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GOVERNOR

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COMMISSIONER



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ARKANSAS SECURITIES DEPARTMENT

January 3, 2014

Robert Keenan, Jr.
Chief Executive Officer
St. Bernard Financial Services, Inc.
1609 West Main Street
Russellville, AR 72801

RE: Notice of Intention to file Compliant against:
St. Bernard Financial Services, Inc., CRD number 36956, and
Robert Keenan, Jr., CRD number 2000976

Dear Mr. Keenan:

The Staff of the Arkansas Securities Department (Staff) is conducting an examination of St. Bernard Financial Services, Inc. (St. Bernard). As is required by Rule 607.01 of the Rules of the Arkansas Securities Commissioner (Rules) and by Ark. Code Ann. § 25-15-211, this letter serves as notice of the following:

- (i) The Staff has determined that St. Bernard and you have violated the Arkansas Securities Act (Act) and Rules as is briefly and generally discussed below.
- (ii) The Staff intends to file a complaint seeking appropriate remedies for these violations with the Arkansas Securities Commissioner (Commissioner) and/or a court of competent jurisdiction.
- (iii) St. Bernard and/or you may submit evidence of compliance with the Act and Rules before the Staff files a complaint with the Commissioner. Such evidence should be submitted to the Staff on or before January 31, 2014.

I. St. Bernard's Failure to Supervise

In violation of Ark. Code Ann. § 23-42-308(a)(2)(J), St. Bernard failed to reasonably supervise its agent, Steele Stephens (Stephens), in order to detect and prevent Stephens from repeatedly engaging in unsuitable securities trading in the accounts of the Arkansas state treasurer (Arkansas treasurer) as detailed in section Ia. In addition, St. Bernard failed to reasonably supervise Stephens in order to detect and prevent Stephens from repeatedly misstating and omitting to state material information while trading securities for the Arkansas treasurer as detailed in section Ib. The Arkansas treasurer's office was Stephens' primary client. The failure to properly supervise Stephens was the result of a failure by St. Bernard and the

supervisory personnel employed by St. Bernard to adequately enforce its existing written compliance policy.

a. Unsuitable Trading

Beginning in 2010 Stephens began employing a new investment philosophy or strategy for conducting bond trades for the Arkansas treasurer's office. Stephens continued to use or attempted to use this bond trading philosophy or strategy with the Arkansas treasurer's office until he resigned from St. Bernard in May 2013. Stephens' new bond trading philosophy or strategy was designed to purportedly capture a profit by selling bonds in the Arkansas treasurer's office securities accounts at St. Bernard prior to the maturity or call date of the bonds. Stephens used this philosophy or strategy to offer the sale and purchase of replacement bonds to the Arkansas treasurer's office in violation of Ark. Code Ann. § 23-42-507(3), Ark. Code Ann. § 23-42-308(a)(2)(G) and Rule 308.01(d). Witness testimony will clearly establish that these bond trades were unsuitable, because the Arkansas treasurer's office actually received no real profit or benefit from these trades. In fact, in many instances, the bond trades offered by Stephens caused significant losses for the Arkansas treasurer's office while greatly benefiting Stephens and St. Bernard. In addition, the bond trades were not made because of any liquidity needs of the Arkansas treasurer's office. Also, the staff of the Arkansas treasurer's office made statements in emails to Stephens that they had no experience with the type of trading philosophy or strategy that he was advocating.

Robert Keenan (Keenan) is the chief executive officer and the designated principal under St. Bernard's written compliance policy charged with establishing and enforcing said policy. The Staff has in its possession numerous emails and witness statements that clearly demonstrate Keenan knew about the bond trading activity of Stephens with the Arkansas treasurer's office at the time the trades were being conducted. St. Bernard's written compliance policy in section 7.2 (August 2008 version) prohibits all employees from engaging in unsuitable securities trading. In sections 5.1, 5.2 and 5.6 (August 2008 version) of St. Bernard's written compliance policy, St. Bernard's compliance or supervisory personnel are required to conduct daily and monthly account reviews in order to determine the suitability of the securities being sold. Similar sections appear in later versions of St. Bernard's written compliance policy.

The failure of St. Bernard's compliance or supervisory personnel to enforce St. Bernard's own written compliance policy concerning suitability is further indicated by numerous post transaction verbal and written explanations of support for the benefit, advantage or suitability of Stephens' bond trades for the Arkansas treasurer's office. Actually, other than these post transaction explanations, the Staff has seen no documentary evidence of any meaningful compliance or supervisory suitability reviews of the bond trading for the Arkansas treasurer's office from the time when the bond trading occurred. The fact that the supervisory staff at St. Bernard knew about Stephens' unsuitable bond trading with the Arkansas treasurer's office, and then took no reasonable steps to enforce its own existing written compliance policy, was a clear violation of Ark. Code Ann. § 23-42-308(a)(2)(J).

b. Omissions/Misrepresentations

St. Bernard failed to supervise Stephens by not adequately enforcing its written compliance policy that specifically addressed the sale of securities while misstating or omitting

material information. C. L. King & Associates, Inc. (C. L. King) was the clearing agent for St. Bernard for the bond trades involving the Arkansas treasurer's office. Mike Olsen (Olsen) is a registered agent of C. L. King. Several emails from Olsen to Stephens contain material information concerning proposed bond trades for the Arkansas treasurer's office. Ultimately, Stephens proposed said bond trades to the Arkansas treasurer's office. However, in violation of Ark. Code Ann. § 23-42-507(2) and Ark. Code Ann. § 23-42-308(a)(2)(G), when the proposed bond trades were presented by Stephens to the Arkansas treasurer's office, material information contained in Olsen's emails had been removed. The missing material information included the down side or negative aspects of the proposed bond trades. Stephens intentionally removed and omitted to provide this material information to the Arkansas treasurer's office at the time these bond trades were being considered. St. Bernard's written compliance policy section 11.2 (August 2008 version) requires that "all communications with a customer must be fair and balanced and must not be misleading, omit material facts or contain inaccurate statements." Section 11.5 (August 2008 version) of St. Bernard's written compliance policy requires the preapproval of all institutional sales material. In addition, Stephens has told the Staff that he would not have provided the written communication to the Arkansas treasurer's office without getting the prior approval of St. Bernard's compliance personnel. Therefore, the compliance supervisor at St. Bernard had or should have had access to these emails and written communications and should have caught the omission of this material information by Stephens.

By omitting this material information, Stephens also violated St. Bernard's written compliance policy. St. Bernard's written compliance policy section 6.8 (August 2008 version) states that "concealing material adverse information about a proposed investment" is an improper practice and will subject the agent to appropriate disciplinary action. A similar section appears in later versions of St. Bernard's written compliance policy. As detailed above, St. Bernard's compliance and supervisory personnel had or should have had access to Olsen's emails to Stephens, and Stephens' subsequent written communications with the Arkansas treasurer's office that clearly omit adverse material information. Therefore, when the compliance or supervisory personnel at St. Bernard failed to stop and discipline Stephens concerning these omissions, pursuant to its own written compliance policy, St. Bernard failed to properly supervise Stephens in violation of Ark. Code Ann. § 23-42-308(a)(2)(J).

The compliance or supervisory personnel at St. Bernard also failed to stop and discipline Stephens for misstating the financial benefit of the bond trades he was proposing to the Arkansas treasurer's office. The Staff is in possession of several emails sent by Stephens to the Arkansas treasurer's office at the time the bond trades were occurring. In these emails, in violation of Ark. Code Ann. § 23-42-507(2) and Ark. Code Ann. § 23-42-308(a)(2)(G), Stephens misstates or mischaracterizes the bond transactions for the Arkansas treasurer's office as generating large profits. Some of these emails were sent by Stephens on his St. Bernard email account. Also, pursuant to St. Bernard's written compliance policy section 5.10 (August 2008 version), supervisory approval was required for Stephens to use a home computer or non-company sponsored electronic equipment. Therefore, the compliance or supervisory personnel at St. Bernard had or should have had access to all of these emails. Nevertheless, the compliance or supervisory personnel at St. Bernard repeatedly allowed Stephens to misstate the benefit or value of these bond trades to his client, the Arkansas treasurer's office.

St. Bernard's failure to properly supervise Stephens was further indicated by numerous verbal and written post transaction explanations of the bond trades conducted on behalf of the Arkansas treasurer's office. These post transaction explanations were made by Stephens and

Keenan as agents of St. Bernard, and repeatedly misstated the profit or benefit of these trades to the Arkansas treasurer's office. Said misstatements were made by Stephens, Keenan and St. Bernard directly to the staff of the Arkansas treasurer's office, as well as other agencies or branches of the Arkansas state government. Although these misstatements were made in post transaction meetings and written communications, they indicated the willingness of the compliance or supervisory staff at St. Bernard to intentionally misstate the profit or benefit of these bond trades to the client, the Arkansas treasurer's office.

II. Keenan's Failure to Supervise

In violation of Ark. Code Ann. § 23-42-308(a)(2)(J), Keenan failed to perform his supervisory duties in order to detect and prevent Stephens from repeatedly engaging in unsuitable securities trading in the Arkansas treasurer's accounts as detailed in section Ia. In addition, Keenan failed to perform his supervisory duties in order to detect and prevent Stephens from repeatedly misstating and omitting to state material information while trading securities for the Arkansas treasurer as detailed in section Ib. Keenan's supervisory failings of Stephens were the result of Keenan failing to adequately enforce St. Bernard's existing written compliance policy.

a. Unsuitable Trading

Robert Keenan (Keenan) is the chief executive officer and the designated principal under St. Bernard's written compliance policy charged with establishing and enforcing said policy. Also, during an interview with the Staff, Keenan admitted that he was the actual supervisor of Stephens for the entire time of Stephens' employment with St. Bernard. The Staff has in its possession numerous emails that clearly demonstrate Keenan knew about the bond trading activity of Stephens with the Arkansas treasurer's office at the time the trades were being conducted. Also, sections 5.1, 5.2 and 5.6 (August 2008 version) of St. Bernard's written compliance policy, Keenan was required to conduct daily and monthly account reviews in order to determine the suitability of the securities being sold. Similar sections appear in later versions of St. Bernard's written compliance policy. Nevertheless, Keenan allowed the unsuitable bond trading detailed in section Ia to continue.

Keenan's failure to enforce St. Bernard's written compliance policy is further indicated by the numerous post transaction verbal and written explanations of support for the benefit, advantage, or suitability of Stephens' bond trades for the Arkansas treasurer's office. Actually, other than Keenan's post-transaction explanations, the Staff has seen no documentary evidence of any meaningful compliance or supervisory suitability reviews by Keenan of the bond trading for the Arkansas treasurer's office from the time when the bond trading occurred. The fact that Keenan knew about Stephens' unsuitable bond trading with the Arkansas treasurer's office, and then took no reasonable steps to enforce its own existing written compliance, was a clear violation of Ark. Code Ann. § 23-42-308(a)(2)(J).

b. Omissions/Misrepresentations

As detailed in section Ib, Keenan failed to adequately perform his supervisory duties of Stephens by not properly enforcing St. Bernard's written compliance policy that specifically

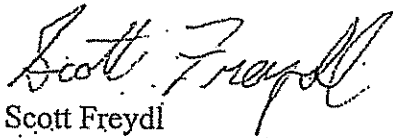
addressed the sale of securities while misstating or omitting material information. As detailed above, Keenan had or should have had access to Olsen's emails to Stephens, and Stephens' subsequent written communications with the Arkansas treasurer's office that clearly omit adverse material information. Also, Stephens has told the Staff that he would not have provided the written communication detailed in section Ib to the Arkansas treasurer's office without getting the prior approval of Keenan. Therefore, when Keenan failed to stop and discipline Stephens concerning these omissions, pursuant to St. Bernard's written compliance policy, Keenan failed to adequately supervise Stephens in violation of Ark. Code Ann. § 23-42-308(a)(2)(J).

Keenan also failed to stop and discipline Stephens for misstating the financial benefit of the bond trades he was proposing to the Arkansas treasurer's office. Keenan had or should have had access to all of these emails containing misstatements. Nevertheless, Keenan repeatedly allowed Stephens to misstate the benefit or value of these bond trades to his client, the Arkansas treasurer's office. Keenan's failure to adequately supervise Stephens was further indicated by numerous verbal and written post transaction explanations of the bond trades conducted on behalf of the Arkansas treasurer's office. These post transaction explanations were made by Stephens and Keenan, and repeatedly misstated the profit or benefit of these trades to the Arkansas treasurer's office. Said misstatements were made by Stephens and Keenan directly to the staff of the Arkansas treasurer's office, as well as other agencies or branches of the Arkansas state government. Although these misstatements were made in post transaction meetings and written communications, they indicated the willingness of Stephens and Keenan to intentionally misstate the profit or benefit of these bond trades to the client, the Arkansas treasurer's office.

III. Conclusion

As is provided in Rule 607.01 and in Ark. Code Ann. § 25-15-211, St. Bernard and/or you have the opportunity to submit evidence of compliance with the Act and Rules before the Staff files a complaint with the Commissioner. Such evidence should be submitted to the Staff on or before January 31, 2014. Should you wish to discuss a submission of evidence, a hearing schedule, or the possibility of a consent order, please do not hesitate to contact me.

Sincerely,



Scott Freydl
Attorney Specialist