

**STATE OF NEW MEXICO  
REGULATION AND LICENSING DEPARTMENT  
SECURITIES DIVISION  
2550 CERRILLOS ROAD  
SANTA FE, NEW MEXICO 87505**

**In the matter of** )  
 )  
**ProEquities, Inc.,** )  
 )  
**Respondent** )  
\_\_\_\_\_ )

**ORDER No. 13-13-996-002**

**CONSENT 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 registered 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 New Mexico without being registered, exempt from registration, or a federal covered investment adviser, and has employed or associated with agents and investment adviser representatives who were not so registered on behalf of Bankers, all in violation of Sections 58-13B-3 and 58-13B-5 of the New Mexico Securities Act of 1986 (1986, as amended through 2004) and Sections 58-13C-401 through 404 of the New Mexico Uniform Securities Act, NMSA 1978 §§ 58-13C-101 to 58-13C-701 (2009) (the “Act”); 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 registered agents or representatives of ProEquities participated in all securities transactions and at locations that were registered with the appropriate securities authorities as broker-dealer locations of ProEquities; and

WHEREAS, ProEquities has cooperated with state regulators conducting the investigations by responding to inquiries, providing documentary evidence, and halting further payment to BLCFS of broker-dealer and investment adviser related compensation while the investigations were pending; and

WHEREAS, ProEquities, as part of this settlement, agrees to comply with all state and federal licensing, registration, and other securities laws; and

WHEREAS, ProEquities has agreed to resolve the investigations through this Consent Order in order to avoid protracted and expensive proceedings in numerous states; and

WHEREAS, ProEquities, without admitting or denying the Findings of Fact and Conclusions of Law set forth below and solely for the purposes of this Consent Order, admits the jurisdiction of the New Mexico Securities Division (Division), voluntarily consents to the entry of this Consent Order, and waives any right to a hearing or to judicial review regarding this Consent Order;

NOW THEREFORE, Daniel S. Tanaka, as Director of the Division hereby enters this Consent Order.

## **I. FINDINGS OF FACT**

1. Bankers Life is a life insurance company located in Illinois that has never been registered as a broker-dealer or investment adviser.
2. BLCFS is a wholly-owned subsidiary of Bankers Life that also is located in Illinois. BLCFS (CRD No. 126638) has been a member of NASD or FINRA since 2003 and is registered as a broker-dealer only in Illinois. During its existence, BLCFS has had no business activity other than as described herein. BLCFS has never been registered as a broker-dealer or investment adviser in New Mexico, and it has not registered any agents or investment adviser representatives in New Mexico.
3. At all relevant times, ProEquities (CRD No. 15708) has been a broker-dealer registered in New Mexico and a federal covered investment adviser.
4. Bankers Life and BLCFS entered into an agreement with ProEquities effective April 30, 2010 (the "ProEquities Agreement"). The ProEquities Agreement specifies that ProEquities would "exercise exclusive control" over the broker-dealer and investment advisory activities of ProEquities agents who were also insurance agents for Bankers Life (the "Dual Agents"). In addition, the ProEquities Agreement assigned the following securities-related roles to BLCFS or to BLCFS and Bankers Life, which roles BLCFS and Bankers Life did perform until December 2, 2011:
  - a. consulting with ProEquities on the persons to be appointed as representatives of ProEquities;
  - b. identifying securities product training and marketing opportunities for review by ProEquities;
  - c. conferring with ProEquities concerning the securities products made available for distribution by the dual agents;

- d. terminating the clearing broker selected by ProEquities (BLCFS only) in the event that the clearing agent did not use commercially reasonable efforts to process and service customer accounts at a level consistent with BLCFS' standards;
  - e. paying for advertising and promotional material (BLCFS only) in the event that BLCFS ordered more than a reasonable quantity of such materials or required customization of them;
  - f. recruiting representatives for ProEquities and assisting with the licensing and registration process;
  - g. providing marketing, training and support; and
  - h. paying for:
    - i. pre-examination training for required FINRA examinations;
    - ii. sales training materials;
    - 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 agents, trained new securities agents, conducted some periodic training sessions for securities agents, monitored and attempted to increase securities production of securities agents, and played a significant role in determining the compensation of securities agents. 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 registered as agents or investment adviser representatives of Bankers Life or BLCFS. The agents were registered representatives 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.

## **II. CONCLUSIONS OF LAW**

1. A person may not act as a broker-dealer in New Mexico unless registered or exempt from registration. NMSA 1978 § 58-13C-401(A) (2009).
2. Similarly, a person may not act as an investment adviser in New Mexico unless registered, exempt from registration, or a federal covered investment adviser. NMSA 1978 § 58-13C-403(A) (2009).
3. A broker-dealer may not employ or associate with an agent, as defined in NMSA 1978 § 58-13C-102(A), unless the employee or associated person is registered as an agent of the broker-dealer. NMSA 1978 § 58-13C-402(D) (2009).
4. An investment adviser may not employ or associate with an investment adviser representative unless the employee or associated person is registered as an investment adviser representative of the investment adviser. NMSA 1978 § 58-13C-403(D) (2009).
5. By engaging in the conduct set forth above, Bankers acted as an unregistered broker-dealer and investment adviser in New Mexico in violation of NMSA 1978 §§ 58-13C-401(A) and 58-13C-403(A) (2009).
6. Furthermore, by employing or associating with dual agents who were not registered as agents or investment adviser representatives of Bankers, Bankers violated NMSA 1978 §§ 58-13C-402(D) and 58-13C-403(D) (2009).
7. By engaging in the conduct set forth above, ProEquities engaged in conduct giving rise to liability under NMSA 1978 § 58-13C-604(A) (2009).
8. As a result, this Consent Order and the following relief are appropriate and in the public interest.

## **III. ORDER**

1. ProEquities shall CEASE AND DESIST from engaging in conduct giving rise to liability under NMSA 1978 § 58-13C-604(A) (2009).
2. In accordance with the terms of the multistate settlement, ProEquities shall pay an amount of \$435,000 to the states where dual agents were located during the period from April 30, 2010, through December 2, 2011, allocated according to a schedule provided by the multi-state investigation working group. ProEquities shall pay the sum of Eight Thousand Two Hundred Seven Dollars and Fifty-Five Cents (\$8,207.55) ("Payment") to the Investor Protection Trust ("IPT") for the benefit of the New Mexico Securities Division as its portion of the total amount. The Payment shall be made by check payable to the IPT or by wire transfer to the IPT for credit to the Investor Protection Trust Account, together with a cover letter

identifying ProEquities, Inc. as a respondent in this action and the payment designated for the New Mexico individual state account. The Payment shall be made within ten days from the date this Consent Order is signed by the Director of the Division.

3. If any state securities regulator determines not to accept the settlement offer of ProEquities reflected herein, including the amount allocated to the applicable state according to the schedules referenced in paragraph 2 above, the payment to New Mexico set forth in paragraph 2 above shall not be affected; and ProEquities shall not be relieved of any of the non-monetary provisions of this Consent Order.
4. ProEquities shall not attempt to recover any part of the payments addressed in this Consent Order from dual agents, Bankers Life, or customers of ProEquities.
5. ProEquities shall fully cooperate with any investigation or proceeding related to the subject matter of this Consent Order.
6. From the date of this Consent Order through March 31, 2015, and while Bankers has dual agents that are registered representatives or investment adviser representatives of ProEquities, any agreement between Bankers and ProEquities shall be consistent with the provisions set forth in Consent Order No. 12-12-996-015, which was entered by the Division regarding Bankers on January 10, 2013.
7. This Consent Order concludes the investigation by the Division and any other action that the Division could commence under applicable law on behalf of New Mexico as it relates to the violations described above, up to and including activity occurring through December 2, 2011; provided, however, that excluded from and not covered by this paragraph are any claims by the Division arising from or relating to the "Order" provisions contained herein.
8. If payments are not made by ProEquities, or if ProEquities defaults in any of its obligations set forth in this Consent Order, the Division may vacate this Consent Order, at its sole discretion, upon 10 days' notice to ProEquities and without opportunity for administrative hearing or judicial review, and commence a separate action.
9. Nothing herein shall preclude New Mexico, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Division and only to the extent set forth herein, (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against ProEquities.
10. This Consent Order is not intended by the Division to subject any person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the Virgin Islands including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions.
11. This Consent Order and the order of any other state in related proceedings against ProEquities (collectively, the "Orders") shall not disqualify any person from any business that they otherwise are qualified, licensed or permitted to perform under applicable securities

laws of New Mexico, and any disqualifications from relying upon this State's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

12. This Consent Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of New Mexico without regard to any choice of law principles.
13. This Consent Order shall be binding upon ProEquities, its relevant affiliates, successors and assigns.
14. Except as set forth above, the Division agrees to take no action adverse to ProEquities based solely on the same conduct addressed in this Consent Order. However, nothing in this Consent Order shall preclude the Division from: (a) taking adverse action based on other conduct; (b) taking this Consent Order and the conduct described above into account in determining the proper resolution of action based on other conduct; (c) taking any and all available steps to enforce this Consent Order; or (d) taking any action against other entities or individuals, regardless of any affiliation or relationship between ProEquities and the entities or individuals.

IT IS HEREBY ORDERED on this 28<sup>th</sup> day of January, 2013.

BY ORDER OF THE NEW MEXICO  
SECURITIES DIVISION



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Daniel S. Tanaka  
Director



**CONSENT TO ENTRY OF CONSENT ORDER**

ProEquities, by signing below, agrees to the entry of this Consent Order and waives any right to a hearing or to judicial review.

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

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

ProEquities, Inc.

By: 

Title: Prds & CEO

Date: 1/22/13