

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, NOVEMBER 30, 2020

CLERK'S OFFICE
CONTROL CENTER
2020 NOV 30 P 1: 25

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2020-00049

CORNERSTONE ASSET MANAGEMENT, INC.
Defendant

SETTLEMENT ORDER

The State Corporation Commission's ("Commission") Division of Securities and Retail Franchising ("Division") conducted an investigation of Cornerstone Asset Management, Inc. ("Cornerstone" or "Defendant") pursuant to § 13.1-518 of the Virginia Securities Act ("Act"), § 13.1-501 *et seq.* of the Code of Virginia ("Code").

Cornerstone is a Virginia corporation. Cornerstone is registered as a state-covered investment advisor. Cornerstone's last known address is 116 South Stewart Street, Winchester, Virginia 22601.

Based on the investigation, the Division alleges Cornerstone violated 21 VAC 5-80-200 A of the Commission's Rules Governing Investment Advisors, of the Virginia Administrative Code, 21 VAC 5-80-10 *et seq.* ("Rules"), by failing to act primarily for the benefit of its clients, by failing to act as a fiduciary, and by engaging in unethical practices. From 2017 to the present, certain Cornerstone accounts were charged more than five percent (5%) of their current assets under management on a yearly basis from commissions alone. These calculations do not include the annual advisory fee also charged to each of the clients. In each case, the Cornerstone registered representative earned ninety percent (90%) of the commissions charged for each transaction.

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The Division further alleges the Defendant violated 21 VAC 5-80-200 A (11) (b) of the Rules by charging clients an advisory fee for rendering advice in addition to the commissions for executing securities transactions purchased through their registered broker-dealer, Syndicated Capital, Inc. ("Syndicated"), without properly disclosing to clients in hybrid accounts that the Defendant would receive commissions. Cornerstone's ADV Part 2A Item 12 advised its clients that it was in the clients' best interest to use Syndicated as the broker-dealer to execute the transactions without informing its clients Cornerstone registered representatives earned ninety percent (90%) of the commissions charged for each transaction. This was in violation of Cornerstone's fiduciary duty by failing to disclose the conflict of interest and acting in the clients' best interest.

Additionally, the Division alleges that Cornerstone's Managed Account Agreements for hybrid accounts failed to disclose to its clients all persons from Cornerstone are registered representatives of Syndicated and they will earn commissions from trades that take place in their accounts. This failure is a material conflict of interest in that its clients incurred increased commission charges and were unable to make fully informed decisions because Cornerstone's clients did not know that they could choose a different broker-dealer to reduce commission charges.

If the provisions of the Act are violated, the Commission is authorized by § 13.1-519 of the Act to issue temporary or permanent injunctions; by § 13.1-521 (A) of the Act to impose a civil penalty; by § 13.1-521 (C) of the Act to order the defendant make rescission and restitution; and by § 12.1-15 of the Code to settle matters within its jurisdiction.

The Defendant neither admits nor denies the allegations made herein but admits to the Commission's jurisdiction and authority to enter this Order.

As a proposal to settle all matters arising from these allegations, the Defendant has made an offer of settlement to the Commission wherein the Defendant will abide by and comply with the following terms and undertakings:

- (1) The Defendant, within thirty (30) days of the entry of this Order, will pay restitution of the return of commissions to one Virginia client;
- (2) Within one hundred twenty (120) days of the entry of this Order, the Defendant will update its Managed Account Agreements for hybrid accounts to state, "related persons of Cornerstone are registered representatives of Syndicated Capital and that such persons will earn a commission in addition to any fees paid for advisory services." The agreement will also disclose that the representatives earn ninety percent (90%) of all commissions charged by Syndicated. The Defendant will clearly disclose to every client that each client has the right, and opportunity, to choose their own broker-dealer;
- (3) Within sixty (60) days of the entry of this Order, the Defendant will submit to the Division for approval the new client agreements that reflect the changes. Within one hundred twenty (120) days of the entry of this Order, and after receiving approval from the Division, the Defendant will execute the new agreements with clients;
- (4) The Defendant, within twelve (12) months of the entry of this Order, will pay to the Treasurer of Virginia the amount of Fifteen Thousand Dollars (\$15,000) in monetary penalties;
- (5) The Defendant, within twelve (12) months of the entry of this Order, will pay to the Treasurer of Virginia the amount of Four Thousand Five Hundred Dollars (\$4,500) to defray the costs of investigation in this matter; and
- (6) The Defendant is enjoined from violating the Act in the future.

The Division has recommended that the Commission accept the offer of settlement of the Defendant.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Division, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.

(2) The Defendant shall fully comply with the aforesaid terms and undertakings of this settlement.

(3) The Commission shall retain jurisdiction in this matter for all purposes, including the institution of a show cause proceeding, or taking such other action it deems appropriate on account of the Defendant's failure to comply with the terms and undertakings of the settlement.

A COPY hereof shall be sent by the Clerk of the Commission by electronic mail to: Dennis Connor, Chief Compliance Officer, at dconnor@syndicatedcapital.com; and a copy shall be delivered to the Commission's Office of General Counsel and the Division of Securities and Retail Franchising.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

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CORNERSTONE ASSET MANAGEMENT, INC.
Defendant

ADMISSION AND CONSENT

Cornerstone Asset Management, Inc. ("Defendant") admits to the jurisdiction of the State Corporation Commission ("Commission") as to the party and subject matter hereof, and neither admits nor denies the allegations made herein by the Division of Securities and Retail Franchising, hereby consents to the form, substance and entry of the foregoing Settlement Order ("Order").

The Defendant further states that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Order.

Cornerstone Asset Management, Inc.

Date: 11/25/2020

By: [Signature]
Its: Chief Compliance Officer