum Club Sales Contest

25. The Platinum Club sales contest is an annual sales contest where IPI representatives with the highest overall production placing within the top ten percent of IPI representatives nationwide qualify for recognition and prizes.

26. IPI representatives who qualify for the Platinum Club typically receive a vacation as a prize.

27. Agent 1 and Agent 2 were the first and second highest producing IPI representatives in Massachusetts for both 2014 and 2015.

28. Agent 1 and Agent 2 qualified for the Platinum Club based on both their 2014 and 2015 sales figures.

29. Agent 1 and Agent 2 won an expenses paid trip to Turks and Caicos for their 2015 sales production.

30. In 2016, IPI also allowed its supervisors to attend the trip to Turks and Caicos.

31. Sales contests predicated on achieving sales targets, such as the cruise contest, were not permitted by IPI's policies and procedures.

32. In a January 5, 2015 e-mail, Agent 1 asked other IPI employees for confirmation "that IPI is picking up the tab 100% for spouses of Platinum Producers."

33. An e-mail in response from an IPI employee reads in part "For the Incentive Trip, IPI handles 100% of the cost for the winner (flight, food, cruise)[,] for guest cost IPI handles ([cruise and food) hope this helps."

34. IPI paying for the cost of guest's cruise and food was also in violation of IPI's policies and procedures.

ii. IPI Sales Contest That Ran Concurrent With the Platinum Club Sales Contest

35. In 2014, IPI held a sales contest based on meeting a sales target of \$150,000 worth of GDC.

36. The prize for this sales contest was a Caribbean cruise.

37. In 2014, Agent 1 qualified to receive both the Platinum Turks and Caicos Trip and the Caribbean Cruise. Agent 1 was congratulated in an email dated December 26, 2014 with the subject "Re: National Cruise Contest Results," stating: "Congrats ... !! You actually won on GDC. You qualified automatically by hitting 150K GDC."

38. Neither Turks and Caicos nor other Caribbean destinations are "within reasonable traveling distance to a nearby IPI branch or other office location or the OSJ/home office," and thus were in violation of IPI's policies and procedures.

39. Additionally, the trips to Caribbean destinations constituted luxuries prohibited by IPI's policies.

iii. IPI's Sales Contest to Win Red Sox Tickets and Cash Incentives

40. On April 15, 2013, a senior regional director sent an e-mail to a group of Massachusetts representatives, including Agent 1 and Agent 2, challenging them to “put up a \$450,000 month (it’s been done 5x in the past 2 years) [and] I will fly up over a summer weekend and take us all to a Red Sox Game.”

41. The e-mail continued: “Ok...Ok one more sweetener, if we hit \$450,000 this month, I’ll give anyone helping us get there who does over [\$]45K in April (10% of the goal), \$250 for spending money.”

42. In response, Agent 1 asked, “If I am the only one that hits \$45k you double my payout to \$500...Deal?”

43. The senior regional director replied, “Then I’d be betting against the program...do [\$]50K regardless of what happens to the others and I’ll get you \$300.”

44. Massachusetts-based IPI representatives including Agent 1 and Agent 2 were urged by the senior regional director to make sales counting toward this sales contest in numerous emails.

45. For example, toward the end of the contest period, the regional director sent an e-mail to the IPI representatives located within Eastern Bank branches stating, “Again I ask, can we do it!? Are there any ‘Last Minute Cowboys’ who can saddle up and ride?”

46. Additionally, knowledge of this Red Sox sales target contest reached the senior executive level at IPI.

47. For example, in a 2013 e-mail chain that included the description of the April 2013 contest, the President and CEO responded to the senior regional director, “Nice e-mail...”

48. Sales contests predicated on achieving sales targets, such as the contest involving Red Sox tickets, were prohibited by IPI’s policies and procedures.

49. The gift of additional cash compensation over \$100 violated FINRA rules.

iv. IPI's Sales Contest to Win a Ski Trip to Beaver Creek, Colorado

50. From October 12, 2015 through December 4, 2015, IPI held a sales contest known as the "6th Annual Sales Incentive Contest: Survive the Mountain." ("Beaver Creek Sales Contest").

51. Winners of the Beaver Creek Sales Contest received a ski trip to Beaver Creek, Colorado from January 17, 2016 to January 20, 2016.

52. To win the Beaver Creek Sales Contest, participants had to meet a set of criteria, including potentially achieving \$150,000 in GDC during the contest timeframe.

53. Agent 1 and Agent 2 participated in the 2015 Beaver Creek Sales Contest.

54. Once again, knowledge of the Beaver Creek Sales Contest reached the senior executive level at IPI.

55. On November 29, 2015, IPI's President and CEO sent an e-mail to IPI's regional directors regarding the Beaver Creek Sales Contest stating: "This is the last week of the contest..... use it to drive results..... and let's get some chatter.... Top two will go skiing..... don't miss out of [sic] the opportunity to motivate someone...." (capitalization and ellipses in original).

56. Sales contests predicated on achieving sales targets, such as the Beaver Creek Sales Contest, were not permitted by IPI's policies and procedures.

57. Additionally, sales contests such as the Beaver Creek Sales Contest that serve as a luxury to registered representatives were not permitted by IPI's policies and procedures.

v. IPI's "Play to Win Game Show" Sales Contest

58. IPI sponsored a "Play to Win Game Show" contest from April 1, 2016 to May 31, 2016 ("Play to Win Sales Contest").

59. The description of the Play to Win Sales Contest, circulated to IPI representatives in Massachusetts, including Agent 1 and Agent 2, stated, “Bank more than \$25,000 each round and you’re guaranteed an awesome prize!”

60. As part of the Play to Win Sales Contest, IPI representatives in Massachusetts could opt-in to be eligible to win one of eight prizes commensurate with generating GDC in increments of \$25,000 to \$35,000, \$35,000 to \$50,000, \$50,000 to \$75,000, or more than \$75,000 in each month.

61. The Play to Win Sales Contest was aggressively promoted, including in an April 5, 2016 e-mail from an IPI home office employee to IPI representatives announcing a new market-linked certificate of deposit (“MLCD”) product.

62. The April 5, 2016 e-mail was entitled, “**APRIL MLCD LINEUP - LET’S GET IT ON!!!!**”

63. An MLCD is a complex structured product that is generally dependent on the performance of a security or securities index for returns. A MLCD often must be held by an investor for a number of years to avoid incurring onerous termination penalties.

64. GDC earned from the sale of MLCDs typically range from approximately 2% to 3% of the premiums paid by investors.

65. The April 5, 2016 e-mail encouraged IPI representatives to sell MLCDs to win contest prizes by stating, “whether you’re choosing Winner Takes All or Race Against The Clock in the Play To Win Game Show, these MLCDs can help your GDC [Gross Dealer Concession] get you in to the prizes!!!!”

66. The prizes the IPI representatives could choose from in the Play to Win Sales Contest varied depending on whether they generated GDC of \$25,000 to \$35,000, \$35,000 to \$50,000, \$50,000 to \$75,000, or more than \$75,000 in each month of the contest.

67. The Play to Win Sales Contest also offered representatives, in gambling terms, a “press your luck parlay” option to combine production from April and May 2016 for bigger prizes.

68. IPI’s President and CEO also demonstrated knowledge and approval of the Play to Win Sales Contest in an April 10, 2016 e-mail to several regional directors in which he praised one of the regional directors for his efforts to promote the contest.

69. Sales contests predicated on achieving sales targets, such as the Play to Win Sales Contest, were not permitted by IPI’s policies and procedures.

vi. IPI’s Sales Contests Created Conflicts of Interest Constituting Dishonest and Unethical Conduct

70. IPI’s repeated violations of its written supervisory procedures on sales contests illustrate a failure to maintain and enforce its own policies and procedures and constituted dishonest and unethical conduct in the securities business.

71. During the Relevant Time Period, IPI held numerous sales contests and its representatives often participated in more than one sales contest at a time.

72. The number of sales contests and the constant added pressure to participate by selling greater volumes of securities products created conflicts of interest that were not appropriately managed by IPI.

73. In response to questions regarding whether there were any IPI policies and procedures regarding sales contests, the senior regional manager replied, “I’m not sure.”

74. IPI does not have any written policies or procedures that require registered representatives to disclose sales contests or incentive programs to their clients, including senior clients.

75. In sum, IPI's desire to achieve large production volumes to increase revenue to itself and its banking partners led to supervisory failures which culminated in violations of securities laws.

C. IPI's Aggressive Sales Practices Led to Unsuitable Recommendations to Massachusetts Investors

i. Unsuitable Recommendation to Massachusetts Investor One

76. In June of 2013, Massachusetts Investor One, a Massachusetts resident in her mid-eighties, visited the Eastern Bank branch where she had been a customer for several decades.

77. A traditional FDIC insured CD that she held at the bank was maturing at the time of her June 2013 visit.

78. An employee of the bank referred her to Agent 1 to discuss what to do with the proceeds of the maturing CD.

79. Agent 1 recommended that she purchase an MLCD.

80. Despite knowing her age, Agent 1 did not discuss the risks of the product.

Massachusetts Investor One or suggest that she talk to anyone else before finalizing the purchase of the MLCD.

81. Massachusetts Investor One became a widow just a few months after purchasing the MLCD and did not have any formal education beyond high school.

82. Massachusetts Investor One believed that the principal of her investment in the MLCD would be protected and Agent 1 did not disclose that she would potentially have to hold the product for many years for this to be the case.

83. IPI policies regarding the sale of MLCDs state, in part, “Customers should not be sold CDs that have more than one year left to maturity unless the following applicable factors have been reviewed with the customer and he understands them.”

84. The factors that IPI representatives must explain and ensure their clients understand include, in part, “If a CD is not held to maturity, it may have to be redeemed at a price lower than the initial purchase price. Thus, early redemptions could entail a loss of principal. If the CD is purchased directly from the issuer, an early redemption could result in the loss of earned interest and/or principal.”

85. However, Investor 1 did not understand the MLCD factors.

86. IPI does not have any separate or specific disclosures that are required to be provided to senior citizens regarding the sale of MLCDs.

87. Massachusetts Investor One believes the term of the MLCD to be at least seven years.

88. An MLCD with a seven year term purchased by Massachusetts Investor One at age 83 was unsuitable because it would not reach maturity until she turned 90.

ii. Unsuitable Recommendations to Massachusetts Investors Two and Three

89. From January of 2014 through June of 2016, Agent 1 sold REITS and BDCs to bank customers referred to him on at least thirty-three occasions.

90. A Real Estate Investment Trust (“REIT”) is a complex security that invests in real estate and/or real estate operations, and a non-traded REIT is a REIT that does not trade on an exchange, rendering it illiquid.

91. A business development company (“BDC”) is an unregistered closed-end investment company, and a non-traded BDC is a BDC that does not trade on an exchange, rendering it illiquid.

92. GDCs earned from the sale of non-traded REITS and non-traded BDCs can range from approximately 3% to 7% of the premiums paid by investors.
93. Massachusetts Investors Two and Three are married Massachusetts residents in their mid-sixties.
94. In their account opening documentation, Massachusetts Investors Two and Three selected the risk exposure level of “moderate,” out of four possible options provided for by the IPI account opening paperwork.
95. Massachusetts Investors Two and Three indicated their liquid net worth to be approximately \$400,000.
96. In 2014, Agent 1 sold Massachusetts Investors Two and Three interests in both a non-traded REIT and a non-traded BDC.
97. The prospectus of the non-traded REIT purchased by Massachusetts Investors Two and Three states that the “Massachusetts Securities Division recommend[s] that an investor’s aggregate investment in our securities and similar direct participation investments not exceed 10% of the investor’s liquid net worth.”
98. Agent 1 sold Massachusetts Investors Two and Three interests in a non-traded REIT and a non-traded BDC (a direct participation investment) that represented 12.5% of their total liquid net worth.
99. No public market exists for these investments.
100. Despite the fact that they were in their mid-sixties and had only a moderate risk tolerance, Agent 1 recommended that Massachusetts Investors Two and Three tie up at least 12.5% of their liquid net worth in securities for which there is no active secondary market.

101. Numerous complaints involving Agent 1 were submitted to IPI and Eastern Bank during the Relevant Time Period.

102. In response to an e-mail from Agent 1, a bank employee e-mailed his supervisor and stated that “It seems like [Agent 1] sees himself as above rapproach [sic].”

103. Furthermore, in response to a description of a complaint circulated in an e-mail by a bank employee, Agent 1 responded to the group by e-mail on January 17, 2013 with his own version of the story.

104. A second bank employee responded internally to another bank employee by e-mail on January 17, 2013, voicing his concern:

Unfortunately, in reading through this experience, it strikes me as yet another “the customer is always wrong” manifestation of how our Eastern Bank/IPI partnership works. It seems that all that I ever hear about is how unreasonable our customers are. That explanation always seems to follow a complaint in which our customers describe their interaction with an IPI rep as unfulfilling in the extreme. Make of that what you will. However, it would be quite a coincidence if Eastern Bank cornered the market on unreasonable customers.

iii. Unsuitable Recommendation to Massachusetts Investor Four

105. Investor Four is a sixty-five year old senior citizen, a resident of Massachusetts and was a lifelong customer of Eastern Bank.

106. Massachusetts Investor Four met with Agent 2 at an Eastern Bank branch location in Swampscott, Massachusetts on May 8, 2015.

107. Over half of Agent 2’s referrals involved an annuity.

108. GDCs on these annuities can be as high as six percent (6%), with gross commissions sometimes as high as seven percent (7%).

109. In addition to Agent 2, both a relative of Massachusetts Investor Four and an employee of the bank attended the meeting.

110. Massachusetts Investor Four informed Agent 2 that she had terminal Stage IV cancer.
111. Agent 2 recommended that Massachusetts Investor Four purchase a Jackson annuity, which she did on June 12, 2015.
112. Massachusetts Investor Four expressed to Agent 2 her concern that she would not be alive in seven years, at the conclusion of term of the policy.
113. Massachusetts Investor Four told Agent 2 that she wanted to keep her assets for her own personal use, possibly for traveling while she still felt well, rather than leave the assets to any of her descendants.
114. In conjunction with the annuity, Massachusetts Investor Four purchased a terminal illness waiver.
115. Agent 2 told Massachusetts Investor Four that as a result of her condition, the terminal illness waiver would allow her to access her funds at any time.
116. During the meeting, Agent 2 directed Massachusetts Investor Four to a provision in the document that indicated her illness would be covered by the waiver.
117. Massachusetts Investor Four questioned Agent 2 about whether the terminal illness waiver would apply even though she had the illness at the time of purchase.
118. In response to her question, Agent 2 told her, "It doesn't matter."
119. However, the terminal illness waiver did not apply because Massachusetts Investor Four already had an illness that rendered her ineligible for the benefit at the time of purchase.
120. The terms of the waiver stated "If a terminal illness is incurred after the Issue date of the Contract and while the Contract's Surrender/Withdrawal Charge would normally apply, the Company will waive the Surrender/Withdrawal on any amounts requested withdrawn from the Contract under this benefit." (Underline added.)

121. The Jackson annuity represented nearly all of Massachusetts Investor Four's investable assets, leaving her with very limited access to liquid funds.

122. Section 3.5 of IPI's written supervisory procedures provides, in part, "The Company, through the Sr. Compliance Officer or a designee, shall also report electronically to FINRA statistical and summary information regarding customer complaints by the 15th day of the month following the calendar quarter in which the customer complaint was received by the Company."

123. On March 22, 2016, IPI received correspondence in writing from an insurance company regarding a complaint by Massachusetts Investor Four with respect to the annuity Agent 2 sold to her. The correspondence included a detailed written complaint from Massachusetts Investor Four, dated March 17, 2016, specifically naming Agent 2 and her concerns with him.

124. As of the date of filing of this Complaint, IPI has not reported the customer complaint on Agent 2's CRD.

D. IPI's Supervisory Structure Led to Supervisory Failures

125. The IPI representatives working out of Massachusetts bank branches are overseen by a supervisor located in Kentucky ("Mid-America Supervisor").

126. The Mid-America Supervisor is responsible for overseeing representatives working out of approximately forty different bank programs throughout the region, including those in Massachusetts.

127. For a period of time in 2015, prior to the Mid-America Supervisor's relocation to Kentucky, the Massachusetts representatives were supervised from Texas.

128. In an e-mail to an incoming supervisor, the IPI chief compliance officer at the time expressed concern about the remote arrangement, stating "that is not adequate supervision long term since it is so geographically distant from the branches."

129. Kentucky is approximately 1,000 miles from Massachusetts.

130. In a period of about a year and a half, from 2014 to 2016, IPI representatives in Massachusetts were supervised by at least three different regional directors.

VII. VIOLATIONS OF LAW

Count I. IPI's Violations of MASS. GEN. LAWS ch. 110A, § 204(a)(2)(G)

131. Section 204 of the Act provides, in pertinent part:

(a) The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds [...] (2) that the applicant or registrant [...]:

G. has engaged in any unethical or dishonest conduct or practices in the securities, commodities or insurance business.

132. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 130 above.

133. The conduct of IPI as described above, constitutes violations of MASS. GEN. LAWS ch. 110A, § 204(a)(2)(G).

Count II. IPI's Violations of 950 MASS. CODE REGS. 12.204(1)(a)

134. 950 MASS. CODE REGS. 12.204(1)(a) provides in pertinent part:

(1) Dishonest and Unethical Practices in the Securities Business.

(a) Broker-dealers. Each broker-dealer shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of its business. Acts and practices, including, but not limited to the following, are considered contrary to such standards and constitute dishonest or unethical practices which are grounds for imposition of an administrative fine, censure, denial, suspension or revocation of a registration, or such other appropriate action:

28. Failing to comply with any applicable provision of FINRA member conduct rules or any applicable fair practice or ethical standard promulgated by the SEC or by a self-regulatory organization approved by the SEC.

135. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 130 above.

136. The conduct of IPI as described above, constitutes violations of 950 MASS. CODE REGS. 12.204(1)(a).

Count III. IPI's Violations of MASS. GEN. LAWS ch. 110A, § 204(a)(J)

137. Section 204 of the Act provides, in pertinent part:

The secretary may by order deny, suspend, or revoke any registration if he finds (1) that the order is in the public interest and (2) that the applicant or registrant

(J) has failed reasonably to supervise agents, investment adviser representatives or other employees to assure compliance with this chapter.

138. The Enforcement Section realleges and incorporates the allegations of paragraphs 1 through 130 above.

139. The conduct of Respondent IPI, as described above, constitutes violations of MASS. GEN. LAWS ch. 110A, § 204(a)(J).

VIII. STATUTORY BASIS FOR RELIEF

Section 407A of the Act provides, in pertinent part:

(a) If the secretary determines, after notice and opportunity for hearing, that any person has engaged in or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order issued thereunder, he may order such person to cease and desist from such unlawful act or practice and may take such affirmative action, including the imposition of an administrative fine, the issuance of an order for an accounting, disgorgement or rescission or any other such relief as in his judgment may be necessary to carry out the purposes of [the Act].

MASS. GEN. LAWS ch. 110A, § 407A.

IX. PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Massachusetts investors for the Director to enter an order finding that such "action is necessary or appropriate in the public interest or for the protection of investors and consistent with the

purposes fairly intended by the policy and provisions of this chapter [MASS. GEN. LAWS ch. 110A].”

X. RELIEF REQUESTED

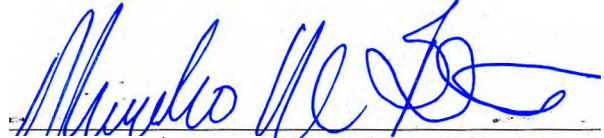
The Enforcement Section of the Division requests that an order be entered:

- A. Finding as fact all allegations set forth in paragraphs 1 through 130, inclusive of the Complaint;
- B. Requiring Respondent to permanently cease and desist from further conduct in violation of Section 204 of the Act and Regulations in the Commonwealth;
- C. Censuring Respondent;
- D. Requiring Respondent IPI to offer rescission and restitution, without fees or penalties to all senior customers referenced in the Complaint, including disgorgement of all fees and commissions, for all unsuitable sales;
- E. Requiring Respondent IPI to engage an independent consultant to review written policies and procedures and implement corrective action regarding obligations to senior citizen investors, training and education on duties owed to clients, especially senior clients, sales contests, and suitability; undertake a review of Respondent Agent 1 and Agent 2’s senior clients for suitability; and ensuring that such policies and procedures include methods for enforcement and compliance oversight;
- F. Imposing an administrative fine on Respondent in an amount and upon such terms and conditions as the Director or Presiding Officer may determine;
- G. Finding that all sanctions and remedies detailed herein are in the public interest and necessary for the protection of Massachusetts investors; and

- H. Taking any such further actions which may be in the public interest and necessary and appropriate for the protection of Massachusetts investors.

**MASSACHUSETTS SECURITIES DIVISION
ENFORCEMENT SECTION**

By its attorneys,

A handwritten signature in blue ink, appearing to read "Kim . Butcher", is written over a horizontal line.

Kim . Butcher, Second Assistant Director
Elyse . Alexander, First Assistant Director
Enforcement Section

Massachusetts Securities Division
One Ashburton Place, Room 1701
Boston, Massachusetts 02108-1552
tel. (617) 727-3548
fax. (617) 248-0177

Dated: November 15, 2016