**FINANCIAL INDUSTRY REGULATORY AUTHORITY**
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**
**NO. 2016051317701**

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

RE: Allianz Life Financial Services, LLC
CRD No. 612

Questar Capital Corporation
CRD No. 43100

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Allianz Life Financial Services, LLC ("ALFS") and Questar Capital Corporation ("Questar") (collectively, the "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 Respondents 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

ALFS has been a FINRA member since 1968. ALFS, headquartered in Minneapolis, Minnesota, is a wholly-owned subsidiary of Allianz Life Insurance Company of North America ("Allianz Life"). ALFS is a wholesale distributor of annuity products to third-party broker-dealers for Allianz Life and Allianz Life Insurance Company of New York. ALFS has approximately 489 registered representatives and maintains 13 branch offices nationwide.

Questar has been a FINRA member since 1997. Questar, headquartered in Minneapolis, Minnesota, is a wholly owned subsidiary of Yorktown Financial Companies, Inc. ("Yorktown"). Yorktown is a wholly owned subsidiary of Allianz Life. Questar distributes a full range of securities products, including nonproprietary mutual funds, variable life insurance and annuity contracts, and processes general equities transactions through a clearing arrangement with a third party. Questar has approximately 823 registered representatives and maintains 523 branches nationwide.

## RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

## OVERVIEW

From 1997 to 2016 for ALFS, and from 2006 to 2016 for Questar (the "Relevant Period"), the Firms failed to maintain a significant number of electronic brokerage records in non-erasable and non-rewritable format, known as WORM format, as required by Section 17(a) of the Exchange Act of 1934 (the "Exchange Act"), Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. WORM stands for "write once, read many," and is intended to prevent the alteration or destruction of broker-dealer records stored electronically. The Firms also experienced related audit deficiencies affecting their ability to adequately retain and preserve electronic records, in violation of Exchange Act Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. Finally, the Firms failed during the Relevant Period to enforce written supervisory procedures reasonably designed to achieve compliance with applicable record retention requirements, in violation of NASD Rule 3010 and FINRA Rule 3110.

## FACTS AND VIOLATIVE CONDUCT

Over the past decade, the volume of sensitive financial data stored electronically by broker-dealers has risen exponentially. These broker-dealer electronic records must be complete and accurate, not only to assist FINRA and other regulators in their efforts to protect investors through periodic examinations, but also to ensure member firms can carry out their audit functions. Recent years also have seen increasingly aggressive attempts to hack into electronic data repositories, enhancing the need for firms to keep these records in WORM format.

Section 17(a) of the Exchange Act and Rule 17a-3 thereunder require broker-dealers to make certain records relating to its business, including trade blotters, asset and liability ledgers, order tickets, trade confirmations and other records. Rule 17a-4 specifies the manner and length of time that those records must be maintained.

NASD Rule 3110(a) provides, in part, that each member "shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and...[t]he record keeping format, medium and retention period shall comply with" Rule 17a-4."[1]

FINRA Rule 4511 provides, in part, that each member "shall make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules" ... and all "books and records required to be made pursuant to the FINRA rules shall be preserved in a format and media that complies with" Rule 17a-4.

[1] NASD Rule 3110 was replaced by FINRA Rule 4511, effective December 5, 2011.

These requirements are an essential part of the investor protection function because preservation of these records is the "primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards."[2]

*1. The Firms Failed to Retain Electronic Records in WORM Format*

When broker-dealers use electronic storage media to retain records, Rule 17a-4(f)(2)(ii) requires the firms to "[p]reserve the records exclusively in a non-rewritable, non-erasable" or WORM format. During the Relevant Period, the Firms failed to retain in WORM format electronic broker-dealer records essential to their business. This deficiency affected 18 categories of electronic records, including approximately 325,000 records relating to customer accounts. Other affected records included financial records and records relating to disciplinary actions and anti-money laundering compliance.

Based on the foregoing, the Firms violated Exchange Act Rule 17a-4(f)(2)(ii), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.[3]

*2. The Firms Failed to Implement an Audit System Regarding the Inputting of Records in Electronic Storage Media*

Exchange Act Rule 17a-4(f)(3)(v) requires a broker-dealer to "have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby." During the Relevant Period, the Firms did not have an audit system as required by Rule 17a-4(f)(3) for those records they failed to maintain in WORM format.

Based on the foregoing, the Firms violated Exchange Act Rule 17a-4(f)(3)(v), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

*3. The Firms' Supervisory Systems were not Reasonably Designed*

NASD Rule 3010(b) and FINRA Rule 3110(b) both require a member firm to "establish, maintain and enforce written procedures to supervise the types of business in which it engages ... that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."[4] During the Relevant Period, the Firms failed to establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with Exchange Act Rule 17a-4. The Firms' written supervisory procedures failed to specify how the Firms would supervise their compliance with the WORM-related requirements under Exchange Act Rule 17a-4(f).

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[2] Commission Guidance to Broker Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), SEC Interpretation Release No. 34-44238, 17 C.F.R. Part 241, at p. 3 of 15 (May 1, 2001).

[3] FINRA Rule 2010 replaced NASD Rule 2110, effective December 15, 2008.

[4] FINRA Rule 3110 replaced NASD Rule 3010, effective December 1, 2014.

Based on the foregoing, the Firms violated NASD Rules 3010(b) and 2110, and FINRA Rules 3110(b) and 2010.

B. Respondents also consent to the imposition of the following sanctions:

1. Censure; and

2. Fine in the amount of $150,000 (to be paid jointly and severally).

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction 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 prejudgment 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 them;

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 Respondents, certify that a person duly authorized to act on Respondents' 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 Respondents have 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 Respondents to submit it.

05/23/17
Date (mm/dd/yyyy)

Respondent, Allianz Life Financial Services, LLC

By: Michael R Bailey
CCO 5.30.2017

05/22/17
Date (mm/dd/yyyy)

Respondent, Questar Capital Corporation

By: Sherri DuMond
President & CEO
5.30.2017

Reviewed by:
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Counsel for Respondents

Accepted by FINRA:

6/3/17
Date

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

James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
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Rockville, MD 20850
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