

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Kory Penland Keath (CRD No. 1242675),

Respondent.

DISCIPLINARY PROCEEDING
No. 2015044489701

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In July 2009, H.D., a 90-year-old client of Respondent Kory Penland Keath, amended his trust (the "HD Trust") and named Keath's daughter and grandson as beneficiaries. Keath was aware of this amendment to the HD Trust and assisted in its execution. Keath was aware that the written supervisory policies and procedures ("WSPs") of her firm, Edward Jones (the "Firm"), required her to notify the firm of the beneficiary status of her daughter and grandson, but she failed to issue this notification. After H.D.'s death in May 2011, the HD Trust paid Keath's daughter and grandson approximately \$240,000. Keath eventually deposited over \$41,000 of this money into an account she shared with her daughter.

2. In April 2010, Keath accompanied H.D. and his caregiver (who was a friend of Keath) on a trip to Egypt. The \$47,640 trip was paid for by H.D. using funds from the HD Trust. The Firm's WSPs prohibit its associates from receiving gifts totaling over \$100 from a client during a single year and require associates to report the receipt of client gifts to the Firm's Field

Supervision department using its Gifts & Entertainment Reporting system. Keath, however, did not report this gift from her client —an international vacation paid for entirely by the client – to the Field Supervision department.

3. Keath circumvented her firm’s supervisory system and procedures by failing to disclose (1) the designation of her family members as beneficiaries of a firm client’s trust account and (2) the client gift of a trip to Egypt. Accordingly, Keath failed to “observe high standards of commercial honor and just and equitable principles of trade” and thereby violated FINRA Rule 2010.

RESPONDENT AND JURISDICTION

4. Keath entered the securities industry in February 1984 and became associated with the Firm in 1995. On April 24, 2015, the Firm filed a Form U5 terminating Keath’s employment effective March 25, 2015, for failing to “report to the firm that [her] daughter and grandson were designated as beneficiaries of a client’s trust and . . . [for] receiv[ing] a gift valued at approximately \$12,000 from the same client.” During her time in the industry, Keath held Series 7, Series 63, and Series 65 licenses.

5. Although Respondent is no longer registered or associated with a FINRA member, she remains subject to FINRA’s jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA’s By-Laws, because (1) the Complaint was filed within two years after the effective date of termination of Respondent’s registration with the Firm, namely, April 24, 2015, and (2) the Complaint charges her with misconduct committed while she was registered or associated with a FINRA member.

FACTS

A. CREATION OF THE HD TRUST AND NAMING OF BENEFICIARIES

6. In October 1993, H.D. opened an individual brokerage account with the Firm. Keath was assigned to be the financial advisor for H.D.'s account after she joined the Firm in May 1995.

7. In 2000, H.D. instructed his attorney to set up a trust. Keath, at the request of H.D., reviewed the trust documents and advised H.D. regarding the trust language and its proposed beneficiaries.

8. The HD Trust was created in June 2000 and the assets from H.D.'s individual brokerage account were transferred into the HD Trust. Edward Jones Trust Company ("EJTC"), an affiliate of the Firm, was designated as a successor co-trustee of the Trust.

9. Over the next nine years, H.D. made several amendments to the Trust, including changes of beneficiaries.

10. On or about July 2, 2009, Keath sent a fax to H.D.'s attorney requesting that (1) L.K. and F.K., both members of Keath's family, be added as beneficiaries to the HD Trust, (2) L.K. be made H.D.'s healthcare and durable power of attorney, and (3) EJTC be designated as the sole successor trustee of the HD Trust.

11. On or about July 23, 2009, the HD Trust was amended to add L.K. and F.K. as beneficiaries. L.K., Keath's daughter, was to receive 15% of the estate and F.K., Keath's grandson, was to receive 10% of the estate.

12. During the relevant period, the Firm's WSPs regarding client bequests discouraged its associates from being named directly as beneficiaries of a client's trust or estate and required notice be given to the Firm whenever a client named an associate or an associate's family

member as a beneficiary. Specifically, the policy states: “Associates are discouraged from being named as a beneficiary of a client except if the client is a family member. Edward Jones expressly reserves the right to investigate any and all bequests or beneficiary designations involving an associate. . . Contact the Compliance Service department for instructions. . . Should an immediate family member of an associate be named as a beneficiary of a client, the associate must notify the Field Supervision department. . . [because] the situation could be viewed as inappropriate.” The stated purpose of the policy is to help “associates avoid the appearance of a conflict of interest and potentially subjecting themselves and the firm to unnecessary and costly litigation.”

13. Keath was aware of the Firm’s WSPs regarding family members becoming beneficiaries of clients, but failed to notify the Firm about the designation of her daughter and grandson as beneficiaries of the HD Trust.

B. EJTC AS TRUSTEE OF THE HD TRUST

14. In August 2009, EJTC opened a new account for the HD Trust and was named successor trustee of the trust.

15. Keath was listed as the financial advisor/FA on EJTC’s “New Account Form” and “Investment Policy Statement” documents. Under the Investment Objective section of the Investment Policy Statement, EJTC was directed to “Send all letters [sic] to FA.”

16. On September 8, 2009, EJTC sent a letter to H.D.’s home address updating him on the investment review of his account. In that letter, EJTC indicated that H.D. was welcome to call EJTC or Keath because EJTC and Keath “work together as a team to meet [his] needs.” The letter further indicated that his account would continue to be invested to support an “Income Investment Objective” “based on the information shared with [EJTC] by Kory [Keath].” Two

days later, on September 10, 2009, EJTC sent out a nearly identical version of this letter to H.D. "c/o Kory Keath" at her Firm work address.

17. Although EJTC and the Firm are separate companies, they are corporate affiliates and they work together as a team with respect to the administration of trust accounts. EJTC allocates 35% of its fee to compensate the Firm financial advisor (in this case Keath) who helps with the administration of the account.

18. From September 2009 through January 2013, Keath received approximately \$44,829.93 in commission payments from the HD Trust account.

C. DISTRIBUTION OF THE HD TRUST ESTATE

19. After H.D. died in May 2011, EJTC began distributing the assets of the HD Trust. Keath assisted in the asset-distribution process.

20. In September 2011, the HD Trust distributed \$68,000 to F.K. and \$102,000 to L.K. The same day, EJTC issued letters to all the beneficiaries of the HD Trust informing them of the distribution. Keath was copied on each of these beneficiary letters.

21. In January 2013, the HD Trust made its final distribution. F.K. received an additional \$27,817.09 (for a total distribution of \$95,817.09) and L.K. received an additional \$41,725.64 (for a total distribution of \$143,725.64).

22. Nearly a year and a half later, on or about June 20, 2014, L.K. caused a cashier's check for \$41,725.64 (the funds L.K. received from the final HD Trust distribution) to be issued payable to the order of Keath and L.K. Keath then endorsed the \$41,725.64 cashier's check and deposited it into a checking account jointly owned by her and L.K.

D. KEATH'S TRIP TO EGYPT WITH H.D.

23. In early 2010, Keath contacted a travel agency to make arrangements for a trip to Egypt for H.D., H.D.'s caregiver, and herself. H.D. never spoke with the travel agent regarding the trip; all communications and arrangements were instead made through Keath.

24. On or about February 23, 2010, Keath, at the direction of H.D., caused \$50,000 to be wired from the HD Trust account into H.D.'s bank account. Approximately \$14,000 of this amount was subsequently deposited into the checking account of H.D.'s caregiver.

25. On February 25, 2010, H.D. wrote a check for \$33,570.00 to the travel agency in partial payment of the costs of the trip to Egypt. The same day, H.D.'s caregiver wrote a check for \$14,070 (approximately a third of the cost of the trip) to the travel agency to pay for the remaining costs of the trip.

26. In April 2010, Keath, H.D., and H.D.'s caregiver traveled together to Egypt.

27. Keath's trip was paid for by H.D. Keath's portion of the trip was valued at approximately \$12,000.

28. Keath was aware that the Firm had a gift policy stating that associates may not "give or receive gifts to or from clients valued in excess of \$100 per client per year" and that gifts must be reported to and approved by the Field Supervision department.

29. In addition, in 2010 and 2011, Keath answered "yes" to a question in the Firm's annual audit questionnaire that asked whether she understood that "associates may not during any one-year period, give to any customer, gifts totaling \$100+ or receive the same from any customer during any one year." Nevertheless, Keath failed to report to the Field Supervision department that H.D. had paid for her trip to Egypt.

CAUSE OF ACTION
Circumvention of Firm's Supervisory System and Procedures
FINRA Rule 2010

30. The Department realleges and incorporates by reference paragraphs 1 through 29 above.

Beneficiaries of Client's Trust

31. Keath, during the time she was H.D.'s financial advisor, knew that H.D. amended his HD Trust to name Keath's daughter and grandson as 15% and 10% beneficiaries, respectively. Keath faxed a request to counsel for H.D. to effectuate the amendment.

32. Keath was also aware that the Firm's WSPs required associates to notify the Field Supervision department if a client named an associate's family member(s) as a beneficiary. Keath, however, did not notify the Field Supervision department (or any supervisor at the Firm) that her family members were beneficiaries of the HD Trust.

33. Keath was also aware that the Firm's WSPs discouraged associates from being named as beneficiaries of a client and that the Compliance Service department must be contacted if Keath was named as a beneficiary or was to receive a bequest after a client's death. Nevertheless, in June 2014, Keath deposited the \$41,725.64 that her daughter had received in the January 2013 distribution from the HD Trust into a bank account over which she held joint ownership with her daughter.

34. Keath's failure to notify the Field Supervision department that her daughter and grandson were named as HD Trust beneficiaries allowed Keath to circumvent the Firm's WSPs, thereby depriving the Firm of the opportunity noted in its WSPs to, among other things, (1)

identify inappropriate employee behavior, (2) scrutinize potential conflicts of interest, and (3) avoid unnecessary and costly litigation.

Accepting a Gift from a Client

35. In April 2010, while assigned as H.D.'s financial advisor and receiving commissions from the HD Trust, Keith accompanied H.D. on a trip to Egypt for which Keith had arranged most of the details.

36. H.D. paid for Keith's portion of the Egypt trip, valued at approximately \$12,000.

37. H.D.'s payment for the trip constituted a gift to Keith.

38. Keith was aware that the Firm's WSPs prohibited its associates from accepting gifts from clients in excess of \$100 per client, per year. Keith was also aware that gifts from clients must be reported through the Firm's Gifts & Entertainment Reporting system and approved by the Field Supervision department.

39. Keith failed to report H.D.'s payment for Keith's portion of the trip to Egypt, and she failed to obtain the required approval from the Field Supervision department.

40. Keith's failure to report that H.D. paid for her portion of the trip to Egypt, or to seek approval to accept this gift, allowed her to circumvent the Firm's WSPs. Therefore, Keith deprived the Firm of its ability to supervise the relationship between advisor and client and to assess potential conflicts of interest.

41. As a result of the foregoing, Keith failed to adhere to high standards of commercial honor and just and equitable principles of trade, and thereby violated FINRA Rule 2010.

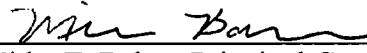
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: 6/20/16



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