FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022963602

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

RE: VSR Financial Services, Inc., Respondent
[CRD No. 14503]
and
Donald J. Beary, Respondent
General Securities Principal, General Securities Representative,
Investment Banking Representative and Operations Professional
[CRD No. 15818]

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, VSR Financial Services, Inc. ("VSR" or the "Firm") and Donald J. Beary ("Beary") 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 them alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. Respondents VSR and Beary 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

VSR has been a member of FINRA since January 25, 1984. The Firm is based in Overland Park, Kansas and has 211 branch offices. VSR employs approximately 460 registered personnel. The Firm clears all transactions on a fully disclosed basis. In addition to the sale of stocks, bonds, mutual funds and variable products, the Firm is engaged in investment advisory services, oil and gas interests, underwriting corporate securities and retail corporate equity securities. The Firm's registration as a FINRA member remains in effect.

Beary entered the securities industry on June 2, 1971 as a General Securities Representative of a former member of FINRA. Beary, during all periods mentioned herein, was associated with member firm VSR, and was registered with FINRA under Article V of the By-Laws as a General Securities Principal, General Securities Representative, Investment Banking Representative and Operations Professional. Beary remains registered with VSR. Beary is the co-founder of VSR, executive vice-president, chairman of the board, and direct participation principal.

RELEVANT DISCIPLINARY HISTORY

VSR has been the subject of the following disciplinary actions:

On June 24, 2005 NASD censured and fined the Firm $10,000 (AWC C04050029) for violations of NASD Rules 3010 and 2110, for failure to establish a supervisory system to detect and prevent excessive trading in a customer's trading accounts, and for failure of the supervisory system to include written details of specific actions to take once a red-flag was discovered.

On March 4, 2008 FINRA censured and jointly and severally fined the Firm $20,000 (AWC 2006003982201) for violations of NASD Rules 3010 and 2110, for failure to supervise a registered representative, failure to detect and prevent the representative from making unsuitable recommendations for purchases of Class B shares of mutual funds, and for the failure to ensure that the representative obtained the correct breakpoints for purchases of Class A shares of mutual funds by a public customer.

On December 1, 2011, the State of Missouri ordered VSR to pay $50,000 to the Missouri Secretary of State's Investor Education and Protection Fund and to pay $5,470 for the cost of the investigation (Consent Order AP-10-09), for failure to make, maintain, and preserve records relating to private securities transactions as required by Rules 17a-3 and 17a-4 under the Securities and Exchange Act of 1934 and in violation of Missouri Revised Statute §409.4-411(c)(1) and Missouri Rules 15 CSR 30-51.120 and CSR 30-51.130.

Beary has been the subject of the following formal disciplinary actions:

On September 24, 1986, while Beary was employed with WZW Financial Services, Inc., NASD censured and fined him $5,000 (Offer of Settlement No. KC-339) for failure to promptly transmit funds to an escrow account in connection with the offering of limited partnership interests and for failure to refund funds in accordance with an "all-or-none offering."

On January 1, 1991 NASD censured and jointly and severally fined Beary $10,000 (Letter of Acceptance Waiver and Consent No. KC-493-AWC) for violations of Article III, Section 1 of the Rules of Fair Practice for his failure to refund investors the consideration paid, totaling $82,500, for the purchase of units of a security when the stated minimum amount of securities were not sold by a specified date, and for his failure to disclose in the private placement memorandum for the offering the fact that the individual general partner had filed a petition in bankruptcy court for a business with substantially similar or identical purposes to the one proposed by the offering document.

On April 15, 1993 NASD censured and jointly and severally fined Beary $14,955 (AWC C04920054) for violations of Article III, Sections 1, 21(a) and 27 of the Rules of Fair Practice for his failure to record transactions on the Firm's books and records or maintain copies of any documents relating to transactions in the Firm's files in contravention of SEC Rule 17a-3 and for his failure to properly supervise a registered representative.

OVERVIEW

From on or about July 28, 2005 through on or about August 19, 2010, VSR and its co-founder Donald Beary failed to adequately implement the Firm's supervisory system pertaining to its supervision of concentrated positions in alternative investments through the use of a "discount program" that artificially reduced the amount a customer had invested in a particular investment for purposes of calculating concentration. In addition, when calculating concentration at certain risk levels, VSR reduced the risk ratings on many investments making the ratings inconsistent with the risks stated in offering documents related to the investments. VSR also failed to supervise from January 1, 2006 through January 1, 2012, the use of consolidated reports by its registered representatives, resulting in inaccurate statements being sent to customers.

In addition, through two of its representatives, VSR made unsuitable recommendations of non-conventional investments to six customers, resulting in millions in customer losses. VSR also failed to properly supervise those representatives in their sales of non-conventional investments.

These violations had the effect of increasing VSR's sales of non-conventional investments. Further, between January 1, 2006 and September 30, 2010, approximately 20-45% of the Firm's revenues were generated by the sale of non-conventional investments, increasing the seriousness of the violations. As a result of the misconduct described below, VSR violated NASD Rules 2310, 3010(a) and (b) and 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 15, 2008). Beary violated NASD Rules 3010(a) and (b) and

2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 15, 2008).

FACTS AND VIOLATIVE CONDUCT

Unreasonable Supervisory System

1. From on or about July 28, 2005 through on or about August 19, 2010 (hereinafter "Relevant Time Period"), VSR failed to establish, maintain, and enforce a reasonable supervisory system regarding the sale of non-conventional investments.

Member Firm Responsibilities Regarding Non-Conventional Investments

NASD issued Notice to Members 03-71 in November 2003 to remind member firms of certain sales practice obligations when selling non-conventional instruments. The Notice defined non-conventional instruments as investments that were alternatives to conventional equity and fixed income investments. Examples provided by the notice included asset-backed securities, distressed debt, and derivative products, and real estate investment trust programs ("REITs"). Regulation D offerings or private placements also fall into this category as recognized in Notice to Members 10-22, issued in April 2010. Non-conventional instruments lack the liquidity associated with conventional equity and fixed income instruments and have risks not present with conventional investments. In addition, due to the alternative nature of the investments, it is often more difficult for a retail investor to understand the risks and unique features of the non-conventional investment.

Notice to Members 03-71 discussed, among other things, that firms must ensure that the non-conventional instrument is suitable under NASD Rule 2310. The firm must examine the customer's financial status, the customer's tax status, the customer's investment objectives, and other relevant information such as concentration and the customer's liquidity needs. The Notice cautioned that non-conventional instruments may be suitable of recommendation to only "a very narrow band of investors capable of evaluating and being financially able to bear" the risks.

VSR's Supervisory System and Procedures for Non-Conventional Investments

From July 28, 2005 through August 19, VSR had written supervisory procedures addressing suitability of non-conventional instruments. VSR labeled the non-conventional instruments as "alternative investments," and included within this category the following: public REIT programs, private real estate programs, note programs, oil and gas programs, leasing programs, private equity/venture capital programs, managed futures, and tax credits. VSR's written supervisory procedures

provided that no more than 40-50% of a client's "exclusive net worth"[1] could be invested cumulatively in alternative investments unless there was a substantial reason to exceed the guidelines and that justification was "well documented." Supplemental to these procedures, VSR, through Beary, created additional procedures that applied a "discount" to certain non-conventional instruments, reducing the percentage of a customer's liquid net worth invested.

As the direct participation principal, Beary had responsibility for the implementation and supervision of the discount program. The Securities and Exchange Commission ("SEC") identified as a deficiency, in a November 27, 2006, letter to VSR, that the Firm did not have adequate written procedures relating to the discount program. The SEC made the same finding in 2008 regarding the lack of written supervisory procedures relating to the discount program. Despite these warnings from the SEC, Beary did not take reasonable steps to implement written supervisory procedures, or to otherwise discontinue the use of the discount program.

VSR calculated discounts to concentration levels approximately twice a year. VSR would use, among other sources of information, industry reports to determine how much the investment was returning to customers. VSR then calculated a percentage of return and applied that percentage to discount or reduce the percentage of a customer's portfolio held in the alternative investment.

For instance, where a customer invested $100,000 in a private placement and received $80,000 in returns, VSR viewed the investment for concentration purposes as a $20,000 investment.[2] VSR applied the discount regardless of whether the $80,000 received by the customer (in the form of dividends or interest) was actually reinvested by the customer with VSR. Furthermore, where an alternative investment program began experiencing operational problems and/or suspended interest and dividend payments, VSR in many cases discounted the investment 100%. Consequently, if a customer invested $100,000 in a failing program that defaulted on its notes, VSR would not include that $100,000 investment in any concentration calculation. The discount was not reasonably applied, because it was not based upon actual reduced risk of the investment or an increase in the client's liquid net worth.

In addition to the 40-50% concentration limit stated in VSR's written supervisory procedures, VSR's new account form asked each client to specify the percentage of liquid net worth that the client would be comfortable investing in the following six risk categories: highest risk, high risk, moderately high risk, medium risk,

[1] VSR defined "exclusive net worth" as an investor's total net worth, less the investor's home, automobiles, and furnishings.

[2] While a discount analysis was typically used for REIT and note programs, such analysis was different from the analysis used in oil and gas programs, because the discount analysis was dependent on the success of the REIT and note programs.

moderately low risk and lowest risk. Most alternative investment program sponsors identified their products involving, at a minimum, a high degree of risk. VSR also assigned a risk category to each alternative investment it sold. During the transaction approval process, the VSR approving principal was to consider the risk category of the investment and the customer's concentration preferences. However, rather than assign a risk category based upon the risk level identified by the sponsor in the alternative investment offering documents, VSR routinely assigned lower risk categories.

Furthermore, in several instances, VSR lowered its internal risk rating subsequent to the Firm's acceptance of the product. For instance, VSR lowered the risk rating for the Atlas Resources Public 18-20 oil and gas offering from "High Risk/Aggressive" to "High Risk/Moderate" and the risk rating for the alternative investments Behringer REIT, CB Richard Ellis Realty Trust, CNL Income, 2nd Offering, Cole Credit Property Trust, ICON 11, Inland American, and SBS REIT from "High Risk/Moderate" investments to "Moderate." Lowering the ratings created the appearance that customers had lower concentration in high risk products and resulted in the Firm to selling additional high risk investments.

In spite of VSR's efforts to increase sales of alternative investments through the use of discounts and risk rating reductions, in numerous instances customer investments still exceeded the 40% concentration guideline established by VSR. For example, a review of the transactions in 24 client accounts for the period July 28, 2005 through August 19, 2010 reflected that approximately 30 investments in alternative investments exceeded the 40% guideline regarding exclusive net worth. Of those, approximately 17 investments exceeded the 50% guideline. VSR, however, did not document the existence of a substantial reason to exceed the concentration guidelines as required by its written supervisory procedures.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Rules 3010(a) and (b) and 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 15, 2008) by VSR and Beary.

2. From on or about January 1, 2006 through on or about January 1, 2012, VSR failed to establish, maintain, and enforce a reasonable supervisory system regarding the use of consolidated reports.

Member Firm Responsibilities Concerning use of Consolidated Reports

FINRA issued Regulatory Notice 10-19 in April 2010 to remind member firms of their responsibilities when providing customers with consolidated financial account reports ("consolidated reports"). The Notice includes within its definition of consolidated reports documents that consolidate information regarding a customer's

various financial holdings, including assets held away from the firm, account balances and valuations, and performance data. The Notice emphasizes that consolidated reports are communications with the public. Therefore, the reports must be clear, accurate, and not misleading. The Notice recognizes that some consolidated reports are highly customized documents created by individual representatives, and states "[t]o the extent individual representatives create consolidated reports, firms are required to supervise this activity." The Notice warns that any firm that cannot properly supervise the use of consolidated reports by its registered representatives must prohibit the use of the reports and take necessary steps to ensure that the registered representatives comply with the prohibition.

VSR's Supervisory System and Procedures for use of Consolidated Reports

From January 1, 2006 through January 1, 2012, VSR's written supervisory procedures regarding consolidated statements were limited to three memoranda issued to registered representatives in 2006 and 2009, prior to the issuance of Notice 10-19. In a June 9, 2006 Compliance Minute, VSR identified that it was important that Direct Participation Products be accurately priced on consolidated reports, that pricing Direct Participation Products was inherently difficult and "that it would be far superior for VSR to establish a uniform [Direct Participation Product] pricing policy rather than allow Reps to independently set their own values." Consequently, VSR created a system called "Auto Pricing" where VSR supplied prices for a significant number of Direct Participation Products which previously had been manually priced. Shortly thereafter, VSR began publishing spreadsheets on its web portal for use by representatives with Albridge Wealth Management[3] consolidated reports. The spreadsheets provided prices for Direct Participation Products that representatives were to include on consolidated reports.

In a September 22, 2006 memorandum, VSR informed representatives that they were allowed to prepare consolidated reports and placed the responsibility on the representatives to verify the accuracy of the information used in the reports. This memorandum further stated that "[f]or illiquid investments, it is never appropriate to show the customer's original cost basis as the 'current value' once the Rep or firm is aware that the investment has declined in value." Representatives were also required to include a two paragraph disclosure statement on the consolidated reports. The memorandum did not limit the type of consolidated reporting system a registered representative could use and did not require the registered representative to inform a supervisor or compliance person that the representative was using such a report. The September 22, 2006 memorandum also did not contain any requirement for the representative to seek any review or approval prior to using or disseminating the summary reports. Other than the foregoing 2006 documents, the only other written

[3]Albridge was one of many consolidated reporting systems used by VSR representatives.

supervisory procedure published by VSR that addressed use of consolidated reports was a Compliance Minute entitled "Important Information for Albridge Users," dated July 12, 2009. In this memorandum representatives were reminded that "VSR offers a solution [to pricing distressed direct private placements] with Albridge, a client reporting system that lists client assets and automatically updates their current estimated value." The memorandum noted that "VSR's Home Office also globally updates prices for alternative assets such as [Direct Participation Products] offered through VSR" and describes the price list posted by VSR on its web portal. The memorandum did not provide direction to VSR representatives regarding who had responsibility for using the price list or guidance on how the price list was to be applied.

In practice, from January 1, 2006 to January 1, 2012, VSR registered representatives used a number of consolidated reporting systems including Albridge, DST Vision Professional, Morningstar Snapshot, and Microsoft Excel Spreadsheets. Registered Representatives were able to manually enter valuations for any asset on the spreadsheet, including non-conventional investments held away from VSR. Due to the Firm's failure to adequately monitor the use of consolidated reports, the total number of VSR registered representatives using consolidated reports to communicate with customers is uncertain; however, it appears that approximately 167 registered representatives were using the Albridge system for some portion of time between January 1, 2006 and January 1, 2012.

VSR did not require pre-approval of the consolidated reports to determine whether accurate pricing and disclosures were being used. VSR also had no system for prompt review of the consolidated reports after the reports were sent to customers. Given the fact that VSR allowed its registered representatives to enter valuations manually, VSR's lack of supervision of the consolidated reports was unreasonable. Consequently, between January 1, 2006 and January 1, 2012, VSR failed to establish and maintain a supervisory system reasonably designed to supervise the use of consolidated reports by its representatives.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Rules 3010(a) and (b) Rule 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 15, 2008) by VSR.

Unsuitable Sales

3. During the period from on or about March 1, 2005 through on or about December 12, 2008, VSR Financial, acting through Michael D. Shaw,[4] recommended and effected the sale of high risk private placements to customers SA, HA, EF, and BC. While these products may have been suitable for certain customers, they were not suitable for customers SA, HA, EF, and BC, given the financial circumstances and condition of the customers. Specifically:

   a. On or about March 16, 2007, VSR, through Shaw, recommended that SA invest $50,000 in Odyssey Diversified VI ("Odyssey VI"). Subsequently, on or about April 16, 2008, VSR, through Shaw, recommended that SA invest $125,000 in Arciterra Note Fund III ("Arciterra III"). Finally, on or about August 11, 2008, VSR, through Shaw recommended that SA invest $100,000 in Odyssey Diversified Notes IX (Odyssey IX"). Odyssey VI, Arciterra III, and Odyssey IX were each private placement investments offered pursuant to SEC Regulation D, Rule 506. The private placements were high risk investments suitable only for accredited investors with no need for liquidity with respect to the funds invested. SA sought fixed income investments with no more than moderate risk. Furthermore, SA's net worth of $600,000 did not qualify him as an accredited investor. By August 2008, directly as a result of Shaw's recommendations, SA had approximately 70% of his portfolio concentrated in Odyssey VI, Arciterra III, and Odyssey IX. The concentration level compounded the risk of these already high risk investments. Given SA's moderate risk tolerance and unaccredited status, the recommendations that SA invest a total of $275,000 in these private placements was not suitable. VSR earned commissions on the transactions of $17,250.00.[5]

   b. On or about December 12, 2008, VSR, through Shaw, recommended that HA invest $52,000 in Arciterra III. As reflected on the new account form that Shaw completed for HA, HA was not willing to invest any amount in a high risk investment such as Arciterra III. Furthermore, HA's investment objective was to receive income. In addition, HA was not an accredited investor. Her net worth was approximately $437,000. Given HA's moderate risk tolerance and unaccredited status, the recommendation that HA invest a total of $52,000 in this private placement was not suitable. VSR earned a commission on the transaction of approximately $4,125.00.[6]

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[4] Shaw was barred for the conduct recited in this AWC, and for various other violations, through a Letter of Acceptance, Waiver and Consent numbered 2010022963601.
[5] VSR and Shaw settled with Customer SA for the unsuitable sales made by Shaw.
[6] VSR settled with Customer HA for the unsuitable sales made by Shaw.

c. On or about March 1, 2005, VSR, through Shaw, recommended that EF invest $45,000 in MPF Income Fund 22 LLC ("MPF LLC"). Subsequently, on or about May 18, 2006, VSR, through Shaw, recommended that EF invest $6,400 in Behringer Harvard Opp REIT ("Behringer REIT"). Finally, on or about December 12, 2007, VSR, through Shaw, recommended that EF invest $11,000 in Cole Credit Property Trust II ("Cole Trust II"). MPF LLC was a private placement investment offered pursuant to SEC Regulation D, Rule 506. Behringer REIT and Cole Trust II were each real estate investment trusts that operated on a leveraged basis. The securities involved significant risk and were only suitable for persons who had adequate financial means, a desire for a relatively long term investment, and no need for immediate liquidity. MPF LLC required a liquid net worth of $200,000. Both Behringer REIT and Cole Trust II required either a liquid net worth of $150,000 or an annual income of $45,000. EF met none of these requirements. EF's VSR account of approximately $69,000 represented her entire liquid net worth, and EF had an annual income of $40,000.

As reflected on the new account form Shaw completed for EF, EF was not willing to invest any amount in a high risk product, and was only willing to invest 25% in a moderately high risk product and 25% in a medium risk product. By August 2008, directly as a result of Shaw's recommendations, EF had approximately 95% of her portfolio concentrated in MPF LLC, Behringer REIT, and Cole Trust II. The concentration level compounded the risk of these already high risk investments. Given EF's moderate risk tolerance and low liquid net worth, the recommendations that EF invest a total of $62,400 in these private placements was not suitable. VSR earned commissions on the transactions of approximately $4,857.[7]

d. On or about June 23, 2008, VSR, through Shaw, recommended that BC invest $300,000 in DBSI 2008 Notes Corporation ("DBSI"). DBSI was a private placement investment offered pursuant to SEC Regulation D, Rule 506. It was a high risk investment suitable only for accredited investors who could withstand the entire loss of their investment. On or about July 30, 2008, VSR, through Shaw, recommended that BC invest $230,000 in Odyssey IX. According to the new account form completed by Shaw for BC, BC's investment objectives were growth and income and her risk tolerance was moderate. By July 30, 2008, directly as a result of VSR's recommendations, BC had approximately 85% of her portfolio concentrated in DBSI and Odyssey IX. The concentration level compounded the risk of these already high risk investments. Given BC's moderate risk tolerance, the recommendations that BC invest a total of $530,000

[7] VSR settled with Customer EF for the unsuitable sales made by Shaw.

in these private placements was not suitable. VSR earned commissions on the transactions of approximately $35,950.00.[8]

4. On or about September 20, 2005, VSR, through Registered Representative 1, recommended that MT and JT (a married couple) invest $25,000 in APC 2005-B, a high risk private placement. Over the next five years, VSR, through Registered Representative 1, recommended an additional eighty-eight investments in private placements and REITs, totaling approximately $6,259,400. The investments included a total of $475,000 invested in private placements and REITs sponsored by Arciterra, $900,000 in private placements sponsored by Black Diamond Energy, Inc., and $998,295.00 in private placements sponsored by Waveland Capital. The private placements and REITS recommended by VSR, through Registered Representative 1, were all described in the offering documents as high risk investments.

   MT and JT had stated a moderate risk tolerance on their new account forms and specified that no more than 10% of their account be invested in high risk products. Furthermore, MT and JT expressed to Registered Representative 1 that they were uncomfortable with the volatility of the stock market. Rather than recommend investments consistent with MT's and JT's limited risk tolerance, VSR, through Registered Representative 1, recommended high risk investments in private placements and REITS by emphasizing the fact that these products were not correlated to the fluctuations of the stock market. By December 28, 2010, directly as a result of VSR's recommendations made through Registered Representative 1, MT and JT had 72.78% of their portfolio concentrated in high risk private placements and REITs. Given MT's and JT's moderate risk tolerance and specification that no more than 10% of their portfolio be invested in high risk products, the recommendations that MT and JT invest a total of $6,259,400 in these private placements was not suitable. VSR earned commissions on the transactions of approximately $483,077.38.[9]

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2310 and 2110 by VSR.

Failure to Supervise

Failure to Supervise Shaw

5. VSR failed to reasonably supervise Shaw with respect to each of the above transactions, which occurred from on or about March 1, 2005 through on or about December 12, 200. Although all of the transactions detailed in paragraphs 3(a)

[8] VSR settled with Customer BC for the unsuitable sales made by Shaw.
[9] VSR settled with Customers MT and JT for the unsuitable sales made by Representative 1.

through 3(d) above were each reviewed and approved by one of several Firm principals, each of the principals failed to detect or investigate red flags regarding the transactions.

For instance, in order to qualify SA as an accredited investor for purposes of investment in private placements, Shaw falsely identified certain facts on SA's new account profile through updates, increasing SA's net worth over a period of five years from $600,000 to $2,500,000. Shaw also changed SA's risk profile over time from an instruction that 0% be invested in products described as "high risk aggressive" to an instruction that up to 100% could be invested in such products.

Shaw also falsified the account documentation for customer HA, changing her net worth from $800,000 to $1,500,000 and her risk profile from a preference that no portion be invested in "high risk" products to a statement that up to 45% of her invested assets could be invested in "high risk" products.

Finally, Shaw falsified the new account documentation for BA. Without having any reasonable basis, Shaw reflected BA's net worth as $10.5 million and stated that she was willing for 100% of her invested assets to be invested in "high risk/aggressive" investments.

VSR did not detect or investigate any of Shaw's falsification of documents, or other red flags identified above. For instance, VSR did not detect or investigate internal inconsistencies on BC's new account form, such as a $10.5 million net worth, but modest annual income of $60,000 or a moderate risk tolerance coupled with a willingness to invest 100% in "high risk" investments. VSR also did not detect or investigate the changes to SA's and HA's account documentation that resulted in significant increases in net worth and risk tolerance. Detection and investigation of any of these red flags may have prevented Shaw's unsuitable recommendations and the resulting loss of the customers' funds.

Failure to Supervise Registered Representative 1

6. During this period of time, VSR failed to reasonably supervise Registered Representative 1. As of October 20, 2005, Registered Representative 1 had recommended and effected four purchases of private placements that resulted in 15% of JT's and MT's investment portfolio being invested in high risk products. Over the course of the next five years this percentage increased to over 70%. This occurred despite the fact that JT and MT had specified on their new account documentation that no more than 10% of their net worth was to be invested in high risk products.

Not only did JT and MT place a limit on these types of investments, but VSR's own written supervisory procedures provided a guideline that no more than 50% of a

customer's exclusive net worth should be invested in alternative investments, absent a special review of the account and approval for exceeding the 50% guideline. Under VSR's written procedures, alternative investments included private placements and REITs. Despite the fact that JT's and MT's investments in alternative investments exceeded VSR's own written guidelines, VSR never subjected the transactions to additional review, never questioned Registered Representative 1 regarding the transactions he recommended, and never restricted his ability to sell alternative investments to JT and MT. VSR's use of the discount program and reduction of risk levels may have further contributed to VSR's failure to reasonably and adequately supervise the investments.

Furthermore, VSR allowed its registered representatives, including Registered Representative 1, to send consolidated statements to their customers. JT and MT had five accounts with VSR, and also held investments held outside of VSR. Registered Representative 1 used the consolidated statements to report to JT and MT on the value of all of their investments, including private placements and REITS. As part of VSR's system, Representative 1 was able to manually enter values for the private placements and REITs. As noted above, in an effort to ensure that registered representatives used accurate values for the private placements and REITs, VSR published a list of values for use on the consolidated statements and instructed its registered representatives to use the official list, and instructed its registered representatives that it was "never appropriate to show the customer's original cost basis as the 'current value' once the Rep or firm [was] aware that the investment [had] declined in value."

Despite the instructions provided by VSR, Registered Representative 1, unbeknownst to VSR, valued the investments himself, using prices that had no correlation to prices published by VSR. Registered Representative 1 sent consolidated statements to JT and MT dated February 25, 2008, January 22, 2009, March 26, 2009, and May 27, 2009. In each instance, Registered Representative 1 listed JT's and MT's original cost basis as the value of the investments, rather than the actual current value specified by VSR. For instance, the pricing Registered Representative 1 used for the consolidated statement dated March 26, 2009, differed markedly from the pricing provided by VSR. For the thirty-three non-conventional investments listed by Representative 1, VSR had indicated a value of one penny for each investment. However, Registered Representative 1 used the original cost basis for each investment he listed on the March 26, 2009 consolidated statement, notwithstanding VSR's admonition to its representatives to use "current value" once the representative became aware "that the investment [had] declined in value." The consolidated statements dated February 25, 2008, January 22, 2009, and May 27, 2009 contained similar discrepancies.

VSR, however, never reviewed the consolidated statements sent by Registered Representative 1 to JT and MT to determine whether Registered Representative 1 was following VSR's procedures regarding pricing. Because of the inaccurate pricing used by Registered Representative 1, and VSR's lack of supervision, JT and MT received statements with erroneous pricing information.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Rules 3010(a) and 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 14, 2008) by VSR.

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

Respondent VSR is censured and fined $550,000.

Respondent Beary is suspended from associating with any FINRA member firm in any principal capacity for a period of forty-five days and fined $10,000.

Respondent Beary understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent Beary may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

Respondents VSR and Beary agree to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable.

Respondents VSR and Beary have submitted an Election of Payment form showing the method by which VSR or Beary proposes to pay the fine imposed.

Respondents VSR and Beary specifically and voluntarily waive any right to claim that VSR or Beary is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents VSR and Beary 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 VSR and Beary specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, 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 VSR and Beary 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 VSR and Beary 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 VSR or Beary; and

C. If accepted:

1. this AWC will become part of VSR's and Beary's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against VSR or Beary;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about VSR's or Beary's disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. Respondents VSR and Beary 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 VSR and Beary 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 VSR's or Beary's: (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 VSR and Beary may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents VSR and Beary 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 VSR Financial Services, Inc. certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; has 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 Respondent VSR Financial Services, Inc. to submit it.

VSR Financial Services, Inc.

4-24-13
Date (mm/dd/yyyy)

By: D J Beary
(Signature)

Name: Dan Beary
(Print Name)

Title: Ex - V.P

Respondent Donald J. Beary certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has 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 me to submit it.

4-24-13
Date (mm/dd/yyyy)

Donald J. Beary, Respondent

Reviewed by:

Jeffrey M. Zieman
Counsel for Respondent
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Accepted by FINRA:

May 15, 2013
Date

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

Laura Leigh Blackston
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