

BEFORE THE ARKANSAS SECURITIES COMMISSIONER
CASE NO S-14-0084

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ARKANSAS SECURITIES DEPT.

IN THE MATTER OF:
STEELE V. STEPHENS

RESPONDENT

COMPLAINT FOR REVOCATION OF REGISTRATION
AND IMPOSITION OF FINES

The Staff of the Arkansas Securities Department ("Staff") by and through its attorney, Scott Freydl, for its Complaint for Revocation of the Registration and Imposition of Fines against Steele V. Stephens ("Stephens") for violations of the Arkansas Securities Act and the Rules of the Arkansas Securities Commissioner, states:

I. Administrative Authority

This proceeding is instituted pursuant to the Arkansas Securities Act, Ark. Code Ann. §§ 23-42-101 through 23-42-509, ("Act"), the Rules of the Arkansas Securities Commissioner ("Rules") promulgated thereunder, and the Arkansas Administrative Procedure Act, Ark. Code Ann. §§ 25-15-201 through 25-15-219.

II. Respondent

1. Stephens, CRD number 1081772, was registered with the Arkansas Securities Department ("Department") as an agent of St. Bernard Financial Services, Inc. from June 24, 2009 through June 20, 2013.

III. Facts to be Presented by the Staff

2. St. Bernard Financial Services, Inc. (“St. Bernard”) is a securities brokerage company with its main office located in Russellville, Arkansas, CRD number 36956. St. Bernard has been registered as a securities broker-dealer with the Department since November 1, 1994.

3. Beginning in 2010 through 2012, Stephens made six secret, illicit \$6,000 cash payments to Arkansas Treasurer Martha Shoffner (“Shoffner”). Stephens made these cash payments in anticipation of increasing the amount of bond trading business he would receive from the Arkansas treasurer’s office.

4. After beginning to make said cash payments to Shoffner, Stephens was giving copies of the entire bond portfolio of the Arkansas treasurer’s office. In addition, the amount of bond trading business Stephens received from the Arkansas treasurer’s office increased significantly. Further, Shoffner personally directed her staff to complete several bond trades handled by Stephens.

5. Stephens purchased or sold agency bonds in 85 trades on behalf of the Arkansas treasurer’s office between July 2009 and December 2012. 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 portfolio prior to the maturity or call date of these bonds. 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 with excessive commissions. 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.

6. An example of this unsuitable bond trading occurred on January 21, 2010. Stephens recommended the sale of a \$25 million non-callable bond paying 4.25% in order to purchase a \$25 million callable bond. The first call date for the replacement bond was August 19, 2010. The interest rates for government agency bonds were generally declining in 2010. In a declining interest rate market, it is highly likely that a callable bond will be called at the first opportunity. In fact, this \$25 million bond was called on August 19, 2010. Stephens claimed these trades would capture a profit for the treasurer's office in excess of \$1.5 million. However, this trade actually created a loss for the treasurer's office of over \$200,000.

7. Additional unsuitable bond trading completed by Stephens for the Arkansas treasurer's office include, a \$10 million bond traded in June 2011, multiple bonds with an approximately value of \$60 million traded in August 2011, a \$50 million bond traded in October 2011, and an approximately \$16 million bond traded in November 2011.

8. C. L. King & Associates, Inc. ("C. L. King") was the clearing agent for St. Bernard for the bond trades involving Stephens and 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, 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.

9. The Staff is also in possession of several emails sent by Stephens to the Arkansas treasurer's office at the time the bond trades were occurring. Stephens' emails misstated or mischaracterized the bond transactions as generating large profits for the Arkansas treasurer's office. Specifically, Stephens misstated the need to sell bonds shortly before being called in order to "capture a profit". Further, the statements made by Stephens omitted to state that the premiums being offered on bonds that were about to be called, included interest earned on the bonds up to the point of sale.

10. Stephens also made numerous verbal and written post transaction explanations of the bond trades conducted on behalf of the Arkansas treasurer's office. These post transaction explanations by Stephens repeatedly misstated the profit or benefit of these trades to the Arkansas treasurer's office. Said misstatements were made by Stephens 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 Stephens' willingness to intentionally misstate the profit or benefit of these bond trades to the client, the Arkansas treasurer's office.

IV. Applicable Law

11. Ark. Code Ann. § 23-42-308(a)(2)(G) states that the Commissioner may by order suspend or revoke any registration, if he finds that the registrant has engaged in dishonest or unethical practices in the securities business.

12. Ark. Code Ann. § 23-42-308(g) states that the commissioner may for each violation of this chapter fine any agent of a broker-dealer not to exceed ten thousand dollars (\$10,000) or an amount equal to the total amount of money received in connection with each separate violation.

13. Ark. Code Ann. § 23-42-507(2) states it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

14. Ark. Code Ann. § 23-42-507(3) states it is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

15. Rule 308.01(d) states that recommending to a customer the purchase, sale or exchange of any security when a broker-dealer or agent does not have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs, or encouraging a customer to invest beyond his immediate financial resources shall be grounds for suspension or revocation of a broker-dealer or agent registration.

16. Rule 308.01(y) states that the unfair, misleading or unethical practices set forth above are not exclusive of other activities, such as manipulations and various deceptions which may be considered grounds for revocation and the Commissioner may revoke registrations when necessary or appropriate in the public interest.

V. Violations of Law

17. Stephens violated Ark. Code Ann. § 23-42-308(a)(2)(G) and Rule 308.01(d), when Stephens sold unsuitable securities to the Arkansas treasurer's office as detailed in paragraphs five through seven.

18. Stephens violated Ark. Code Ann. § 23-42-308(a)(2)(G) and Rule 308.01(y) of the Rules, when Stephens made cash payments to the Arkansas treasurer as detailed in paragraphs three and four.

19. Stephens violated Ark. Code Ann. § 23-42-507(2), when Stephens made misstatements concerning the profitability of trades conducted for the Arkansas treasurer's office as detailed in paragraphs eight through ten.

20. Stephens violated Ark. Code Ann. § 23-42-507(3), when Stephens engaged in acts, practices or a course of business which operated as a fraud or deceit upon the Arkansas treasurer's office as detailed in paragraphs three through seven.

21. The registration of Stephens should be revoked by the Commissioner pursuant to Ark. Code Ann. § 23-42-308(a)(2)(G), Ark. Code Ann. § 23-42-507(2), and Ark. Code Ann. § 23-42-507(3) as detailed in paragraphs three through ten.

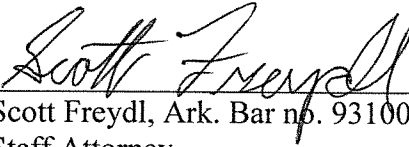
22. Pursuant to Ark. Code Ann. § 23-42-308(g), the Commissioner should impose an appropriate fine against Stephens.

VI. Notice of Hearing

This Complaint hereby serves notice of the institution of formal administrative proceedings against the Respondent. With the filing of this Complaint the Staff requests that the Arkansas Securities Commissioner set a date for a hearing before the Arkansas Securities

Commissioner, pursuant to Rule 607.01, to consider whether the registration of the Respondent should be revoked, fines should be imposed, and other appropriate action should be taken.

Respectfully Submitted,



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11/5/14
Date